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PARLIAMENTARY DEBATES  
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# HOUSE OF LORDS

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<b>Abbreviation</b>	<b>Party/Group</b>
CB	Cross Bench
Con	Conservative
DUP	Democratic Unionist Party
GP	Green Party
Ind Lab	Independent Labour
Ind LD	Independent Liberal Democrat
Ind SD	Independent Social Democrat
Ind UU	Independent Ulster Unionist
Lab	Labour
LD	Liberal Democrat
LD Ind	Liberal Democrat Independent
Non-afl	Non-affiliated
PC	Plaid Cymru
UKIP	UK Independence Party
UUP	Ulster Unionist Party

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# House of Lords

Thursday 17 November 2016

11 am

Prayers—read by the Lord Bishop of Winchester.

## Roads: Drink-drive Limit Question

11.07 am

Asked by **Baroness Jones of Moulsecoomb**

To ask Her Majesty's Government whether they are planning to lower the drink-drive limit in England and Wales.

**The Parliamentary Under-Secretary of State, Department for Transport (Lord Ahmad of Wimbledon) (Con):** My Lords, the Government have no plans to lower the drink-drive limit in England and Wales. Our approach in tackling drink-driving is through rigorous enforcement, tough penalties and changing the social acceptability of drink-driving, including through our award-winning THINK! campaigns.

**Baroness Jones of Moulsecoomb (GP):** My Lords, I thank the Minister for his reply, but the RAC Foundation said last year that 25 lives would have been saved if the limit had been lowered. Police Scotland is about to produce a report on its two-year trial. If the report suggests similar findings, will the Government use that evidence to reduce the limit at the next available opportunity?

**Lord Ahmad of Wimbledon:** We are certainly watching the situation, and the noble Baroness is quite right to raise the issue about Scotland, where the limit has been lowered. We have previously said—indeed, I have said from this Dispatch Box—that we will look at the evidence that is presented from the programme that was initiated in Scotland, we will reflect on that evidence and the experience there and then take forward any reviews that we need to. But let me make it absolutely clear: we currently have no reviews planned; we are not looking to review the limit as it stands.

**Lord Vinson (Con):** I am glad to hear that the Minister is resisting pressure to drop the limit further—I think the limit at the moment is well accepted. He will know that most accidents are, in fact, caused by people who are well over the limit and who are likely to ignore any limit. There is another basic reason for not dropping it further, and that is that the social life of rural people would be hugely damaged and it would be the death knell of the rural pub. It is so important that people are able to have a reasonable level of drinking and are able to go out to do so. To destroy that sociability in rural areas—which a lower limit would certainly do—would be a grave mistake.

**Lord Ahmad of Wimbledon:** My noble friend is quite right, and evidence suggests that the programme that the Government currently undertake—emphasising the importance of education—through the THINK!

campaign that I alluded to, which is now celebrating more than three decades of implementation, has resulted in responsible attitudes towards drinking and driving. Of course, the general advice is, if you have a drink, resist driving and make alternative arrangements. Before reviewing anything, we need to look at the evidence base. When you look at our record here in England and Wales compared to the rest of Europe, we actually have one of the best road safety records in the whole of the continent.

**Lord Palmer (CB):** My Lords, I very much take the point made by the noble Lord, Lord Vinson. I live 10 miles into Scotland myself and I was in fact breathalysed at 10.30 am the other day. Much to everybody's amazement, I did in fact pass. But is it not madness that there is a different limit in Scotland from that in England and Wales?

**Lord Ahmad of Wimbledon:** I am glad to hear that the noble Lord passed the test. I think that the important issue is that there are certain powers that have been devolved and, in that respect, the Scottish Government took a decision to lower the limit. As I have said already, we are looking at the evidence produced from the lowering of that limit but, at the current time, there are no plans to review the limit in England and Wales.

**Lord Mackenzie of Framwellgate (Non-Affl):** Does the Minister agree that the rollout of drug-detection devices on the roadside illustrates the amount of misuse of recreational drugs and the danger that this can bring to innocent road users, whether they be cyclists, motorists or, indeed, pedestrians?

**Lord Ahmad of Wimbledon:** The noble Lord is right to point out that new drug-driving laws have been introduced. The statistics show that, in 2014, there were about 850 prosecutions. On current estimates, that will rise to about 7,000 by the end of this year. A mixture of measures have been introduced ensuring that laws have been reviewed, education has been increased and enforcement has been applied to ensure that, when someone is found to be over the drink-driving or drug-driving limit, the correct penalties are imposed.

**Baroness Berridge (Con):** My Lords, as of next year, there will be a different limit not just in Scotland but also in Northern Ireland. Therefore, will my noble friend please outline whether there are any plans to have a United Kingdom-wide public information campaign to ensure that people know that in different parts of the kingdom there are different laws on drink-driving? What consultation has taken place with victims' groups, because victims of accidents may find that the criminal law takes action against a driver in one part of the country but not in another for very similar behaviour?

**Lord Ahmad of Wimbledon:** My noble friend is right to point to the importance of information and education, to which I have already alluded. As regards consultation and review, I am happy to arrange a briefing session for interested Peers with my honourable friend the Minister for Roads and with experts in this area. I assure noble Lords that this is a government

[LORD AHMAD OF WIMBLEDON] priority. However, we feel that we have the correct balance as regards the limit, enforcement and education. That has resulted in one of the best road safety records in the whole of the continent.

**Baroness McIntosh of Hudnall (Lab):** My Lords, what is the difference between the severity of fines and so forth available in respect of mobile phone use and drink-driving respectively, whether or not an accident has ensued? Does the Minister agree that the level of distraction and loss of concentration resulting from the use of mobile phones is probably equivalent to several units of drink?

**Lord Ahmad of Wimbledon:** The noble Baroness is right to point to this concern. Indeed, recently we have, regrettably, seen the effects of people driving while being distracted by the use of mobile phones. The Government are looking at that area very seriously and are looking at strengthening the penalties against using mobile phones while driving. This is another important area of road safety which the Government take very seriously.

**Baroness Janke (LD):** My Lords, have the Government considered giving more powers to local authorities and combined authorities to look at the whole business of drink-driving as part of an anti-alcohol policy, and to reduce some of the damage caused by excessive alcohol use in their areas?

**Lord Ahmad of Wimbledon:** I know from my own experience of serving on a local authority that local authorities play an important role in the provision of education and information on campaigns such as the THINK! campaign. I know that many local authorities are directly engaged with that, and it works well. If the noble Baroness has other practical suggestions, I would be happy to reflect on them.

**Baroness Finlay of Llandaff (CB):** My Lords, given the Government's commitment to look at the evidence, when they look at the two-year evidence from Scotland, will they consider the impairment of reaction times related not just to alcohol intake but to age? The reaction times of some older people are more impaired than those of some younger people. Will they also look at the death rate among the under-25s?

**Lord Ahmad of Wimbledon:** I know that the noble Baroness has great experience in this regard from the medical perspective, and I assure her that the Government will take full account of all the evidence that is available. Whenever we look at this area, I will certainly ensure that we look at the number of prosecutions and fatalities, as well as their causes, across the country. We are happy to look at all evidence when considering this issue.

## Living Home Standard Question

11.15 am

Asked by **Lord Kennedy of Southwark**

To ask Her Majesty's Government what assessment they have made of the Living Home Standard.

**Lord Kennedy of Southwark (Lab):** My Lords, I beg leave to ask the Question standing in my name on the Order Paper and, in doing so, declare that I am an elected councillor of the London Borough of Lewisham and a vice-president of the Local Government Association.

**The Parliamentary Under-Secretary of State, Department for Communities and Local Government and Wales Office (Lord Bourne of Aberystwyth) (Con):** My Lords, good-quality housing is an absolute priority for this Government. Shelter is a valued partner in this area and we welcome its contribution to the debate. The figures quoted in Shelter's report are of course based on the perceptions of those surveyed rather than the actual standards in people's homes.

**Lord Kennedy of Southwark:** My Lords, I read with interest in *Inside Housing* this week that several meetings of the DCLG had been cancelled, including those of the "pay to stay" working group, and I hope that it never meets again. Rather than following the divisive measures in the Housing and Planning Act, we need to get on and build thousands and thousands of homes of all tenures. Does the noble Lord agree that affordability is a huge problem and that we need to reduce the cost of housing in the long term? Does he also agree that, if we are to deliver on the Government's housing commitments, there must be a big increase in the number of council homes at truly affordable social rents?

**Lord Bourne of Aberystwyth:** My Lords, I am very pleased that the noble Lord welcomes the measures that we have taken in relation to "pay to stay". I assure him that the measures against rogue landlords in the Housing and Planning Act were welcomed by Shelter. I will be reporting him to Shelter because it is very pleased with the measures in that regard.

**Lord Alton of Liverpool (CB):** My Lords, the noble Lord rightly said that the 39 attributes of Shelter's Living Home Standard are a useful benchmark against which to measure perceptions about the housing stock in Britain. However, will he give the House—if not today then in writing subsequently—details of the number of homes in Britain that are formally sub-standard, the number that are still not properly insulated and the number that still have no inside sanitation in the way of running hot water or bathrooms?

**Lord Bourne of Aberystwyth:** My Lords, the noble Lord is right to concentrate on what is important in relation to the standard of homes. I can tell him that in 2014 20% of homes were regarded as below standard by the English Housing Survey, which is the recognised gold standard. That is a considerable improvement on the position in 2006, when, using the same measure, the figure was 35%.

**Lord Palmer of Childs Hill (LD):** My Lords, I was disturbed to hear the Minister say that the figures are regarded as based on only perceptions. Can he tell the House what steps the Government are taking to increase the number of houses that meet what is often a very minimum standard?

**Lord Bourne of Aberystwyth:** My Lords, as I have just indicated, there was a considerable improvement from 2006 to 2014, including the period when the noble Lord's party was part of the coalition. We will obviously keep this matter under review. New measures were introduced in the 2016 Act to tighten up the battery of powers that are available, but the prime powers relating to property in the private rented sector are contained in the Housing Act 2004, and very useful tools they are too.

**Lord Naseby (Con):** Did my noble friend manage to read the *Financial Times* earlier this week, which said:

"Housebuilding has risen to its highest level for eight years, bringing the UK government's target of 1m new homes by 2020 within reach"?

Is that not exceedingly good news?

**Lord Bourne of Aberystwyth:** My Lords, to paraphrase Kipling cakes, it was exceedingly good news. It is true that there is more to do, as the Government have readily acknowledged. This area has been recognised as a key priority for the Prime Minister and that is reflected in the attitude taken by the department. Of course, we are anticipating a forthcoming housing White Paper, which will again stress the importance of housing as a key priority.

**Lord Watts (Lab):** My Lords, do we not need far better and more effective policing of our housing, including better inspection and enforcement? Is not that the way to get the houses up to a decent standard?

**Lord Bourne of Aberystwyth:** My Lords, of course enforcement of the existing powers is important. The Government have made available £12 million since 2011 to help local authorities enforce action against rogue landlords. This includes raids, inspections and actions against beds in sheds.

**Baroness Uddin (Non-Aff):** My Lords, I note what the Minister said about Shelter perhaps not getting it exactly right. I declare a past interest, having been a councillor, and I think that Shelter is considerably undermarking the levels of disgraceful housing conditions across the country. What is the Minister doing to ensure that not only local authorities but the housing associations that are building many of these properties have a consistent standard?

**Lord Bourne of Aberystwyth:** My Lords, the noble Baroness is right to re-emphasise the importance of housing standards. The social sector is subject to a slightly different regime, in which standards apply. As I have indicated, we have provided more money for raids and inspections, and the measures in the Housing and Planning Act that will be brought into force next year will tighten up the position in relation to rogue landlords.

**Baroness Gardner of Parkes (Con):** My Lords, is not it necessary for councils to make some sort of charge in order to inspect a property? All councils are very hard pushed for money and find it extremely difficult to carry out the necessary inspections.

**Lord Bourne of Aberystwyth:** My Lords, I have referred to the £12 million that the Government have made available. I have looked at the evidence to see whether local authorities are making use of that in relation to raids and inspections, and they are. In addition, a database of rogue landlords will be brought in next year following the 2016 Act.

**The Earl of Listowel (CB):** My Lords, in considering the White Paper, will the Minister keep to the forefront of his mind the importance to families of having stable, not overly crowded accommodation, bearing in mind the risk of family breakdown, of mothers and fathers separating, and the terrible impact that can have on their children?

**Lord Bourne of Aberystwyth:** My Lords, the noble Lord is absolutely right to stress the importance of that. Local authorities have existing powers under the Housing Act 2004 relating to the overcrowding of houses.

## Public Contracts: Conflicts of Interest

### *Question*

11.22 am

*Asked by Lord Berkeley*

To ask Her Majesty's Government what are their policies on conflicts of interest in respect of contracts with public and private organisations which provide or deliver public services or projects; and where those policies are made publicly available.

**Baroness Chisholm of Owlpen (Con):** My Lords, public sector procurers are required to seek value for money through competition that is fair, open and transparent. Rules on addressing conflicts of interest are set out in the Public Contracts Regulations 2015, which make clear that contracting authorities should put in place measures to avoid any distortion of competition and to ensure equal treatment to all bidders.

**Lord Berkeley (Lab):** I am grateful to the Minister for that reply. There are a number of conflict of interest issues around at the moment, but the one that I would like to mention is about HS2. The very eminent company CH2M has been project managing the work for the past few years. This year, it was awarded a further £360 million contract as a "delivery partner" and, more recently, it supplied the interim CEO for HS2. In a Written Answer I got from the noble Lord, Lord Ahmad, who I am pleased to see is in his seat, he said that the conflict of interest had been cleared by an internal panel and that the names of the members of the panel were confidential. This is a £50 billion contract. Surely there needs to be independent scrutiny and transparency about the process. There is always a risk that even a partner can screw the Government. I suggest that the solution that the noble Lord the Minister has given us is not sufficient and needs greatly strengthening.

**Baroness Chisholm of Owlpen:** My Lords, there were lots of questions there. HS2 Ltd follows recruitment practices that are similar to those followed in Civil



[BARONESS CHISHOLM OF OWLPEN]

Service appointments and are made through open and fair competition. The short-term services of the interim CEO have been obtained to fill the gap until those fair and open procedures for the permanent appointment can be completed. The interim CEO is not an employee of HS2 Ltd, so it would not be appropriate to follow a recruitment process for such an appointment.

To quickly cover the noble Lord's point about not being open regarding the people on the panel, as my noble friend Lord Ahmad said—indeed, I wonder why my noble friend is not standing here instead of me—in his previous Answer:

“It is not possible to provide the names of HS2 Ltd's Conflict of Interest Panel Members, nor details of specific cases which have been heard as we do not consider doing so would be consistent with the Data Protection Act 1998 (DPA). Unfair disclosure of personal data is a breach of the First Data Protection Principles under the DPA”.

**Lord Tyler (LD):** My Lords, given the commitment to transparency that the noble Baroness has just referred to, presumably she still endorses the view that sunlight is the best disinfectant. Will she look again at the issue of the freedom of information legislation, which of course does not extend to those private companies that provide or deliver public services? Given that the taxpayer pays a huge sum to these organisations, is it not right that the taxpayer should be able to see, through freedom of information access, exactly what their money is spent on?

**Baroness Chisholm of Owlpen:** Obviously, these appointments are the responsibility of each department, and each department follows the Civil Service Code, which sets out the process for dealing with any possible breaches. Essentially, cases are dealt with by the department according to its own processes and can ultimately be referred to the Civil Service Commission to investigate. The propriety and ethics team can give general advice on the application of the code.

**Baroness Hayter of Kentish Town (Lab):** My Lords, of course data protection does not prevent the people on that conflict of interest committee being willing to have their names released, so will the Minister tell us whether they can be asked to release their names? Will she also comment on the other big conflict of interest, which is the revolving door? The committee that looks at this for ministerial and civil servant retirees has never turned down any of those appointments, many of whom then turn up on exactly these committees but technically have no conflict of interest. Will she agree to review the terms of reference of that committee?

**Baroness Chisholm of Owlpen:** I do not think that I can go further than what I said about the Data Protection Act. As far as public appointments are concerned, we need to remember that there is a Commissioner for Public Appointments. Appointments come under the remit of that commissioner and they are made using the process from the commissioner's Code of Practice for Ministerial Appointments to Public Bodies. This is a strong code of practice and it is backed up by the regulations under the Act—the Public Contracts Regulations 2015—which set out the requirement to take,

“appropriate measures to effectively prevent, identify and remedy conflicts of interest arising in the conduct of procurement procedures so as to avoid any distortion of competition and to ensure equal treatment of all economic operators”.

**Lord Foulkes of Cumnock (Lab):** My Lords, is the Minister aware that, when I raised the issue of a potential conflict of interest of an education Minister also being a director of an academy trust, I was told that that was allowed under the Ministerial Code? Does that not indicate that the Ministerial Code needs revision?

**Baroness Chisholm of Owlpen:** As long as the Ministerial Code is closely adhered to, along with the regulations, everything should be in order as far as appointments are concerned.

**Lord Wallace of Saltaire (LD):** My Lords, does the Minister recognise that the distrust of public service that public interest economics has left many Conservatives feeling has led to an overdependence on outside consultants and interlocking bodies, to which successive Governments have paid a great deal of money over the last few years? The worry that this Question reflects is exactly about the extent to which overdependence on outside consultants, who have their own self-interests to protect and defend, needs much greater examination than it currently gets.

**Baroness Chisholm of Owlpen:** Again, with the regulations and the code of practice this should work well and all the boxes are ticked. We want to make sure that this Government are successful in public procurement and to that end the best way is to make sure that companies adhere to the regulations and the code of practice so that they can move forward. We must make sure that we are helping industries in this country get involved in public procurement.

## Footpaths Question

11.30 am

Asked by **Lord Greaves**

To ask Her Majesty's Government, in the light of the results of the survey published by the Ramblers on 14 November, what steps they are taking to ensure that the footpath network is well kept and available for public use.

**Lord Greaves (LD):** My Lords, I beg leave to ask the Question standing in my name on the Order Paper and I remind the House of my interests as set out in the register.

**The Parliamentary Under-Secretary of State, Department for Environment, Food and Rural Affairs (Lord Gardiner of Kimble) (Con):** My Lords, responsibility for the management and maintenance of the 118,000 miles of public rights of way in England lies with local authorities. The Government have allocated central funds for the establishment of the 2,700-mile England Coast Path. We have also provided funding for the maintenance of national trails and national parks where the Ramblers' survey recognises that rights of way are in a better condition than elsewhere in the country.

**Lord Greaves:** My Lords, we undoubtedly have the best network of footpaths in the countryside of any country in the world. Does the Minister agree that the work of all the volunteers for the Ramblers on the Big Pathwatch campaign and survey has been extremely valuable? However, the survey showed that one-third of the network was in need of improvement and that 10% of the footpaths surveyed were impossible to use because of barbed wire, obstructions, locked gates—

**Lord Foulkes of Cumnock (Lab):** Japanese knotweed.

**Lord Greaves:** I am not sure about Japanese knotweed on public footpaths, although no doubt Ramblers will report it if it is there. I am not sure that I am supposed to take interventions on Questions, either.

Also, there are issues with signposts that either do not exist or point in the wrong direction, as well as paths that become quagmires. The footpath network is resilient but there are increasing signs of problems in many areas. What are the Government doing about it?

**Lord Gardiner of Kimble:** My Lords, first I acknowledge the tenacity of the noble Lord on this matter and on the matter of Japanese knotweed; I very much enjoy our exchanges. I acknowledge the work of Ramblers and all its volunteers. This excellent report says that nowhere is the network broken and that problems are highly localised. In fact, 91% of paths are “adequately”—some requiring improvement—or “well” kept. I will be in touch with the chief executive of Ramblers, Vanessa Griffiths, because I want to explore with her where the 9% of paths are that are poorly kept, and why.

**Viscount Hailsham (Con):** My Lords, I must declare a personal interest; I have footpaths over my regrettably modest landholding which I hope are available to the public and well maintained, as they should be. But perhaps I may mention the problem of diversion. Very often diversion is justified but very difficult to achieve. Can my noble friend look at that problem as well?

**Lord Gardiner of Kimble:** My Lords, perhaps I, too, should declare that there are footpaths across my land. I checked with the Open Spaces Society and I am relieved to say that they are all open. More seriously, the stakeholder working group has produced a finely balanced package of recommendations. We are working on those to deal with the precise point raised by my noble friend. We want to present our work in one go because this is very much a package of recommendations. I hope to bring it forward but I am not in a position to say precisely when.

**Lord Clark of Windermere (Lab):** My Lords, does the Minister appreciate that one of the problems in, for example, the Lake District National Park, is the illegal use of public footpaths and bridleways by motorised vehicles and motorcycles? Can the Government raise and discuss this not only with Ramblers, but indeed with the Lake District National Park Authority and Cumbria Police, because this is a question of legality and so the police are involved?

**Lord Gardiner of Kimble:** My Lords, I have considerable sympathy with what the noble Lord has said and will raise it in my quite regular discussions with the national parks. So many issues of this kind are best dealt with at local level—by local authorities or the national park authority—so that we can bear down on the unacceptable use of these wonderful rights of way.

**Lord Robathan (Con):** My Lords, perhaps I may reinforce the comments made by the noble Lord, Lord Greaves, about local authorities and landowners needing to keep footpaths open—but is this not avoiding the real problem, which is that our excellent footpath network is underused? We must encourage young people and schoolchildren in particular to get out and walk on footpaths, which might do something to get rid of the appalling levels of obesity and fat children in this country.

**Lord Gardiner of Kimble:** My Lords, the Ramblers report rightly highlights the importance to our well-being, both physical and mental, of walking and enjoying such paths. One interesting comment in the report was that the problem was not so much the bull in the field as the undergrowth. That suggests to me that some paths are not used as regularly as they should be. The Ramblers report has highlighted the work that we need to do to encourage more people to walk in the countryside.

**Baroness Jones of Whitchurch (Lab):** My Lords, I do not have any footpaths to declare across any of my land. Does the Minister recognise that private landowners could do far more to keep public rights of way clear of obstruction by repairing stiles and maintaining signposting? The Ramblers report shows that the paths owned by the National Trust and the national parks tend to be well maintained but the rest less so. What are the Government doing to raise the game so that there is a consistently high standard across all types of tenure, including private land?

**Lord Gardiner of Kimble:** I should say in declaring an interest that part of the cross-compliance arrangements that we as farmers and landowners have is precisely in the matter of keeping paths open. If we did not, we would not be adhering to those arrangements. What the report shows—I welcome the tone of what the Ramblers have suggested—is that we need to work together in partnership to get those 9% of footpaths open and better available. It is an overwhelmingly positive report about how partnership will make sure that all paths are in good condition by 2020.

**Baroness Pinnock (LD):** My Lords, in my part of West Yorkshire there are 37 miles of public rights of way. In 2010, there were eight members of staff and a budget of some £250,000 to maintain them; today, there is one member of staff and no budget. Deterioration is therefore inevitable. Will the Minister explain how those paths can be kept open?

**Lord Gardiner of Kimble:** My Lords, it is interesting that the Ramblers report stated:

“The condition of paths varies across the country, but the picture is complex. Many local factors contribute and budget cuts alone do not explain why the path network is better maintained in some places than in others”.

[LORD GARDINER OF KIMBLE]

Partnership with volunteers and local authorities is what works best. That is what I will encourage in my discussions. Of the 118,000 miles of rights of way, I very much hope that the noble Baroness's 37 will be in good repair as well.

### Chagos Islands Statement

11.38 am

**The Minister of State, Ministry of Defence (Earl Howe) (Con):** My Lords, I shall now repeat in the form of a Statement the Answer to an Urgent Question tabled in another place on the Chagos Islands and the British Indian Ocean Territory. The Answer was as follows:

“The islands of the Chagos Archipelago have been British territory since 1814, when they were ceded to Britain by France. In 1966, the UK agreed with the United States to make the British Indian Ocean Territory available for the defence purposes of the US and the UK, and the Chagossian people were removed from the islands.

Like successive Governments before them, this Government have expressed their sincere regret about the manner in which Chagossians were removed from British Indian Ocean Territory in the late 1960s and indeed the early 1970s. It is right that the UK Government should have paid substantial compensation to Chagossians—nearly £15.5 million in current prices. The British courts and the European Court of Human Rights have confirmed that compensation has already been paid in full and final settlement.

We must, however, now look forward, not back, on decisions about the future of the British Indian Ocean Territory. The Government have considered this complex issue very closely, including with an independent feasibility study of the practicalities of resettlement and a public consultation, which sought to better gauge the demand for resettlement by illustrating the most realistic way in which resettlement would hypothetically take place.

The Government have looked carefully at the practicalities of setting up a small, remote community on low-lying islands and the challenges it would face. We were particularly concerned about the difficulty of establishing modern public services; about the limited healthcare and education that it would be possible to provide, which would be difficult for any new population, and especially for elderly Chagossians returning to the islands; and there would also be a lack of realistic economic opportunities. The Government have now considered all the available information and decided against resettlement of the Chagossian people, on the grounds of feasibility, defence and security interests, and the cost to the British taxpayer.

While we have ruled out resettlement, the Government are determined to address the aspirations of Chagossians that drove them to seek to resettle: for instance, the desire for better lives and to maintain a connection with the territory. In order to meet those aspirations, the Government are creating a significant and ambitious support programme to provide Chagossians with better

life chances and are developing an increased visits programme. The British Government intend to liaise with Chagossian communities in the UK and overseas and to work closely with the Governments involved to develop cost-effective programmes which will make the biggest improvement in the life chances of those Chagossians who need it most”.

My Lords, that concludes the Statement.

11.41 am

**Lord Collins of Highbury (Lab):** My Lords, I thank the Minister for repeating the Statement. Yesterday's decision is nothing less than a fundamental denial of the human rights of the people of the Chagos Islands. Their hopes were raised with the publication of the KPMG report about feasibility and those hopes and aspirations have, I fear, been cruelly dashed. On the issue of feasibility, will the Minister give us and the people of the Chagos Islands some indication of what factors were taken into account? Will he publish all the factors that were considered in reaching this decision, in order to ensure that there is full transparency?

Turning to the £40 million that has been promised over 10 years, the Minister indicated that communities would be consulted. Can he give further guarantees about how the people of the Chagos Islands will be involved in spending that money? In particular, what proportion will be devoted to ensuring that they can return to their homes—I find it difficult to use the term “visit”? Finally, what assessment has been made by the Government of the impact this decision will have on other overseas territories, particularly Gibraltar, which are feeling very fragile at the moment in light of the decision to withdraw from the EU? I hope that the noble Earl will be able to respond to these points.

**Earl Howe:** My Lords, I am grateful to the noble Lord, Lord Collins. Clearly, we know that this decision will come as a disappointment to the many Chagossians who have expressed a desire to resettle. We recognise their emotional links to the island and their desire to go back to their former way of life. The manner in which the Chagossians were removed in the late 1960s and early 1970s was wrong; it should not have happened. We look back on that period with sincere regret, but we cannot turn back the clock. We have to be realistic about the challenges that a resettled community would face.

The factors that we took into account were many and various, including those cited in the KPMG report. We considered what could be done to respond to Chagossian aspirations, but the main factors were the potentially high and very uncertain costs, the long-term liabilities for the UK taxpayer and security considerations.

As regards the £40 million, we wish to work with the Chagossian communities and the Governments of Mauritius and the Seychelles to understand the challenges and to develop cost-effective programmes which will make the biggest improvement in the life chances of those Chagossians who need it most. The door is very definitely open to those conversations. As regards the impact on other overseas territories, I do not believe there are any. This is a unique situation.



**Lord Wallace of Saltaire (LD):** My Lords, the Government have established a large and very impressive marine conservation zone around the BIOT. There have been some suggestions that that needs policing and that therefore there are jobs for Chagossians who might not just visit but work on the islands. How do the Government intend that that marine conservation zone should be policed against the many fishing fleets that would like to use it? Have we consulted with the Americans about this, and do we expect the Americans to be on the Chagos Islands for the foreseeable future—for the next generation? If we are talking about the future, how are we planning for the long term?

**Earl Howe:** My Lords, what has happened is a rollover of the current agreement, which had a break clause at the end of 2016. By not breaking silence, as it is officially termed, we are allowing that rollover to take place for the next 20 years. We declared the marine protected area that the noble Lord referred to in 2010. It is highly valued by scientists from many countries. They consider it a global reference site for marine conservation in an ocean that is already heavily overfished. We are aware that some concerns have been raised about the motives for the creation of the marine protected area; in other words, that it might have been designed to thwart future resettlement. I categorically repudiate that suggestion. We are very serious about conserving that area. Unfortunately, I am not aware of any employment prospects that could arise from this.

**Lord Ramsbotham (CB):** My Lords, I declare an interest as vice-chairman of the All-Party Group on the Chagos Islands. If the United States Government say—and have said for a long time—that they are not opposed to resettlement and that the security concerns can be easily managed, what security concerns do the United Kingdom Government have that overrule and override the American Government's decision, which was repeated as recently as earlier this year when President Obama had discussions with the then Prime Minister?

**Earl Howe:** My Lords, it is important to understand that security was not the only consideration that governed the decision that has been made. There are no restrictions on applications by Chagossians to be employed on Diego Garcia. The United States has said that it is committed to hiring qualified candidates as positions become available. Indeed, the contractor is required to recruit people from Mauritius and the Seychelles, provided they meet the necessary requirements. We are aware that some Chagossians have been offered positions working for the US contractor on Diego Garcia over the past two years, but these were declined because of local conditions, which are pretty basic, and the rates of pay.

**Baroness Whitaker (Lab):** Members of the all-party group, of which I am one, are extremely grateful to all three Ministers for appearing at our meeting yesterday. However, we remain very surprised at the intemperate haste with which the Statement was rushed out before the meeting, when it had been planned for the end of the year. Bearing in mind that respected analysts have

estimated that the cost of resettlement would be about £20 million—half of what the Government propose in the Statement for additional compensation—what conditions will Her Majesty's Government now consider attaching to the renewal of the agreement with the Americans over the base, in the interests of justice and international human rights law?

**Earl Howe:** My Lords, I can only say that we very much regret that the timing of the meeting with the all-party group coincided with the Government's decision. It would have been improper to have come to that meeting pretending that no decision had been made when in fact it had. As the noble Baroness knows, attempts were made to have the meeting earlier than yesterday, but that did not fit one or both sides.

As regards the costs of resettlement, they were set out with a big health warning by KPMG which said that the costs could vary by up to 50% more than it had estimated. I am aware that the noble Baroness has submitted a paper to my noble friend Lord Bates, and he will be writing to her in response as soon as possible.

**Baroness Northover (LD):** My Lords, yesterday's Written Statement states:

“The Government has also considered the interaction of any potential community with the US Naval Support Facility”.—[*Official Report*, Commons, 16/11/16; col. 11WS.]

Were the Americans consulted on this decision? The Minister has expressed regret about the original decision, so how can the interests that determined the original decision be reflected in this decision?

**Earl Howe:** My Lords, we consulted a number of stakeholders, including the Americans. We then considered the findings from that process and from the KPMG report. We then commissioned a study to refine the assumptions in the KPMG report and conducted a public consultation to which a number of Chagossians—there were not very many, about 844 people—replied. The decision was taken not in haste but on the basis of close analysis of all the considerations.

## Strathclyde Review Statement

11.52 am

**The Lord Privy Seal (Baroness Evans of Bowes Park) (Con):** My Lords, I would like to make a Statement on the Government's response to my noble friend Lord Strathclyde's review into secondary legislation and the primacy of the House of Commons. The Government will publish their response to his review shortly and write to the Select Committees which have reported on the issue. As there has been media speculation this morning, I am making a Statement now because I know that this is an important issue for your Lordships' House and I want to be clear about the Government's position.

Noble Lords will recall that the former Prime Minister commissioned my noble friend Lord Strathclyde to undertake a review following the decision by the House of Lords to withhold agreement to a tax credits SI. Underpinning that decision and, indeed, the subsequent

[BARONESS EVANS OF BOWES PARK]

work of my noble friend's review, was the desire to strike the right balance between recognising and upholding the vital role this House plays in scrutinising legislation and ensuring that the elected House has the final say, for while that is clear on primary legislation, where the Parliament Acts provide for the will of the other place to prevail, there is no such mechanism for secondary legislation.

I would like to thank my noble friend Lord Strathclyde and his panel of experts for undertaking the review and producing a comprehensive and balanced report. In his report, my noble friend considered three options for securing the primacy of the elected House in relation to statutory instruments, recommending his third option. The Government have considered these recommendations carefully and listened to views across both Houses, including those expressed by four parliamentary Select Committees, three of which are in this House.

The House has clearly signalled that it recognises the importance of working constructively together as noble Lords scrutinise the legislative programme before us. I would like to thank noble Lords across this House for the spirit of partnership that has been shown.

The Government agree with my noble friend Lord Strathclyde's conclusion that on statutory instruments, as with primary legislation, the will of the elected House should prevail, and we believe that his option 3 provides a credible means of achieving this. However we do not believe that we need to introduce primary legislation at this time. We recognise the valuable role of the House of Lords in scrutinising SIs, but there is no mechanism for the will of the elected House to prevail when they are considered, as is the case for primary legislation. The Government are therefore reliant on the discipline and self-regulation that this House imposes upon itself. Should that break down, we would have to reflect on this decision.

This House has an important role to play in scrutinising and revising legislation, and the Government recognise this. As we will find ourselves considering the legislation resulting from the decision of the British people to leave the European Union, the constructive approach this House has so far shown will be ever more important.

11.55 am

**Baroness Smith of Basildon (Lab):** My Lords, I thank the noble Baroness for the Statement. It came very promptly after the leak last night, and I do not think she expected to be here this morning. The decision not to proceed with legislation is warmly welcomed by your Lordships' House, as she will have heard. I pay tribute to the noble Baroness the Leader of the House and to the noble Lord the Government Chief Whip for the way in which they have approached this issue—it is appreciated. I also put on record our thanks to the noble Lord, Lord Strathclyde, for the diligence and care he took on his report. I welcomed and enjoyed the discussions we had, although I have to say that, knowing the commitment he has shown to this House over many years, I sometimes felt his heart was not quite in it.

Although we welcome the main conclusion that there should not be legislation, we still feel that option 3 in the report is wrong, and that it misunderstands the role of this House and the constitutional position of statutory instruments, which are sent to your Lordships' House from the Government, not from the House of Commons. This was never about the primacy of the House of Commons but about the primacy of government. We certainly welcome the fact that this has been done in the spirit of looking forward rather than of what has happened in the past, and none of us wants to rerun the old arguments. However, I want to briefly reflect on the constitutional background that led to the Strathclyde review following the votes on the tax credits statutory instrument.

That review and its recommendations were an absurd overreaction from the then Prime Minister and completely unnecessary. But perhaps it did us a great service: for one brief moment in time, statutory instruments became exciting to people who had never heard of them before. This House has an enviable and well-deserved reputation for the way in which it fulfils its duty of scrutiny of government legislation, including secondary legislation. As a House, we recognise those responsibilities but also our limitations as an unelected second Chamber. We also recognise that when it comes to secondary legislation, with our scrutiny committees and our debates, we discharge that duty with both expertise and experience.

