

City Debate 2017, Mansion House, London

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Check against delivery

Motion: “This House believes that the rest of the world more than makes up for the loss of Europe.”

The British people have voted for Brexit.

It is a political decision we all respect, even if, as many Europeans, I deeply regret it.

The economic consequences should be rigorously analysed, avoiding the emotions that too often characterized the Brexit debate.

To answer such a question requires neither wishful thinking from the British side, nor Schadenfreude from the Continent, but facts and figures.

My goal tonight is also to be as...boring as possible, defending the Single Market which, incidentally, is a way to pay tribute to what I have learned on this side of the Channel: open societies are more dynamic than closed ones; business benefits from the talents of hard working foreigners; free trade, based on mutually positive agreements and the rule of law, is better than protectionism.

I see 3 reasons to oppose the motion:

1. It is artificial to separate the EU from the rest of the world; some facts and figures will remain

unchanged, irrespective of the outcome of the EU-UK negotiations.

2. It is too early to say. The losses and gains will depend on what the result of the negotiations with the EU will be.
3. This approach of gains and losses puts the other cooperation on home affairs or on current defence and security between the UK and its European partners at risk.

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1) It is artificial to separate the EU from the rest of the world

➤ In April 1988 in a speech in Lancaster House, Margaret Thatcher said: *“how we meet the challenge of the Single Market will be a major factor, possibly the major factor, in our competitive position in European and world markets into the twenty-first century.”*

She had a holistic approach to the European and world markets and she was right. In 2017 the same remains true.

➤ The scale of the European Single Market should not be underestimated, and is widely recognised by global partners.

On the UK's doorstep is the world's largest single trading block.

The EU represents 17% of the world's GDP, the UK 2.4%.

UK exports to the EU represented 19% of its GDP in 2015.

After Brexit, the EU will remain a major economic force in the world, the second largest economy just after the US, a market of 445 million consumers and a GDP of about 15 trillion.

Britain is highly integrated with the rest of the EU's economy in other ways. For example, other Member States represent 50% of Direct Foreign Investment in the UK (2014).

The City of London has been a major beneficiary of the Single Market in financial services: the Eurozone is a

much larger market for lending originating in Britain than its economic size would suggest (source CER).

For some sectors of the British economy, such as agriculture for example, the EU represents 72 % of British exports. (source Les Echos). This can change but it requires time