We considered that, as a significant policy change, the tax credits proposals should have been dealt with more appropriately and properly as primary legislation. But even then, this House was reluctant to just block them and we rejected a fatal Motion. However, again in the spirit of how this House works best, we sought to find a sustainable way forward to provide the Government with greater detail on the impact of the proposals, and the time and the space to think again, reflect and reconsider. That gained support from all corners of this House and was passed. The Government reconsidered and changed the policy. That was the right and appropriate action to take.

Your Lordships' House unanimously agreed the report of the Joint Committee on Conventions, chaired by the noble Lord, Lord Cunningham of Felling, in 2006, which said that in clearly exceptional circumstances this House retains the power to vote against and reject secondary legislation. But the significance of that power is reflected in how rarely it is used: just five times in nearly 70 years. There have been other attempts, but all have failed. That is because it must be exceptional—for example, where the primary legislation is in effect a skeleton Bill or where an SI is being used for a significant policy change, but not where secondary legislation is merely implementing the details of policy from primary legislation. That does not mean we do not challenge the Government or hold them to account but, as the report clearly says, unless there are exceptional circumstances,

“opposition parties should not use their numbers in the House of Lords to defeat an SI simply because they disagree with it”.

The tax credits votes that led to this review were exceptional. They fulfilled the criteria. It was not just a matter of disagreeing, but was completely in line with the history and conventions of this House and the Cunningham report.

The noble Baroness referred to Brexit. Over the past few weeks, there has been considerable speculation about the role of your Lordships' House in examining Brexit. We have been clear: we will not block; we will not delay. But a Government without a plan do not have a blank cheque. Clearly this House will have an important role, especially if there is considerable secondary legislation that will need us to work together to provide effective scrutiny from all sides of the House in the public interest. I say to the noble Baroness that I hope she and her colleagues in government will see this House as an asset rather than just a challenge.

On these Benches we always considered that the Strathclyde review was evidence that the then Prime Minister, David Cameron, loathed challenge and feared scrutiny. That made life a bit difficult for us because challenge and scrutiny are what we do. However, in warmly welcoming today's announcement, I thank the noble Baroness and the Chief Whip. I hope this heralds a new, more adult and reasonable approach to government and opposition where challenge and scrutiny are recognised as being in the public interest.

**Lord Newby (LD):** My Lords, I thank the noble Baroness the Leader of the House both for making the Statement and for its content. I echo the words of the noble Baroness, Lady Smith, about the sensible approach that she and the Chief Whip have taken over this issue.

At the time, we regarded the Government's response to the votes on tax credits as being a petulant overreaction. It was part of a general approach that regarded Parliament as a bit of an inconvenience, an approach sadly replicated by their view on parliamentary debates on triggering Article 50. In our view, the House was exercising its scrutiny powers within well-established rules. We rested our case on the Motion proposed by Lord Simon of Glaisdale in 1994, now enshrined in our *Companion to the Standing Orders*:

"That this House affirms its unfettered freedom to vote on any subordinate legislation submitted for its consideration".

Our traditional role is to ask the Commons or, as in the case of tax credits, the Government to think again when we believe they have got it wrong. It is worth recalling that in reality, on the question of tax credits, exercising that role produced the rethink that your Lordships' House was seeking.

The noble Lord, Lord Strathclyde, undertook his review with his customary energy and wisdom but struggled to find a way forward that was an improvement on the current position. It was extremely interesting when his report was debated in your Lordships' House what wide agreement there was across the Benches about both the pitfalls of his preferred approach and the other things that could be done to improve secondary legislation and the way that it is scrutinised. The clearest message from that debate, which I strongly endorse, was that many of the problems with secondary legislation arise when the Government use it to implement measures that should be included in primary legislation.

There was also a widespread view in the debate that the way in which we scrutinise secondary legislation could be improved by giving some scope for rethink and amendment. Certainly, both as a party spokesperson and as a Minister, I have found debates on statutory

instruments for the most part particularly sterile. Will the Government therefore be prepared to countenance further discussion about how the quality of scrutiny of SIs by your Lordships' House could be improved? In the light of yesterday's suggestion that the Brexit process might lead to upwards of 2,000 SIs being produced, could the Government give an assurance now that they will not abuse the SI system in future by including in statutory instruments substantial policy issues that should rightly be the subject of primary legislation?

**Baroness Evans of Bowes Park:** My Lords, I thank the noble Baroness and the noble Lord for their constructive and positive comments. I hope my future Statements may be treated with similar enthusiasm, although I fear perhaps not.

I too do not want to rerun the arguments about what happened. I want to look forward. As I have said, since being Leader I have been very taken with and impressed by the constructive way in which we have been able to work together, and I hope that will continue. However, we felt that what happened raised an issue that we needed to look at. We commissioned a review and I hope I have now been clear that the Government have decided, on the basis of considering that carefully, that we will not be legislating.

I particularly welcome the constructive comments from the noble Baroness around our approach to Brexit. I think we have seen already that noble Lords have taken a constructive approach in the debates we have had, and I am confident we will be able to continue to do so.

The noble Lord, Lord Newby, mentioned the House's role in scrutinising SIs. It is indeed an important role. The legislation we will have from Brexit will cause us challenges. I am keen to work with Members across the House to ensure that our revising and scrutinising role can be properly undertaken and that we can do this House proud in the work we do.

12.04 pm

**Lord Strathclyde (Con):** My Lords, this Statement appeals to the very best, indeed, the noblest instincts of this House. Twelve months on, the Government have listened very carefully to the voices around the House and decided that the best way forward is the way the House always proceeds: by agreement, at a pace and with perspective.

That is why I very much welcome what the noble Baroness the Leader of the Opposition said. She reminded us of the statistic that Governments have been defeated at least five times in 70 years. Frankly, if that is the pace that will continue, neither this nor a future Government will have very much to concern themselves with. It is that commitment, which would be very difficult to receive a year ago, which has made so much difference today.

The noble Lord, Lord Newby, raised a question about secondary legislation. Perhaps I may finish with one question on that. It is true that the guidelines on when secondary legislation and primary legislation are to be used are vague or, indeed, opaque. I very much urge the Government to work with the parliamentary draftsmen and make public through departments when



[LORD STRATHCLYDE]

it is most desirable to use secondary legislation. Then we can avoid these sorts of issues in future.

If my report has been any part of bringing us to this good solution, I am delighted.

**Baroness Evans of Bowes Park:** I once again thank my noble friend for all his work in this area. In response to his question, I am very happy to look at the comments he made.

**Lord Cunningham of Felling (Lab):** My Lords, first, I join my noble friend Lady Smith in congratulating the noble Baroness the Leader of the House on her Statement and on the positive and rapid way in which she has brought this matter to what I think most people agree is a satisfactory conclusion. After all, the Prime Minister and Chancellor of the Exchequer, who made the original error that led to the charges of abuse of procedure, have now both left office. We have a new Prime Minister, a new Chancellor and a new Leader of the House. It is time to move forward and put behind us the false claims that somehow this House had abused its powers and acted wrongly. That was never the case and, speaking for myself, I hope that it never will be. I, for one, would not abuse my vote by voting against any measure which came from the other place which was covered by financial privilege. I voted on the matter of tax credits because it was a statutory instrument, not a Bill, and therefore was not covered by financial privilege.

**Baroness Evans of Bowes Park:** I thank the noble Lord for his comments and hear what he says. As I said, when we work constructively together, we are an extremely effective House.

**Baroness Hayman (CB):** My Lords, like others, I am extremely grateful to the noble Baroness for her Statement and for the decision that has been made. I was delighted to hear that the noble Lord, Lord Strathclyde, has returned to his normal tranquillity and confidence in the House's ability to behave rationally and in a mature fashion, which was uncharacteristically absent, I felt, in some of his report and the consequent discussions.

To return to the point made by the noble Lord, Lord Newby, the tenor of the debate following the tax credits issue was very much about the quality of the scrutiny that Parliament gives to secondary legislation. Although we all agree that in many instances we need primary legislation, in fact we have a great deal of secondary legislation and the challenge will be greater after the so-called great repeal Bill. Do not both Houses of Parliament need to look at how, together, they provide more effective scrutiny and greater challenge to the Executive? Will the noble Baroness consider again the suggestion made at the time that a Joint Committee of both Houses looking at ways to improve scrutiny could be very valuable?

**Baroness Evans of Bowes Park:** I thank the noble Baroness for her comments. She is absolutely right: we will face significant challenges with the amount of legislation, both primary and secondary, that will come to this House, and I am looking forward to working

with the leadership across this House to ensure that we do the most effective job in helping to produce the best deal we can for this country. I am happy to take away her thoughts about scrutinising secondary legislation, and I will talk to colleagues in government.

**Lord McNally (LD):** My Lords, I am always most worried when the House is congratulating itself on how wise it has been. I was a member of the Cunningham committee, and if there is a paragraph in its report of which I claim authorship and in which I take pride, it is the one that repeats the assertion by Lord Simon that this House must retain the right to say no. What makes this House work, faced with the Government's oft-repeated threats to clip its wings, is its grim determination to retain that right to say no. The warning, and the danger, is that if we ever gave away the right to say no—sparingly as it is used—the dynamics of this House would change. We would become a debating society, because Governments would know that whatever process they adopted—option 3 was just a single example—they could bypass this House. This House is here for a special reason, and it is the right to say no that protects its authority and makes Governments think twice.

**Baroness Evans of Bowes Park:** I entirely agree with the noble Lord that this House has a vital role to play, but we must remember that the elected House has the final say, because it is the elected House. What we can do is add our voice and our expertise to ensure that opinions are reflected, and that we can improve legislation—but we are reliant on the House's self-regulation and discipline to achieve that. As I said, I believe that we are constructive and we work well together—but if that breaks down, we will have to reflect on what that means.

**Lord Lang of Monkton (Con):** My Lords, I am not at all averse to joining in universal congratulations where they are deserved, and I warmly congratulate my noble friend on her role in helping to bring a sensible conclusion to this matter. This House works best, in a bicameral parliamentary democracy, when each House understands and respects the powers, responsibilities and limitations of the other. I hope that as a result of this past confrontation, now resolved, there will be greater understanding in the future. The suggestion by the noble Baroness, Lady Hayman, of further consultation between the Houses may well offer an appropriate way forward.

As for secondary legislation, I assure your Lordships that your Constitution Committee has made this a long-running campaign for improvement. This is a besetting sin of successive Governments—it is by no means confined to the present Government—and I would suggest one way forward to my noble friend: if the Government would take a self-denying ordinance over ever inserting primary legislation into delegated secondary legislation, that would be a good start.

**Baroness Evans of Bowes Park:** I do not want to give answers that diminish the enthusiasm we are showing today, but I shall not make promises I cannot keep. I add my thanks for the work of the Constitution



Committee, both for its report on this review and for its wider work, which is extremely valuable and well respected.

**Lord Foulkes of Cumnock (Lab):** My Lords, I was slightly worried that the Leader of the House was implying that she and the Government would have an easy time when it came to scrutinising all aspects of Brexit. The legislation that gave us the referendum was itself flawed, in that it had a very restrictive franchise and no threshold, and it was not, in my view, considered properly by Parliament. As a result of that we are in a mess. That is why it is very important to scrutinise every aspect of Brexit and all the consequences, which are huge and serious, not just in Scotland and Northern Ireland but throughout the whole of the United Kingdom, affecting the constitution of this country as well as its stability and prosperity. If we do not scrutinise them properly, we are not doing our job.

**Baroness Evans of Bowes Park:** My Lords, I am under no illusions about the task that we have ahead and the role this House will play in scrutinising legislation relating to Brexit. As I said, noble Lords have already taken a constructive approach in dealing with the debates we have had so far, and I have faith that this will continue. As I said to the noble Lord, Lord McNally, we are also reliant on self-regulation and discipline to ensure the passage of legislation. We hope that that will continue.

**Lord Forsyth of Drumlean (Con):** After what the noble Lord, Lord Jones of Birmingham, said on the “Today” programme this morning, could my noble friend confirm that this House is acutely aware of the supremacy of the other place and always will behave accordingly? I congratulate her on persuading her colleagues to accept this position. Could she make it absolutely clear that this position has been reached on the understanding, because of her advocacy, that the House continues to do so, as everyone here is determined that it will?

**Baroness Evans of Bowes Park:** I thank my noble friend for that question, and I can indeed confirm that.

**Lord Wallace of Tankerness (LD):** My Lords, in welcoming the Statement, I take the opportunity to place on record my personal thanks to the noble Baroness's predecessor, the noble Baroness, Lady Stowell of Beeston, and the Chief Whip, for the very constructive way in which they engaged with me on this issue when I was the leader of the Liberal Democrat Peers. I welcome the outcome that there has been, but I reinforce the call made by the noble Baroness, Lady Hayman, to consider a Joint Committee. One of the frustrating things that noble Lords often feel—as, indeed, do Members of the other place—about statutory instruments is that it is take it or leave it; there is no chance to amend. I know that, during the course of discussions in evidence given to committees, there were some suggestions as to how it might be possible to devise some procedure which would allow amendment of statutory instruments. Very often, it is just one small part of the instrument that people feel aggrieved about. Would she be willing to take that on board and give

serious consideration to it? We should not just let the thing finish here but consider other ways in which we can actually improve the scrutiny of statutory instruments?

**Baroness Evans of Bowes Park:** Again, I am not going to make any promises that I cannot keep, but I am very happy to say that I want this House to work effectively and I want us to make sure that we use our expertise properly. I want to improve the processes that we have, if we can. I am happy to take that point away, but I cannot promise what the outcome will be.

**Lord Trefgarne (Con):** My Lords, as the chairman of your Lordships' Secondary Legislation Scrutiny Committee, I warmly welcome the announcement made by the Leader this morning. My committee made representations along the lines that have now been agreed to, and I am very satisfied with that.

**Baroness Evans of Bowes Park:** I thank my noble friend for that and thank his committee for all the work that it did in relation to the review and the work that it does regularly for the House.

**Lord Beecham (Lab):** My Lords, I join all noble Lords in congratulating the Government and the Leader of the House on reaching a much more mature position than was threatened by the previous Prime Minister. The whole House very much welcomes the recognition of the House's role. However, I warmly endorse the remarks of the noble Lord, Lord Lang, about the overreliance on secondary legislation as part of the legislative process. Along with others, I have spent many happy hours in the Moses Room tormenting Ministers, or endeavouring to, on the contents of secondary legislation. I am particularly conscious of how the system works in the light of the experience over the Housing and Planning Act, as it now is. It is now more than six months since the Act received Royal Assent; the Bill went through on the basis of consultation that had not taken place and leading to secondary legislation, none of which has yet emerged. We have not even seen the response to the consultation. This is a grave defect in the system, and the noble Lord was right to draw attention to it—and it is a matter that the House and the Government need to consider, because it makes a nonsense of the time devoted in this House to primary legislation if so much of what actually happens is determined by this somewhat difficult process, over which we have little control and which, on the basis of the experience of the Housing and Planning Act, seems never to emerge.

**Baroness Evans of Bowes Park:** Like the noble Lord, I often reflect on the many hours that we spent in this Chamber on the Housing and Planning Bill in the last Session. On a broader point, there has not been an increase in the use of SIs laid before Parliament in the last 20 years, but I hear what he says in relation to that Bill.

**Baroness Fookes (Con):** My Lords, as chairman of the Delegated Powers Committee, which also produced a report, may I say that this is a very happy conclusion and I thank the Minister for it? I want to make a slightly different point about delegated legislation in general. I think that it would be good if Governments

[BARONESS FOOKES]

were more careful before they introduced legislation and thought far more carefully about what should be in primary legislation and in delegated legislation. Sometimes it is a case of more haste, less speed.

**Baroness Evans of Bowes Park:** I thank my noble friend and her committee for the work that they have done on this review and more generally. I assure her that I am working very hard with the leader of the House of Commons to have a rigorous approach with our Cabinet colleagues when they bring forward legislation to us.

**Lord Rooker (Lab):** My Lords, I congratulate the Government on the decision. I have one simple request, as this seems to me a golden opportunity. Can the Government say what they are going to do, using this as a lever, to explain to journalists and commentators the role of this House? It is the supreme ignorance among journalists and commentators—which I agree exists also among the other House, and which I shared before I came here—about our role that led to the kind of ignorant interview that the public heard on Radio 4 this morning. Can we use this as an opportunity to explain to the media, as many of us do with the Peers in Schools programme, the exact role of this House? This seems a golden opportunity for the Government, on an all-party basis, to do something about that.

**Baroness Evans of Bowes Park:** I thank the noble Lord for his comments, and I entirely agree that we have a lot of work to do to improve the public's understanding of the excellent and important work of this House. I am very keen to try to play my part in that, but we need Members across the House to do it. I know that the Lord Speaker is also very keen to make sure that we do what we can to help the public understand the important role that we play.

**Lord Cormack (Con):** My Lords, there has never been a greater need for the calm deliberation that this House can bring to contentious issues. Will my noble friend accept that the example that we have had from both Front Benches today has been splendid? We all feel, across the parties, that we have a Leader of the House who takes that role seriously and we have a Leader of the Opposition who responded in an entirely constructive manner.

**Baroness Evans of Bowes Park:** I thank my noble friend for those comments; I think I probably do so on behalf of the Labour leader, the noble Baroness, Lady Smith, as well.

**Viscount Hailsham (Con):** My Lords, I echo the suggestion made by the noble and learned Lord, Lord Wallace, about the amendability of statutory instruments; I have spent the last 30 years arguing for that. In view of the work that will be done pursuant to my noble friend's report, it would be very helpful if we could look again at the possibility of amending statutory instruments.

**Baroness Evans of Bowes Park:** As I said, I can make no promises. I said to the noble Lord that I will obviously take these comments back and we will investigate further.

**Lord Hope of Craighead (CB):** I do not think that this debate can conclude without mention of Henry VIII. Repeatedly, some Members—certainly on my Benches—have complained about the overuse of Henry VIII clauses. Can the Government look more carefully at that? It is not only the use of them but the wording used; sometimes one can see the force of having a clause of that kind, but can find it is overdone. There is really a major issue here as to whether this should be properly controlled.

**Baroness Evans of Bowes Park:** I assure the noble Lord that when we legislate we most certainly do, and will, take care to ensure that powers are delegated appropriately.

**Lord Beith (LD):** My Lords, can I commend to the Leader of the House the transcripts of recent evidence sessions of the Constitution Committee? They illustrate so clearly that this is not merely a procedural problem for this House; the inability to amend statutory instruments has profound effects on those who have to carry out the law and would rather have it in the form of primary legislation.

**Baroness Evans of Bowes Park:** Again, I will look at the points that the noble Lord has raised.

**Lord Morgan (Lab):** My Lords, briefly, I agree with all the rightful praise that the Government have received. I particularly appreciate the comments of my chairman, the noble Lord, Lord Lang, who is chairman of the Constitution Committee—we are very fortunate to have him—that there has been abuse of the procedure for delegated legislation. However, the reason for my standing up is that I think there has been abuse at a more fundamental level. The noble Lord, Lord McNally, observed that the House of Lords should preserve the right to say no, but there are different ways of saying no. One way, in effect, of saying no is not to be allowed to speak, and I feel that the understanding of financial privilege has been incorrect and confused for many years. We had that with many important measures such as that on welfare reform, and I heard the noble Lord across the Chamber—a former Clerk of the House of Commons—taking the same view. The view that we have taken of financial privilege has been very broad and vague, and not in accordance with what Mr Asquith said in passing the Parliament Act 1911. As long as the House of Lords is restricted in a way that I regard as incorrect and unhistorical, we will continue to have problems.

**Baroness Evans of Bowes Park:** I will reflect on the noble Lord's comments. However, I end by saying that this discussion and debate has shown that we work best when we work together.

## Economy: Currency Fluctuations

### *Motion to Take Note*

12.25 pm

*Moved by Baroness McIntosh of Pickering*

That this House takes note of the impact on the economy and investment of fluctuations in the level of the pound sterling.

**Baroness McIntosh of Pickering (Con):** My Lords, I am delighted to have secured this debate and look forward to contributions from my noble friends and noble Lords across the House who have worked at the coalface in business and bring real experience to this debate. I welcome my noble friend the Minister to the Front Bench and look forward very much to his response.

Fluctuations in the level of the pound are not unusual, but the recent collapse in the pound sterling in October was remarkable, with a fall of 16% taking it to its lowest level for more than 30 years. For a while the pound has been stubbornly low, with stocks and shares relatively high. This has made for challenging and uncertain times for savers and investors. I declare an interest as a modest saver and investor.

Standard & Poor has already downgraded the AAA rating of sterling and has raised concern about the pound sterling losing its status as a reserve currency—a possibility which must be taken seriously. What has the impact been on various categories of economic activity, more particularly in rural areas where I have my roots? North Yorkshire and other rural areas attract many older people who live, work and retire there. Those who have saved in cash ISAs and bank savings—often older people who live prudently and put money aside—are often disappointed to find that their savings are worth substantially less almost overnight owing to a currency fluctuation. In any event, with such low interest rates as at present, they are receiving a much lower return on their deposits.

Pensioners and older savers are precisely the category of people who spend and put money into the economy in good times, so the current level of the pound discourages those savers from spending money, which rebounds on the economy. A low level of pound sterling against the euro and the US dollar means that the pound in your pocket is worth less and buys less in the shops. Spending by tourists now appears to outstrip and exceed that by locals. For UK holidaymakers visiting Europe and the United States, the pound will not go so far and holidays will cost more. Wine imports cost more, whereas English wine sales are booming—and exports of Scotch whisky, too. While this might be good news for exporters, the costs of imported materials used in goods made here go up. Latest figures show only a small reduction in the UK's trade deficit over the months since June.

We are only 62% self-sufficient in food production. That makes us very reliant on food imports, which in turn pushes up the cost of food in shops. Government measures to boost exports are welcome and are already producing results in countries such as China, but these take time. Until the imbalance in food imports and exports is redressed, there will be an ongoing trade deficit. In the short term, the low value of the pound has meant an increase in basic farm payments for UK farmers, but these will cease when Britain leaves the EU in 2019. In any event, the cost of animal feed for their livestock will have increased incrementally.

Price increases will of course fuel inflation. Currency is important to farmers as it affects their ability to compete internationally, as well as their agricultural support and profitability. A year ago, £1 was worth

around €1.35. It is now worth around €1.11. Some forecasts suggest that the pound will reach parity with the euro by the end of 2017. While a weak pound helps to support prices for farm outputs, the impact of exchange rate fluctuations on the agricultural sector has many layers. The pound/euro exchange rate impacts greatly on the value of support payments received by farmers in the UK. A weaker pound sees an increase in the value of basic payment scheme support payments, whereas when the pound strengthens the reverse is true. It is ironic that at the moment farm profitability depends almost entirely on the level of the currency.

Currency value is only one part of the equation for farming, alongside the vagaries of global markets and convoluted supply chains, so imports of fuel, fertiliser and machinery will negate many of the benefits of currency changes. In 2013, the UK's trade deficit with other EU countries in raw materials amounted to €12 billion. The UK's food and drinks industry, employing 400,000 people across the UK and contributing £21.9 billion to the UK economy, has seen significant increases in the prices of imported raw materials. Cocoa is up 50% since 2013 and skimmed milk powder is up 55% since April this year, and there have been steep increases in the cost of butter and coffee beans. The Food and Drink Federation envisages three possible outcomes if these extremes of price volatility persist: retailers will put their prices up; manufacturers and/or retailers will absorb the costs; or UK consumers will simply lose the choice when those products are taken off the shelves.

With a low pound, the cost of industrial component raw materials also becomes much higher. Only where there is substantial added value to the products will these products from the UK become more competitive. The weaker pound helps only the manufacturing companies that export, which is probably only about 10% of all those companies operating in this country. That means that 90% of UK businesses face increased costs from a weak pound sterling and no benefit whatever.

What has the impact been on pension funds? They are coming under increasing pressure with the low level of the pound combined with low interest rates. Pension funds are facing a potential deficit, compounded by a poor return on gilts.

Household budgets are also being squeezed. There are more young people living at home, and less income in households means that people are more wary of spending money. We have seen Marmite wars in the supermarkets, with Marmite jars costing over 10% more owing to the value of the pound. That took the country by complete surprise. More recently, the manufacturers of crisps made entirely in this country with UK products, and the manufacturers of fish fingers, have been saying that the costs will rise by 10% or more. We must wait to see what happens at Christmas, which is a time of major expenditure for hard-pressed families. What bought 12 mince pies last year may buy only six this Christmas.

It is understood that market forces will prevail and that the pound will find its own level. What would help would be for interest rates to rise before Britain leaves the European Union, yet the Bank of England appears



[BARONESS MCINTOSH OF PICKERING]

to be focusing more on those in work and keeping employment high. If anything, looking at the figures today, unemployment is at record low levels. The main concern of employers across the country is a shortage of much-needed skilled workers. Sectors facing skills shortages include farming and horticulture. Horticulture alone requires some 80,000 seasonal workers a year to hand-pick fruit and vegetable crops.

When Alabama, as an exercise in trying to go it alone, put Alabama first and tried to get Alabama people to pick their fruit and vegetables, the fruit and vegetables rotted in the ground. This is a feature that the industry in this country wants to avoid. Currently, around 90% of those working in horticulture come from abroad, of which the majority are from EU countries. Their status post-Brexit is causing great uncertainty, and every effort must be made to encourage these workers to stay—to both live and work in the UK.

Shortages are seen also in industrial units in small market towns in north Yorkshire and elsewhere. Areas of the economy such as the NHS, the care sector, light engineering and mobile phone networks, as well as farming and other sectors, depend on EU and other non-British workers.

Another consequence of the lower level of the pound is to see inflation rising. The Bank of England forecasts that inflation will almost triple in the next three years to reach 2.75% by the end of 2017, before falling to 2% by the end of 2019. The governor, Mark Carney, predicts that inflation will rise owing to an increase in the cost of the production of food and other items caused by the weakness of the pound. The Bank must decide whether to dampen inflation and slow any level of wage growth or allow inflation to rise and manage the consequences. A worrying sign at present is the decline in business confidence across the board in most sectors and businesses of all sizes. The pace of change and the nature of the challenges ahead are huge. The growth forecast of 1.4% and the 2018 forecast are down. Again, the level of exports to EU markets is predicted to reduce sharply from 2019. Although the independence of the Bank of England enjoys cross-party support, this leaves government with few tools to manage the economy.

I will conclude, if I may, on an optimistic note. Looking ahead to the Autumn Statement with great interest, I think that one area of spending which would boost the economy and economic growth while easing the pressures on the low pound is that of infrastructure—in particular, flood protection and flood defences. Small flood protection measures are already happening using CAP money to retain flood water temporarily on farmland, to plant trees and to encourage natural flood defences to slow the flow of flood waters, as has been so successfully engineered in Pickering. Water companies have a role, too, as well as internal drainage boards doing key, regular maintenance, delivering local solutions to flood risks.

A game-changer would be either pump-priming or the insurance sector and pension funds making a return on investment in flood defences on a grand scale. One alternative would be to reward insurance firms for investing in those areas most at risk of flooding, which, in turn, could save the insurance

sector huge losses—approaching £1 billion for one flood event and often £3 billion in insurance costs in one year alone in the wake of major floods. Local communities, as well as the national economy, would benefit, and good use could be made of this with regard to even a small percentage of the flood insurance premium tax we all pay, which was increased at the last Budget. In my view, it would be hypothecation at its very best.

The model that comes to mind is that associated with shadow tolling for roadbuilding, known as design, build, finance and operate, or DBFO. My noble friend the Minister will be familiar with this model from his days as Secretary of State for Transport. I hope it is a model that the Government will look to, either in the Autumn Statement or the Budget, to protect the country and boost infrastructure spending and economic growth.

The contribution that rural businesses, including farmers and growers, make to employment and economic growth has long been overlooked, yet they are the drivers of the local economy in rural areas. Perhaps the current economic climate, along with currency fluctuations, will encourage them to take more control of their own destiny.

12.39 pm

**Lord Haskel (Lab):** My Lords, like the noble Baroness, I too would like to keep the exchange rate steady. There used to be an idea that a managed exchange rate could benefit the economy—that there was a direct cause and effect. If only life were so simple. Chancellors thought that a strong currency would create a large balance of payments deficit and so some tried to manage it down, only to find that that resulted in rising domestic prices and low investment. A lower exchange rate may make some of our exports cheaper, as the noble Baroness said, but as the November Bank of England inflation report points out, we have become increasingly integrated into global supply chains. That makes imports more expensive, and alternative UK suppliers need time to gear up, by which time the customers may have gone elsewhere.

An added complication is that the current uncertainty over Brexit and world trade does not encourage the necessary investment to replace imports. Also, we are very reliant on exporting services. Services are less price sensitive and frequently themselves require some overseas investment—investment which becomes more expensive.

A high exchange rate has been partly blamed for business migrating, leaving low-paid jobs with no future in the old manufacturing areas. Again, it is not as simple as that. Other businesses have shown that investing to raise productivity with new innovation and new technology demonstrates that the so-called high rate of exchange is not a barrier to a successful business. Manipulating the exchange rate does not compensate for low investment and poor business management.

New technology in all its forms affects our exchange rate. There is the potential of technology to invent new currencies. Technology can enable firms to trade without the intermediation of banks. Then there must be the possibility of massive cyber intervention in the exchange rate markets, causing the pound to fluctuate and draining confidence in the reliability of our currency. Then



there is the matter of a fluctuating exchange rate through competitive devaluation. That is the kind of thing that the Bretton Woods agreement tried to eliminate, but was unsuccessful. The next President of the United States has called China an exchange rate manipulator and will impose tariffs on trade with China. China, a country that holds much US dollar debt, will in turn retaliate. In effect, that becomes a race to the bottom.

The noble Baroness spoke about the impact on farmers. According to a recent CBI survey, the pound's recent drop is a mixed blessing. A third of manufacturers said that it helped exports, but nearly half said that the impact on their business had been negative because of the higher cost of imports. The rest said that the effect was neutral. The general public, too, are apparently sceptical about currency fluctuation. Apparently, the consumer thinks that as the currency goes down, prices go up immediately, but when the currency goes up, prices come down very slowly.

Some years ago, a member of the editorial staff on the *Financial Times* pointed all this out and proposed that much of the responsibility for the exchange rate should lie with an independent Bank of England. That became law in 1997 and the journalist became the Chancellor's economic adviser, which led to a distinguished career in Parliament. He is now stepping out to even greater things. Mr Ed Balls is a contemporary of the noble Baroness. I note that today he has called for central banks to "sacrifice some ... independence". I am not sure how independence can be nuanced; you are either independent or you are not. The Bank needs independence to carry out its purpose, and the purpose of that independence is to maintain a long-term stable but floating exchange rate without fluctuations so that business and the public sector can take a long-term view with less uncertainty about short-term fluctuations.

During the uncertain days just after the referendum, it was the governor and the Bank of England that kept the exchange rate far more stable through their technical intervention than it would have been if it had just been left to politics. The criticism made of the governor for warning that Brexit would damage the economy is mistaken. It was entirely in his line of duty, and it is certainly no reason why monetary policy should be handed back to politicians. Our exchange rate must not be politicised. It is part of the mechanism of adjustment, as the governor said recently.

Certainly the remit can be looked at, but less so the mechanics. Holding the exchange rate steady while allowing it to float is a technical and complicated manoeuvre requiring a lot of experience, skill and knowledge—expertise which some have ceased to value. However, others like me think that these skills have a value and I would like to see the exchange rate managed using a kind of Haldane principle where specialists place the national interest before sectional interests, particularly when economic data will be evaluated in the uncertain light of Brexit.

Of course, decisions on interest rates have a major effect on the exchange rate of the pound. Again, we have taken this out of the hands of politicians for the same reasons, but some politicians have said that the Bank of England is wrong to rely on ultra-low interest rates and have called for its independence to be taken

away unless it raises interest rates soon. They were at it again last Tuesday. Yes, experts get it wrong sometimes and forecasts are uncertain—that is why they are forecasts. People have to make a judgment.

Where there is a case for political interference is in recognising the danger of another financial crisis because another one must be a danger to the stability of the pound. Take, for instance, the huge financial business conducted in London by banks and Governments on derivative transactions, interest rate swaps and other exotic financial trading—trading that some people call betting. This exceeds by far ordinary banking, insurance, fund-raising and other traditional financial businesses. In fact, London clearing has 90% of this world business. The numbers are huge and greater by far than the balance sheets of the banks that caused the crash. It is a global business conducted by Governments, banks and trading organisations. We are told that owing to the unique expertise found in London, there is no danger to sterling, but once the leverage gets out of hand, as happened in 2008, who knows what will happen? This is where Ministers should be concerned, but are they? Leaving the Bank of England alone to be a stable and independent institution normalises our lives and our exchange rate, and holds it steady. It is an institution that provides stability for our currency.

I thank the noble Baroness for this debate because up until now it has demonstrated that a stable and consistent rate of exchange is central to the success of our economy. Can the Minister tell us how the Government plan to ensure this stability in the promised industrial strategy? Will there be political control or independent control?

12.50 pm

**Lord Carrington of Fulham (Con):** My Lords, I bring to the attention of your Lordships my interests as recorded in the register. I add my congratulations to those offered by the noble Lord, Lord Haskel, to my noble friend Lady McIntosh on obtaining this debate and on its timing, coming as it does when our American friends have thrown yet another spanner into the smooth workings of the foreign exchange markets.

With the Trump victory coming on top of Brexit, the various crises in the Middle East, Chinese expansionism, the continuing inability of the eurozone to resolve its problems and sluggishness in the world economy, perhaps it is not surprising that currencies fluctuate—to use the wording of this Motion—although “dance a jig” might be a more accurate description of the state of the markets.

I want to make only two points. First, a fluctuating currency is a hindrance to business and a bar to investment. It may be self-evident, as has been said by my noble friend and the noble Lord, Lord Haskel, that businesses like certainty. Some companies find irresistible the temptation to make opportunistic profits from currency fluctuations, but most would rather remove the downside risk of the currency moving away from them.

It is not just big businesses; small companies often export and have to do so in their customer's own currency. Sadly, the days when we could insist on

[LORD CARRINGTON OF FULHAM]

exporting in sterling have long gone. Even if companies do not export, they suffer from changes to their input costs caused by the exchange rate, not least those of energy.

However, this has been so for a long time and most businesses cope well with a floating exchange rate. If they are large companies, they can buy forward in the foreign exchange markets and, at a cost, minimise their exchange rate exposure. Small businesses on the whole control their foreign exchange risk by minimising the length of time of their exposure to currency fluctuations where they cannot exercise a hedge.

There are two problems with this. If you are a small company, finding a bank to hedge your currency exposures is near impossible. If you are Muslim and want to operate your business in accordance with the sharia, you cannot simply remove your currency risk. In these turbulent times, would it be sensible if the Treasury were to help small businesses, and Muslim-owned enterprises, to access solutions to such problems at a reasonable cost? Could it be done by getting the banks and the other parties involved to sit down and work out a solution? Perhaps we could get UK Export Finance, which used to be called the Export Credits Guarantee Department or ECGD, involved, because at present it does not really address those problems.

Secondly, there is very little we can do to stop sterling fluctuating. It has been tried before and has met with very little success. The Bretton Woods agreements and the Gold Standard before them led to the UK having an overvalued currency for many years, which was possibly a principal reason for our industrial decline in the decades after World War 2. But there may be quite a lot we can do to smooth the rapid movements in the foreign exchange markets—the fluctuations that so bob up and down rather than the overall general trend.

Decisions in FX trading are made broadly on two criteria. One is mathematical, the other is sentiment. Not much can be done about the maths, but a lot can be done about the sentiment and the guesswork that goes into forming it. I know that the Bank of England and the Treasury do not target sterling exchange rates, and for understandable reasons. It has not been successful in the past—we have just to remember the problems with the ERM. Inevitably, using interest rates to achieve inflation targets also impacts the exchange rate, so forward guidance, whether done in the way the Governor of the Bank of England used to suggest or, as it is now done, by delphic pronouncements from the MPC members, does have an impact on the sterling exchange rate, particularly when taken together with the views of similar oracles at the Federal Reserve and the ECB.

I am sure that great thought goes into the suggestions made as to the future direction of interest rates, but in times of volatile markets, it might be helpful to businesses struggling to make a profit by exporting if some of the interest rate guidance could be given in such a way as to smooth foreign currency market fluctuations. I am not suggesting reverting to targeting the sterling exchange rate, just a more nuanced approach, with the central bank taking some responsibility to smooth the deeply damaging turbulence in the foreign exchange markets caused by excessive volatility.

12.55 pm

**Lord Skidelsky (CB):** My Lords, I, too, thank the noble Baroness, Lady McIntosh, for making this debate possible. The most dramatic economic effect of the United Kingdom's Brexit vote has been the collapse of sterling. Since June, the pound has fallen by about 16% against a basket of currencies. Mervyn King, the former Governor of the Bank of England, has hailed the lower exchange rate as “a welcome change”. Indeed, with Britain's current account deficit in the order of 7% of GDP—by far the largest since records started—depreciation could be regarded as a boon. But is it? That is the subject of our debate today.

There are two things to consider. The first and most urgent is the effect of sterling depreciation on our payments to, and receipts from, the European Union's budget. The second is its effects on our economy. I do not want to say much about the first, but I think the headline answer is fairly straightforward. As Britain's contribution is fixed in euros, Britain will have to pay about £700 million more to meet its EU budget obligation next year, but devaluation will also make the British economy smaller in terms of euros, so its required euro contribution based on GDP will go down. The two effects should cancel each other out. On the other side, it will receive fewer pounds from the EU budget, so farming support subsidies, for instance, will go down, as the noble Baroness, Lady McIntosh, pointed out.

All this will complicate Mr Hammond's budget arithmetic, but the budgetary problem is a secondary matter compared to the effects of sterling movements on the economy. Larry Elliott, economics editor of the *Guardian*, argued on 16 October:

“The current account deficit will shrink as a result of stronger exports from the manufacturing and service sectors, the boost provided to the tourism industry, and because cheaper domestic goods and services will be substituted for more expensive imports. To say that dearer imports will make life more difficult for consumers is to miss the point. That's how rebalancing works”.

However, one could say that, in some ways, Mr Elliott has missed the point, because the argument assumes that sterling depreciation will cause an increase in the demand for British exports and holidays that foreigners want to take in Britain. Quite simply, foreigners will have to pay less of their own currency to buy British goods or enjoy holidays in this country. Certainly, consumers and many businesses will take a hit, but this will be offset, it is said in the Elliott argument, by increased export demand, which will increase employment, profits and wages. So the effect on our living standards, on this argument, will be very small.

However, if all that depreciation of sterling does is make imports more expensive, the rebalancing of the accounts works simply by making us poorer. If domestic demand falls sufficiently that we will no longer be able to afford the same amount of imports, that is the way a rebalancing through imports works. There may be some uptake in tourism but we have to recognise that the price effect is partially offset by the weather effect. However cheap we make holidays in Britain, holidays in the Mediterranean will continue to be more attractive. The essential point is that you can always get back to a balanced position by making a country too poor to import on the old scale. That is roughly what has

happened in much of the single currency area, with countries such as Greece and others. They have rebalanced their accounts, admittedly under a different exchange rate regime, just by reducing their standards of living.

What does the evidence tell us about the effect of exchange rate changes on the economy? It tells us that the effect of sterling depreciation on the demand for our exports is small. On the one hand, demand for our exports and our own demand for imports are price inelastic, as the economists like to say—a fall in sterling means that we spend more money on imports but without increasing our exports; on the other hand, even if the demand for our exports is increased, we do not have enough exporting capacity to take advantage of it.

In 2008-09, when the rest of the world was on the verge of deflation, the UK was experiencing an inflationary recession, with GDP contracting at a top rate of 6.1% annually, while inflation reached 5.1%. This occurred because sterling fell more than 21%—peak to trough—from 2007 to 2008. Moreover, although the current account deficit subsequently narrowed, the improvement was only temporary. After 2011, the current account deficit started to widen again, even though the pound never clawed back its losses.

In fact, this has been a problem ever since the late 1950s. Whenever we get close to full employment, imports start to rise faster than exports. When sterling was fixed to the dollar, Governments reacted to the widening trade imbalance by slowing down the economy for a year or so, causing imports and the trade deficit to fall. Then we took off again and the deficit widened again. That was the pattern of the 1950s and 1960s. Since the pound started floating in the 1970s, a widening of the deficit has been met by currency depreciation, but this has not basically altered the pattern. With short intermissions, the pound has just continued sinking, without the vaunted recovery of competitiveness. Who now recalls that £1 was worth \$4.03 in 1967?

It is hard to avoid the conclusion that the basic reason for this pattern of events has been the continued decline in our manufacturing industry. This has accelerated in the past 40 years from around 28% of gross value added in 1978 to less than 10% today. As the economist Nicholas Kaldor pointed out quite frequently in this House, because manufacturing has higher returns to scale than services, manufacturers benefit more from devaluation than services. We have restricted the advantage of devaluation by restricting our manufacturing sector.

In addition, as has been pointed out, structural reforms since the mid-1990s have ensured that British exporters are deeply integrated within global supply chains. As a result, many of Britain's exports require imported inputs so that when sterling depreciates and import prices rise, the knock-on effect on export prices renders them less competitive. The most recent OECD data show that the import content of UK exports is around 23%, compared with around 15% for the United States and Japan.

For the moment, the UK is relying on capital inflows into the City of London to limit sterling's fall. But, as the exchange rate collapse of 2008 showed, this source of foreign demand for sterling is highly unstable.

When the worm inevitably turns and the flows reverse, both sterling and exports will take another hit. The bottom line is reasonably clear: we cannot rely for continued prosperity on exporting financial services—valuable though these are—the amenities of London and selling attractive old properties to foreigners. A very small country might live off services of this kind, but we cannot.

What is to be done? Here I might step out of line with what other noble Lords think. I think the only rapid government action that will work is to substitute goods currently imported with domestically produced goods. The classic way of doing this is through import controls but other measures less damaging to trade rules and international amity are available. The national investment bank that the Labour Party is advocating could be given a mandate to invest in industries with a high import substitution potential. That is one way. An alternative would be to subsidise such industries directly from the Exchequer, with subsidies tied to the quality-adjusted price of the import being substituted. As the domestically produced goods become competitive with the foreign goods, the subsidies would be reduced and the industry allowed to stand on its own two feet.

There are problems with both solutions, which I would be the last person to want to minimise, but something has to be done. If nothing is done, we risk permanent impairment of prosperity. A depressed economy can be reflat and an inflationary economy can be depressed, but losing access to crucial foreign markets through uncontrollable movements in the exchange rate is largely irreversible.

1.07 pm

**Lord Paul (Non-Aff):** My Lords, I thank the noble Baroness, Lady McIntosh, for introducing this debate. It is always an honour and a pleasure to listen to the noble Lord, Lord Skidelsky. I learned a great deal. I declare an interest as chairman of a manufacturing company, Caparo, and chancellor of the University of Wolverhampton.

We face a period of more than usual uncertainty about Britain's position in the world. As our Government start to tackle the daunting task of implementing Brexit, the world is also trying to guess how the new US Administration will play their part on the world stage when they assume power early next year. Brexit and the US presidential election have been singled out by commentators as leading to significant fluctuations in the exchange rate over recent weeks. We have heard much doom and gloom from survey firms and others, keen for a good story, on the adverse consequences for the British economy that will surely follow. All are now very excited, and this has provided opportunities for the speculators to make money.

At the simplest level, it is easy to accept the received wisdom that wild fluctuations in the exchange rate create uncertainty and will deter investment in the UK. However, I believe that for Britain a fluctuating pound is really just business as usual. Honda, Toyota and Nissan, some of our biggest overseas investors, have all reconfirmed their commitment to car manufacturing in the UK and further investment. Only this week, Google announced a further major expansion in the UK. The Prime Minister's most



[LORD PAUL]

recent foreign policy initiative was a trade mission to India, about which I hear good things and must congratulate her; both countries can now look forward to doing more business together.

We need to distinguish between the step changes in exchange rates caused by major world events, of which Brexit may be one—although some would argue that it was merely an event that pricked an already overinflated pound—and the background noise of daily currency fluctuations fuelled by the financial chattering classes. These should be ignored. I come from a background that means I do not think any Government in this day and age can really do anything to control exchange rates.

We should not be frightened of this change. We should reflect on the long history of this country as a trading nation and what that means. I have been involved with international trade throughout my working life, from the 1950s onwards, mainly in steel and manufacturing goods. Over that period, I have seen much change in the world economy and I know from experience that a trader thrives on change, which brings opportunity. Over the years and centuries, change has also brought many opportunities for Britain which were seized by the entrepreneurs of the day. These recent events will also bring opportunities for business and investment in the UK. If they are followed through, they will create jobs and generate tax revenues for the greater good. If I was a younger man, I would love to get involved.

We must therefore do everything we can in this House to enable British business to seize these opportunities as they arise. We need clear regulation and a certain tax regime; we need an educated and skilled workforce; we need modern infrastructure and good transport systems. These, I believe, are the things that matter to investors over the longer term, not the day-to-day noise of the currency markets. After all, if we can get all that right, we will have a strong Britain and a strong pound.

Let us look at the effect of a weaker pound on higher education. A weak pound means that studying in the UK is cheaper. Britain's international reputation means that it is the number one destination for international students. We cannot afford to lose that status; in fact, we must strengthen it. Universities are looking for an increase in the fee income from overseas students from the present £3.7 billion to £4.8 billion in 2018-19, and a growth in home and EU students of over 10%. This is the time to really encourage overseas students to come here. Not only do they benefit from the experience but our own students benefit by interacting with people from different backgrounds. Bonds forged at university often last a lifetime and will open more doors to further trade and international collaboration in the future. However, encouraging more students is at odds with the current immigration policy, so we have to find ways to make sure that they return to their own countries when their studies end. The University of Wolverhampton, where I am chancellor, is doing all it can to promote these policies.

Let the Government do everything they can to assist our businesses and universities to build a Britain that will be as great in the future as it has been in the past. The world still retains a respect for Britain as a

beacon for democracy—a reputation that has been put to the test by Brexit. Personally, I have always supported being in Europe, including joining the euro to gain all its benefits, but the people have decided. Speaking as a democrat, for that beacon of democracy to continue to shine brightly the Government must be seen to act on the wishes of the people by engaging with the EU on implementing Brexit now. Decisive actions on these issues really matter for our businesses and universities in making their investment decisions, not the daily fluctuations in the value of the pound, but this is no simple task. The Prime Minister must now be allowed to move forward with Brexit in an orderly manner, without irrelevant distractions. That in itself will reduce currency fluctuations.

1.16 pm

**Lord Vinson (Con):** My Lords, this is a timely debate and we are extremely grateful to my noble friend Lady McIntosh, but I fear that I am going to take a rather different line to hers. The fall in sterling gives us a chance to rebalance the economy and make jobs here, rather than use ever rising borrowing to buy goods from abroad.

How did we become such a heavily indebted nation? We kept borrowing without a care. Today, £730 of every taxpayer's tax goes to pay interest on our international debts and that is steeply rising. When the history of central bank policies comes to be written, I believe that few economic orthodoxies will appear sensible, years after they were fashionable. We now rightly decry sticking to the Gold Standard in the 1920s and the harmful consequences. We recognise the damage done by sadomonetarism, when Geoffrey Howe put interest rates up to 17%, bankrupting thousands of companies in an attempt to control inflation but in effect setting it alight through wage demands. Incidentally, I agree that the causal relationship between raising interest rates and lowering inflation is highly questionable, though accepted as gospel. Then Greenspan got it wrong when he failed to do anything about fiscal exuberance and the American economy took off.

Today, our economic policy joins that list of follies. Keeping interest rates at 0.5% or less to encourage even more borrowing, when both individually and nationally we are borrowed up to our eyeballs and the mountain of debt is ever higher, must be madness. We should be saving more and using those savings to invest more. Up to now we have done little to correct our massive trade deficit.

How did we get into this problem? It started when we decided to let the pound go free and float in principle but not in practice, muttering, "The market knows best: we should show by example and not indulge in competitive devaluation. If China does it, what does that matter to us?". We are indeed a trading nation that forgot about the importance of exchange rates during an orgy of credit-fed consumption. Because the Bank of England was mandated to be concerned about inflation, the pound was left to stay high and the damaging effect of that level ignored, making imports easier and exports harder.

There was another reason that the pound stayed high. So much of what is called inward investment was nothing of the sort, though inward investment of a



certain sort was unbridled. That investment was not to improve and expand the economy but, often, a straight purchase of assets to secure income for overseas owners. It was still considered beneficial. We have sold hundreds of companies. We have sold not only the silver in this country; we have even started to sell the furniture, turning what used to be valuable foreign income for us into a massive outward flow of cash to others. We effectively rent many of our own businesses and utilities from overseas owners—Heathrow, ASDA, Cadbury, Northumbrian Water, and now ARM, which was sold for £30 billion pounds, to name but a few. But there are hundreds of them, and the effect has been damaging.

Uniquely, Britain—and only partially America—is alone in the belief that it is beneficial to extend the free market in goods and services to include companies. We have got it wrong. That belief is entirely unsupported by evidence, and I am very glad that our Prime Minister has noted it and has begun to be concerned.

The end result of this benign neglect is that the pound was substantially propped up by asset sales well above its fair parity. Its height was welcomed as virtuous and praised for the cheap holidays and imports it encouraged. Few economists thought outside the box or would admit that its height was causing our huge trade deficit, deindustrialisation, too much borrowing, too little investment, unstable, low productivity growth, stagnant wages and too many people losing out from globalisation. We only have to look to Germany, by contrast, to see what a converse economic policy can do. Unfettered free trade has left us in a mess, and I say that as a passionate believer in fair free trade; I declare an interest as someone who has spent a lifetime promoting the market economy. I just hate to see capitalism get it wrong and damage its whole cause.

We must recognise that the correct parity of the pound is essential to a trading nation, and we should make it a key part of our free trade policy. In so doing, we must accept that world prices are not necessarily fair prices reflecting the cost of production but are often, as in the case of Chinese steel, dumped market-clearing prices, lowered to obliterate competition, before raising them again. Reasonable protection against such practices is essential, or it should be, for key capital assets. This is sanity. It is not protectionism but self-preservation.

I realise that this may go against the sacrosanct dogma of the free market purist, but it is a necessity in the real world. Just look where present attitudes have got us. I also accept that this sort of view may not be welcomed by many in the City. Much of its work is beneficial and essential, but, because they are wrongly incentivised, many there would sell their grandmother for a quick gain. This results in much short-term thinking and consequent harm to the economy. The huge tax revenues the City brings to the Treasury have little to do with profit as a consequence of productivity but are mostly gained by a straight deduction from the capital assets the City handles, often through excessive commission. For example, the commission on the takeover of British Gas by Shell was more than £100 million. It could not possibly cost that if it was properly looked at. Such people take the icing off the national cake baked by others, and are

overrewarded for so doing. The City makes money, but it creates less wealth. Its contribution is overrated. It also explains why our GNP per head has hardly risen over the years.

If we want true growth, we cannot do it through financial services, but we can do it with a fall in the pound with modern manufacturing, mineral and food production, which the noble Lord, Lord Skidelsky, touched on.

As we reset economic policy to reduce our indebtedness I hope the Chancellor will, apart from other proposals, mandate the Bank of England to keep sterling at fair parity, as best he can, to help rebalance the economy. Secondly, the Bank should get interest rates gradually back to sensible levels that reward saving and make pension provision worth while. For example, how about a 2.5% indexed infrastructure bond, used for that purpose but reserved exclusively for UK pension funds only? Thirdly, the Chancellor—and there are many other things he can do—could stimulate high productivity by letting companies recover the cost of the purchase of capital goods in the same year, not over 10 years or so as is done now. Our productivity is 21% below the G7 average and it is unlikely to be raised by opening ever more coffee shops, which are difficult to automate. Finally, we must accept sensible limitations on free trade, by bringing back the national interest test for mergers and acquisitions and dumping. It was part of the brief of the Monopolies and Mergers Commission and should be part of the brief for the new Competition Commission. I hope the Minister will note that.

The time has come, thanks to devaluation through Brexit, to rebalance and invigorate our inventive, creative and capable nation. I hope we can all grasp it and find a more stable and less indebted way of living with the global economy.

1.25 pm

**Lord Bilimoria (CB):** My Lords, BBC News reports that:

“The pound has fallen about 16% against the dollar and about 11% against the euro since June”—  
at one point it fell almost 20%, and that —

“Chris Williamson, chief economist at IHS Markit said that despite October’s CPI fall, the trend over the coming months would be upwards as rising factory costs feed through to consumers.

“It’s ... only a matter of time before price hikes in retailers’ supply chains start feeding through to the customer, as retailers seek to protect margins.

Let us not forget what caused the financial crisis in the first place. We have had the longest period of what in those days were perceived to be low interest rates of 5%. That was one of the main reasons for the financial crisis, and we have now had interest rates close to 0% for years and years propping up our economy.

The report goes on:

“Inflation has been below the Bank’s 2% target for nearly three years. Last year it was zero, the lowest since comparable records began in 1950 ... Earlier this month, the Bank of England forecast that inflation would rise to about 2.7% by this time next year.”

As a result of the Brexit UK referendum and vote to leave the EU, the pound-to-dollar rate fell to a 30 to 31-year low. The *Telegraph* reports that:

[LORD BILIMORIA]

“The last bout of volatility comes as investors switch their attention to the political risks associated with Brexit”.

It also reports that,

“the underlying cause of sterling’s fall is Britain’s woeful balance of payments position and the fundamental need for a lower exchange rate”.

Is it that, or is it Brexit, or both?

*GQ* reports that:

“financing a deficit of this magnitude does leave us reliant on the ‘kindness of strangers’ in the words of Mark Carney, Governor of the Bank of England”.

Sky News reports that:

“Sterling has dropped by more than 5% ... against the greenback”, in just one month and it is,

“also weaker against every other currency in the G10 group of industrialised nations”.

I was in India last week when the Prime Minister was on her visit. There were 100 rupees to the pound in June; there are now closer to 80 rupees to the pound. Sky News continues:

“Earlier this month, the deputy governor of the Bank of England, Ben Broadbent said that while the pound’s plunge was helping support UK growth, Brexit uncertainty could cause an ‘insidious’ hit on the economy.

Mr Broadbent indicated that it was ‘likely’ inflation would rise over the Bank’s target of 2% over the next couple of years.

The EY ITEM Club”—

I declare an interest as I qualified as a chartered accountant with Ernst & Young and am an alumnus of the organisation—

“said the economy had been more resilient than expected following the vote to leave the European Union but this picture was deceptive.

It predicts inflation—which has been below 1% for nearly two years—climbing to 2.6% in 2017”.

There seems to be some consensus here.

The *Telegraph* reports that:

“UK is suffering ‘a slow motion slowdown’, says Carney”, rather,

“than a sharp adjustment to the Brexit vote back in June”.

That is what the Governor of the Bank of England told the Treasury Select Committee. When asked if the fall in the pound was “welcomed”, Carney responded by saying, “It was necessary”, and that the sharp fall in the pound following the EU referendum will play a part in the necessary reduction in the UK’s large current account deficit, but he added that it is unclear if the decision to leave the EU means a sustainable size of UK current account has fallen.

This is much more complicated than a simple drop in the pound having an immediate effect, and I thank the noble Baroness, Lady McIntosh, for introducing this debate.

What about the impact on companies? The *Guardian* reports that:

“EasyJet suffered a sharp fall in annual profits—its first decline in six years—and expects a further drop this year after the budget airline was hit by the weak pound and was forced to cut prices”.

Similarly, the BBC reported that,

“IAG, the owner of British Airways and Iberia, says the weak pound cost it ... £145m ... in the third quarter of the year”.

According to *Reuters*:

“British bicycles to car parts retailer Halfords ... said the fall in the pound following Britain’s vote to leave the European Union would remain a major challenge after it reported a 12 percent drop in first-half profit”.

Under the headline, “Sainsbury’s profits slump 10% as weak pound causes cost surge”, the *Independent* reported:

“The Argos owner said it would still reduce shop floor prices but warned the pound’s impact was uncertain as it prepares for more expensive imports”.

Of course, we have already heard in the debate about the battle between Tesco and Unilever over Marmite. Meanwhile, “Eurotunnel cuts profit forecast due to weak pound”, according to the BBC:

“The fall in the pound after the UK referendum on EU membership has forced Eurotunnel to lower its 2016 profit forecast by 4.5% ... Shares in Eurotunnel ... fell 30% after the EU referendum vote and are still 16% below pre-Brexit levels”.

We have to keep in mind that the biggest UK companies, those in the FTSE 100, derive an average of 75% of their revenue from outside the UK. My own company, Cobra Beer, is in a joint venture with Molson Coors. We manufacture in Burton upon Trent, in Belgium and in India, and we export from Burton upon Trent to about 40 countries around the world. There is no question but that the weaker pound should make our exports more competitive—but does that happen immediately in the real world?

Deutsche Bank, which has just produced a report, believes that, “A weak pound won’t boost Britain because ‘economics have evolved since the Victorian era’”, according to the headline of one media report, citing the bank’s note:

“The rapid drop in the pound’s value since the Brexit vote—around 15%—will hinder rather than help British exports and the British economy, according to Deutsche Bank. David Folkerts-Landau, Deutsche Bank’s chief economist, said in a note circulated ... that ‘international economics have evolved since the Victorian era’ and as a result a fall in the pound won’t automatically make British goods cheaper to overseas buyers. The note is a stern rebuttal to Brexit supporters such as ... Angela Leadsom who have argued that the weaker pound will actually boost Britain but encouraging exports. Folkerts-Landau ... notes that 45% of Britain’s exports are services, which”—

as the noble Lord, Lord Skidelsky, said—

“are typically price inelastic—people are more driven by the quality of the service than its price. 60% of services exported are finance and business related”.

The problem here is that, as the note says,

“relatively speaking financial and other business services exports are likely to be the worst hit by a less integrated relationship with the EU”.

The article continues:

“What about manufacturing? ‘World trade no longer consists of final consumption goods being bartered for raw materials,’ he says. ‘Any economy’s manufacturing exports today contain a significant chunk of value that is added abroad’”—

as the noble Lord, Lord Skidelsky, said.

“The UK specialises in exporting products that have many component parts—nearly 30% of its manufactured exports are machines, engines, vehicles, and aircraft. To benefit from the fall in the pound the profit margins on these exports would have to be able to absorb the big increase in import costs of raw materials”.

The UK, as an economy that,

“adds a lot of domestic value to exports, and depends less on foreign parts, could theoretically benefit from a currency drop”.

So the simplistic thinking of someone such as Andrea Leadsom is not realistic. Our economy,

“adds only 64% domestic value to manufactured products. By contrast, Japan adds 82%, and the US adds 78% ... In fact, Britain is getting worse at adding domestic value to products, as it moves towards becoming an ‘assembly line’ economy”.

The bank continues:

“The timing of Brexit is therefore unfortunate from a rebalancing perspective. The 1990s and first half of the 2000s were the golden age of globalization with global trade growing 400% over the period. Today, by contrast, the benefits of a free trade policy look less clear cut, and the UK may struggle to establish the free trade deals it needs to offset a loss of Single Market access”.

The GfK consumer confidence index edged down two points from the previous month to a reading of minus 3 for October, although it remains well above the minus 12 to which it slumped following the Brexit vote. According to the *Financial Times*, the Bank of England is “cautious” over the weak pound’s likely ability to boost trade, again reinforcing what I have just said. The paper reports:

“‘If devaluation was the great success factor for the UK economy, we should be the most successful economy on earth,’ said Andrew Sentance, senior economic adviser at PwC and a former member of the Bank of England’s Monetary Policy Committee, pointing to the fact that the pound was worth”—

the noble Lord, Lord Skidelsky, referred to this, although I am going to go even further back—

“\$5 before the second world war but has depreciated steadily and significantly since, now trading at about \$1.24. The bank’s current forecast is for exports to grow by 2 per cent in 2017 and 1 per cent in 2018, while imports will increase by 0.25 per cent in 2017 and then shrink by 1 per cent in 2018. But it noted in its latest inflation report that some manufacturers ‘are particularly integrated into EU supply chains’ and that sectors such as financial services would be ‘sensitive to any changes in trading arrangements’”.

As has been said, demand for services is,

“less sensitive to price changes than demand for exported goods ... boosting net trade significantly will require companies to make investments—to ramp up production of exportable goods and services and to reposition themselves as producers of currently imported items”.

Britain’s CEOs, according to a *Bloomberg* columnist, “have to see beyond the buddies act and look at cold reality. Trump’s election probably won’t halt the tide of investment being delayed or scrapped, which according to a CEBR/Hitachi Capital survey totals ... \$82 billion ... since the June referendum. They still have unaddressed fears about the U.K. economy, access to the European single market”—

according to the latest survey, 92% of the British public believe we should have access to the single market—

“and the health of global trade ... The U.K. economy is forecast to slow down next year while inflation is set to surge ... Of the surveyed business sectors delaying investment, the top four are IT, real estate/construction, media and finance”.

We need clear direction on policy, as,

“there’s not much wriggle room ... While Farage and Trump arm-in-arm may cheer Brexit’s more zealous supporters, there’s little there to put a smile on CEO faces”.

Under the headline, “The Brexit economy: falling pound and rising inflation fuel fears of slowdown”, the latest monthly *Guardian* analysis of a dashboard of data points to the UK economy shows that, for October,

“four of the eight categories have performed worse than expected”.

This is not encouraging. According to the paper:

“Writing in the *Guardian*, a former member of the Bank of England’s Monetary Policy Committee, David Blanchflower, says Britain is heading for a ‘Brexit tsunami’”.

The paper also reports:

“Andrew Goodwin, lead UK economist at the forecast group Oxford Economics, also points to looming upward pressure on prices ... Meanwhile the public finances worsened. The government had to borrow £2bn more than expected in September to balance the books ... The International Monetary Fund is predicting the UK will be the fastest growing of the G7 leading industrial countries this year, with growth of 1.8%”,

although the IMF also,

“accepted that its prediction of a post-Brexit vote financial crash has proved overly pessimistic”,

which is encouraging.

The noble Lord, Lord Skidelsky, spoke of the balanced economy and of manufacturing going down from 30% to 10%. However, the Prime Minister has an industrial strategy. We are the second-largest recipient of inward investment in the world. One of the reasons for that is the respect for our economy, our rule of law, our institutions and our democracy. But since 23 June there has been a huge lack of confidence in this country because of the uncertainty. We have lost our AAA rating, and the Chancellor has a huge opportunity in the Autumn Statement to lower other taxes, in the way that corporation tax has been, to incentivise exports. I disagree with the noble Lord, Lord Skidelsky, in that I do not think we should tax imports but incentivise exports. We should continue to encourage thriving in a global economy.

I agree with the noble Lord, Lord Paul, that we need to invest in infrastructure. Crossrail is fantastic. Heathrow is great news, although I believe Gatwick should also have been announced. All this will give confidence because the whole world does not want us to leave the EU. When I was in India, no one I spoke to—the Indian Government, civil servants, businesspeople—wanted us to leave the EU. We have to give them confidence.

As an economy, we have to be able to adapt or die. We have to invest much more than we do in our higher education and in our R&D and innovation. We need to encourage international students and academics. We need to appreciate the EU labour that we have, which benefits our economy. Then, if we have a balanced, flexible, adaptive, productive and competitive economy, we can continue, with 1% of the world’s population, to be one of the five largest economies in the world.

1.40 pm

**Baroness Kramer (LD):** My Lords, this has been an absolutely fascinating debate, with a wide range of views on a wide range of topics. I join in congratulating the noble Baroness, Lady McIntosh, on obtaining the debate.

I begin by disagreeing very much with the noble Lord, Lord Vinson. I feel strongly that devaluation as a route to export increases is a dangerous one to take. The noble Lord, Lord Skidelsky, underscored this, as did the noble Lord, Lord Bilimoria. If we look at our experience of the fairly sharp collapse in the pound since June, we have seen very little increase in exports from the UK. Frankly, most economists are surprised at the relatively modest level of export increases.

**Lord Vinson:** I apologise for asking the noble Baroness to give way so early in her speech, but clearly you cannot expect manufacturing, where it takes three or



[LORD VINSON]

four years to introduce plant and capital and get people trained, suddenly to fill the gap. It will take five to 10 years for us to rebalance our economy. It is surprising that anything has happened at all in a couple of months.

**Baroness Kramer:** I point out that the noble Lord is assuming a permanent devaluation in the pound to the current level. I want to talk for a moment about the consequences that that would have, which was underscored by the noble Baroness, Lady McIntosh, for the standard of living in this country and the experience of very many people if we continue to have an economy where growth is so low that sterling remains at the current level.

As I say, there has been no dramatic pick-up in exports, and looking at devaluation as a route to increasing exports is a very dangerous one. At best, it has a short-term benefit, and over the long term it imports inflation. We have already seen significant rises in fuel prices, and ordinary people are feeling that. At the moment, though, people are being protected from large increases in retail prices because most major companies have foreign exchange hedges in place to get us at least through the Christmas season and into the early part of the new year. Some industries have not been in that position; we have heard the noble Lord, Lord Bilimoria, talk about the profit warnings that have come from the airline industries, from some of the retailers and, increasingly, from a large number of British companies across the board.

However, it is the small companies that were unable to put hedges in place that are particularly affected. A number of speakers have talked about that particular difficulty. Not only do the banks make hedging pretty much unavailable, it is also exceedingly expensive. I am very worried—I think the noble Lord, Lord Carrington, made this point—about the impact on small businesses. I have talked recently with some small chocolate manufacturers, who said that their import prices are already pushing them to the point where they think they can make it through the Christmas season without pretty significant increases, but they do not think they can make it into the new year season. The consequences for them are significant. I also happened to talk with some of the small wine shops that one sees. One could say that wine is an exotic product, but an increase of near on 20% for many of them on the products that they import is now putting them in a situation where even on modestly-priced wines, which are their meat and drink and their main source of trade, they are looking at having to pass on those increases.

What I have found fascinating in talking to these people is that, if one says, “What about substituting a British-made product?”, first, as others have said, frequently there are not many of those available, but, secondly, British suppliers are using this as an opportunity to increase their prices. Many have been feeling pressure on their profit margins for a long time, and the rise in the cost of imported goods is now putting them in a position to be able to increase their prices as well. So the knock-on effect for the consumer is genuinely a very serious one.

If anyone took a look at the survey done by the HR managers’ group that was made available about a week ago, they will have seen that overall, looking broadly at the economy, the general take is that inflation will be running at close on 3% next year, as several people have said, but on the basis of the surveys the expectation is that the average basic wage settlement will go up by only 1.1%. That is huge pressure in the pocket for ordinary people who have already gone through many years of austerity, and the consequence is really unpleasant and, frankly, very serious.

A big discount on sterling means there is almost a January sale on the price of buying a British company, whether you buy it on the stock market or buy it out from its current private owners. With a 15% discount, we would expect to see a large number of acquisitions of British companies taking place, but we are not. We are seeing some large and important investments—very often, ones that have been planned for a long time and are related not to price but much more to a global strategic move by particular companies. However, I have been looking closely at the fintech industry, where there has been a complete collapse in venture capital and equity available for UK-based fintechs since Brexit. Global investment has gone up significantly; in Europe, the biggest beneficiary has been Berlin. In the UK, though, we have seen that number fall very sharply. Anyone who wants more information about that should take a look at today’s *Financial Times*. That is just one of many reports coming in from that field.

The noble Lord, Lord Skidelsky, talked about the future. We have to have an economy that has many more roles than just being a financial services provider. Fintech—indeed, tech generally—surely has to be at the cutting edge of that. These are brand-new industries in an area where we have established ourselves as a leader, based on our brilliant universities, our experience in life sciences and our capacity in financial services. In all those areas, we have made extraordinary headway in being at the cutting edge of innovation. Yet this is the very sector that is suffering from a lack of interest from investors at a time when you would have thought they would say, “It’s exceptionally cheap. If we’re ever going to get in, this is the day to do it”. That is largely because of Brexit and, frankly, that worries me because it is the future that is being put at risk.

If British companies themselves thought the future was going to be so exceptional and a great time to advance exports, we ought to be seeing investment rolling into those companies. In fact, we have seen that British businesses have ditched about £65 billion of investment since June. Planned investment is down extremely sharply, some of it perhaps temporary and due to uncertainty but in some cases these are already permanent decisions to take the investment elsewhere. So when people talk about devaluation as offering a huge potential to restart the economy, spark it off and lead it into being an export-led economy, we need to look much more closely at what is actually happening.

Many, including the noble Lords, Lord Haskel, Lord Skidelsky and Lord Bilimoria, have pointed out the integrated nature of our economy today across the EU. I often suspect that, because we never really had any kind of political integration, people think that in the same way the business world stayed distinctly

British, French, German, Spanish, Greek or whatever. In fact, what has happened in the last 40 years is that in a sense the business world—the economy—has become thoroughly integrated. It is almost like a piece of crochet; it is almost impossible to separate out the varying strands because it is now such a complex web. I think that is what the Government are finding as they go through the experience of trying to work out how they are going to deal with Brexit: what they thought would be very simple—say, identifying a British company that does imports, exports or whatever else—is in fact not. At every level, big, medium and small, we are in an entirely intermeshed world that is extremely difficult to identify. When you have something such as devaluation, it rebounds quite painfully on many aspects of that business network.

Others have said that one of the good things about devaluation is that it will encourage European workers to go back home, because their remittances will be worth less in their home currency. That has not happened; in fact, we have had the exact opposite, with employers desperately seeking to bring in European workers before what they think will be a gate that slams closed at the point where we actually exit the EU. So we have the opposite effect of the EU threat bringing in workers. As others have said, we are so close to full employment in the UK that that is not surprising, but the hope that devaluation would somehow send people out of the door has, I am very pleased to say, not actually transpired.

When we have inflation brought in through the increased price of imports, what will be the reaction of the Bank of England and the governor? Undoubtedly, at some point, interest rates will have to rise. Some have said that a rise in interest rates will be very good for the economy, but, my goodness, the impact on people who have mortgages, particularly when we are not getting increases in wages, will be really difficult. We are talking about people who have gone through years of austerity now beginning to face inflation in the price of products, then being hit by interest rates impacting on mortgages. Higher interest rates at a time when we need greater economic growth to take ourselves through a period of extraordinary uncertainty and disruption and to try to encourage companies to make a base here seem extraordinarily difficult.

So far, in my view and that of many others, Governor Carney and the Bank of England have managed this process with something of the skill of a tightrope walker, but it will be extremely difficult going forward. I have sympathy with the noble Lord, Lord Carrington, in calling for greater forward guidance to deal with some of the uncertainty. The problem is that I do not think that even someone with a crystal ball could give much guidance at this point, when it seems that the only thing that is expected is the unexpected and a sense of uncertainty is now so deep and prevailing that most forward guidance could not have a high level of certainty attached to it.

I also agree that it is time that UK Export Finance took on some of these issues for smaller companies trying to deal with both exchange rates and simply getting paid for their exports, as they are challenged to try to export much further afield. There is a very important role for UK Export Finance to play to get

the banks back on the field in the way that they used to be until about 10 to 15 years ago.

In this area of uncertainty, which the noble Lord, Lord Paul, underscored, the most important thing that the Government could do is provide us with some clarity. By clarity I mean laying out the priorities—the principles on which they will negotiate our exit from the European Union. Companies, instead of finding themselves completely in the dark and having to make decisions on a worst-case scenario because that is all that is left to them to work with, could be provided with that kind of clarity. Will we be in the single market? What is our attitude towards the customs union? What will we do about migration and access to workers, both skilled and unskilled? We need answers; businesses need answers; and with that they could get at least a measure of certainty at a time when uncertainty is being reflected not only in the travails of quite a number of businesses but in this weakness that has driven down the value of sterling.

1.54 pm

**Lord Davies of Oldham (Lab):** My Lords, I join colleagues in congratulating the noble Baroness, Lady McIntosh, both on securing the debate and on producing such a challenging and feisty speech to open it. I had worried that we might be revolving around some narrow technicalities with regard to the exchange rate, but she set the tone by emphasising the impact on the economy and wider society of the depreciation that we have gone through in the past few months. In doing so, she indicated that the situation which confronts us is a real challenge to the Government.

There is no doubt that the floating exchange rate is not an element of policy for government at present. Both the Minister and I recognise that the floating exchange rate is the basis on which the economy revolves, and it is not for the Chancellor or any politician to fix it but for the Governor of the Bank of England and his colleagues. This might suggest that the emphasis on the exchange rate may be misplaced, particularly as a considerable number of specialists have emphasised that the depreciation that has gone on thus far is long overdue. The International Monetary Fund thought that we were due a considerable reduction in our exchange rate some time ago. That is now what we are faced with, but the noble Baroness, Lady McIntosh, said that there were consequences of that—as she mentioned, for agriculture and the food industry in particular—and that contained within the situation was the potential for substantial inflation. I want to comment on that in more detail in a few moments.

A whole range of significant external events impact on the economy, but I do not think that any measure up to the impact of the nation's vote to withdraw from the European Community. There is no doubt that that is what this depreciation in the currency reflects the most—a point that the noble Lord, Lord Bilimoria, stressed. The impact on companies is of course varied, but we should bear in mind—the noble Lord, Lord Bilimoria, stressed this the most, but he was not the only one—when we talk about our manufacturing industry and our industrial capacity to take advantage of a lower exchange rate and boost our exports, just how complex the ownership of our industry is now

[LORD DAVIES OF OLDHAM]

and the different factors that come into play. It is not just the British exchange rate which dictates the costs of British companies, given their extensive component parts, often foreign-owned, all building up to the product that they seek to take to the market.

This is not the time for me to emphasise from this Dispatch Box the range of policies which we think the Government should adopt. We have the advantage of hearing from the Chancellor next week and we will have a full debate on the economy subsequently. That will be the time when we will test the Government's intent against the challenges which they face.

My noble friend Lord Haskel emphasised an important point in this debate. It was a Labour Government who placed responsibility for the bank rate on the Bank of England. It is therefore not immediately amenable to action by government, but we know that in fact the Government have to act against that background for us to have a hope of taking advantage of the depreciation in the rate.

But the problem is surely something on which the noble Lord, Lord Paul, put an optimistic dimension when he commented on the position of India. The noble Lord, Lord Bilimoria, who shares some background with him in those terms, was a little more pessimistic. I do not think that, when the Prime Minister visited India, we were able to derive enormous expectations from that. Yet clearly India is an important trading market, and one in which we would hope to realise greater potential. Indeed, we must have greater success with the Indias and Brazils of this world to make up for the very severe changes affecting our major trading market—the European Community.

I know that the Government are reluctant to declare what their hand will be in the negotiations; some have been unkind enough to suggest that that is because they do not have a hand to play—or at least, not one about which they are managing to convince even their own Cabinet with any degree of unity. None the less, it is clear that we are going to have tough negotiations with Europe. We cannot expect that the Europeans will approach our requirements with any great empathy; indeed, they will certainly approach them in terms of their own interests. We all recognise that trade flows both ways, but we are still likely to have great difficulty; consequently we will need many more new trade deals—those which formerly were in the framework of the European Community but which the United Kingdom will now have to negotiate for itself.

That is a pretty challenging perspective in the present world position, but if there is another dimension that might make this situation even more difficult, it is the result of the American presidential election. We all, particularly those of us who have been involved in electoral politics in the past, know the difference between electoral rhetoric and effective action by Governments. Nevertheless, it is clear that the president-elect of the United States has very strong protectionist leanings. He won a lot of votes for suggesting to those who thought they had lost through the development of international trade that it would be America first—and America successfully protected. He identified, as his major element of protective activity, China, which he regards as a manipulator of exchange rates. That

should send a chill down the spine of everyone concerned about the development of the British economy. The prospect of our being involved in worldwide negotiations of the greatest significance to secure markets in areas where the largest economic unit in the world, the United States, is arguing the case for protectionism is a profound worry to us all, and shows the dangers we face.

We can face these consequences rather better than we did in the 1930s, when states that engaged in individual protectionism reduced world trade and industry, and increased unemployment, until the only stimulus a nation could produce in response to the collapse of world trade was to spend huge amounts of government money on armaments and the development of the Second World War. That was the greatest factor in reducing the huge levels of unemployment in the 1930s. We can learn lessons from that period and we can avoid that, but it means that the Government must address themselves with great skill and commitment to the negotiations that are necessary.

Another element, which the noble Baroness, Lady McIntosh, introduced first but on which others have also commented, is the threat of significant inflation. We have, of course, had a period in which inflation has been negligible. But it is clear that, as the noble Baroness, Lady Kramer, emphasised, two years or so from now we shall see quite a significant feed-through of external costs into our economy and the development of inflation.

One responsibility that the Government must sustain over this period is clear. The people who spend the greatest percentage of their income on food are the very poor. Those who are low-paid or on benefits spend £1 in every £6 on food. The Government are now pursuing a four-year squeeze on benefits. They cannot possibly sustain that position against rising costs. Otherwise, they will be saying that those who have borne a very heavy burden since 2008 and the financial crisis—no wage increases, seeing others take their jobs and a massive reduction in benefits—will have to bear the largest burden of what will feed through in inflation in 18 months or so. Surely that cannot be sustained.

The debate has ranged widely. It is a precursor to the major debate we must have on the economy shortly, and it has developed from one on the exchange rate to one on the fundamentals of the British economy. I am grateful to all noble Lords who have participated in it.

2.07 pm

**Lord Young of Cookham (Con):** My Lords, let me start by echoing the thanks of others to my noble friend Lady McIntosh for securing this debate. Initially I was rather worried about the idea of a two and a half hour debate on an issue on which, as I shall state in a moment, the Government have no policy—but the quality of the contributions has allayed that concern. There have been some outstanding contributions, including the speech that introduced the debate.

The contribution by the noble Lord, Lord Skidelsky, took me back more than 50 years to economics tutorials in Oxford at the feet of Sir Roy Harrod. We also had a heroic challenge to current economic orthodoxy from my noble friend Lord Vinson. There was not a lot with



which I agreed, but I did agree with what he said about infrastructure bonds, and he will be pleased that the Government already provide Treasury-backed guarantees for infrastructure bonds and loans. They can provide up to £40 billion-worth of guarantees, and have already supported 10 projects with a total capital value of around £23 billion. So even if I do not follow my noble friend down some of the other avenues he suggested, I hope he will take encouragement from that.

One message that has emerged from the debate is that things are not simple. The straightforward relationships between currency values and imports and exports we may have learned about in economics textbooks simply do not hold today. A number of contributions by my noble friends, and by noble Lords on all sides, have explained how, with complicated supply chains, the responses to fluctuations are not nearly as straightforward as they might have been. We also had some very helpful contributions to assist my right honourable friend the Chancellor of the Exchequer, as he puts the final touches to his Autumn Statement, and some advice to the Government on more clarity as we approach our negotiations on exiting the EU. But I am grateful to everybody who has contributed to the debate, and I shall try to pick up some of the points.

Exchange rate movements, the subject of the debate, attract a great deal of attention and are a topic of economic importance at the moment, both on a national level and for people in communities, as my noble friend emphasised. She mentioned the rural areas of North Yorkshire, which she knows so well. Changes in the value of any currency take place, of course, due to a wide and complex range of factors, both domestic and international. The fluctuations that we have seen following the outcome of the US election last week, not only in the dollar but in the euro, pound and peso in particular, are a clear case in point. It is no surprise that, since our decision to leave the EU on 23 June—one not predicted by the markets—the value of the pound has fluctuated. As of today, it is 15% down against the dollar compared to the start of the year; many observers attribute this to the markets' response to the inevitable uncertainties during this period of adjustment.

My noble friend Lord Carrington explained how larger companies can hedge against currency fluctuations, but raised the issue also touched on by the noble Baroness, Lady Kramer, about the problems confronting smaller companies that cannot take the same precautions. I shall certainly pass that on to my right honourable friend in the Treasury.

As noble Lords will be aware, it is a long-standing Treasury policy that we do not comment on the level of or fluctuations in the value of sterling, which is allowed to adjust flexibly in response to economic conditions and market forces, as the noble Lord, Lord Haskel, described. Neither the Government nor the Bank of England set a target for the sterling exchange rate, which is a reflection of the UK's long-standing economic framework—business as usual, as the noble Lord, Lord Paul, mentioned. Our monetary policy, which is set independently, has free-floating exchange rates and free movement of capital, which allows us to focus on targeting inflation. The UK's inflation targeting framework prioritises price stability, which is a

fundamental pillar on which our economic prosperity is based. The noble Lord, Lord Haskel, reminded the House of the risks of fixing the value of our currency. Noble Lords may recall the ERM crisis of 1992, where sterling was pegged to the deutschmark, only to collapse in the face of currency speculation. Noble Lords with longer memories may remember the problems that Harold Wilson had back in the 1960s, to which my noble friend Lord Vinson referred.

But although we do not set any targets for the value of sterling, both the Government and the UK's financial supervisory institutions monitor closely the effects of any fluctuations in sterling on our economy. The noble Lord, Lord Bilimoria, for example, highlighted the impact that the fluctuations have on particular industries, such as the civil aviation industry. He also made the point that the impact on companies in the FTSE 100 has been slightly more uplifting because of the amount of overseas earnings that they generate. The Monetary Policy Committee took action in August, for example, to give an important monetary stimulus package which helped to ease financial conditions after the referendum, keep consumer confidence high, and return inflation to its target sustainably. The noble Lord, Lord Davies, mentioned inflationary pressures ahead; the MPC judged that there may be inflationary pressures ahead, as the depreciation of sterling may lead to a rise in the prices of imported goods and services, given our globally integrated supply chains. He made a point about the impact that that has on those on low incomes. As for the MPC's guidance, I shall certainly see that it reads the speech of my noble friend Lord Carrington on his view of how the guidance might be improved.

My noble friend Lady McIntosh highlighted today the impact of the depreciation of sterling on prices, with a seasonal reference to mince pies as one example of the potential impact this could have on household budgets. Six mince pies sounded rather a lot to me, but it was a valid point that we need to keep an eye on the impact on the fluctuation of food prices. The MPC has been clear that the best course is to focus on supporting employment and output, and therefore tolerate a temporary period of above-target inflation, which is expected to return to target in the medium term. In the meantime, the MPC will closely monitor inflation expectations and respond if necessary. It is working closely with the Financial Policy Committee to ensure that any financial stability implications of our monetary policy have been considered and managed. The FPC, for example, has worked to support lending in our economy through this period, by reducing what is known as the countercyclical capital buffer to zero, allowing banks to draw upon the capital buffers they have built up.

It is also, of course, the Government's role to monitor any economic impacts of the lack of sterling on individuals and businesses across the country. My noble friend Lady McIntosh raised the example of the impact of exchange rate movements on farmers. I agree with her that farmers will see the cost of fertiliser and other tradable inputs rise, as a result of the weaker exchange rate, but the impact on other inputs is more lagged, and at the same time they are seeing higher product prices, as well as a 16.5% increase in the sterling value of CAP subsidies—a point made by the noble Lord,

[LORD YOUNG OF COOKHAM]

Lord Skidelsky—for the 2016-17 payment window, compared to the previous year. So while I agree that a weaker exchange rate is not one-way traffic for farmers, I am sure that overall the farming sector will see benefits from recent movements in the exchange rate.

The Government recognise the impact on the agricultural sector of our withdrawal from the European Union, which is why we have announced that it will receive the same level of funding that it would have received under CAP until 2020. The noble Lord, Lord Skidelsky, made the point about the rising cost of our EU contribution, which we take on board. I agree with what my noble friend Lady McIntosh said on agriculture. We should try to be more self-sufficient and grow more at home, driving up from 62% our current level of self-sufficiency.

My noble friend touched on the impact on savers and pensioners, as did other noble Lords. The Government are committed to supporting savers of all income levels and at all stages of life by reducing the taxes on savings. Savers have benefited, for example, from the new personal savings allowance of up to £1,000 for basic rate taxpayers and up to £500 for higher rate taxpayers. Throughout this period of economic adjustment, we will continue to plot the same course that we have taken from the start—namely, to make sure, as the Prime Minister has reaffirmed repeatedly, that our economy works for everyone.

I return to the question from my noble friend on how fluctuations in the pound have affected our economy since the referendum. Although this is a period of adjustment, there are none the less some heartening signs of the resilience of our economy that we should take note of. I was struck by what the noble Lord, Lord Paul, said about how change brings opportunities. Our financial markets, for example, have continued to function effectively. Employment remains close to a record high, with total pay up, too. Our first official growth estimate in the post-referendum period shows an increase of 0.5% in our GDP for the third quarter of 2016, and there are additional signs of resilience in other data that have come through in the last four months.

Consumer confidence, although it fell in July, has since recovered, and last month returned to the levels we had seen just prior to the referendum. Retail sales have actually grown 1.8% in the three months to September. There are also positive signs that the fall in the pound may have helped to revive tourist spending in Britain. I am not sure that anyone comes to the United Kingdom for the weather, as implied by the noble Lord, Lord Skidelsky, but I think that I read that this is the warmest year that there has been for some time—so maybe the gap between us and the Mediterranean, where the noble Lord may prefer to take his holidays, is beginning to narrow. But the downside is, as my noble friend Lady McIntosh, said, that if we go to the Mediterranean we may be able to buy slightly less abroad. I hope that the impact of a lower pound may help tourist spending in north Yorkshire, which my noble friend directed our minds to today and which I am sure is a fantastic part of the UK for tourists to visit. I understand that Yorkshire's annual White Rose Awards will take place on Monday in Harrogate.

To return to our theme, the latest manufacturing PMI data also show some positive news, with the suggestion of increased activity in the manufacturing sector, which some have attributed to the depreciation in sterling. Indeed, some exporters are reporting fuller order books. It may be the case, as some in this debate have suggested, that the lower value of the pound could lead to a boost here. But here I agree with what a number of noble Lords said about being cautious about oversimplification. I think that it was the noble Lord, Lord Skidelsky, who referred to the global financial crisis of 2008, when sterling depreciated by 25%. Yet, with weak global growth, UK exports did not actually expand markedly, as exporters boosted their profit margins instead of their market share. Of course, the ability to boost one's exports depends on the financial position of those countries to whom one is exporting; if they are in a downturn, it obviously makes it more difficult.

Another point that has been made in this debate is that exporters compete not merely on price but on quality and reputation. These are particularly crucial points when it comes to the service industries. It could also take time before demand catches up with our more competitively priced exports—a point made in an intervention by my noble friend Lord Vinson—and as businesses adapt their processes to sell more overseas. In the meantime, the Government will continue to help our businesses, including our agri-food sector, to boost exports. But I have to say to my noble friend—or maybe it was the noble Lord, Lord Skidelsky, who put the position forward—that import controls are not on the agenda.

I will touch on one or two of the other points raised in this debate. One concerns inward investment levels—and investment levels generally—during this period of adjustment and low interest rates. We might expect some potential impact as the UK adapts to new relationships with the European Union and the rest of the world. Anecdotally, as we have heard in the debate, it has been suggested that some businesses are waiting to see what happens in the negotiations with the European Union. None the less, thanks to the combined strengths of British businesses and our wider economy, we remain an attractive place to do business.

Following the referendum, we have continued to see investment into the UK. Immediately after the referendum, for example, we saw the largest-ever investment from Asia into the UK, as SoftBank invested £24 billion into ARM Holdings. Large car manufacturers have expanded their investments: Jaguar Land Rover announced a £500 million expansion in Coventry, Honda confirmed a £200 million investment in its plant in Swindon and recently, of course, we had the Nissan Motor Company announcing that both the next Qashqai and X-Trail models will be produced at its Sunderland plant, which will be expanded through new investment to be a super-plant manufacturing more than 600,000 cars a year. We have also seen investment in the pharmaceutical industry.

**Lord Vinson:** Now that he is on that subject, I wonder whether the Minister would be good enough to answer a question. The Prime Minister has shown considerable concern over the easy way in which our

companies can be taken over. It has been suggested, and I put it to him, that the public interest clause should be reinserted as part of the remit of our new competition commission. Would he like to think about that?

**Lord Young of Cookham:** My noble friend urges me to go way beyond my negotiating brief at the Dispatch Box this afternoon, but I will certainly convey his suggestion to my right honourable friend the Chancellor of the Exchequer, or indeed the Prime Minister. I know that there has been anxiety about the ease with which UK companies can be taken over, but I make no commitment whatever in that respect.

I was saying that GlaxoSmithKline recently announced £275 million of new investment in UK manufacturing sites and £540 million in a new company in partnership with Verily Life Sciences. Then came Google's decision a few days ago to invest in Britain and create 3,000 jobs, which is a big vote of confidence in the UK's leading position as a global tech hub. So, to put it in context against some of the rather depressing predictions we have heard, we have seen that many companies continue to value the opportunities for business in the UK, which last year saw business investment grow faster than in any other G7 country outside the US—and that should not come as a surprise to any of us.

My noble friend touched on infrastructure spending, which is a really important priority. We have invested more than a quarter of a trillion pounds since 2010 and we are committed to spending more than £100 billion on infrastructure projects by the end of this Parliament. This will contribute to everything from big transport projects such as HS2, to rolling out superfast broadband and improving our flood defences—and I will ensure that the Chancellor of the Exchequer takes on board the proposal made by my noble friend about funding defence protection schemes. It is worth noting that we are investing more than £2 billion in 1,500 flood defence projects to protect our homes and businesses. We are also committed to developing the skills that our businesses need, including in the rural sector.

In conclusion, my noble friend Lady McIntosh is right to draw our attention to the fluctuation in the value of sterling and the effects it may have on people and businesses in this country, particularly in rural communities. The Government share her view on the importance of remaining vigilant to any potential impact of movements in the sterling exchange rate. We will continue to monitor developments closely, as will the independent Bank of England. At the same time, we will continue to use all the tools at our disposal to make sure that our economy is working for everyone across the UK and across industries. This means taking further steps to improve our productivity and to promote economic growth in communities in every part of the UK. It is this approach which will always inform this Government's work to strengthen the British economy—including, of course, when the Government set out their fiscal plans in the Autumn Statement next week.

I conclude by thanking all noble Lords who have taken part in this debate.

2.26 pm

**Baroness McIntosh of Pickering:** My Lords, I will take this opportunity to thank all noble friends and noble Lords on both the Front and Back Benches who have contributed to this wide-ranging debate. I thank my noble friend the Minister for his very elegant summing-up of what has been an excellent debate. I pay tribute to my professor at Edinburgh University, Professor Khan, who taught me the fundamentals of international and economic law—although I did not believe that I would be jousting with the noble Lord, Lord Skidelsky, who is obviously a leading expert on the economy.

I think that I am going to have to invite my noble friend Lord Vinson to repair with me over coffee to debate some of these issues, because I believe that we will not understand what the implications of Brexit will be until we finally leave and see what access, if any, we have to the single market and whether we remain part of the customs union or rely on free trade agreements. Who can forecast what the impact on the economy will be at that time? My plea to the Government is that we remain an outward-looking, free-trading nation looking to forge new relationships at that time.

I take comfort from what my noble friend Lord Young said as regards trading bonds—the government-backed bonds—which I hope may release more capital spending on limited capital projects in flood-defence areas. My only hope is that the period of adjustment to which my noble friend referred will be short-lived and defined and that we will not go down the path—sadly recommended by my noble friend Lord Vinson and, I think, the noble Lord, Lord Skidelsky—of protectionism. I believe that we have to be an outward-looking, free-trading nation and be confident going forward.

*Motion agreed.*

## Child Poverty

### *Question for Short Debate*

2.29 pm

*Asked by Lord Bird*

To ask Her Majesty's Government what plans they have to address the root causes of child poverty across the United Kingdom.

**Lord Bird (CB):** My Lords, I remind noble Lords, if they were not aware of it or have forgotten, that I came into the House of Lords because of my work in and around dismantling poverty in people's lives as much as possible. I am back here again banging the old drum on what we can do about poverty. The longer I am in the House, the more I realise that poverty is at the base—I hazard a guess here—of about 70% of our work, perhaps even more. The laws of unintended consequences mean that changes we made in the economic system 10, 20 and 30 years ago are coming back to bite our posterior.

I say once again that I am here to dismantle poverty. When I am approached by many noble Lords to get involved in defending the poor and tackling the problems that they face, I say, "I am sorry, you are doing a pretty fine job, but I do not see many people wanting to



[LORD BIRD]

prevent Johnny, currently in school, from selling the *Big Issue* in 20 years' time". I do not see many of the difficult issues of finding the roots of poverty and ways to dismantle its sources and causes being tackled. One of the reasons for that is because there is a lot of confusion around poverty. The biggest confusion arises from the fact that people do not realise that there are two kinds of poverty. There is a poverty of spirit and opportunity, a material poverty and a poverty of social literacy—all those sorts of things. However, there is another kind of poverty. My uncle, an Irishman, who died at the age of 102 in Notting Hill, came over here in 1936 and worked as a postman and a fireman and lived all his life in a kind of poorness. When he came over, he did not have two pennies to rub together. He looked after himself, his wife and his children and has endowed his grandchildren in some senses. He was poor but he never lived in poverty. He went to church and participated in the British Legion, went on holiday and did all sorts of things. He was a poor man who developed the ability, at home in Ireland on the farm, of making a very small amount of resources go a long way. That is poorness. Then there is poverty. Unfortunately, we have seen the demise of poor people who know how to make ends meet, as opposed to the people who are lost in the fog of poverty.

I am being very personal here. My uncle, Paddy O'Regan, had one child, and that child had one child. He lived within his means. If he could not afford something, he did not have it. We mistake that for poverty but it is really just a question of being poor. Unfortunately, his sister-in-law—my mother—had six children and always lived beyond her means. She lived in a miasma of poverty, never participated in democracy or did anything other than her job as a night cleaner, and her day job, and take her six children to school. She lived in absolute poverty, which was made even worse by her inability to cook. She was one of the world's worst cooks; she could make nothing out of something. Those are the two sides of an Irish family who came over here.

In this debate about dismantling poverty and finding the roots of poverty, I want to focus on the dignity of people who get out of poverty. A friend of mine from Jamaica came over with his mother on the "Windrush" and now owns enormous tracts of Norfolk. He educated all his children and knew how to live within his means. He was an example of the old-fashioned poor. We have created an enormous number of problems through destroying people's ability to get out of poverty. If the parents of Mr Ed Miliband, who arrived here in 1944 as refugees from Nazi Germany, Poland, or wherever it was, had been given a council house and money on which to live, would he have ended up running the Labour Party? Generosity can cut off people's opportunity to morph their way out of poverty. That is one of the reasons why we need to look very carefully at what we can do to help the poor. We need to help them by enabling them to get out of poverty. However, there are too many stumbling blocks to doing that, the biggest of which is the fact that 30% of our schoolchildren go through school and come out the other end but you would never think they had been to school. There are people like myself—I learned to

read and write in a boys' prison, as I have said before. Those children go on to form 80% of our prison population and 50% of our long-term unemployed, fill up the hostels and sell the *Big Issue*. Some 80% to 90% of them come from a failed background of poverty because they failed at school.

We need to do something about the roots of poverty rather than deploy a scattergun effect of initiating a wonderful project here and a wonderful project there which do not converge to dismantle poverty. If we do not do that, we will be having this discussion for many decades. When nearly 3 million children in this country live below the poverty line, we have to do something about poverty, but we must fight it philosophically, culturally and socially. We need to measure the effect of social security in enabling people to rebuild their lives. Social security is one of the most wonderful ways of helping people through difficult circumstances and enabling them to move on but we must not put them in warehouses, as it were. We should not do what was done to some members of my own family—I will not mention them because they will probably get their lawyers on to me—some of whom have not worked for 30 years and whose lives are getting worse and worse because somebody decided way back in the time of Margaret Thatcher that it was all right to open the sluice-gates and allow people to get benefit without checking whether it was any good for them. Those are the kind of things that we need to talk about.

In my time in the House of Lords, I am desperate to get to the roots of poverty. However, if you scratch the surface of the average Member of the House of Lords, you will probably find that earlier generations of their families had to work very hard at the coalface. Somebody suffered and burned the candle at both ends. I have a problem in that I sometimes think that we do not want the poor to burn the candle at both ends because it is a safety risk.

2.39 pm

**The Earl of Arran (Con):** My Lords, children sleeping on the floor, sharing a mattress and not having enough food to eat—this is not a case history from Victorian times but a description of the very real lives of many children living in 21st-century Britain. Our rich and affluent capital city has one of the highest child poverty levels in the UK, along with Birmingham and Manchester. Currently 3.9 million children live in poverty in the United Kingdom. This means that children are considerably more likely to live in poverty than adults. It is not necessary and not acceptable, and we can do something about it.

Growing up in poverty can blight children's well-being and their future life chances. For example, children living in poverty are more likely to have poor physical and mental health and are less likely to achieve their potential at school and in employment. Children experience poverty differently from adults. An adult can temporarily fall into poverty, but poverty in childhood can last a lifetime. Child poverty and inequality can be passed on to future generations and lead to a cycle of deprivation for many families.

The effects of child poverty are enormous. Poverty damages: it damages childhood, it damages life chances, and it damages us all in society. We all want our

children to be able to enjoy their childhood and have a fair chance in life to reach their full potential.

Children from poorer backgrounds lag behind at all stages of education. According to Department for Education statistics, by the end of primary school, pupils receiving free schools meals are estimated to be almost three terms behind their more affluent peers. By the age of 16, children receiving free school meals achieve 1.7 grades lower at GCSE.

Poverty is also associated with a higher risk of both illness and premature death. Children born in the poorest areas of the United Kingdom weigh, on average, less at birth than those born in the richest areas. Children from low-income families are more likely to die at birth or in infancy than children born into richer families. They are also more likely to suffer chronic illness during childhood or to have a disability. Poorer health over the course of a lifetime has an impact on life expectancy: professionals live, on average, eight years longer than unskilled workers.

Children living in poverty are almost twice as likely to live in bad housing. This has significant effects on both their physical and their mental health, as well as their educational achievement. Fuel poverty also affects children detrimentally as they grow up. Low-income families frequently have to make a choice between food and heating. Children from low-income families often forgo events that most of us would take for granted. They miss school trips; they cannot invite friends round for tea; and their parents cannot afford a one-week holiday away from home.

My family has had the great privilege to be involved with a wonderful charity, the Children's Country Holidays Fund, since its inception over 130 years ago. Like many other charities, we aim to give disadvantaged children the opportunities and experiences that they would not normally have access to. It is very humbling that over those years we have been able to send away more than 2.5 million children from the Greater London area. It is a sad indictment on society that the plight of many of the children whom we support echoes that of the children whom the charity supported in Dickensian London.

However, charities cannot do it all and, with commitment and action, child poverty can be ended. We need a benefits system that recognises the cost of a child; a childcare system that enables parents to work and children to thrive; a labour market that makes work a route out of poverty; and adequate support for families when parents cannot work. We need to demonstrate very clearly that, in spite of being a materialistic society, we are still a country of compassion and understanding.

2.43 pm

**Lord Mawson (CB):** My Lords, I thank my noble friend Lord Bird for introducing this important debate.

I grew up in Bradford, delivering milk in the early morning with my father, who was a milkman on the Thorpe Edge housing estate—one of the largest housing estates in the city, with all the high statistics you would expect in one of the most challenging communities in this country. As a young person I got a nose for what poverty was about—I could smell it, often literally.

Over the last 30-plus years, I have been working with challenging families in East End housing estates and, now, in towns and cities across the north of England, where we have had some success in addressing the causes of child poverty and creating an entrepreneurial culture within which families embrace the world of work and take more personal ownership of their situation. From within an entrepreneurial culture focused around activity and practical action, not policy discussion and political agitation, wealth creation has begun to take root.

We have taken the long view. Change takes time. These families are not our clients; they are our friends—people with names, addresses and family histories. It has been about growing a can-do culture and building relationships. We have broken open the traditional silos of government, which, from where we stand, seem incapable of ever learning anything from experience. When you stand in a housing estate and look down the telescope at yet another government policy and programme coming down on these children and challenging families, and if you stay around long enough to gain perspective and watch the cumulative effect of all this political and government activity, what you see is a winding snake.

We have lived through Mrs Thatcher's policies coming down upon us, as well as John Major's, Tony Blair's, Gordon Brown's, Dave's and Nick's, Dave's and, now, Theresa's. When you watch carefully, you see the latest well-meaning politician with their policy advisers, often with little practical experience, and their latest bright idea coming down from above with all the unintended consequences. No one stays around long enough to watch the cumulative effect over many years, as we have done. People become trapped in a dependency culture created often by the well-meaning state with all its attendant theoretical "liberal" ideas, often based upon ideology rather than practice.

In the last year I have been asked by the CEO of Public Health England to lead Well North—10 pathfinder projects in challenging communities in the north of England, many of them in housing estates with children and families who have been failed by successive Governments. I have been asked to take our many years of experience in east London and to share it and work with the people there. Of course, I must declare an interest as chairman of Well North. Even after just a year's engagement in 10 communities, I have found families and individuals who get what we are talking about, and who feel trapped and want to do something very different. They are real people with names and addresses, living in real places called Oldham, Bradford, Skelmersdale, Whitehaven, Bootle, Sheffield, Rotherham, Newcastle and Gateshead, Halton and Widnes. The challenge is: will we be given enough time and space by the system to innovate and build the kinds of long-term relationships with these local families and communities that can be sustainable and make a real difference—relationships within which families can be supported to take hold of their own destinies, escape from a tick-box culture and break open the silos that hold them firmly in their grip?

There is not enough time in this debate to really open up the detail for the Minister of what a more entrepreneurial approach to these challenging issues

[LORD MAWSON]

of poverty means in practice, but I thought I would share some initial radical thoughts to encourage us to think outside the box. Here are three practical, if radical, ideas that challenge the liberal consensus.

First, we should make it a requirement for any programme addressing social issues that 70% of the employees, or self-employed contractors, should live in the wards with the highest unemployment in the area where the programme is working. This would give a real advantage to genuinely locally based and embedded organisations, and a boost to the local economy, and might achieve more than anything else.

Secondly, we should take the “personalised budgets” approach to the next level. We should look at all the money being spent across government on a family or child. We should not, as now, just get government agencies to decide how they might spend the money but co-create something with the family, with a particular emphasis on the children. We frequently forget to listen to children, but in my experience they often have real insights into what is needed. We should be radical. For instance, a place at Eton costs £40,000 a year—a lot less than being in care—and I have found some very talented children on some of these estates.

Thirdly, we should focus on the children themselves. We should learn from the *Big Issue* and set up enterprise programmes so that the children can start to earn real money themselves. We have done this to some effect. We should support them if the parents try to take the money—for example, parents who have addiction issues with alcohol, drugs, gambling and so on. In this way, the children will become more self-confident and self-reliant in their heads but they will also be helped by having a bit of cash in their pockets. It is simple. I have a good friend who is a very successful business entrepreneur in the north of England and who came from one of these communities. He always tells me that the difference between him and his friends at school was that they had one paper round and he had two. Start ‘em young.

It is time to be radical and to create a learning by doing culture locally that sees the children and families caught in poverty as part of the solution, not just the problem. There is great opportunity awaiting us on our housing estates. There are talented people there—I am meeting them and working with them—who want to be radical and do things differently. They want to take hold of their lives and the life of their community and its future generations. The question is: will we, the well-meaning here in Westminster and Whitehall, allow them to do so? I ask the Minister: what space will be created in the Government’s thinking for innovation in this field that moves beyond the usual structures of government and local authority silos and gets behind local leaders and communities? I would suggest that quite a number of successful entrepreneurs who grew up in these communities want to do more now than just give cheques; they want to use their business skills to help with these issues.

2.50 pm

**The Lord Bishop of St Albans:** My Lords, my thanks go to the noble Lord, Lord Bird, for tabling this important debate and for the challenging and spirited

way in which he always makes his speeches, which not only entertain but very often get to the heart of many of the crucial issues. This debate is particularly timely because of the figures recently released by the End Child Poverty Coalition, which show that child poverty levels continue to rise steeply, reaching 47% in some areas. In his maiden speech the noble Lord, Lord Bird, spoke of the need to give those in poverty a hand up and not a handout. He focused on the importance of creating opportunities, rather than dependency. This of course has been one of the great themes of his life’s work. I believe that that is a crucial message.

One of the fundamental areas that I and others in the Church of England have sought to be involved in is ways to empower the poor and challenge structural injustice. The Church was and is at the heart of the Fairtrade movement, seeking to ensure that workers are paid a wage reflecting the true value of their work. Across Britain, churches continue to organise with workers for a living wage. Organisations such as Christians Against Poverty are working to help those in the grip of debt take control of their finances, while countless Christian charities are working tirelessly to help, for example, ex-offenders reintegrate into society.

There is, of course, occasionally the need to give immediate relief where it is appropriate—for example, food banks—but that is not a long-term solution. However, one thing strikes me again and again when I visit food banks. I am so often told of the surprising number of families who, having been given food for a few weeks, get back on course and, far from becoming dependent, come back a few months later with gifts of food because, having received help, they want to help others.

The two priorities should run together. The Christian social ethic is, after all, one of neither dependency nor independence but of mutuality, in which both parties have something to give and so both receive something. An anti-child-poverty strategy must neither breed dependence nor hold the individual solely responsible for their circumstances, but seek to bring sustainable change through working in partnership for those who live in poverty.

Part of the answer lies in the education system. A quality education can empower children and is one of the most important routes out of poverty. However, it is not just about good schools. As the book *Improving Children’s Life Chances*, from the Child Poverty Action Group, points out, family poverty remains the strongest predictor of educational attainment. It says that around only one-tenth of all variations in exam results at 16 can be accounted for by factors relating to schools. Elsewhere it says that low-income families are much less able than others to afford items and activities that many more affluent families routinely pay for in order to boost their children’s educational attainment. Clearly, we should be doing all we can to improve our schools and close the educational attainment gap, as the Social Mobility and Child Poverty Commission’s *State of the Nation* report, published yesterday, makes clear. Re-establishing funding for local authorities to invest in early years education is also crucial if we are to close the income-based educational attainment gap that exists even before pupils set foot in a school.



However, the fact remains that as familial poverty inhibits educational attainment, it creates a vicious cycle. If we are to break that cycle, we must focus not on handouts but on economic empowerment—on income, in other words. We can talk about all the life chances indicators that we want, but if we lose sight of the centrality of income to a child's life chances, we will not see children reach their full potential. This is not just the sole responsibility of government. As consumers we need to be relentless in our support of ethical businesses, and as neighbours we need to stand alongside those on poverty pay and support their campaign for a living wage—although policymakers clearly have a crucial role to play.

Improving economic empowerment means creating the conditions in which low-income families can flourish. It means making sure that those in poverty have access to adequate and affordable housing that conforms to the standard of Shelter's new living rent campaign—something I fear may not be achievable given the present Government's current focus on homes to buy at the expense of social rents. It means helping low-income families to manage their budgets and encouraging them to save when they are able, removing the poverty premium that means that such families pay more for fuel and other essentials. It means tackling low pay to ensure that working families can provide their children with the resources and experiences they require to flourish at home and at school. Crucially, on that last point, I want to join with the Centre of Social Justice and the Children's Society in calling on the Government to reverse cuts to in-work allowances under universal credit. To confront child poverty, we must make work pay.

It is precisely because of concerns about creating dependency that we must ensure that the welfare system protects children from poverty. If we are to tackle the perennial problem of child poverty, we must give those children a secure platform from which they can thrive, both at home and at school. I hope that Her Majesty's Government will give greater consideration to the role of income in establishing that platform.

2.57 pm

**The Earl of Listowel (CB):** My Lords, I am grateful to my noble friend for calling this important debate. I am also grateful for his life experience, both of working in this area and, on a personal level, of growing up in poverty, which he brings—uniquely, perhaps—to this House.

Over the past 12 months, I have been following the journey of a mother living in temporary accommodation. I had been acquainted with her for several years before she became homeless. We have spoken on the phone on 10 or so occasions since she became homeless, and she has sent me photographs of the various rooms that she and her two daughters, aged 16 and one, have lived in. Over the years, I have seen her physical and mental health gradually deteriorate, but the period in temporary and bed-and-breakfast accommodation has accelerated that decline. Finally, a fortnight ago, I learned from her that she has been settled in a central London borough and, although she and her daughters all still share the same room, they now have a bed apiece, a large kitchen and a bathroom. She is

overjoyed that, at least for the next six months, she has a decent home. A month ago, when she was living in a bed and breakfast, she expected to be whisked away to Manchester at any time. More and more, London local authorities are moving homeless families away from London, sometimes as far afield as Manchester, to places where they know nobody and nobody knows them. It was difficult enough for this mother to share a room and a bed with her 16 year-old daughter; I cannot imagine what stress it must put on a couple when they live in such cramped conditions with their children. I wonder what effect housing and income poverty is having on the relationships of couples with young children.

I began working with children in my teens, worked with children in inner-city housing estates in my 20s and have worked with children and young people intermittently since then. Often, when working with boys and young men, I have thought that it would be far better if their fathers were doing for them what I was doing. I remember taking a nine year-old ice skating for the first time and wishing that his father might have been there teaching him to do that. Whether it was taking boys to Chessington World of Adventures or skiing on a dry ski slope, I often wished that it was their fathers, rather than me, introducing them to these experiences. Of course, some of them did have a father teaching them to ride a bike, kicking a football around with them or taking them swimming. But for many, there was no such man. I could feel the ache of some of these boys and young men for a father. That ache might manifest itself in gifts to me. I particularly remember one boy gave me presents of the crickets that he bred on a daily basis.

The OECD research from 2011, led by Professor Melhuish at Birkbeck, University of London, highlighted that one in five of our children were growing up without a father in the home. That was significantly worse than in France or Germany. The United States stood at more than one in four, but the research projected that we would overtake the United States and in a couple of decades a third of our children could grow up without a father in the home.

I am most concerned that austerity, rising numbers of families living in temporary accommodation and cuts to benefits may contribute to this family breakdown. While many single parents cope admirably and there are means of mitigating the loss of fathers, or mothers, and while some fathers may be violent or have difficulties with alcohol or drugs and are best out of their child's life, at least until they have received help and are reformed, I am sure that the Minister—who takes these issues of family support and stability very seriously—will want to take all steps to minimise the risk of exacerbating couple breakdown.

I note the helpful report from the Centre for Social Justice in 2013 looking at this particular issue and highlighting the large numbers of children growing up without fathers and family. I am concerned that this matter is not often talked about. I recognise that it can be difficult, but I ask the Minister: is the effect of poverty on family breakdown being monitored? I know that a lot of poverty arises from family breakdown, but I am interested to know how far poverty—*income poverty and housing poverty in particular*—is leading

[THE EARL OF LISTOWEL]

to family breakdown. Have Her Majesty's Government modelled rates of family breakdown with different rates of poverty? Have they examined the relationship between family homelessness and living in temporary accommodation—120,000 children will live in temporary accommodation this Christmas—and family breakdown? What is the current rate of children living without a father in the home in this country? What is the rate anticipated in 10 years' time?

I look forward to the Minister's response.

3.03 pm

**Baroness Pinnock (LD):** My Lords, I thank the noble Lord, Lord Bird, for initiating this very important debate. I agree with him that we need a strategic approach to tackling child poverty. However, I disagree with him on this point. Not everyone is endowed with the characteristics that can get them out of poverty by their own endeavours.

I will describe a local picture of child poverty. Kirklees Council, where I live and where I serve on the council, serves 420,000 people. It produced a report on poverty in the district this year and these are some of the facts included in that report. There are 20,840 children living in poverty in Kirklees—one in five—and almost two-thirds of those live in lone-parent households. Some 24% of all households have an annual income of below £10,000. That describes the scale of poverty in the district where I live.

The impacts on people's lives are profound and long-lasting. The inequalities in their lives start at birth, when babies whose mothers are poor tend to have a low birth weight, which can lead to preventable physical and mental health disabilities. Poor health for children growing up in poverty is also a feature. They are more likely to be taken to A&E before they are three years old than their peers. They tend to suffer more persistent, frequent and severe health problems throughout childhood. At school, deprivation tends to result in lower levels of attainment at both key stage 2 and key stage 4. The quality of housing that they live in is also often poor. In Kirklees, over one-third of the properties do not meet modern standards and can be damp and difficult to heat. The result is children suffering from respiratory problems. Often, too, their homes are overcrowded, which adds to family stress and restricts the ability of children to do homework. Statistics show that children who grow up in poverty tend to have poor outcomes in life. They tend to die at a younger age, suffer from chronic ill-health, end up as unskilled workers and have long periods of unemployment. Their aspirations are limited.

The question that we should be asking ourselves today is what can be done to break this cycle of deprivation and stunted life chances, so I have a few suggestions. Housing desperately needs to be improved. Our existing housing stock will be where millions continue to live and some will have their lives blighted by its poor quality. Perhaps the Government could consider measures to cut the cost of home improvements for poor-quality housing. Perhaps they could give grants for housing improvement. That would be novel. In Kirklees, when I was council leader, we introduced the warm zone scheme, which offered free

loft and cavity wall insulation to every home. It was mainly funded by an energy company. The result was warmer homes and consequent health improvements. Perhaps the Government would consider replicating that scheme.

The cost of childcare is a huge impediment to adults taking low-paid work. Continuing the funding for childcare of two year-olds in poorer families and not diverting it, as some media reports have suggested might happen, to support the more recent universal childcare offer, would demonstrate the Government's commitment to supporting families out of poverty.

Another action would be to ensure that the pupil premium is spent on improving outcomes for these children. First, libraries should remain open. Too many are closing—21 of the libraries in my own district have closed, have restricted hours or are run by volunteers. They need to remain open and be available for children in overcrowded homes to do their homework, and to widen their learning and aspirations about what is possible. Above all, we need to raise the sights of young people who have had a poor start in life. They can be the first in their family to go to university, but only if the Government provide financial support for them to do so.

There is much that we can do to help children to have a fair start in life and help all reach their potential. There is a financial reason for doing so, because poverty is a cost on the national purse. Above all, there is a moral imperative.

3.09 pm

**Baroness Sherlock (Lab):** My Lords, I thank the noble Lord, Lord Bird, for tabling this debate and all noble Lords for their contributions. As I listened to the debate, I was struck not only by how many interesting ideas we have about poverty but by how many of those who spoke are directly involved in doing something. The noble Lords, Lord Bird and Lord Mawson, with their social enterprises and the noble Earl, Lord Arran, who is reaching out by giving holidays to poorer children. The noble Earl, Lord Listowel, is a braver man than I in teaching people to ski and to skate, which is amazing, and there is the work of the noble Baroness, Lady Pinnock, in her council. I am very inspired by this and I am grateful to noble Lords for sharing their experience.

As we have heard, the context of today's debate is that child poverty in Britain is simply far too high. Whatever measure we use—I am old-fashioned and go with the international standard of 60% of median household income—we are talking about 3.9 million children living in poverty in the UK in 2014-15, and as the right reverend Prelate the Bishop of St Albans mentioned, the figure is rising by 200,000 year on year. Some two-thirds of children growing up in poverty live in a family where an adult is in work. That is one of the key things I want to talk about today. We heard from the noble Earl, Lord Arran, and others about the scarring effect in later life of poverty and I have been reminded by the North East Child Poverty Commission about the critical state of the damage being caused at the moment by, for example, food poverty and food insecurity.

In September the Joseph Rowntree Foundation published a detailed report entitled *UK Poverty: Causes, Costs and Solutions*. In her foreword, CEO Julia Unwin said:

“You can blame individuals for the bad decisions they make, and fool yourself into believing it could never happen to you. Or you can blame national structures—if only the system of tax and benefits could be fundamentally redesigned, and structural inequality abolished, then poverty could be ended”.

She goes on to point out that neither of these is the answer and that structures and choices must be considered together for policy to be effective. I am absolutely with all those noble Lords who talked about the importance of learning from people living in poor communities, looking at the assets they have and working with those assets—but I also think that there are structural questions which cannot be ignored. The JRF report highlighted five key causes that need priority action: low wages, insecure jobs and unemployment; a lack of skills; family problems; an inadequate benefits system; and high costs, including housing.

The Government’s strategy identifies—sort of—two and a half of those. They want to address educational attainment and family breakdown, although I do not think that they map fully on to these drivers, and they want to deal with workless households. They also highlight problem debt and addiction. All of those are important. But I worry that the Government’s strategy refuses to address the other half of the picture because they are the dimensions that relate to the structural causes of poverty and they cannot be ignored.

The JRF report highlights the changes to the kinds of jobs available to many people in the UK, including the problems caused by firms,

“whose commercial strategies depend on low-paid, low-skilled, insecure work that does not provide a stepping stone to something better”.

If work cannot lift a family out of poverty, just tackling worklessness will not solve the problem. We have to accept that before we go any further.

The report then notes that the benefits system does not make work easy or safe and states:

“The level of welfare benefits for some—those in work, seeking work or unable to work because of health or care issues—is simply not high enough to avoid poverty, when combined with other resources and high costs”.

It is not surprising, given what has happened. Billions of pounds have been taken away from the pockets of low-income families. The Welfare Reform and Work Act alone, by reducing the benefit cap, has hit almost 250,000 children in low-income families and it has frozen the level of most benefits and tax credits for four years, which the Children’s Society estimates will affect some 7.5 million children in 4 million families, nearly two-thirds of them in work.

Then there are the high costs. The JRF report points out that between 2008 and 2014 the cost of essentials increased three times faster than average wages, adding to a widespread sense of insecurity. This is a toxic cocktail of high costs and rents, low wages, unpredictable and insecure jobs, unaffordable childcare and cuts to in-work benefits. Those are government failures. Ministers cannot just blame individuals for their poverty when they have set them up to fail by refusing to address these structural shortcomings.

I have no doubt that these benefit cuts were forced on a reluctant DWP by George Osborne’s Treasury, but now that we are living under a new dispensation I encourage the Minister to beat a well-worn path to the Treasury and urge his Government, as the right reverend Prelate said, immediately to reverse the drastic and counterproductive cuts to the work allowance and to universal credit which have stopped making work pay in the way it should. They should also return to increasing benefits and tax credits by the rate of inflation so that poor families do not simply get poorer year on year.

The other key change in the Act was to shift the Government’s focus from poverty to social mobility and life chances. I have read a great book on life chances published yesterday by the CPAG which makes some brilliant connections between money and non-financial issues in policy. I declare an interest as one of those terrible advisers to government whom the noble Lord, Lord Bird, berates, but when the Labour Government increased the spending capacity of low-income families in the early 2000s, they found that as income rose, spending patterns changed. Families spent more on fruit and vegetables, children’s clothes, toys and books, and less on alcohol and cigarettes.

Kitty Stewart and Kerris Cooper have looked at the impact of household income on children’s outcomes and found out, as the right reverend Prelate said, how much of a difference is made to educational attainment when income is increased. That means not only staying on at school but attainment levels in maths and reading, and in examination results. All of this improves as income improves. Likewise, parenting and family environment: there is very clear evidence of much stronger parenting where income can be increased.

The problem with social mobility is that, done properly in our economy, it is a game of snakes and ladders. If more poor kids do well, some rich kids will have to do less well. We cannot have a board with only ladders. We cannot all be QCs and surgeons; someone has got to be at the bottom and I am so grateful that they are because in our current environment we have people out there caring for disabled and older people, sweeping the streets and working as teaching assistants who are often being paid the minimum wage. That means that I do not just want social mobility. I do not want a country where our children are better equipped to fight each other for a spot at the top. I want one where all of our children can flourish wherever they end up on the board. They deserve no less.

3.16 pm

**The Minister of State, Department for Work and Pensions (Lord Freud) (Con):** My Lords, I join other Peers in congratulating the noble Lord, Lord Bird, on securing this debate on what is a vital issue and will go on being a vital issue for decades. I also thank him for drawing a distinction, from his family background, on the difference between being poor, as his uncle was, and living in poverty.

The evidence is clear that work is the best route out of poverty. Working-age adults in non-working families are almost four times more likely to be living on a low income, while the *Child Poverty Transitions* report published in June 2015 found that 74% of poor children



[LORD FREUD]

in workless families that moved into full employment did exit poverty. I suspect that I do not have to draw the attention of noble Lords to the employment figures released yesterday. The record on employment is pretty compelling. The employment rate remains at 74.5% and now some 2.8 million more people are in work than in 2010. This is important because it is not just that being in work brings financial benefits; there are wider benefits as well. Clear evidence shows that good-quality work is linked to better physical and mental health along with improved well-being, and that better parental health is associated with better outcomes for children.

I am very aware that, since the last time we discussed this matter in a debate initiated by the noble Lord, Lord Bird, many things have changed. This country has taken on new leadership and a new direction, but what remains the same is that tackling poverty and disadvantage is a priority for the Government: a priority to deliver real social reform. The new Prime Minister—she is almost not new any more—has set out clearly that she is committed to building a country that works for everyone, not only the privileged few. To do that, she has set up a new social reform Cabinet committee which brings together nine government departments to oversee and agree social policy reforms and lead the Government's work to increase social mobility, deliver social justice and make Britain a country that works for everyone. The Secretary of State for Work and Pensions has also said that he will make a number of announcements in the coming months.

Let me pick up some of the points made today. The central point made by a number of noble Lords, not least by the noble Lord, Lord Bird, was on the importance of tackling the root causes of disadvantage and poverty and not just the symptoms. That means tackling some complex social problems and it is why we rejected the narrow, income-based approach to poverty that focused on getting families above a notional poverty line. We now have two new statutory measures that will drive real action on worklessness and educational attainment. The right reverend Prelate the Bishop of St Albans talked about the importance of educational attainment in tackling this issue. We will have other, non-statutory measures for getting at the root causes.

I have spoken about the Government's record, but it is worth putting the figures on the record: the number of workless households since 2010 is down by 865,000; there are 557,000 fewer children living in a workless household than in 2010; the number of households in the social rented sector where no one works has fallen by nearly 350,000 since 2010; and average household incomes have reached their highest ever level, growing last year by 3.4%, which is the fastest rate since 2001-02.

Clearly, there is much more to do. This Government are committed to ensuring that those in work are paid a fair wage and have opportunities to progress and achieve their potential. That is why we are getting people into employment and working to change attitudes. We are also introducing reforms to make sure that work always pays. We are cutting income tax for more than 30 million people this year and taking 4 million of the lowest-paid out of income tax completely.

We are making sure that people working 30 hours a week on the national minimum wage do not pay any income tax and giving full-time low-paid workers previously on the national minimum wage a pay rise of more than £15 a week through the national living wage.

We cannot forget the importance of universal credit as it rolls out. To pick up a point made by the noble Lord, Lord Mawson, that new benefit system starts to break down the silo-ised legacy benefits system, which will allow some of the local initiatives that he and others are pursuing to happen. We already see the effect with the incentive structures of universal credit. For every 100 people who found work under the old JSA system, 113 universal credit claimants have moved into a job. Universal credit also gives the opportunity to tackle the poverty premium that the right reverend Prelate talked about. The reform increases support for parents. Universal credit now provides for 85% of childcare costs. The right reverend Prelate asked whether the work incentives are undermined by the changes to work allowances. They do not change the structure of the incentives. We retain the taper in UC at 65%.

One issue we face is getting services working together more efficiently to help support people with complex problems into work—it is the central issue in tackling poverty, in my personal view. Through universal support, we are helping universal credit claimants to address some of their barriers—in this case, their digital and financial barriers—and transforming the way that jobcentres work as part of their local communities to allow them to tackle barriers faced by people with complex problems. We are testing and learning in this area and have built up a lot of evidence on how people face multiple barriers. We are reviewing our universal support approach to see how best to expand it and address them. I had an interesting and valuable meeting with the noble Lord, Lord Mawson, recently, which got us thinking about how to put the community into that approach, so that it is not just done to people but people are part of the solution.

The noble Earl, Lord Listowel, asked about family breakdown. We do not monitor the impact of poverty on family breakdown, but we are clear that we cannot afford to overlook the importance of the family as the basic block on which we build a successful economy. ONS figures show that, of the nearly 2 million lone parents with dependent children in the UK in 2015, women accounted for some 90%. The evidence shows that what matters most is the quality of family relationships, not whether parents are married or separated. In particular, children have been shown to be at risk of poorer long-term outcomes if exposed to frequent, intense and poorly resolved conflict between parents—we are picking up some of that evidence in what we do.

On fuel poverty, mentioned by the right reverend Prelate and the noble Baroness, Lady Pinnock, cold weather payments are running at £25 per week between November and March and we have paid out £3.9 million in 155,000 individual payments. The warm house discount takes £140 off costs for 2 million households.

Let me reassure the House that this Government are absolutely committed to fighting against the injustices of society and ensuring that everyone has the right

opportunities to fulfil their potential. Making work pay, supporting families into work and out of poverty, by tackling the root causes of poverty and not just the symptoms, and delivering real social reform will be a priority for this Government.

## Immigration: Overseas Students

### *Motion to Take Note*

3.28 pm

*Moved by Lord Lucas*

That this House takes note of the application of immigration policy to overseas students at United Kingdom universities and colleges.

**Lord Lucas (Con):** My Lords, after our decision to leave the European Union, we are now setting out to woo the world. In the words of the Prime Minister at the Lord Mayor's Banquet, we are a "flexible, ambitious country" stepping up to "a new global role".

Higher education and further education both incorporate a large number of world-leading courses and institutions. They have long-standing success and reputations overseas. They bring in a great deal of money in a growth market. They give us relationships across the world and over time that we can use for other purposes. They should be absolutely central to the Prime Minister's ambition, but we are making a complete mess and losing market share. We need to sort that out together.

What each of us does affects the whole, as should be obvious to the Home Office from the effects of the random policy announcements at the Conservative Party conference. Some of the remedy, of course, is in the hands of universities, and the Home Office has my sympathy in having to deal with them. They move slowly, they tend to set the bar at the bottom—when faced with a range of performance they tend to set it at the lowest setting possible and then say, "Aren't we good? We all do better than that". They are very slow to engage with politicians. Despite having the support of the editor of the *Times Higher Educational Supplement*, I have had no response from anybody in academia, other than those I have approached myself, as to what policy changes the Government ought to make. They seem, judging from the pronouncements one comes across in the press and other media, to be mostly concerned with their own affairs and not really with what is happening to the rest of us. They do not appear to be as collaborative as they should be in this world. They market themselves individually overseas; the GREAT campaign, which succeeded in other areas of the economy, has really not made as much progress in knowledge, to my mind, as it should have.

However, it is the Home Office we have in front of us today, so most of my speech will concentrate on what I think it could do to improve things. My first question for my noble friend is, what is the problem? I do not mean that pejoratively; it is a bemused inquiry. No one I have spoken to in doing research for this debate has a clue as to what the Home Office thinks the problem is. What is the problem? Why is it a problem? What are its priorities? Nobody knows and

it is really hard to collaborate with the Home Office and think of ways to help it while we help ourselves when we have no clue what it wants. It strikes me that the Home Office thinks that it does not need to communicate—it knows what the problems are, it is in charge of solving the problems and only it need do anything. It is a half-starved bulldog chained up outside in all weathers, waiting to bite anyone who tries to get in the front door. This is not true, particularly with Brexit: we are all in this together, we all have responsibility, particularly for immigration, since controlling immigration is clearly one of our objectives, post-Brexit.

All of us—the Government, employers, universities and individuals—have a shared responsibility, over time, to do something about the level of immigration. The Home Office is going to have plenty of trouble with employers on that; I wish more power to its elbow, but it should expect our collaboration and co-operation and it should involve us. Similarly, the Home Office has a responsibility for the economy, for trade, for employment and for the reputation of Britain as a whole, to which it must pay attention, rather than thinking it can make pronouncements and policies in total isolation.

Things have improved over the past few years. It is now possible for a university to have a dedicated officer at UKVI, paid for by the university—quite rightly so—to deal with problems as they arise and act as a conduit for questions. There is a very interesting pilot going on with Imperial College and some other universities to see what can be done to improve things further in return for privileges in the way that overseas students are dealt with. I thoroughly approve of that as a way of developing things, but much more needs to be done.

Fundamentally, as I have said, the Home Office needs to share its concerns. We are not, thank goodness, in the era of the Somme or Balaclava; it is not ours to do or die and not to reason why. We want things to be explained to us and to be allowed to contribute to decisions, to make them better and to make them things that we all own. I greatly encourage the Home Office to open up so that we can really know what the problem is and how we can set about solving it together. We have to wait, quite reasonably, for the Home Office to develop immigration policy generally. The post-study work route, which matters a lot when it comes to marketing university courses overseas, is fundamentally subservient to our overall, detailed immigration objectives. It has a lot of attractions as a method of immigration. By the time people become qualified, they have been with us a long time, we know them, they know us, and they have a loyalty and affection for us. They are a very good source of migration, if that is what we want and if it is where we want it. Once we have that policy I very much hope that post-study work visas will re-emerge as a very good way of bringing in whatever it is we want by way of immigration.

There is scope for a much more open, much deeper relationship between the Home Office and universities. Over the past six years or so the Government have created high-performing, highly accountable partners in universities, people who are used to working positively with the Home Office, who are greatly incentivised to work well with the Home Office and who can and

[LORD LUCAS]

should be relied on. However, they are not involved where they absolutely should be: designing systems, forms and websites. All these things make a great difference to how potential students perceive the UK. The connection with in-country officers is far too loose. This is true even for schools. Immigration to independent schools is pretty well trouble-free except for the behaviour of some in-country officers. It really does not seem to be integrated with the systems that the Home Office has. There needs to be much better connection there.

There needs to be fast correction of mistakes. Even obviously wrong decisions can take six months to set right. If it is a problem of finance then the Home Office should draw money from the university system to staff things properly. If a university notifies the Home Office that a particular student is sick and needs to defer their course for a year, the Home Office takes six months to register that fact and that six months is then deducted from a student's right to study in the UK. That is not correct. We have just introduced the right to rent. Nothing has been done, as far as I can find out, to make that an easier policy for universities to navigate or to make it easier for them to help their students rent privately, as many of them have to. There does not appear to be any positive approach to the idea of students coming here at 14 or 16 and our taking them through to the end of a degree in a UK university, which is a growing part of the market.

There are lots of areas where there is scope for collaboration and continuous improvement in the way that the Home Office and universities work together to make us a better destination for overseas students. I would really like to see an "educated in Britain" database that records every student who has been the beneficiary of UK education, so that we can support them and they can support each other to create opportunities for trade and to help market UK education for future students.

The conference speech by the Home Secretary was a particular disappointment to me in the way it addressed universities. The idea of discrimination on quality, that there are courses so bad that they are fit only for putting our own children into debt, is not something that appeals to me or has any resonance overseas. I come back to my initial question: what is the problem to which this is an answer? There must be better ways of tackling it, if only we could be told what the problem is. I do not want to see, and I am sure that my noble friend does not want to see, the University of Huddersfield struck off the list as not being grand enough for overseas students. Why should we discriminate in that way? If overseas people want to study at our further education colleges—there are some wonderful, world-leading courses—or even if they just want to come here to study English, why should we put them off if we are in proper control of the consequences of our immigration policies?

That comes back to the old problem of the treatment of students as immigrants. Yesterday Jo Johnson restated to the APPG on International Students that there is no cap on student numbers; there is no cap on tier 2. Clearly, a group of people to whom that applies are

not immigrants in the way that we usually think of them; nor do people around the country think of them as immigrants in the usual way. Their inclusion in the figures means that every time we do something to try to control immigration, which we will be doing pretty frequently, that is read overseas as an attack on overseas students.

We are completely muddying the waters. The problem is overstayers. We do not know how many overstayers there are. There are some good low estimates; there may be other estimates, but the fact that there are no data is down to the Home Office because it is not recording exits properly. Why should the Home Office's failure be visited on universities? There is no good reason for it. It would be much better for everybody if the figures were separated and we could have a clear view of what is happening in the areas of immigration that we all care about.

The Home Office has demonstrated a great ability to be destructive to the reputation of higher education abroad. I believe that it could become a constructive partner and still achieve its objectives but that belief is based on my imagination as to what those objectives are. I wish it would. I beg to move.

3.41 pm

**Baroness Warwick of Undercliffe (Lab):** My Lords, I thank the noble Lord, Lord Lucas, for securing this debate and declare an interest as a council member of two universities: Nottingham Trent and UCL. I have sympathy with a great deal of what he said, although I must say that I received a very good briefing from Universities UK and several other university groups.

This topic has been raised many times in your Lordships' House and each time the Government have refused to act. Numbers are falling or merely holding steady as the market expands and our competitors increase their share. I am not going to cite a list of data. We know that they show that economically, diplomatically and academically, international students are a huge asset to the UK. We should treasure our prestige as a country that has one of the best higher education systems in the world. I worry that the Government do not treasure it.

The Government are consulting on further restrictions, apparently related to quality of institutions or courses. They do us all a great disservice by casting aspersions on the quality of some of our universities, based on no evidence and no apparent understanding of the architecture which guarantees that any UK university offering degrees meets rigorous quality criteria. There are not even any international data on the quality of teaching as a basis for comparison. This is a real own goal.

Attracting "the brightest and the best" has become a trap. Now we see it being deployed in defence of an argument that some as yet undefined subset of universities should have the right to attract international students. I can think of no other area where the Government would take this view. To use a retail analogy, it is inconceivable that the Government would want to allow Burberry to flourish while preventing M&S from succeeding abroad. Each has its own strengths and its own appeal. Of the two universities I know



best, UCL attracts the highest number of international students in the UK; Nottingham Trent was voted the best university for international student experience in the 2016 WhatUni? Student Choice awards. They have different missions as universities. Each has its own strengths and its own appeal but they both offer an amazing educational experience for their international students. To put it another way, it would be nonsensical to act to save jobs at Nissan while actively undermining Sunderland's other major employer—the university.

This House should send three clear messages to the Government, and I hope that the Minister will deal with each of them in her reply. First, any institution successfully reviewed by the Quality Assurance Agency should be deemed, on the basis of that sound evidence, to be an institution of high quality. The Government should not undermine faith in our rigorous quality assurance system by suggesting otherwise; or, if they doubt the efficacy of that system, by all means let them review it. Secondly, the new teaching excellence framework should not be used as a mechanism to determine immigration policy. That is not what it was designed to do. It would be a spectacular own goal to use it as a way of categorising our universities overseas. Thirdly, we should reiterate the view taken by this House time and again—it was mentioned again by the noble Lord, Lord Lucas—that if we want a Britain open to the world, the Government must now urgently reconsider their attitude to the inclusion of students in the net migration target.

It is in the interests of this country that we attract international students and staff from around the world. We benefit from the network of personal relationships formed while students are here. One in seven world leaders was educated here, and the Government's own research shows that people who have studied in the UK are 18% more likely to trade or invest with us. We benefit from the economic impact in towns and cities across the UK. In London alone, international students bring an estimated £3 billion to the economy. In the Nottingham area, NTU's international student fees contribute to 4,000 directly created jobs, plus a further 6,500, generated mostly in local businesses. Add the universities of Nottingham, Derby, Leicester, Loughborough and Lincoln and you have a formidable regional nexus. UK students benefit enormously from the richness of bringing together the brightest minds from around the world. The provost at UCL has commented that teams of people from different backgrounds are great for problem-solving because they will approach the problems differently.

All these points have been made time and again across both sides of the House yet we seem to be moving backwards, not forwards. But there is a new circumstance, which means that we should renew our effort. Following the vote to leave the European Union, the Government are rightly committed to forging stronger relationships around the world. Universities' global alumni reinforce the UK's world influence; surely this is important post-Brexit. Education is one of the UK's greatest exports. Our Prime Minister's recent visit to India demonstrates that our desire to trade will receive a frosty reception if we maintain our attitude on student visas. To paraphrase India's PM Modi, "You want our trade but not our children".

The noble Lord, Lord Bilimoria, was there and I am sure that he will tell us how the Prime Minister's view on this topic was received. If we want to become a stronger trading nation, we should invest strategically in the inbound and outbound mobility of students. If we want strong diplomatic ties, we should lead with our acknowledged advantage in education where, through co-operation with us, other countries can raise their own performance.

I hope that the Prime Minister's recent visit to India will have helped her to see this old issue in a new light and no longer with the isolationism of the Home Office. She must respond to the long-term needs of our economy and not the short-term pressures of politics if she is to steer a course successfully through what are now very turbulent waters.

3.47 pm

**Baroness Smith of Newnham (LD):** My Lords, I congratulate the noble Lord, Lord Lucas, on introducing this debate this afternoon but already we are beginning to get into a situation where it is almost *déjà vu* all over again. This time last week, we were in debate on the impact of Brexit on higher education research; two weeks ago, it was on the impact of Brexit on free trade. Many of the issues are very similar. At the end of last week's debate the noble Baroness, Lady Dean, said, "I have thrown away my notes because everything has already been said". I am only the third speaker this afternoon and many of the things that I was going to say have indeed already been said, so I will endeavour not to duplicate too much. There is clearly a huge convergence among Conservatives, Labour, Liberal Democrats and, I suspect, Cross-Benchers about the importance of higher education to the United Kingdom economy.

There is also convergence on questions about why the Home Office finds students and higher education so difficult. My suggestion in answer to the noble Lord, Lord Lucas, is that the Prime Minister is perhaps the answer herself. In the previous Government my understanding is that BIS, as it was then, was absolutely committed to the importance of higher education while the department was led by Vince Cable—a Liberal Democrat but with David Willetts, now the noble Lord, Lord Willetts, at his side. They understood it as a major export for the United Kingdom and the person who disagreed was one Theresa May, when she was Home Secretary. Can the Minister tell us whether the Prime Minister and the current Home Secretary now really understand the importance of higher education to UK plc?

Before I continue, I must declare my standard interest. I am employed by the University of Cambridge, where I teach in the Department of Politics and International Studies. We have an MPhil and I am responsible for a part-time degree in international relations; they both have many international students. I am a graduate tutor at my Cambridge college; again, it has many international students, all of whom come with their own experiences of the process of applying to Cambridge. It is one of the top universities in the world and we are, rightly, proud of it. I am sure that if the noble Lord, Lord Lucas, would like some additional responses

[BARONESS SMITH OF NEWNHAM]

from universities then the University of Cambridge would be only too happy to oblige with briefings and meetings.

However, even at a university such as Cambridge, which is understood by UKBA to have the appropriate criteria and highly trusted status for visas, the students who want to come there have huge difficulties getting through the visa process. The noble Lord, Lord Lucas, pointed out that things may have got better for the universities but for individual candidates that may not be the case. The cost of applying for a British visa is much higher when compared with a US visa. The bureaucracy in getting a British visa is much more complicated. If you were in a third country and thinking, “Shall I go to a world-leading university in the US or shall I go to the United Kingdom?”, the answer, if you were not passionate about coming to the UK, is often that it would be much easier to go to the United States. Is that really the message which the Government want to send out?

If the message of Brexit, and that of the Government saying “We will make a success of Brexit”, is about going global then surely higher education is among the most obvious places to go. Higher education is a major global export and there are huge opportunities for universities and colleges to export further and have more international students. But that will rely on the Government thinking again about how visas are dealt with in-country, and about whether students should really be part of immigration numbers.

One of the easiest ways to take down the immigration numbers would be to acknowledge that the vast majority of people who come as students to the United Kingdom are here temporarily. They are not coming to drain our resources but contributing to our economy. At the moment, according to the Russell group, £10 billion a year comes from international students—about the same amount of money that we currently pay into the European Union. We tend to think of that as quite a lot of money. The money from students could be increased but only if the UK looks as if it is open for business. Can the Minister tell us whether the Government will look again at the immigration statistics?

In the context of Brexit, EU nationals are treated at present in the same way as home students. I understand that the Minister will not give us a running commentary on negotiations but can she at least tell us whether the Government are willing to think liberally and openly about how we keep open the market for EU and EEA nationals who want to come to the United Kingdom? Our economy, our culture and our soft power all depend on it. As the noble Baroness, Lady Warwick, pointed out, many leaders have been educated here. Those links that go back to university or to Sandhurst are hugely important for international relations in generations now and to come. The UK can benefit hugely, but only if the Government send out the right signal.

3.54 pm

**Lord Trees (CB):** My Lords, I am grateful to the noble Lord, Lord Lucas, for securing this debate on such an important subject for our universities, higher

education institutions and research institutes. I want mainly to talk about the benefits to the UK of overseas students, but first I shall comment on the inclusion of students in the migration statistics, which has already been referred to. Of the total migration figures for the year ending March 2016, 26% were students. That is a fact of which I was unaware and, I suspect, most of the public are unaware. Yet surveys show that the public do not regard students as migrants. They do not compete for jobs or deprive our citizens of employment. Is it not time when publicising migration statistics at least to identify that proportion of the figure for net migration which comprises students, accurately to reflect the reality and to allay some concerns?

It is much more important to recognise the huge benefits these students confer on UK plc. Several references have already been made to them. Providing study opportunities for overseas students is surely one of the most cost-effective ways we can exert international influence, discharge our international development responsibilities, enrich our scientific and cultural diversity and quality, gain substantial short-term income and create longer-term and enduring economic benefit for the UK.

I shall consider three of these issues in a little more detail. First, international students directly contribute income to higher education and research institutes through their fees: more than £4 billion in 2015 alone. They also contribute to the wider economy through their off-campus spending. In 2012, that was estimated to be worth more than £7 billion spread throughout the UK. International students significantly strengthen our university departments and courses, especially in vital STEM subjects which might otherwise be economically unviable, and they underpin our centres of excellence in specific areas of international interest. As someone who has worked in two British centres of excellence—in international human health at the Liverpool School of Tropical Medicine and in international animal health at the Centre for Tropical Veterinary Medicine at the University of Edinburgh—I am acutely aware of this. Parallels exist in many other institutions in science, technology, sociology and the humanities.

The sustainability of these institutions not only serves an international good but is enlightened self-interest. We live in a shrinking world, and today’s problems overseas can become our problems tomorrow. In the field of human and animal disease, we have seen this in recent years with SARS, Zika, dengue and Ebola, and in a veterinary context we face the continuous threat of foot and mouth disease, blue-tongue and Schmallenberg, and lots of exotically named diseases such as lumpy skin disease are knocking at the door. To protect our nation’s health, human and animal, we need our national capability in these areas, and overseas students are vital in helping to ensure that.

Secondly, the education of international students aids economic development, helps reduce the burden of disease overseas and, by enhancing well-being and economic development, ultimately reduces some of the major reasons people need to migrate in the first place.

Thirdly, as has been said, by educating the brightest and best from overseas, those who will become leaders in their own countries, we establish a cadre of UK alumni who for their lifetime owe a debt of gratitude

and loyalty to the UK that will be repaid in countless ways and benefit us as an international trading and research-led economy.

We thus benefit from a triple whammy. Overseas students enrich our institutions, their own country's development and our long-term political, scientific and economic future. Furthermore, the public do not even consider these students as immigrants. It would be foolish for us to inhibit these colossal benefits, and we are already losing out to competitor countries which welcome overseas students and still foster this role, such as Canada and Australia and even the US. On the contrary, we should actively seek and encourage international students, especially from Africa, Asia and South America, where we wish to expand relationships and trade.

I would like the UK to use more of our admirable commitment to devoting 0.7% of gross national income to international development for this purpose. What steps are Her Majesty's Government taking to increase the number of overseas students by providing more scholarships for them to study at our world-class institutions?

4 pm

**The Lord Bishop of Winchester:** My Lords, I too thank the noble Lord, Lord Lucas, for securing the time to have this important debate. I begin by declaring several interests: as a governor of Winchester University and as visitor to the Oxford colleges of New College, Magdalene, Corpus Christi, Trinity and St John's.

Universities have always been centres of wisdom and learning: places filled with global-minded people, where political, cultural and geographical boundaries are transcended for the common good. The value of studying abroad is unquestionable. How would scholarship look today if St Augustine had been unable to complete his studies due to visa complications? Would we have heard of Thomas Aquinas if he had been turned back at the French border? Finally, would,

“the world is everything that is the case”,

still be the case if Ludwig Wittgenstein had been asked to produce a study permit on arriving in Britain? Perhaps it is natural that these figures come to mind to me, a bishop in the Church of England and a member of a global community of faith. The point I wish to emphasise especially is that in a modern world, where talk of globalisation and internationalism is constant, our universities should be at the centre of co-operation between nations, whether that be through scientific, artistic, intellectual or cultural endeavours, all of which help us to develop our understanding of the world around us and of our shared humanity.

There are more than 400,000 overseas students in the UK—almost one in five students. However, it is not simply a matter of numbers, it is also about the positive impact which international students have on the communities in which they study. I am sure many of your Lordships are aware that in a recent survey conducted by Universities UK, eight out of 10 respondents agreed that international students have a positive impact on local economies and towns in which they study. Of those asked, 75% said that they would like to see the same number, or more, of

international students in the UK. That figure jumped to 87% once information on the economic benefits of international students was provided. Although we acknowledge the economic and soft-power arguments, we believe that allowing institutions to speak the common language of learning is a higher priority in relation to university education. After all, the best universities are international communities of scholars. Given this tremendous contribution, I urge the Government to maintain the international quality that is still found in UK universities.

However, there are some early indicators of concern. For example, international student numbers are beginning to fall. The number of Indian first-year enrolments at UK universities fell by 10%—from 11,270 in 2014 to 10,125 a year later. We would hope to see EU students take up this additional capacity but, unfortunately, one of the Oxford colleges I visit has seen a 9% drop in EU student applications this year already. Another college said that it could not exist without them. A decline in the number of overseas students will not be in the interests of the British people, who mostly see them as a positive force, and will slowly undermine the quality of our university education.

Above all, let us see if we can ensure a new era of student mobility which cherishes the contribution made by our international students and helps keep our universities as true centres of wisdom and learning.

4.04 pm

**Lord Lexden (Con):** My Lords, it is a great pleasure to follow the right reverend Prelate the Bishop of Winchester, who mingled wit and wisdom in his wise comments to us.

The Motion that my noble friend Lord Lucas has enabled us to debate today, with our manifest gratitude, covers both universities and colleges. I shall comment from the perspective of colleges, and indeed schools, in the independent sector, where large numbers of overseas students have been educated with skill and success for many years.

I declare my interest as president of the Independent Schools Association, the ISA, one of a number of bodies that comprise the Independent Schools Council, of which I am a former general secretary. The ISA works on behalf of some 400 schools, generally small in size, committed to keeping their fees as low as possible and to increasing means-tested bursaries, and fully integrated with their local communities. They feature hardly at all in the interminable stock controversies about independent education, which revolve chiefly around a small number of so-called public schools.

I am also president of the Council for Independent Education, CIFE, which brings together a group of 20 leading private sixth-form colleges. They focus on A-levels, exam success and excellent pastoral care. At least 15,000 international students have passed successfully through CIFE colleges on their way to UK universities in the last 10 years. The colleges mingle great talents and different cultures, enriching our own country and other nations.

It will perhaps come as little surprise to your Lordships that in these schools and colleges there is unanimous opposition to the inclusion of overseas students in the



[LORD LEXDEN]  
official immigration figures. On this central issue, the voice of our universities has been heard loudly and clearly but the voice of independent schools and colleges is no less emphatic. The arguments are well-known in your Lordships' House—indeed, they are being restated in this debate—and I will not take up time by repeating them. Suffice it to say that the current arrangements impede recruitment and damage the reputation of our country as a place that is both open and welcoming to overseas students.

It ought surely to be a fundamental objective of any Government to assist the continuing success of our country's private education sector in recruiting overseas. Its schools and colleges are world leaders, earning significant foreign exchange and promoting British cultural and democratic values worldwide. But with the reverberations of Brexit stirring concern about our country's future across the globe, Britain's independent schools and colleges are increasingly conscious of the difficulties that they face because of our current stringent immigration study requirements. Our English-speaking competitors in the international market are not slow to seek progress at our expense, stressing their greater openness and easier entry requirements. This was brought home to a CIFE college principal on a recent visit to Nigeria: Canada, he was told, was now seen as more attractive than the UK.

Serious concern has arisen in particular because the processes through which overseas students have to pass have become increasingly onerous and, in their application, a source of increasing anxiety to schools and colleges because stiff penalties are now being imposed, often in a seemingly arbitrary fashion, for minor paperwork errors. Britain's schools and colleges today are subject to stringent regulatory oversight. There is no complaint to be made about that, but very minor infractions of regulations are now being reported by the inspectorate to UKVI, which in turn is liable to impose heavy sanctions on schools and colleges sponsoring students under the tier 4 route. Sanctions include the reduction of what are known as "confirmation of acceptance for studies" numbers to zero. That can threaten the very existence of schools and colleges with a significant proportion of overseas students.

A litany of complaints from schools and colleges about decisions by UKVI, many of them apparently arbitrary in character, has reached the ISA's chief executive, my colleague Mr Neil Roskilly. When information is sought from UKVI it is often slow in coming—a point made by my noble friend Lord Lucas. The introduction of yet more regulations, particularly those which require students to apply for visas more frequently, is compounding the problem. I will, if I may, let the Minister have a dossier of the difficulties experienced by independent schools and colleges to bring home to the Government the reality of what is happening.

At the heart of so many of the problems faced by independent colleges and schools lies the tier 4 entry route. It needs to be reviewed with the simple aim of ensuring that the requirements it imposes are not more onerous than those that exist in other countries

that are in competition with us. Having done that, the Government should monitor carefully the way they are applied to secure consistency, common sense and fairness.

4.10 pm

**Baroness Chakrabarti (Lab) (Maiden Speech):** My Lords, it is after two months of listening and attempting to learn that I utter my first words in your Lordships' House. In that time, I have been grateful for the warmth of the welcome that I have received from so many on all sides in here, not least from my sponsors, my noble friends Lady Kennedy of The Shaws and Lady Lawrence of Clarendon, and my mentor, my noble friend Lord Dubs—great internationalists all three. Having been a regular visitor, in my case first—dare I say it—as a Home Office lawyer, and then as a human rights campaigner over 20 years does not necessarily make for a less daunting migration, so I am especially grateful for the constant kindness and wisdom of all the staff who make this place work so well.

In recent tumultuous months, I have also found the civility of discourse in this Chamber to be in sharp contrast with what goes on outside it, whether in our country, continent or wider, troubled world. Would that more of your Lordships' reasoned debate on even the most difficult of questions might escape these walls and take root elsewhere; I have no doubt that all humanity would benefit in the turbulent times ahead.

I am grateful to the noble Lord, Lord Lucas, for the opportunity to make a maiden speech on immigration policy and higher education. I declare an interest as the chancellor of the University of Essex, the former chancellor of Oxford Brookes University and an honorary professor at the University of Manchester and the London School of Economics, among a number of other higher education connections and affiliations over the years. Like so many of your Lordships, I owe every life chance that brings me here to a wonderful British education—including, in my case, a legal education that was free up to degree level and even supported by a full maintenance grant.

For the daughter of migrants to this country—real ones, wonderful people—that education was key, as was the opportunity while at university to rub along with students and teachers from all over the world. Higher education has no borders and, as so many noble Lords put it so eloquently two weeks ago in the debate initiated by my noble friend Lord Soley, an academy that has borders imposed on it simply cannot thrive, let alone maintain its world-class status.

As just one example, the University of Essex is a destination of choice for students within the European Union and is consistently in the top five UK universities for recruitment of non-UK EU students. We are proud to be placed 21st in the world in the *Times Higher Education* world university rankings for international outlook. That is a measure of the proportion of international students and staff and the volume of scientific papers co-authored with academics from outside the UK. Of our entire student population, 14.4% are non-UK EU students, and to lose them completely would reduce our fee income by 13%, or £17.5 million a year. Reductions of this order, if

not matched by an additional intake of non-EU students, would cause major detriment to the university's sustainability and ongoing ability to contribute nearly £500 million a year to the local and regional economy.

Across the United Kingdom, universities support over 170,000 jobs in local communities and contribute more than £10.7 billion annually to the UK economy. But the effect on UK universities of blocking overseas students and academics cannot be measured in monetary value alone. To echo the noble Lord, Lord Trees, in this shrinking interconnected world both educational experience and research strength are increasingly measured by internationalism. So to diminish the diversity of UK campuses would be to encourage an exodus of student, research and teaching talent from our shores. Given the need for people to invest in their education and plan their working lives in cycles of several years, this danger arises even with perceptions that the UK might become a less welcoming academic environment as a result of Brexit or student immigration policy, or even political rhetoric alone.

International students are visitors, not migrants. They do not take places from young people in the UK, but rather enrich their learning and their lives. When they leave, they often—not always, of course—become instinctive ambassadors for Britain and the democratic values we seek to preserve and promote around the globe. Further, if some go on to live and work here in the future, that is also, I would argue, to the good of academy, economy and society alike.

Your Lordships need no reminding that this House can seem strange to those outside it—even in this country, let alone far beyond. Yet I have seen it bring enormous value and patient scrutiny to the legislative process, not least in defence of rights, freedoms and the rule of law. That role is, no doubt, an enormous primary responsibility, but in difficult times there may be others besides. One could surely be to unite in reminding those who campaigned for and against leaving the European Union that, for all its bitterness, none in that debate argued for disengagement with the world. Such disengagement is especially impossible in education. Britain cannot be open for business if it is not first open for learning.

4.17 pm

**Baroness Royall of Blaisdon (Lab):** My Lords, it is a real pleasure to follow my noble friend Lady Chakrabarti, and to be the first to congratulate her on her truly excellent speech. Of course I knew it would be excellent: she has extraordinary experience, expertise and energy, and I am delighted that she is sitting on the red Benches on this side of the Chamber. I have known Shami since the heady days of the Labour Government, and we had some rather interesting discussions about our policies at that time, when I was in the Cabinet—your Lordships will recall debates about the 42 days—but we never fell out over those things. She is a consummate professional—to such an extent that when she was director of Liberty no one really knew what her politics were, quite rightly. Indeed, a noble Lord said to me a couple of days ago that he had been convinced that she would be in the Lords some day soon, but that she would be on the Conservative Benches. Well, their loss is certainly our huge gain.

It could be said that my noble friend has had a baptism of fire, which I deeply regret, but as in so many of her past battles she has come through unscathed, and is relishing her new responsibilities as shadow Attorney-General. With her passion for human rights, justice, equality and social justice she is a tremendous addition to our Benches, and I know that she will make a great contribution to the work of your Lordships' House.

I too am grateful to the noble Lord, Lord Lucas, for securing this very important debate, and I start by declaring my interest as pro-vice-chancellor of the University of Bath, where we celebrate the contribution of our international and diverse body of students and academics. I am immensely proud of the research undertaken by taught and PhD students as well as postdocs, many of them from outside the UK, which is enabling our country and the world to meet the challenges of the 21st century.

At a time of global uncertainty, when our relationship with the EU is diminished and we are refocusing our relationship with the rest of the world, the soft power at which we have excelled for decades has assumed a greater importance. Encouraging and welcoming foreign students to the UK is one of the most effective ways of garnering and sustaining that soft power. As Prime Minister Modi said on our Prime Minister's recent visit to India,

“education is vital for our students and will define our engagement in a shared future”.

We can all cite individual examples of people studying in the UK who in their future lives and careers have prioritised a relationship with the UK but, as we have heard, the statistics are staggering. The international education sector is one of the biggest service exports, and one that has significant growth potential. It is also well placed to help our universities weather the implications of Brexit. So why have the Government developed policies to further restrict the number of international students based on what I would call a fictitious number of students who do not leave the UK at the end of their studies? The IPPR recently provided an excellent analysis of the situation, which was followed by further revelations in the press. I hope that today the Minister will use this debate to release the data seen by the *Times* that indicate that a very small number of international students overstay. So much for evidence-based policies.

The Government also seem to ignore the evidence from a poll carried out by Universities UK that the majority of people do not view international students as immigrants—clear evidence that a more restrictive policy is unlikely to assuage public concerns on migration. As with our main competitors in the international education sphere, Canada, Australia and the US, students should be classified as temporary rather than permanent migrants and should not be subject to a target. My noble friend called them “visitors”, and I think that that is quite right.

One of the key recommendations in the excellent IPPR report, *Destination Education: Reforming Migration Policy on International Students to Grow the UK's Vital Education Exports*, was that, like Australia, the UK should set out a 10-year plan for expanding its education sector as part of its industrial strategy and that, as

[BARONESS ROYALL OF BLAISDON]

part of that plan, the Government should reintroduce the post-study work visa for STEM and nursing graduates. That makes complete common sense, and I would be grateful for the Minister's view, especially in light of the expected announcement by the Chancellor in the Autumn Statement that there will be a significant investment in infrastructure spending which will create a vast number of engineering jobs, at a time when we already have far too few engineers to meet demand. There is also a looming crisis with regard to nurses. Dame Julie Moore, chief executive of University Hospitals Birmingham NHS Foundation Trust and Heart of England NHS Foundation Trust has recently said that some of her staff from the EU and Ireland want to go home because of the uncertainties of Brexit and the racist abuse. I can say that it is the same for hospitals in Gloucestershire.

The number of international students coming to the UK has fallen over the last six years, while global demand has grown 60% since 2007 according to the OECD. Our competitors are having a field day—and why would they not? The Prime Minister says, and no doubt the Minister will repeat, that Britain is attracting the brightest and the best, but is that really true and will it continue, especially with Brexit and the uncertainties that surround every aspect of economic life? It is absolutely clear that the Government's new policy on international students, announced by the Home Secretary and driven in large part by their objective of reducing net migration to tens of thousands, will cause further unnecessary harm to individual universities, FE colleges and our education sector as a whole. It will also harm the economic and cultural vibrancy of the university towns and cities. It simply does not make economic sense to provide additional barriers to attracting international students, and we should not forget the societal and cultural loss that we would suffer. In the globalised world of the 21st century, we must equip our students to be citizens of the world, which means studying alongside international students. With the future of EU student recruitment at UK universities uncertain, and with UCAS figures showing a 9% decrease in applications so far this year, how will the Government communicate that all students from outside the UK are still welcome here?

It is clear that the policies of fear rather than pragmatism are driving immigration policy, which is having many perverse and adverse effects, especially on our higher and further education sector. We have outstanding universities and colleges which make a vital economic and social contribution to our country and enhance our reputation in the world—a reputation that has been severely dented by Brexit. We say that we are proud to be an outward-looking, open and welcoming country, but the policies pursued in relation to overseas students and immigration tell a different story. It does not have to be like this and I have no doubt that the message from your Lordships' House today will be loud and clear—asking the Government to think again. I hope that they do so and that they not only rethink their new proposals but take the bold decision to remove from the immigration target the international students who are welcomed by the vast majority of our fellow citizens.

4.25 pm

**Lord Shipley (LD):** My Lords, I first congratulate the noble Baroness, Lady Chakrabarti, on her very thoughtful contribution in her maiden speech. I thank the noble Lord, Lord Lucas, for giving us the opportunity to ask the Government to explain their policy which, as he said, is a complete mess and is losing the UK market share, when overseas students should be central to government thinking.

I agree entirely with the noble Lord and others that counting overseas students as part of net migration figures is a mistake. But there is an underlying conflict in government policy. There was a commitment in the November 2015 spending review to expand international student numbers, and a target of reaching a £30 billion education export figure for non-EU students by 2020. A crucial sentence from the spending review states:

“The number of students from outside the EU at English universities is expected to rise by 55,000, worth more than £1 billion, by 2020”.

There is no sign of this being achieved. It would require around 20% growth when, currently, numbers are broadly static. But the Government also have a target to reduce net migration to the tens of thousands from the current 300,000 and, as we know, they are counting students as part of the total number. They should cease to count them. Can the Minister explain how the commitment to increase the number of overseas students will be delivered given, first, the current malfunctioning of the visa regime and, secondly, the continued obsession with counting overseas students as part of net migration figures when they should not be?

Our country has justifiably earned a reputation as a destination of choice for international students. We have been the second most attractive destination after the USA, with 10.3% of all international students worldwide. We risk losing that reputation through illogical constraints on the issuing of visas. Already, since 2010, some 875 bogus colleges have had their licences to bring international students to the UK revoked. That must be a huge help in achieving the Government's objectives and should not be used to restrict responsible universities from maximising their recruitment overseas when it is in our national interest that they do so.

This debate, as we have heard, relates to our standing in the world. Our approach is not understood and it is damaging our reputation. It is also damaging the future potential growth of our economy because, in addition to our international graduates acting as ambassadors for the UK and the universities from which they graduate, those who stay create businesses or may work in shortage areas. We need them to succeed if our economy is to thrive post-Brexit. We also need to recognise that the viability of courses for UK students may be in question if overseas student fees are not underpinning them financially. Overseas students sustain many strategically important courses: for example, 28% of engineering and technology undergraduates and 18% of mathematics undergraduates are international students.

Then there is the impact of lower numbers on local economies. In the north-east of England, at the universities of Durham, Newcastle, Northumbria and Sunderland



combined, there are more than 12,000 non-EU students from more than 100 countries, all of whom make a valuable contribution to university and city life. According to the 2014 UUK report on the economic impact of universities, the north-east's international revenue amounted to £244 million in 2011-12. This, together with the estimated £213 million off-campus expenditure of international students, represented a total in export earnings of £457 million at that time. It is estimated that this figure today amounts to some £600 million—and, of course, those international students sustain several thousand jobs across the region. There is also the critical issue of the impact of lower numbers on university income. Tuition fee income from non-EU students makes up 13% of all income for higher education institutions and 29% of all tuition fee income, even though overseas students represent only 14% of all students.

The noble Lord, Lord Lucas, twice posed the question: what is the problem to which government policy is the answer? These are critical issues. I very much hope that the Minister will be able to give us a clear answer to that question.

4.31 pm

**Lord Bilimoria (CB):** My Lords, I came to the UK as a student from India as a 19 year-old in the early 1980s. Our universities here are the best in the world, along with those of the United States. The university that has won more Nobel Prizes than any other is the University of Cambridge, with nearly 100. I am the third generation of my family to be educated here and now our elder son is at a British university—Cambridge—so that is the fourth generation. I am proud to be chancellor of the University of Birmingham and chair of the advisory board of the Cambridge Judge Business School. I am also president of the UK Council for International Student Affairs, UKCISA, representing the 450,000 international students in this country, along with 160,000 from the EU.

I thank the noble Lord, Lord Lucas, for initiating this debate at this crucial time. Our higher education is, of course, vital to our economy. It is one of our biggest exports. International students contribute directly and indirectly £14 billion to our economy and support 137,000 full-time equivalent jobs. As the noble Baroness, Lady Chakrabarti, said in her excellent maiden speech, they also enrich the experience of our domestic students. Our international students go on to become world leaders. At any time there are 30 world leaders from British universities, including former US presidents. Dr Manmohan Singh, a former Prime Minister of India, went to both Oxford and Cambridge.

What is more, a study carried out in the United States found that of all patents registered at the country's top 10 patent-generating universities, 76% had a foreign-born inventor. Google, after all, was created by an immigrant. Silicon Valley is littered with foreign student success stories. What chance do we have of emulating that here? Higher education has always been a thoroughly international affair. As we have heard, research has never recognised international boundaries and diversity is recognised for contributing to new ideas and a divergent way of thinking. Thirty per cent of academics

at our top universities, including Oxford, Cambridge and Birmingham, are foreign. Professor Alice Gast of Imperial College said:

“Foreigners improve the creativity and productivity of home-grown talent, too”.

The number of university students looking to study abroad is growing vastly. It is expected to grow from 4.1 million to 8 million by 2025. The UK has the second-highest number of them after the United States: 10% as against 19%. But the Government's attitude to international students has seen our rivals steal a march on us. As the noble Baroness, Lady Warwick, said, I was in India when Prime Minister Theresa May was there. She did not mention higher education once in her speech. As the noble Baroness, Lady Royall, said, Prime Minister Narendra Modi, on the other hand, spoke of the importance of education to Indian students. By the way, our Prime Minister did not once meet the 35 university leaders who were on the delegation to India. On the other hand, our Universities Minister Jo Johnson is a true champion of our British universities.

Australia, Canada and the United States all have strategies to increase the number of international students. Canada aims to double their number by 2020, while Australia wants to increase international students to 720,000 by 2025. In fact, the former Australian Education Minister Christopher Pyne went so far as to thank Britain for its immigration policies because they are driving so many students to Australia's universities.

That applies not only to English-speaking universities. Indian students are now going to Holland, Sweden, Germany and France. France has a target of doubling the number of Indian students by 2020. The UK Government say that they want to increase the number of international students but there is no specific target. The Prime Minister, when she was Home Secretary, said that she wanted international students to leave the day they graduated. The headline in Indian newspapers was:

“Come to the UK: Graduate, and then get the hell out!”.

The Government have spoken of increasing education exports from £18 billion to £30 billion but there is no specific target and no plan to change the visa rules. The post-study work visa route, which I personally championed in this House in 2007 when the noble Lord, Lord Adonis, was Education Minister, was implemented and the numbers went up significantly. It was taken away in 2012 and we have seen the effect on the number of foreign students. At the moment you can stay on and work but, with so much bureaucracy, it is very difficult to get a job after graduating. Can the Minister tell us how many foreign students are now staying on under the postgraduate work visa scheme that currently exists?

On the other hand, in the United States students can stay on for 12 months without a job offer; Canada allows them to remain in the country for the same duration as the length of their study; and Australia allows graduates to remain in the country for between two and four years. In surveys, the British public overwhelmingly say that they do not mind at all if foreign students stay on and work. There is no downside to it. It helps them to pay for their education; it gives them work experience; they contribute taxes; and they build generation-long bridges with this country. With this

[LORD BILIMORIA]

in mind, it is no wonder that the number of non-EU students has dropped by 2% and that the number from India has halved in the last four years, while in America it has increased by 9%—and the fastest-growing group of foreign students in America is the group from India, whose number is up by almost 25%.

As we have heard, the Government refuse to remove international students from the net migration figures. Can the Minister assure us that the Government will look into this? It would send a signal that they do not treat international students as immigrants. We desperately need the 160,000 EU students to come and study here in the UK. Can the Government tell us the plans for these students if we leave the European Union?

I think that the Government are being led by a mistaken belief that the British people want to reduce all immigration. There is good immigration and bad immigration, and international students should be encouraged. Almost 80% of the British population want international students to stay on and work in the UK after they finish their studies. The rhetoric surrounding Brexit is just awful. On the other hand, I hear from my colleagues at American universities that Indian graduates go on to earn salaries of \$80,000 in Texas and \$100,000 in California. Here, it is claimed that 90,000 students overstay. This is based on International Passenger Survey data and it is bogus. We should have visible exit checks at our borders. Can the Minister tell us when we are going to introduce them? The noble Baroness, Lady Royall, mentioned an unpublished report referred to in the *Times* which shows that only 1.5% of international students stay on.

In conclusion, India was the jewel in the crown of the British Empire. Today, British universities are the jewel in the crown of this country. The Government need to change their attitude towards international students, because the impact of Brexit and the uncertainty it has caused are damaging the higher education sector, and the Government's attitude is harmful and undermining. I think that the attitude to immigration is economically illiterate and that the Government's attitude to international students is economically super-illiterate. If the Government change their attitude, we will remain an educational superpower for the foreseeable future, with international students being our strongest element of soft power in the world.

4.38 pm

**The Duke of Wellington (Con):** My Lords, I thank my noble friend Lord Lucas for initiating this debate on such an important subject. The only problem with the debate is that we all agree with each other, and I certainly agree with most of what has been said.

I congratulate the noble Baroness, Lady Chakrabarti, on her excellent and inspiring maiden speech. She comes to the House with a huge reputation as an advocate of civil liberties in this country and abroad. This House is surely enormously strengthened by having as a Member somebody with her experience and knowledge. She is very welcome here.

I declare an interest as a former chairman of King's College London. Having served there for nine years, I know well the importance of foreign students at so

many of the leading universities in this country, perhaps particularly in London. The problem, of course, is that students are included in the immigration statistics. Those who voted for Brexit and those who are concerned about immigration do not, on the whole, consider students to be immigrants, and even if they do, they are not particularly concerned about student immigrants. Like other noble Lords, I urge the Minister, whom I much admire, to try to persuade the Home Secretary to take students out of the immigration figures.

If the Government really do want to get immigration down to below 100,000, that will be completely impossible if students continue to be counted. I have heard the Government's response that it is not possible to take students out of the immigration figures because all countries are required to use the United Nations definition of an immigrant: a person who comes to a country with the intention of staying for more than 12 months. However, the United States of America apparently has found a way round this. It produces two sets of figures: one based on the United Nations definition and one prepared by the Department of Homeland Security, which makes the distinction between permanent and temporary immigrants. Would it not be sensible for this country to try to do something similar?

As has been mentioned, only a year ago it was government policy to try to increase international student numbers by 20% over the next few years. The numbers are now starting to fall and this is mainly because of visa and immigration problems. My main concern is that there have been a number of intimations from government that overseas students are not welcome in the United Kingdom. Far from discouraging students, we should be encouraging overseas students. Various figures have been suggested, but non-EU students pay in excess of £4 billion a year to British universities. Universities are an important service industry to this country.

Britain has 32 universities in the top 200 in the world. This compares with 62 in the United States, a country with five times the population of our own, 22 in Germany and only four in France. The fact is that in this country we do universities very well, and we should be very proud of that. We should recognise the contribution that UK universities make to the country and to the economy, both financially and academically. Tens of thousands of students from India and China want to come here but we are losing market share because it is more difficult to get a visa to come here than, for instance, to the United States.

We all know that in the past, student visas were granted for study at educational establishments that were not approved colleges or universities. Clearly, there must be a rigorous standard set for students to come here, and only students coming to study at recognised institutions should be given a visa. But we are competing with other countries to attract the best students and it should be no more difficult to come here than it is to go to the United States, Canada or Australia, to take three examples.

In conclusion, it is clear that noble Lords in all parts of this House are asking the Home Secretary and her Ministers to re-evaluate the immigration policy as it pertains to students. The students do not have to come here, and the best will go elsewhere if we do not

make it easier for them. We should recognise that it is in the interests of this country for them to study here. Most who do will go home with a higher opinion of this country and it is in our national interest to get this right.

4.44 pm

**Lord Lipsey (Lab):** My Lords, I chair Trinity Laban Conservatoire of Music and Dance, which is one of the four great conservatoires in London. Perhaps the proudest moment in my time as chair was in June when Radio 3 broadcast live three of our finest pianists from St John's Smith Square—three of a very fine crop. Noble Lords should note the names because they will hear them again: Giulio Potenza, Gen Li and Jenna Sung. They should also note that those are not English names. Indeed, they are not English: Giulio is from Italy. Gen is from China and Jenna from South Korea.

Of our students, 111 are international, which is 10% of our student body. Each brings us £15,000 to £20,000 a year, and it is not possible financially simply to replace them with British students because an extra British student would yield only £9,000 to us under the current fee regulations. But they bring something more important than money. They bring talent, which raises standards all round. They bring cultural diversity: music is an international language, but it has many accents. They bring determination: it is not nothing to move halfway around the world in the pursuit of your chosen vocation. They also bring reach to Britain abroad, which may last for many years. Why is the House debating this issue this afternoon? Why is it not a no-brainer? Let us face it and be honest: we are debating it because the Government seem half inclined to chop this flourishing tree off at its roots.

I will concentrate on students from outside Europe if only because I spoke on Brexit and students last week. Three out of every four students come from outside the European Union. The threat to them is real, too. The Government have them in their sights. The Prime Minister has long opposed taking them out of the immigration numbers, as we have heard in this debate, although only a quarter of the public think that they should be regarded as immigrants. Amber Rudd, the Home Secretary, singled them out for some remarks in her conference speech although to be fair she has also said a few positive things about international students.

It is not only about what the Government think or even what they say: it is a question of what the world and its most talented individuals hear. The world sees a country that has voted for Brexit, where there have been troubling instances of immigrants being hassled in the streets and now sees a country that is adding a thickening bureaucracy, which makes applying for student visas more problematical and which is toying with adding new barriers. Is this really, as they say, to improve quality or is it just a cheap and easy way to cut the number of immigrants?

There is another obstacle. What happens to students when they finish their courses? Many of the students at Trinity Laban would like to continue their music and dance careers in Britain. Already they face an obstacle in that their earnings are not high, but to stay

in a job here beyond a year, a student has to show that he or she will earn £20,800 a year or more, which is not easy for a young jobbing musician. The Government seem to be contemplating making things even harder in terms of getting a job. Ministers have gone around brandishing ludicrous overestimates of overstaying—the *Times* leak put the true figure at less than 1%. I cannot help noticing that I get pleas from time to time from young ensembles that find their lead violinist or cellist is being denied a visa and so their career and planned engagements are being cut short.

To sum up, if we put off overseas students, my establishment, Trinity Laban, will suffer. If we lost all our international students our revenues would fall by more than £2 million, which is probably by around 10%, and that would be very bad. South-east London, where we are situated, would suffer. Our international students alone bring some £5 million to the local economy, which is not a strong one in a very diverse area, and of course Britain will suffer. In financial terms, according to the Commons Home Affairs Select Committee, international students contribute some £7 billion to Britain's economy and they are the second largest net contributor to Britain's balance of payments. But it is not the financial benefits, important though they are, that make me so nervous about this threat to the future. It is the threat that cultural chauvinism will replace international diversity. Globalisation no doubt has its pros and cons, but one incontestable pro is the vitality it brings to intellectual and cultural endeavour. We put that at risk at our peril.

4.50 pm

**Lord Green of Deddington (CB):** My Lords, I thank the noble Lord, Lord Lucas, for initiating this debate, but I think my contribution to it may be slightly different from that of some of the previous speakers. I am sure that the noble Duke, the Duke of Wellington, will be glad of that. I should first of course declare an interest as chairman of Migration Watch, unpaid of course, and I think I should say from the outset that while I am strongly opposed to mass immigration I am firmly in favour of a moderate level of immigration, and that surely is a natural part of an open society and an open economy. So I readily join with noble Lords, all of them in fact, who have spoken of the value of foreign students to our economy and our universities, and as "ambassadors" for the UK on their return. I have met them myself all over the world. Indeed, there is very little in what noble Lords have actually said in the debate with which I would disagree.

But most of the arguments that have been made fall to the ground if the students concerned do not return home, and that is where the issue lies. The noble Lord, Lord Lucas, asked what the problem is with that, so perhaps I can help. The problem is the elephant in the room. The elephant is that the system—and we must recognise it—for the admission of students to the UK is in recovery mode. Some noble Lords will remember that following the introduction of the points-based system by the previous Government in, I think, 2008, student visas shot up from 230,000 a year to 300,000 in one year. Indeed, in late 2009 consulates in the Indian subcontinent and China had to be closed to



[LORD GREEN OF DEDDINGTON]

student applications for several months. A review conducted by the National Audit Office in 2012 found that, in 2009 alone, between 40,000 and 50,000 students had entered the UK for work rather than study, as it put it rather delicately. In other words, there was massive abuse that in the longer term could only be damaging to our reputation as a source of education. Fortunately the Government have clamped down on it; I recognise that. To a certain extent this is ancient history, but it illustrates the pressures that can so quickly develop in the system. As one noble Lord mentioned, 850 bogus colleges have been closed down. But that is the background which cannot be ignored, and it seems to be the reason that underlies the Government's policy, which we definitely support.

Despite that chequered but important history, the present regime for foreign students is actually a generous one. There is no limit on the number of genuine students—I stress the word “genuine”. There is no cap on those who wish to switch to work provided that it is graduate work and that they earn £21,000 a year. So I have to say that I am rather surprised by the continuing barrage of negative publicity about the offer that the UK gives to foreign students. It is not coming from the Government and it is certainly not coming from Migration Watch. It appears to be coming from the sector itself, but that is surely damaging to its own interests. As the noble Baroness, Lady Chakrabarti, mentioned, perceptions are very important. If all people hear is constant complaints from every academic in human history, they will think that something is seriously wrong. Would it not be much better for the sector to emphasise the positives of our offer and, where there are problems, to sort them out privately and quietly with the Government, as the noble Lord, Lord Lucas, suggested?

Underlying this is a disconcertingly wide gap between the inflow and outflow of students as measured by the International Passenger Survey—if that is correct. The average inflow for the past four years has been 127,000 and the average outflow 47,000, so there are 80,000 students a year over those four years for whom there is no evidence of departure—there is no doubt about that much. That is a huge number; it is about a third of all non-EU migration. It is quite possible that the exit checks that have just been installed show that that has been an undercount, but we will see. Rumours of 1% are extremely unlikely—that would mean that the IPS was missing 75,000 students a year, which is hardly possible. The prudent course has to be to await clarification before revising policy in either direction.

At least 10 noble Lords have called for the student numbers to be taken out of the immigration statistics. That is the worst possible route to take. As everyone knows, an international migrant is defined on a basis agreed with the United Nations. That is why all our competitors—yes, all our competitors—include them in their migration statistics. Indeed, it is the key to understanding demographic change and we must not fiddle about with it for other purposes. In any case, it would not work. The press would immediately add in the figures for students and the Government would be perceived as fiddling the figures on a matter of real importance to the public. They are right to rule it firmly out.

There have been a number of calls to widen the scope of post-study work but it is interesting to note that, when it was made a requirement that such work should be at graduate level, the number of foreign students taken in by employers fell from 55,000 in the one year to 6,000 in the next. It seems that industry was not desperate for their services.

I conclude as I began: I favour foreign students, provided that they are genuine. We must make sure that they are. In practice, that will turn on developing the exit checks which are now at a very early stage.

4.58 pm

**Lord Judd (Lab):** My Lords, I declare an interest as a governor of LSE for 30 years and now an emeritus governor, and as a life member of court at Lancaster University and Newcastle University. I want not for the first time to put on the record my appreciation for the noble Lord, Lord Lucas, who introduced this debate. He has a long-standing and highly respected record of deep and informed interest in educational matters.

For me, it is a very special occasion to be able to speak in the same debate as that in which the noble Baroness, Lady Chakrabarti, has made her maiden speech. I have been a long-time admirer not just of what she stands for but of her effectiveness in achieving results.

We are at a very interesting moment in our history, because the Higher Education and Research Bill is coming up. I cannot separate consideration of this issue from what we will be considering over the coming months. The question I am sure I will pose again in the context of that debate is, what is a university? We all talk about the operation and organisation of universities, and now we are talking about the relationship of immigration to universities, but what is a university? For me, if a university is not about originality, imagination, vision and scholarship, it is not a university. It is very important for our country to have good vocational training centres, I am sure of that, but that does not make them universities.

My next point is that the inescapable first reality of life is that we are locked into an international community. Unfortunately, not enough of our fellow citizens understand this, but there is simply no way we can have a future as a nation without recognising that international interdependence and making it central to our whole purpose of governance and what we are trying to achieve. If we do not, we are betraying future generations. It is as simple as that, because there is no future for Britain unless we understand that and respond appropriately.

I believe, therefore, that the essence of a university is that it must, by definition, be a representation of the world, particularly when we like to parade such slogans as, “We are a world-class university”. How on earth can a university be world class unless it is a representation of the world? By definition, the quality of our education depends upon the international reality in the university community itself. The research depends upon it, the teaching depends upon it, the student experience depends upon it and the development of student potential depends upon it. It has to be not only intellectually

understood but sensed at every level that we are indispensably part of an international community, and we are developing and approaching our learning in that context.

I have rather more hope on that score—and I really have applauded the vision that has been expressed in this debate—than the previous speaker apparently has, but I shall finish on a rather different point. I was very struck by a rather urgent message from the British Medical Association, which I am sure I am not alone in having received. I therefore quote unapologetically from it:

“Medicine thrives on the interchange of experience, knowledge and training across countries and backgrounds. We believe that further restrictions on international medical students coming to the UK through changes in immigration policy will inevitably lead to a consequent decrease in opportunities for UK medical students to study overseas and so limiting opportunities to collaborate and share experience, knowledge and training. We believe this will be detrimental for medicine, patient care and medical research”.

Given that we spend so much time in this place discussing the health service, are we going to take that message seriously? The BMA continues:

“Furthermore, international students who choose to study at a UK medical school are committed to training and working in the NHS and are considered as part of the future NHS workforce by NHS employers. These individuals have been factored into long-term NHS workforce planning and the opportunity to continue postgraduate training in the NHS helps make UK medical schools an attractive option for prospective students”.

The BMA says there is already evidence that the number of people wanting to study medicine here is declining. It makes the point that others have made, which I underline: it is not just a matter of immigration policy; sadly, it is symptomatic of a much bigger issue, which the noble Lord, Lord Lipsey, emphasised. What does Britain look like to the world in 2016? What is the image of Britain? If we in this place do not take responsibility for that, I do not know what the hell we are here for.

5.05 pm

**Lord Rees of Ludlow (CB):** My Lords, I add my welcome and congratulations to the noble Baroness, Lady Chakrabarti. I declare an interest as a member of Cambridge University, where, in round numbers, 20% of undergraduates and 60% of graduate students are from abroad—from the EU and the rest of the world. The proportions in other universities are not very different. Overall, the UK is second only to the US in attracting foreign students. There is a general consensus in our universities that this is a plus. Rather parochially, for instance, foreign students help sustain specialised courses that would not be viable without them, and our standing in university league tables depends on our universities remaining a magnet for international talent. It is surely a real own goal to discourage the brightest from coming here by vexatious visa requirements and a declared reluctance to let even the brightest stay on afterwards.

Under the coalition Government, as we have heard, there were clearly tensions between BIS, where the key Ministers were mindful of these issues, and the Home Office, where the priority was to cut net immigration. The restrictions generated a damaging perception that the UK was no longer welcoming. It was especially

disquieting that the number of Indian students coming here halved in just four years. Students from the subcontinent no longer look towards the UK, as their parents' generation did. Not only in India but everywhere else, UK-educated students are a big potential component of our soft power. It is a huge benefit when people we deal with around the world are familiar with the UK and have a lifelong network of contacts with this country.

Incidentally, such contacts can be especially valuable when they straddle national barriers where there are tensions or hostilities. A high-level recent instance of this, far from these shores, was the recent nuclear deal with Iran. The Iranian Minister and the US Secretary of Energy had been PhD students together in the same department at MIT. They knew and respected each other. This building of confidence surely eased the path to a difficult agreement. Surely we should promote exchanges globally.

Of course, what is looming large at the moment is the risk that our large-scale exchanges with mainland Europe will be threatened by Brexit. That is depressing because the strengthening of these links, especially in science, has been one of the really positive developments stemming from the EU. Forty years ago, our main scientific exchanges were with the US. I met my European contemporaries because we all went to the US. Now Europe-wide academia is far stronger and more interactive. Fresh graduates migrate from the UK to France, Holland, Germany and Italy, and there is a reverse flow into this country.

In my university there is an especially strong cohort of EU undergraduates, many from Hungary, Poland, the Czech Republic and other nations with a strong academic tradition. If we did not accept them, they would go to top US universities. Surely we are right to welcome them in this country, not only for what they bring to us but because they help to develop a pan-European community and culture. Indeed, it is well known that the younger generation are more pro-EU than their elders. These students see themselves as Europeans with a shared culture. They hope that our continent can be a progressive political force in a turbulent and multipolar world, where the challenges—be they in energy or climate—cannot be tackled at national level.

Finally, I will highlight two reasons why, even with a supportive visa regime, our universities will face growing challenges. First, the status of English as a world language has long been a benefit to us but this uncovenanted advantage is being eroded by the initiation of courses taught in English in the countries of mainland Europe. These compete with us and if we are perceived as unwelcoming we will lose out to them.

A second important trend is the advent of massive online open courses, known as MOOCs. These have perhaps been somewhat overhyped. The internet can supplement but not replace the undergraduate experience. However, they have a chance of succeeding as stand-alone courses in providing vocational master's-level courses, taken by highly motivated mature students. Residential courses in, for instance, law and business studies are current money-spinners for universities, so it concerns their budgeteers that the growing availability of MOOCs will reduce the willingness of students to pay for

[LORD REES OF LUDLOW]

expensive traditional courses. The corollary of this is that universities in this country should not leave MOOCs to the Americans; they should work hard to liaise with the Open University, which has a world lead, to develop these MOOCs so that we can play a part in this growing new market for distance learning.

Even if the winds were otherwise in our favour, there would be problems in sustaining current student levels. The self-imposed handicaps of the Home Office, which aggravate the task of attracting the best students, are therefore especially to be deplored. That is why we should resonate with the concerns expressed by so many speakers today, and thank the noble Lord, Lord Lucas, for initiating this debate.

5.12 pm

**Lord McConnell of Glenscorrodale (Lab):** I, too, thank the noble Lord, Lord Lucas, for initiating this really important debate. I want to record a number of relevant interests in my commitment to universities, to teaching and to the importance of education.

If we were to recruit a group of cultural philistines and educational vandals, and send them away for a weekend to devise a policy that could do the most damage to this country in the shortest time, they would be hard pressed to come up with a better outcome than the policies and practices of the Government that we are debating today. They are incredible at this important time of global relationships and international economic competition, when for example in China there are now more graduates every year than in the whole of the European Union and Russia combined.

On a recent visit to Nigeria, I met a young businesswoman being supported by DfID. She was setting up her own business in northern Nigeria in the heart of Boko Haram territory and employing local people who are trying to create a decent economy in a large Commonwealth country. Her higher education was in India and China, not in the United Kingdom. This is the kind of world we live in today, yet we have devised a policy that discriminates against talented people and then deters them from coming to this country and making a connection with it. It damages our reputation and our economy—and it damages the pursuit of human knowledge in a way that we should be ashamed of.

I will reference specifically the Scottish dimension because, as I mentioned in your Lordships' Chamber back in July, we established the Fresh Talent programme in Scotland with the enthusiastic support of the then Home Secretary, my noble friend Lord Blunkett. This was back in 2002 and it was brought in in 2004. It extended the post-study work visa to Scottish universities and then to Scottish colleges for up to two years as a precursor to what happened in the rest of the United Kingdom. There was no abuse of that system. It helped us turn round Scotland's historic population decline and made it absolutely clear that Scotland was open for business, knowledge and talented people. It was an outstanding success, so much so that it was copied elsewhere in the UK—yet there are no Scottish universities or colleges involved in the pilot project on tier 4 visas that was established by the Government in July.

I asked the Government a number of questions after my initial Oral Question in your Lordships' House. I am astonished to discover that the four universities—all from the south of England and from the higher-ranked universities of the United Kingdom—were consulted in advance, but no other universities or colleges were consulted in advance about the pilot project. The data on which the universities are supposed to have been chosen are secret and we cannot scrutinise them because of "commercial confidentiality". Yet at least one Scottish university—the University of Edinburgh—has a minuscule number of visa refusals on first application, which is meant to be the criterion chosen for this. Colleagues in universities and colleges across the country will not believe that these four universities were chosen objectively unless the Government publish those data and review the universities that were chosen for the pilot. It is simply wrong that the north of England, Scotland, Wales and Northern Ireland were missed out of that pilot project, and that should be reviewed, even at this late stage.

The other issue I want to mention today is our international soft power. We have debated in this Chamber on many occasions the importance of Britain's soft power in the world: our role in the Commonwealth, the United Nations Security Council, the European Union and other international bodies and the connections that we have internationally, economically, educationally and culturally. Surely it has to be part of that soft power that we make these connections with people who come to study in this country—and not just those who go on to be world leaders, whom other noble Lords have mentioned, and I understand their point. In the now well over 30 years since I left university, I have met people who I studied with in business, academia and politics on almost every continent of the globe. They are working hard and making a success of themselves but they will retain a connection with the United Kingdom all their lives because of where they started their undergraduate or postgraduate education. It seems to me fundamentally at odds with our objectives as a peace-loving, internationalised nation that in future we would deter these individuals coming to this country and being part of that wide international network.

The fantastic American writer Maya Angelou, who sadly is no longer with us, once wrote:

"Perhaps travel cannot prevent bigotry, but by demonstrating that all peoples cry, laugh, eat, worry, and die, it can introduce the idea that if we try and understand each other, we may even become friends".

Surely in this day and age, at this time, when there is so much global uncertainty, insecurity and fear of the other, bringing people together, educating them together and sharing knowledge, research and teaching has to be one of our international goals. I urge the Government to treat this matter more seriously and to rethink their policies.

5.18 pm

**Baroness Garden of Frogna (LD):** My Lords, I add my thanks to the noble Lord, Lord Lucas, for securing this debate and achieving a greater level of consensus among the speakers than is often the case in this House. Before gathering together some thoughts and issues which will almost certainly repeat the contributions of others, I, too, welcome the noble Baroness, Lady



Chakrabarti, and congratulate her on her maiden speech. We were expecting an insightful and powerful speech, and that was what we got. We were not disappointed, and we look forward very much to her future contributions to our debates.

As we have heard, our world-renowned universities and colleges are facing considerable challenges from Brexit, with all the uncertainties over EU funding, research and collaboration. If it was important before the referendum for the UK to be open and welcoming, it is even more critical now that we should be taking every possible measure to ensure that we can still attract international students. Yet, as we have heard from all sides, the Government insist on counting them as immigrants, while at the same time declaring that immigration must be reduced to meet a target that has little regard to the needs of the country.

Reference has been made to the recent polling carried out by Universities UK which found that the majority of people do not see international students as immigrants. They appreciate that students are here only temporarily and bring enormous benefits both economically and in terms of international relations. They add to the UK's influence and soft power, which was mentioned by the noble Baroness, Lady Royall, by the noble Lord, Lord McConnell, and by other noble Lords. It is worth noting that 55 current heads of state—representing more than 25% of all the world's countries—benefited from an education in the UK. I like the idea suggested by the noble Lord, Lord Lucas, of a UK education database. Perhaps we might include those mentioned by right reverend Prelate—St Augustine could be in there. We could spread the field wider to see just how influential the UK may have been in days gone by.

Why can we not follow the example of more welcoming countries by designating students as temporary migrants or visitors, thus removing them from the stigma of being part of immigration totals? We have heard this from all sides, including from the noble Baroness, Lady Warwick, the noble Lord, Lord Trees, my noble friend Lord Shipley and the noble Duke, the Duke of Wellington—many noble Lords concentrated on this. Even the noble Lord, Lord Green, spoke some welcoming words about international students—although he also voiced some contrary views. The noble Lord, Lord Lexden, brought in the impact on independent schools, which should form part of the whole picture.

As the noble Lord, Lord Lucas, asked: what is the problem? The noble Lord, Lord McConnell, talked of the vandalism of the policy. There appears to be a fear somewhere that vast hordes of students will stay on illegally after their studies and cause havoc and unrest in society. But the recent unpublished report that has already been mentioned showed that only around 1,500 students do not leave each year, with no evidence of massive harm from those who do not leave.

It is never a bad thing to make policy decisions on the basis of evidence. So will the Government take steps to improve the reliability of exit checks, which could help to prove the case either way? It is not right that, currently, EU students considering study in the UK from 2018-19 have no certainty regarding their tuition fee status and access to student finance. Can the Government give any indication on when clarification

on this point will be forthcoming? This certainly contributes to the decreasing attraction for EU students to study here—yet their presence, as we have heard, has great cultural value for UK students, who learn more about the world and establish friendships and networks which help secure good relations, which are in too short supply in our fractious world.

If the position is difficult within universities—which have been the main focus of most contributions—there are additional issues for colleges, which attract a wide range of students studying different courses from a range of backgrounds. Existing Home Office regulations do not always align and serve them well. I am glad that colleges were included in this debate, even though universities have been the main focus. Do the Government take account of the important role that colleges play in educating international students? Currently, around 50,000 international and EU students are studying in further education colleges—a small percentage, but they provide an important financial, educational and cultural contribution. Colleges offer a valued progression route, with work-based qualifications which contribute to UK exports and help the sector widen the horizons of its students.

Following changes to the system in July 2015, college students are currently prevented from extending their leave in the UK for any reason. This makes it impossible for the thousands of students studying sub-degree programmes to progress on to higher education, thus making our provision less attractive to ambitious international students.

We heard from many noble Lords, my noble friend Lady Smith among them, about the complexity of the visa system. The choice of the UK as a destination of study for university students has been further undermined by changes to the post-study work route. Tier 4 visas provided opportunities for graduates to work in the UK for two years after they had completed their courses, but that is now reduced to four months. The reduction in post-study work opportunities has had a particularly disastrous impact on some markets, such as India.

The operation of the tier 4 regulations, changes to tier 2, suggestions that there will be even more onerous regulation and government rhetoric about international students have been noticed and reported on around the world. Alarming—but perhaps unsurprisingly—the number of Indian students studying at UK universities has fallen by 53% since 2010-11. I note that the noble Lord, Lord Bilimoria, was with the Prime Minister on her recent visit to India. Would that she had listened to him and taken the opportunity to reassure such an important country that its students would be welcome here by announcing changes that would have cost her nothing but provided a significant boost to our universities and colleges.

I feel that I ought to throw a few figures in the debate, as others have. Independent research has estimated that in 2011-12 non-EU students made a £7.3 billion contribution to UK GDP, rising to £9.1 billion when EU students are included, and supported 137,000 jobs across the UK, 170,000 when EU students are included. But the number of international students has been stagnant in recent years while competitor countries

[BARONESS GARDEN OF FROGNAL]

take advantage and see significant increases. That direct contribution of international students makes up an average of 20% of all universities' revenue across England, and as such it is a crucial element of a university's business operations. Having these sources of funding enables it to invest better in all its students and engage in research and innovation projects with its local community or with businesses.

As we have heard from the noble Lords, Lord Rees and Lord Trees, international students also enable programmes to be viable that would otherwise be lost through a shortage of UK students with appropriate skill or motivation. This is true in many of the STEM areas and in postgraduate studies. Universities fear losing essential revenue, but so too do they fear losing opportunities for learning and scholarship in areas where international students are key to numbers and continuity.

There are considerable off-campus benefits to the community, too, including the benefits to UK students of becoming familiar with different countries and cultures, as we heard from the noble Baroness, Lady Warwick, and the noble Lord, Lord Trees. The noble Lord, Lord Lipsey, spoke of his musicians and the fact that they bring talent to our country. The noble Lord, Lord Judd, spoke of the importance of medical schools and the international aspect to their studies. So how will the Government try to ensure global opportunities for UK students in future in order to guarantee that UK graduates have the international skills necessary to compete, which they can more readily acquire while working alongside overseas students, and in order to avoid the cultural chauvinism mentioned by the noble Lord, Lord Lipsey?

The Minister has heard overwhelming, if not absolutely unanimous, support in this House for a change of policy towards overseas students. I urge her to use her good offices with the Prime Minister and the Home Secretary to persuade them to take one very simple step: to remove students from the immigration figures. It would be a small step but one that would have major repercussions among those students we want and need to attract to our universities from countries where we need to do far more to show that the UK is still an open, welcoming and influential player on the world stage. I look forward to the Minister's reply.

5.28 pm

**Lord Kennedy of Southwark (Lab):** My Lords, I congratulate the noble Lord, Lord Lucas, on securing this debate. I particularly congratulate my noble friend Lady Chakrabarti on a truly excellent maiden speech. I hope we hear from her many more times in this House. She has a wealth of experience and knowledge to bring to a wide range of debates, as we have heard today. We will all benefit from hearing more from her.

This Motion is most timely and enables us to further understand the position of the Government; it gives noble Lords an opportunity to offer some advice to the Government on the application of immigration policy and how that applies to overseas students. My first point, which has already been referred to by the noble Lord, Lord Trees, and others, is that polling has

consistently shown that the British public see international students not as long-term migrants but as valuable temporary visitors. International students arrive in the UK and complete their studies, and then the majority go home afterwards.

A ComRes poll referred to by other noble Lords revealed that only a quarter of British adults think that international students are immigrants. The same poll found that 75% of British adults would like to see the same number of, or more, international students coming to the UK to study. Without question, we have some of the finest universities in the world. Our institutions have educated some of the finest minds on the planet, and that has been of great credit and prestige to our universities, but also to the United Kingdom as a whole. Prime ministers, presidents and world leaders in almost every field of literature, science, engineering, business, finance, medicine and every other discipline have studied as international students here in the UK. What a great benefit that has been to our country and what a source of pride, as the noble Lord, Lord Bilimoria, said.

The international student market is worth billions of pounds to the UK economy. International students pay their course fees and accommodation, they spend money on and off the campus, supporting the local economy, they make little demand on public services and they are now required to pay the NHS surcharge. In many ways, it is a win-win for the UK for the universities, the local economy and the students themselves.

The Government have ambitious targets to grow the number of overseas students, and I welcome that. It is very much to the benefit of the UK that we increase the number of international students coming here and that the UK is viewed as a welcoming place to live, study, learn and develop. They bring benefits to our students, as my noble friend Lady Royall of Blaisdon said.

The other benefits to the UK of growing numbers of international students include the soft power benefits, to which many noble Lords referred. When students return home, they have a positive attitude to the UK, an appreciation of our values, trust and respect for what this country stands for in the world as they become leaders in future in their chosen profession, as the noble Lord, Lord Trees, and my noble friend Lord McConnell said.

The problem we have is conflicting government policy that sends out a confused, mixed message. I very much agreed with the noble Lord, Lord Lucas, when he spoke about the Home Office not being clear what it wants or what is its position. It must have in its sights the importance of international students to the UK economy. On the one hand, the Government say that they want to increase the number of international students and that they are very welcome here; on the other, their actions give a very different impression to prospective students, with tighter controls and the UK appearing unwelcoming and unfriendly to international students.

The insistence on keeping student numbers as part of the policy target on immigration has been discussed many times in your Lordships' House and elsewhere, but the Government are just not listening. I am not

asking them to change how net migration figures are reported—it is an internationally recognised definition—but have they considered doing what is done in the United States of America, to which the noble Duke, the Duke of Wellington referred? A set of statistics using the same UN definition is produced but the Department of Homeland Security also produces a second set which makes a distinction between permanent migrants and those classed as non-migrant admissions. The effect of clashing UK government policy outcomes is that our competitors, who are also seeking to grow their share of the international student marketplace—places such as the United States, Canada, Australia and New Zealand—are all making inroads into the number of students we could reasonably expect to come to the United Kingdom. While our figures are stalling, there is real growth in the number of international students studying in other countries.

I want to address some of the points made by noble Lords during the debate. I very much agreed with the remarks of the noble Lord, Lord Lucas, when he spoke about the excellent universities and colleges throughout the UK and said that it was wrong to cast aspersions about the quality of courses or institutions. My noble friend Lady Warwick of Undercliffe made excellent points about the soft power benefits that accrue to the UK from a flourishing international student programme. I know the east midlands very well—I worked there for many years—and I wholeheartedly endorse her comments about the university nexus in Nottingham, Derby, Loughborough and Leicester.

The noble Baroness, Lady Smith of Newnham, commented how difficult it is for international students to get a visa to undertake a course at Cambridge University, one of the finest institutions in the whole world. That can only be damaging to the UK and its economy. I very much agree about the positive impact that international students have on communities, referred to by the right reverend Prelate the Bishop of Winchester. My noble friend Lady Chakrabarti made similar points about the contribution of international students to the local economy, supporting local jobs, and the risk of exodus posed to the teaching and research professions by the challenges of Brexit and the UK being perceived as a less welcoming place.

My noble friend Lord Lipsey made a key point when he said that the problem was what the world sees when looking at the UK. Now we have voted for Brexit, the Government making things difficult for international students is not the best way for a trading nation to engage with the world, and can only damage us further.

I did not generally agree with the contribution by the noble Lord, Lord Green of Deddington, although he did highlight some important issues, on which the Government clearly put great emphasis in developing their current policies, which are doing us such damage.

The concerns expressed by my noble friend Lord Judd on the effect that the Government's policy is having on the number of people who want to come here and study medicine, and the effect that is having on medical advances, the NHS and the healthcare and well-being of our nation, should also be of concern to the whole House.

As I bring my remarks to a close, I have a number of questions for the Minister. I hope that she will be able to answer them today, but if she cannot I shall, of course, be happy if she writes to me afterwards. First, what are the Government doing to boost the appeal of the United Kingdom as the first choice destination for international students? Will the noble Baroness agree to speak to the Prime Minister and the Home Secretary to make the case for reviewing the procedures applied by the UK authorities to make the entry system both robust and fair, but not to have a system that is seen as unwelcoming to international students? That can only be damaging to our country.

What does the noble Baroness think is the reason for the drop in the number of Indian students coming to study here and the considerable increase in Indian students going to study in the United States? Does she agree with me that a perception, real or not, that the UK is not welcoming to international students is hugely damaging to the UK economy? Can she tell the House why the Government cannot see the damage they are doing to the economy, and to our reputation abroad, with their attitude to international students?

In conclusion, I again thank the noble Lord, Lord Lucas, for bringing this Motion to your Lordships' House for debate, and again congratulate my noble friend Lady Chakrabarti on her excellent maiden speech. I look forward to the Minister's response to the debate. My final point is that I hope that she will report this debate back to the Prime Minister and the Home Secretary. Noble Lords have highlighted the perilous situation we find ourselves in in this country following Brexit, and also the problem of how we are viewed in the world, and the damaging effect that is having on the country.

5.37 pm

**The Minister of State, Home Office (Baroness Williams of Trafford) (Con):** My Lords, I begin by thanking my noble friend Lord Lucas for initiating this incredibly popular debate, which attracted almost 20 speakers, and also welcome to her place the noble Baroness, Lady Chakrabarti, and congratulate her on her maiden speech. Like me, she is an immigrant, and also like me, she sounded quite emotional speaking in this House for the first time. I have to say that I felt exactly the same. I look forward to hearing from her, as the years go on, in this House.

It should come as no surprise to anybody that on the subject of higher education, noble Lords bring unparalleled experience. I felt quite humble listening to some of the background stories and hearing about some of the universities with which noble Lords are associated. I have to say—although noble Lords may not agree with me—that I do not think there is any real difference of opinion between any of us on this topic. We all share the desire to ensure that the United Kingdom continues to attract the best and brightest international students to study here. High-quality international students enrich the intellectual life of the institutions where they are studying. As the noble Baroness, Lady Warwick, says, they increase the soft power of the UK as a country, and they enhance the experience of the domestic students here. I hope that,



[BARONESS WILLIAMS OF TRAFFORD]

as the noble Lord, Lord Kennedy, says, they return to their home countries with fond memories of their time in the United Kingdom.

We already have an excellent offer for international students, which is why the UK remains the second most popular place in the world to study, behind only the United States. There is no limit on the number of genuine international students who can come here to study. That is a very important point. We do not propose to cap or limit the number of overseas students who can come to study in the UK.

Our approach is based on two key principles, which I hope will be shared by all noble Lords. First, we want to ensure that UK education institutions can attract the best and brightest. Secondly, we need to be vigilant and guard against abuse of the student migration route. I do not want to bring politics into what has been a bipartisan debate, with very good contributions from all around the House, but I have to say that the student immigration system the Government inherited in 2010 was a mess. Abuse was rife, and steps needed to be taken to restore it to a sensible state. Some 920 institutions have had their right to sponsor overseas students removed, and the effects are clear to see. The proportion of overseas students now attending higher education institutions has risen by 16%—from 143,000 in 2010 to 166,000 in 2015.

I would not want your Lordships to interpret this as an attempt to restrict those who are genuine in their desire to study. Visa applications from university students are now 14% higher than they were in 2010. Visa applications to Russell group universities, of which much mention has been made today, are 39% higher than in 2010. The grant rate for tier 4 general visa applications has increased every year since 2010, and 94% of such applications were granted in 2015.

Of course, applications from some nationalities are down, as the noble Lord, Lord Bilimoria, pointed out. I shall address that later. Equally, applications from other nationalities are up, particularly from Chinese students. There are natural fluctuations, but the fact that overall applications to universities have increased in the last five years is encouraging and suggests that any particular falls should not be attributed to Home Office immigration policies.

This Government are determined to help our best institutions attract the best international talent from around the world. Let me give noble Lords a recent example. We recently launched the tier 4 visa pilot. Four institutions, the Universities of Bath, Cambridge, Oxford and Imperial College, chosen because of their consistently low visa refusal rates, are piloting a scheme whereby certain visa eligibility checks have been delegated to the universities and the documentary requirements for students taking part are reduced. The students also have additional leave at the end of their course to enable them to take advantage of the UK's post-study work offer. Monitoring of the pilot is ongoing and the results will be evaluated to inform any decision to roll out the pilot more widely. However, if it is a success—I hope that this addresses the point raised by the noble Lord, Lord McConnell—I hope that other high-quality institutions in the UK will be able to benefit. The noble

Lord asked about publishing specific data on the pilot. We have not done so, as it is commercially sensitive information.

As the Home Secretary recently announced, we will be seeking views on study immigration routes. I encourage all interested parties—which will, I am sure, include many of your Lordships and the institutions with which noble Lords are associated—to participate and ensure that every point of view is heard.

I shall deal with some specific points raised during the debate, and I hope I can get through every one of them—but poor noble Lord, Lord Kennedy, is always last on the list because he winds up for the Opposition, and I may well have to write to him. However, I shall address the first answer to him, because I have just had inspiration from the Box. He asked why we cannot have two sets of immigration figures, like the USA. Another noble Lord asked the same question. Net migration statistics are not produced by the Home Office but by the ONS, the UK's independent statistical authority. I hope that answers the question.

Several noble Lords—the noble Baronesses, Lady Smith of Newnham and Lady Royall of Blaisdon, the noble Lord, Lord Trees, my noble friends Lord Lexden and the Duke of Wellington, and others I am sure—suggested that students should be removed from the net migration statistics. I make the point that the ONS has drawn up these statistics. The Government trying to influence the production of independent statistics might be seen to help the Government achieve a manifesto target.

Like Australia, Canada and New Zealand, the Office for National Statistics includes international students in net migration calculations. International students who stay for longer than 12 months have, like other migrants, an impact on the infrastructure and services that they use and the communities in which they live. Only yesterday, the ONS released a report which stated that the net migration figures are used to calculate the size of the UK population in any given year, and that they include international students since they contribute to population growth. I make one final point on that, because I think it is important. Changing the way that we measure migration would not make a difference to our student migration policy, because there continues to be no limit on the number of genuine international students who come here to study.

**Baroness Smith of Newnham:** My Lords—

**Baroness Williams of Trafford:** I am very reluctant to sit down because I have very little time.

**Baroness Smith of Newnham:** Can the noble Baroness explain how that fits with an immigration target of tens of thousands?

**Baroness Williams of Trafford:** I was just saying to the noble Baroness that, because we do not place a limit on the number of students, the fact that the ONS includes students in the migration statistics does not impact on students' abilities to come here. I do not know if I have made that very clear; the noble Baroness

does not look very convinced. If I could make progress and she could look at *Hansard*, perhaps I could make it clear in writing as well.

My noble friend Lord Lucas and the noble Lord, Lord Shipley, asked the initial question, “What is the problem?”. I do not think we are anything but in agreement that international students are absolutely vital to the UK, whether it is in medicine, engineering, or anything else. But we must remain vigilant, maintaining safeguards against the types of abuse that we saw previously. We will be inviting views on what more we can do to strengthen the system to support our excellent higher education institutions and those that stick to the rules to attract the best talent.

The noble Baroness, Lady Smith of Newnham, asked me to confirm that the Home Office will think liberally and openly about EU students. The Prime Minister has been very clear that she wants to protect the status of EU nationals already living in the UK. The only circumstances in which that would not be possible is if British citizens’ rights in other EU member states were not protected in return. There will be no immediate changes to the immigration status of EU students or the way that universities are able to recruit students.

My noble friend Lord Lexden asked about minor infractions being reported to UKVI, resulting in heavy sanctions being unfairly imposed. Sponsors benefit directly from migration and are expected to play a part in ensuring that the system is not abused. They must therefore fulfil certain duties to ensure that immigration control is maintained. We already apply discretion to sponsors who have fewer than 50 international students when they undergo their annual compliance assessment and we do not apply sanctions lightly.

The noble Baroness, Lady Royall of Blaisdon, asked whether we could introduce a post-study work route for STEM students and nurses. The post-study provisions we have in place must strike the balance between providing competitive options for the brightest graduates from around the globe and maintaining safeguards against the type of widespread abuse that was seen under former post-study work schemes. The noble Baroness also said that the *Times* report suggested that only 1 per cent of students overstay, and asked why we therefore needed to review the student visa system. We think that the reforms we have made in the last few years have worked and greatly improved compliance. However, that does not mean that we can be complacent. We will shortly be consulting on non-EU work and study immigration routes.

**Baroness Royall of Blaisdon:** All I asked for were the data. Can we see the facts with the data?

**Baroness Williams of Trafford:** My Lords, I can reply to the noble Baroness in writing. As the noble Lord, Lord Green, said, it is prudent to await clarification before policy decisions are made. However, I will get more detail to the noble Baroness on that if I can.

The right reverend Prelate the Bishop of Winchester and the noble Lord, Lord Bilimoria, talked about the recent visit to India, and the fact that the number of Indian students coming to the UK has dropped. We issue more tier 4 visas to students from India than any other country except China and the US, although I of

course accept the point made by the noble Lord. We have seen increases in the number of student visas granted elsewhere to China and Indonesia in the year ending March of this year. The proportion of Indian students coming to study in the UK has increased from 50% in 2010 to around 90% in 2015, so the trend of smaller volumes of students with greater concentration in higher education is likely to reflect the recent policy changes to clamp down on immigration abuse by non-genuine students and bogus colleges.

The noble Lord, Lord Lipsey, talked about tier 2 salary thresholds being too high. For the most part they are based on the annual survey of hours and earnings—ASHE—published by the independent ONS. The salary requirements were based on advice from the Migration Advisory Committee, which is an independent body made up of labour market economists.

The noble Lord, Lord McConnell, said that the Fresh Talent Scheme worked, and that therefore Scotland needs a post-study work visa. The Fresh Talent Scheme operated in Scotland between 2004 and 2008. That scheme placed few restrictions on those who wanted to stay in the UK to work post-study and granted free access to the whole of the UK labour market. Evidence published by Scottish Government Social Research in 2008 found that only 44% of applicants had remained in Scotland at the end of their two years’ leave and a significant proportion were not in skilled work. We do not intend to return to the post-study work visa. That does not necessarily lead to skilled work.

I keep getting notes saying that I have two minutes left, then notes saying that I have no minutes. However, I think that I have probably overstayed my welcome at the Dispatch Box. I thank all noble Lords who have participated in the debate. I thank the noble Baroness, Lady Chakrabarti, once again.

**Baroness Warwick of Undercliffe:** As the noble Baroness sits down, I simply ask her to also address in the written notes that she sends us the issues about differentiation of quality that I raised in my presentation.

**Baroness Williams of Trafford:** The noble Baroness absolutely did and I will respond to that. In fact, she made another point about the TEF, which I will address as well.

5.54 pm

**Lord Lucas:** My Lords, I am very grateful to all noble Lords who have spoken. I think that we have made a very good job of celebrating the excellence of our universities and the importance to us of international students. I even found that I agreed with much that the noble Lord, Lord Green, said. It was a pleasant debate all round.

I have listened to the noble Baroness, Lady Chakrabarti, over many years, so I had high expectations of her maiden speech and was in no way disappointed. I look forward to listening to her many times again.

I have also listened to Home Office Ministers’ speeches on many occasions, so I had low expectations. I was pretty certain that the Minister would be issued with a stick of candy-floss—sweet but very little

[LORD LUCAS]  
 substance—and so it turned out. It was comforting that she said such nice things about welcoming international students, but she absolutely did not say, “We, the Home Office, will be putting our backs into making sure we get lots more of them”. I am sad that she did not.

*Motion agreed.*

## Africa: European Union Economic Partnership Agreements

### *Question for Short Debate*

5.55 pm

*Asked by Lord Chidgey*

To ask Her Majesty’s Government what is their assessment of the impact of Economic Partnership Agreements negotiated between the European Commission and economic regions of Africa on the agricultural economies of the African countries concerned.

**Lord Chidgey (LD):** My Lords, the events leading to the development of the economic partnership agreements—the EPAs—go back to the 1960s, with the signing of a series of co-operation agreements to give ACP exports preferential access to European markets as part of a broader development strategy. These had to be replaced by a GATT-compatible trading system by the end of 2007, and the Cotonou agreement provided for the EU to open negotiations with six regional groups, four being in Africa, with the objective of agreeing a series of economic partnership agreements before the end of 2007. That may have been the grand plan but, while all the African regional agreements have been made and provisionally applied, as of October 2016 the ratification process for individual countries was still ongoing.

In 2014, the EU Directorate-General for External Policies reported that the EPAs, while supposedly intended to promote trade and development, regional integration, sustainable growth and poverty reduction, remained deeply controversial. He said:

“There are fears they may be actually undermining the sustainable and long-term development of ACP countries and their regional integration processes”.

This was underlined by Dr Carlos Lopes, UN Under-Secretary-General and executive secretary of the Economic Commission for Africa, at meetings in Addis Ababa and London, and by a recent fact-finding delegation to South Africa and Namibia by the Africa APPG, of which I am a co-chair.

The EPA negotiations continued to drag on and the EU allegedly began to bully African countries by deciding to remove unilateral trade preferences by 1 October 2014 for countries that had not signed or ratified the EPAs. This created tremendous pressure and tension in various countries and regions. Meetings at a Finance Ministers’ conference in Addis Ababa, with Ministers from Namibia, Tanzania and Uganda, confirmed that African countries were—and some still are—caught in a dilemma of losing preferential market

access for the few products they export to the EU if they did not sign the EPAs versus losing long-term development prospects. Many countries were threatened with significant tariff revenue losses, serious disruption of existing or planned customs unions, disruption of regional trade and regional production capacities, and unemployment.

The directorate-general’s study concluded that major changes would be needed before the EPAs could be a development model suitable for Africa. The EPAs called for sweeping liberation of African markets, and that was seen as reminiscent of the discredited World Bank and IMF neoliberal structural adjustment programmes that were so destructive in the 1980s.

Under the EPAs, to maintain duty-free access to Europe, African countries had to remove tariffs from at least 80% of imports from the EU—in some cases removing trade barriers from as much as 96% of imports. This left local producers and manufacturers with no buffer against cheaper and often subsidised European economies during their industrialisation process.

Despite misgivings from African policymakers, the EU Trade Commissioner resolved to force through as many EPAs as possible before the Africa-EU summit in April 2014. A sustainability impact assessment, however, begun in late 2002 by PricewaterhouseCoopers and completed in 2006, produced a series of conclusions and recommendations to help ensure that EPAs promoted development and supported economic, social and environmental sustainability. In particular, it was recommended that all ACP countries should retain duty-free and quota-free access to the EU market and that access to the EU should be improved for the few products not yet fully liberalised.

In 2015, Sir Ronald Sanders, the ambassador of Antigua and Barbuda to the USA, and formerly to the EU, presented a paper to an EU ECOWAS conference in Abuja assessing EPAs in the context of the African Union. He emphasised that an EPA is not an agreement between the 28 nations of the EU collectively and Africa as a whole but a legally binding bilateral contract between the 28 nations of the EU collectively and each country in Africa individually. In the event of a dispute arising from the terms of the EPA, individual African countries, most with very scarce resources, would have to contest against the combined capability of the 28 nation states of the EU collectively. The inequality that arises in any dispute is stark, and any mechanism for dispute resolution would have little value.

That brings me to the key question: do EPAs allow Africa to conduct policies for its own development or for the development of Europe? African countries should be able to ensure that the EU provides sufficient aid and trade development assistance to implement these agreements with robust monitoring procedures for their delivery and effectiveness.

It is not surprising that the European Commission has recognised that the moves to set up the series of regional EPAs have faltered. A senior European ambassador to the EU reported as recently as last month that the EPA negotiations started late and were prolonged, controversial and marked by ill feeling.



Bitter accusations were made by some ACP negotiators and European development organisations about the objectives and negotiating style of the EU.

They alleged that the EU used the negotiations to pursue its commercial advantages, which in some cases conflicted with the development strategies of the ACP countries. They alleged that the EU put ACP countries under heavy pressure to accept negotiations on a much wider agenda, such as trade in services, public procurement and competition policy—the so-called Singapore issues. They alleged that the EU's approach did not take sufficiently into consideration the regional integration objective, and in some cases even threatened it. EU negotiators were accused of using divide-and-rule tactics and being more concerned with big company interests than with the needs of their EPA partners. Their style was overaggressive, putting ACP countries under heavy pressure to sign up to EPAs before the 2007 deadline, preventing consultation with their parliaments and stakeholders because of the time constraints.

At present, there is little, if any, consideration of civil society and the role of parliaments in the EU-SADC EPA. That is incomprehensible given the increased political importance of the trade agreements in Europe. That brings me to my final point: Brexit and its implications for the ACP EPAs. The UK is currently a major contributor to the EC trade and development fund. If the UK leaves the EU, the market access provision will no longer apply to the UK. In the absence of any specific action to establish alternative trade regimes, the UK could have no alternative but to impose the most favoured nation—or MFN—duties on imports from ACP countries. This will have the greatest impact on agro-food products, since this is the sphere in which the UK's inherited EU MFN duties are likely to be highest.

The prospect of establishing new trade agreements with the UK is, of course, hampered by the fact that the UK cannot enter into any new trade deal agreements until it leaves the EU. The ACP countries therefore face the prospect of being at the back of a long queue of countries trying to conclude alternative trade agreements with the UK, while facing crippling most favoured nation duties on exports to the UK, on a daily basis.

Perhaps the challenge is for the UK initially to prioritise its future conduct of bilateral negotiations. Will the Minister agree that that could allow the internalisation of ACP concerns within these policy discussions? Will the Minister also agree that every opportunity must be taken to allow current market access arrangements to continue from day one of the UK's departure from the EU? Does the Minister accept that part of the plan should be to engage through an alliance of the Commonwealth ACP countries, since within the UK body politic, the ACP as a group tends to be seen as an EU construct? This would suggest that there will be a crucial role for Commonwealth ACP high commissioners to the Court of St James. For example, exploiting opportunities presented in a range of UK parliamentary hearings and inquiries in hand into the impact of Brexit on the UK's external relations could prove highly effective.

6.05 pm

**Lord Boateng (Lab):** My Lords, I begin by thanking the noble Lord, Lord Chidgey, for his continued championing of the cause of Africa in this House. I declare my interest as chairman of the African Enterprise Challenge Fund. I have an immediate and continuing interest because in many ways I owe my education to African agriculture. As a boy in the Gold Coast and then in Ghana I was the recipient of a cocoa marketing board scholarship. I was christened in a rural village in eastern Ghana. My paternal grandparents were farmers of cassava and cocoa. I saw at first hand the significance and the importance of agriculture in Africa. It accounts for 32% of Africa's GDP. It is Africa's most inclusive employment sector, employing some 65% of its labour force, 60% of whom are women. My grandmother was a cassava farmer and they are to be found all over Africa—women toiling in the fields but not always the beneficiaries of the product they produce. But that is a familiar story the world over.

Despite the fact that Africa has agriculture so very much at the heart of its economic, social and cultural life, the reality is, I fear, that farmers' yields are among the lowest in the world. Per capita, Africa's agricultural output is only 56% of the world average. When we look at the continuing reliance of Africa on imported food, the story is even worse—1.7 times the value of exports and rising, to feed the appetite now of a growing middle class. Africa is now importing so much more than it exports and paying so much more for that—upwards of \$40 billion every year. That is the cost of failing agriculture in Africa.

The issue raised by the noble Lord, Lord Chidgey, about the impact of the EPAs is essential, because they provide the policy context within which African Governments relate to the agricultural community. Smallholder farmers in particular need a policy environment that encourages them to modernise and scale up production, encourages improvements in access to higher-yield seeds and quality fertilisers, thus enabling agribusiness to thrive. It needs to address issues around research and development, infrastructure and transport logistics. All these things are necessary if African agriculture is to be a driver of development on the continent.

EPAs therefore have to be judged, I would submit, in the context of the extent to which they help or hinder this process—and I fear that the jury is out on that point. There is little evidence to suggest that the forced liberalisation of markets in Africa actually works or that it enables support to be provided for indigenous African agribusiness, processing and manufacture. On the contrary, EPAs could well hinder them, and there are many examples where they have. So countries in Africa have understandably been cautious in their approach to EPAs. Some, like Tanzania and Uganda, have used Brexit as an opportunity to stall the process altogether, for they see little that benefits them and much that may well do harm. In west Africa, Nigeria has stood out specifically against EPAs because it fears the impact on its nascent manufacturing industry. Again, Nigeria has good cause to do so because when we look at the progress of the tiger economies of

[LORD BOATENG]

south-east Asia, we see that they have benefited from a process that would actually have been hindered by EPAs.

I would argue that Brexit provides an opportunity for us to take stock and to build a trading relationship with Africa that puts development at the heart of that relationship. It should draw on the best of existing and global practice and build into our new trading agreements the sort of arrangements that will enable Africa to develop its own processing sector, that will enable links to be developed between smallholder farmers and both regional and global value chains, and that will recognise that a degree of protectionism for local industry is probably necessary in order to promote the development of agribusiness on the continent. That in turn will provide opportunities for British companies. They will have an opportunity to assist in the development of capacity in Africa, to improve R&D and yield, and to provide the machinery and know-how that will enable Africa to grow its agribusiness and enhance its own value chains.

Ethiopia provides a classic example of how that can work in practice. The Ethiopians have resisted the imposition of external agendas and external solutions to their challenges. They have targeted science and innovation alongside support for rural farmers through nurseries, as well as the development of co-operatives. They have supported agri-industrial parks for the production of leather goods and other products related to agriculture and they have brought enhanced and added value to their own specialist coffee brands. All of this has been done in a way that has assisted smallholder farmers.

It has also been done in a way that has provided real opportunities for British business. Diageo is a classic example of that. It has developed its processes in both Ethiopia and in South Africa in a way that links smallholder producers of sorghum and other contributors to beverages directly to its factories. That has enhanced and added value and has enabled smallholder farmers to become stakeholders, and it has added shareholder value to those who invest in Diageo by increasing foreign direct investment in Africa. That is the way forward for Africa and for the UK.

In conclusion, I make a simple request—well, it is not simple, because it is quite a complicated process. I hope that the Minister will respond in a way that gives us heart, as I am sure he will, because DfID and the Secretary of State, to their credit, have been in the forefront of bringing some reassurance to Africa in this area. I ask that Britain continues to provide EBA—everything but arms—and GSP trade benefits for Africa; that we seek to conclude duty-free and quota-free market access arrangements at least with non-LDCs and in particular those that have long-standing trading links with our country; and, most importantly, that we maintain MFN WTO tariffs on sensitive products of particular importance to African countries and exclude such products from preferential trading arrangements with other regions that are low-cost competitors—for instance, in South and central America. The classic example here is Brazil and sugar. It is likely that the Brazilians will be up there on the list for early trade negotiations. If they are given preference at the

cost of sugar producers in Malawi and in Swaziland, the consequences for smallholder farmers will be disastrous.

So there are challenges ahead, but there are opportunities. One should have no doubt about that when one looks at DfID's increasingly high-profile investment in agriculture, when one looks at the interests of the Secretary of State in promoting a private sector role in development, and when one looks also at this House, where friends of the African smallholder farmer are to be found on all Benches—I do not think that there is a legislative body in the world that contains more friends of the small African farmer than this one. I hope that the small African farmer, who is at the heart of development and of Africa's search for dignity and success, will continue to find friends and solace in this place.

6.17 pm

**The Lord Bishop of Winchester:** My Lords, I too thank the noble Lord, Lord Chidgey, for securing this debate. With Malawi on the brink of a major humanitarian crisis, there is no better time to highlight the challenges facing Africa today. I declare an interest as the chair of a small charity supporting education and development in Africa.

The welfare of the east African nations is of particular importance to me. I was born in Tanzania and spent some of my teenage years in Kenya. In the 1990s, I was the principal of a small college in Nairobi—indeed, we still keep a home situated on an old coffee farm near Thika. Through this previous experience and from regular visits, I have observed the finely balanced life which Kenyan agricultural workers live. Smallholdings are a significant element in the agricultural sector of Kenya. Many city dwellers also have a smallholding upcountry. A severe drought might mean the end of their children's education. It may also result in families being unable to afford even the most basic medicines or in workers having to resort to desperate means of generating income to support their families.

The economic partnership agreements that we discuss today may have as much of an impact on the livelihoods of east African smallholders as a bumper harvest or a deadly drought. We have heard from the noble Lord, Lord Chidgey, a sample of the difficulties caused by EPAs. I want to highlight two issues which could specifically affect the smallholder in Africa.

First, while the tailor-made free trade agreements between the EU and African countries seem on paper to indicate a real determination to encourage development in Africa, they could actually manifest in a very different way when countries such as France, with a vast agricultural surplus, are able to export enormous amounts of produce into African economies. This could be an effective death sentence for African smallholder co-operatives: local farmers' markets supplied by smallholders cannot respond to bulk imports. How could a farmer, even one in a co-operative with a combined holding of some hundreds or thousands of acres, compete with shipping container after shipping container full of mass-produced, genetically-modified produce arriving from Europe? We have all enjoyed Kenyan beans and flowers, but these are the products

of large-scale farming enterprises; reversing the process will hit the smallholder and further weaken existing co-operative farming arrangements.

The second problem I wish to highlight is one of government spending. Due to the difficulties of income taxation in several African countries where a large proportion of the population does not pay tax, one of the main ways that a Government fund public services, infrastructure and defence is through tariff revenues. The problem becomes all too obvious. To abolish tariffs in a country such as Kenya, with all its well-developed horticultural trade, through revised arrangements under the economic partnership agreements, would effectively slash substantial amounts of potential government revenue, meaning less money for hospitals, schools and roads. These are the very services smallholders require in order to make a contribution to the development of African countries.

Imagine these two effects combined; the result could be devastating to developing economies. Large numbers of smallholders would come under new pressures as they fail to compete with European markets; meanwhile the Government begin austerity measures in response to a fall-off in revenue. This is different from a trade dispute between two highly developed economic trading blocs. It is not TTIP, or Schengen arrangements within the well-developed EU market. Large multinationals will not suffer the consequences of a poorly negotiated trade deal. Neither will European citizens. It will be poor African farmers who will bear the brunt of the EPAs if the right course of action is not taken.

Much of what Paul Collier spoke of in his book *The Bottom Billion* has been acknowledged. New international trade arrangements are needed, accompanied by good governance and international law. Yet 5 billion or even 6 billion of us are still on track to improve our prosperity while the final billion have been left behind. There are many things which need improving if trade, rather than aid, is to be the basis for the relationships between developed and developing countries, but the last thing we want is to encourage instability and insecurity in economies where good governance is truly needed.

In the Church, partnership means working together as one towards the common good. From what I understand of EPAs, they are not quite the kind of partnerships that are envisaged. I will be reassured if we keep in mind the reality of life for the bottom billion and seek to establish partnerships that will lift people out of poverty on the basis of fairer trade agreements.

6.23 pm

**Baroness Sheehan (LD):** My Lords, I thank my noble friend Lord Chidgey for securing this important debate. On the face of it, economic partnership agreements between the EU and economic regions of Africa should be a welcome development for Africa, purporting, as they do, to promote trade and investment between African, Caribbean and Pacific partners and the EU, with the laudable aim of contributing to sustainable development and poverty reduction. Furthermore, we are told that EPAs are tailor-made to suit specific regional circumstances; that they will open up EU

markets fully and immediately, but allow African, Caribbean and Pacific countries long transition periods of up to 25 years to liberalise up to 80% of their markets to EU imports, while still providing protection for sensitive sectors.

EPAs are also touted as drivers of change that will help kick-start reform and contribute to good economic governance, helping ACP partners attract investment and boost their economic growth. One would think that, with such benefits, ACP countries would be champing at the bit to sign on the dotted line. However, the October 2014 deadline left many countries in a dilemma, causing tensions in various states. Some of their concerns have already been addressed very ably by my noble friend Lord Chidgey. Some felt that if they did not sign, they would lose their preferential market access for the few products that they did export to the EU. However, others felt that their longer-term prospects would be jeopardised if they signed the EPA. For them, the threats included significant tariff revenue losses, loss of policy space, threats to local industries, increased unemployment, serious disruption of existing or planned customs unions, and the displacement of existing regional trade and production capacities.

I thank the House of Lords Library staff for producing an excellent briefing for this debate. I found their inclusion of the *Round Table* article by Sir Ronald Sanders, *The EU, Economic Partnership Agreements and Africa*, very useful in giving me a perspective of EPAs from a recipient's viewpoint. I will read part of the abstract because it is succinct and to the point. It says:

"Africa has been divided into four groups of states by the European Union in the negotiation of Economic Partnership Agreements (EPAs) that will define the relationship between Africa and Europe in the future. The EPAs are unfair. They demand reciprocity between the EU countries collectively and each African country individually".

That last sentence makes a nonsense of the concept of reciprocity. Reciprocity can exist fairly only when practised between partners of equal stature. I borrow again from Sir Ronald's article when he tells us that Aristotle, in his monumental work *Nicomachean Ethics*,

"propounded the doctrine that: as between unequals, equity requires not reciprocity but proportionality".

It is patently clear that unless trade agreements between rich and poor countries recognise the fundamental principle of proportionality, they can never be deemed fair. The right reverend Prelate also made this point.

I returned from a visit to Sierra Leone this Monday, so naturally I was interested in the trade figures between the EU and the Economic Community of West African States. I was rather surprised at what I found, given that the EPA was signed in 2014. It showed a drop in EU imports from the west African states of 28% from €38.3 billion in 2013 to €27.4 billion in 2015. Over the same period, exports from the EU to the west African states dropped by just 4%. This represents a trade balance in favour of the west African states of €8 billion in 2013 being transformed to €1.6 billion in favour of the EU in 2015. Some of the reasons behind this trend may well have been touched on by the noble Lord, Lord Boateng. In my view, the EPAs are a



[BARONESS SHEEHAN]

cause for deep concern. Perhaps the Minister will take up my concerns with the Directorate-General for Trade.

In concluding, I will move away from EPAs and focus for a moment on the implications of Brexit for trade relations between Europe and Africa. Of course, we do not yet know what Brexit will mean in detail but it is important that the UK should prepare for the potential disruption of trade between the UK and Africa and at the same time actively seek to ensure that our trade policy towards Africa also promotes Africa's development. This will be in our national interest but also in Africa's interest. I note the challenges that the Brexit timetable is going to pose in reaching those trade agreements.

I commend the recent report of the expert panel, which included two members of this House, under the umbrella of the APPG on Trade Out of Poverty. The report looked at potential future UK support for the Africa Free Trade initiative and its recommendations will, I believe, not only promote economic growth in Africa but help to pull significant numbers of poor people, women in particular, out of poverty as they are able to trade and move freely across borders. This will make a real contribution to progress towards the sustainable development goals and the aspiration to leave no one behind. At the same time, of course, we will be helping to create a larger and more open market from which British companies can benefit.

We have traditionally played an important role within Europe in arguing for open and fair trading relationships with developing country partners. The implications of Brexit for trade relations between Europe and Africa are potentially serious. I hope that it is part of the Government's plan for Brexit to actively seek opportunities to be even more open and support Africa's own efforts to move towards a more sustainable future.

6.31 pm

**Lord Collins of Highbury (Lab):** My Lords, I too thank the noble Lord, Lord Chidgey, for initiating this debate. Free trade has been a very useful tool against poverty globally. It has helped to pull millions of people out of poverty. However, as we have heard in this debate, it is not a panacea and some sectors of society lose out.

When the UK joined the European Economic Community 43 years ago, it transferred all authority for its trading arrangements to the EEC. In 2014, the UK's \$1.1 trillion in trade was channelled through these clear and predictable legal and institutional frameworks. For Africa this included the Cotonou agreement, as the noble Lord, Lord Chidgey, said, which expanded preferential access to EU markets while setting up the economic partnership agreements through which Africa was to gradually open up 75% to 80% of its own market to the EU.

The aspiration of the EU for EPAs between it and African, Caribbean and Pacific countries has been, as we have heard, to contribute through trade and investment to sustainable development and poverty reduction. But as my noble friend Lord Boateng said, African countries are caught in the dilemma of losing their

preferential market access for the few products they export to the EU if they do not sign the EPAs, versus their longer-term development prospects if they sign them. The threats of the EPA, as the right reverend Prelate said, include significant tariff revenue losses; loss in policy space and threats to local industries; unemployment; serious disruption of existing or planned customs unions; and, as we have heard from all noble Lords in the debate, the displacement of existing regional trade and regional production capacities.

Over recent years many of the African economies have also seen an economic boom. However, at the same time inequality is extreme and increasing. Africa faces the additional costs of mitigating and adapting to climate change, despite being among the least responsible for causing the crisis. African Governments are in desperate need of new and additional public finance not only to fill financing gaps in their budgets but to invest in the future SDGs. International finance policies have resulted in African countries hemorrhaging billions of dollars in taxable financial resources. These potential tax losses could have been invested in reducing inequality and poverty and developing jobs and prosperity. Surely global agreement on tax must be the top priority for all countries.

European Commission officials highlighted some of the achievements of the EPAs, including 80 grants made to infrastructure projects across Africa under the EU-Africa infrastructure trust totalling some €6.5 billion and €55 million set aside under the African Union support programme to develop AU institutions. Despite misgivings from African policymakers, the EU remains determined and positive about the EPAs and is keen to deliver as many as possible. The SADC of Botswana, Lesotho, Namibia, South Africa and Swaziland signed the EPA in June of this year. The southern African markets will open only partially to EU exports, gradually over time, providing their industries with the intermediary goods they need to support growth.

As we have heard, in east Africa the tensions are more obvious. Members of the East African Community—Kenya, Uganda, Tanzania, Burundi and Rwanda—were due to sign an economic partnership agreement to ensure that the five nations continued to export goods to the EU without incurring quotas or tariffs. But Tanzania withdrew because of,

“the uncertainty in EU after the exit of UK”,

according to a government statement, which also said:

“But more important is to protect the economic interests of our countries by empowering the manufacturing industries”.

We have also heard recently that Uganda's President Museveni then pulled out, saying that the deal needed further discussions, even though his Government had already agreed it. The trade deal has been under negotiation for nine years and was initialled by all parties in October 2014. All the countries apart from Kenya—as we have heard, the region's largest economy—will be largely unaffected if the deal lapses because they are classified as least developed countries by the EU. But Kenya, as a wealthier developing country, will face tariffs of 4.5% to 19.5%, according to the chief executive of the Kenya Flower Council; flowers are an incredibly important part of Kenya's economy.

The announcement by Tanzania is merely the most recent example of delay and backtracking on implementation. Could Brexit herald the unravelling of EPAs? Following the vote to leave the EU on 23 June 2016, a new trade policy will have to be designed. In doing so, attention needs to focus on how this can contribute to development. It will need to recognise the differences that exist among developing countries. Many of the least developed countries depend on preferences in the UK market. They need certainty in the same way that UK manufacturers need certainty. Will the Minister confirm that his department is fully engaged with the Department for International Trade in the design of new trade policies? Will he reassure the House that the UK Government will move quickly to confirm that existing arrangements will remain in place for a certain period of time following the UK's departure from the EU?

Linked to this, the UK needs to put transitional arrangements in place to minimise disruption. As we have heard, the value of the preferential access that developing countries receive to the UK market through the EU's GSP, and particularly its EBA element, is considerable. They save least developed countries exporters €385 million per year, non-LDC ACP exporters €205 million and Commonwealth exporters €715 million. As the noble Lord, Lord Chidgey, asked, what discussions are the Government having with the Commonwealth to establish a dialogue on trade and new trade arrangements?

As my noble friend said, there are opportunities in these risks, and a new UK trade policy can be made more development-friendly by going beyond tariffs to include new provisions on services, investment, rules of origin and standards. In crafting its trade policy approach to Africa, three principles should underlie the UK's trading engagements with the whole of Africa: support for Africa's regional integration priorities; pro-poor and pro-development trade arrangements; and market-access continuity.

The United Kingdom Government face a considerable range of negotiating priorities. I hope tonight that the Minister will be able to reassure the House that Africa, as a rapidly developing and historically linked trading partner, will not be overlooked in these discussions.

6.41 pm

**The Minister of State, Department for International Development (Lord Bates) (Con):** My Lords, I thank all who have contributed to this excellent debate, particularly the noble Lord, Lord Chidgey, for leading it off. I also pay tribute to his work as the co-chair of the all-party parliamentary group. He has done a lot of work in this area, including his undertakings and research into the overall effectiveness of EPAs. We will certainly be following that very closely and welcome the opportunity to have dialogue with the noble Lord. I will begin by making some general remarks and then, in five minutes or so, deal with some of the key points that were raised during the debate.

Free, fair and open trade is fundamental to the prosperity of the United Kingdom and the world economy. Trade is a driver of growth and development, and growth is one of the most effective means of

raising incomes, creating jobs and reducing poverty. More than a decade of fast economic growth has helped cut poverty rates in sub-Saharan Africa from 56% in 1990 to 43% in 2012. This growth benefits sub-Saharan Africa, but also British business, as it gives opportunities for investment. It is for these reasons that the UK is committed to ensuring developing countries can reduce poverty through trading opportunities. The right reverend Prelate the Bishop of Winchester spoke about the importance of education and economic development. We would say the combination of those two elements is the surest possible route out of poverty.

Agriculture, which several noble Lords referred to—particularly the noble Lord, Lord Boateng, based on his personal experience—will be a major source of growth in many countries, accounting for an average 15% of GDP and 30% of employment, 60% of which is women's. We are taking an increasingly commercial approach to the development of agriculture in Africa by strengthening the commercial viability of smallholders and accelerating investment in agribusiness. We are working to ensure that women—a particular concern raised by the noble Lord, Lord Boateng—are economically empowered across the sector, that land tenure and other property rights are secured, that investments are responsible and resilient to climate change, and that our support across the food system is helping to deliver our nutrition goals. Domestic and foreign investment in agriculture is growing, but more is needed for sub-Saharan Africa to realise its potential. Trade can help unlock that potential.

The noble Lord, Lord Boateng, also talked about the historic poor yields in African agriculture. African countries rightly aspire to add more value and to raise those yields by investing in the latest technology. This will require greater integration into global trading systems. Regional and global value chains, especially for horticulture, which the noble Lord, Lord Collins, mentioned, function on the basis of quick and efficient trade logistics, and for most of Africa this will require substantial improvement. By providing additional access to the markets of developed countries to sell their produce to, and access to global and regional supply chains, we can create vital opportunities for the world's poorest people to work their way out of poverty.

UK leadership has ensured that the EU offers the world's most generous package of market opening for developing countries. Some 75 countries, 44 in Africa, currently enjoy duty-free access to the EU market of half a billion people through the EU's Everything But Arms trade preference scheme provided for the least developed countries, as mentioned by the noble Lord, Lord Collins, or the negotiated economic partnership agreements. The UK is a long-standing supporter of the EU's EPAs as development-focused trade deals. They can put our trading relationship with African partners on a more equitable, mature and business-like footing, immediately opening up EU markets on a permanent basis, providing support to help countries use the advantages and, over time, opening up access to quality products and technology from European firms.

However, as the noble Lord, Lord Chidgey, rightly pointed out, these negotiations have taken too long.

[LORD BATES]

For now, EPAs are applicable to only 13 of the 48 candidate countries, with eight having been finalised only in the last couple of months. The noble Lord, Lord Boateng, said that the jury was still out. One of the reasons why the jury is still out is that it has just gone out. A lot of these deals have only just come into effect in the past couple of months. We need to keep their benefits under review but the length of time is clearly a concern. Concerns have also been expressed, as the noble Lord, Lord Chidgey, mentioned, about the fear of negative impacts of EPAs in Africa, but the UK Government believe that where these agreements are correctly implemented and supported they can provide a lasting framework in support of sustainable growth and poverty reduction.

The World Bank estimates that over recent decades, income grew three times faster in developing countries that opened up their markets than in those that maintained barriers to trade. I welcome the noble Baroness, Lady Sheehan, to her new role; we are both new to the issue, but we both care passionately about it. She talked about the importance of evidence, and asked where the evidence was that the increase in living standards that we want is actually being delivered. We believe it exists in the fact that the economies that opened up grew faster. Greater access to EU intermediary goods, equipment and machinery will help African firms' competitiveness. A reduction in fertiliser tariffs, for instance, should help to support agriculture efficiency. African businesses can benefit from lower input prices to help to realise a net increase in profits.

At the same time, we must of course be mindful of the different stages of development that our partners face, a point made by the noble Lord, Lord Collins. That is why the EPAs allow 12 to 20 years for the gradual and controlled removal of our African partners' tariffs, a point that the right reverend Prelate the Bishop of Winchester was particularly concerned about, and rightly so. These are not directly comparable; they are asymmetric, with a bias to development from the poorest countries. It is right and proper that that should be so. Even more, the EPAs exclude agricultural products and other strategically important sectors, as chosen by our partners, from any requirements to lower tariffs at all. For example, west African negotiators chose not to lower tariffs to EU products such as meat, poultry, fish, dairy, vegetables, cocoa, apparel, pharmaceutical products, cars and many more. The noble Baroness, Lady Sheehan, referred to the trade imbalance between west Africa and the EU, but within the EPAs there are certain guarantees that in our opinion will help.

EPAs also contain safeguards against possible excessive EU competition; the noble Lord, Lord Chidgey, went somewhat further and talked about the strong, almost threatening approach that was taken. African Governments can take actions such as temporarily raising tariffs or applying quotas to protect domestic businesses, producers and food security. In addition, the EU has agreed not to subsidise any of its agricultural exports under an EPA. African states have agreed to extend to each other the same levels of liberalisation as the EU and EPA, aiming to encourage regional

integration and prevent increased imports from the EU displacing imports from neighbouring economies.

In addition, EPAs provide for further co-operation on issues such as customs, standards, trade and services, agriculture, fisheries, investment and business environment. Opening dialogue in these areas allows EPAs to provide greater depth and scope for wider benefits than one-way trade preference schemes.

I turn to the EU referendum, which was rightly raised by many noble Lords. Leaving the EU offers a major opportunity—in fact, I think that term was used by the noble Lord, Lord Boateng—for the UK to send a positive signal that our markets are open and that we are determined to promote business with the developing world. The noble Baroness, Lady Sheehan, asked me to reference this, but we now have a Department for International Trade, which is charged with promoting UK exports in goods and services to support a growing economy that creates wealth for all. That is its job remit; we have a department for that. It will obviously be taking the lead in ensuring that these types of trade arrangement happen.

In similar vein, several noble Lords, including the noble Lord, Lord Collins, referenced the importance of the Commonwealth. We recognise that many Commonwealth countries are current or potential members of EPAs, with nine currently in Africa, such as South Africa, Botswana, Ghana, Cameroon and Mauritius. If the EPAs in east and west Africa are implemented, that number will rise to 15. We have set as a priority to increase Commonwealth trade and investment. Commonwealth trade is estimated to surpass \$1 trillion by 2020, but it could be more, and we believe that EPAs could be part of that.

On the specific point about the process, of course, at the moment the UK remains part of the EU and we therefore remain governed by the EPA arrangements that are in place. The EU still supports the EPAs, and while the UK is still a member of the EU, all rights and obligations will apply, including our commitments to developing countries through the EPAs. The UK enjoys strong trading relationships with many developing countries, and we will look to strengthen those ties in future. That will be part of the negotiation package as we move forward.

Time is moving quickly, but let me deal with a couple of issues which I have not yet touched on. We accept absolutely that partnerships have been literally at the heart of EPAs. They must be partnerships: the right reverend Prelate was right to mention that. The Cotonou partnership agreement in 2000 was the start of this, and it is essential that the spirit of partnership continues. We believe that tax revenues lost can be raised through increased exports to the EU, which will increase the revenue into the area. In relation to the Africa Free Trade initiative raised by the noble Baroness, Lady Sheehan, the All-Party Parliamentary Group on Trade Out of Poverty launched its inquiry in March 2016, and Ministers have been asked to participate. The final report was issued in October, we support it and DfID intends to keep working in each of the main thematic areas—primarily cutting trade costs, connecting markets, enhancing productive capacity and using trade to drive inclusive economic growth.



Time has gone. I undertake to read the debate very carefully with officials to ensure that we have adequately addressed the points raised. I again thank the noble Lord, Lord Chidgey, for giving us the opportunity for

this timely explanation of this very important economic and development relationship with Africa.

*House adjourned at 6.54 pm.*

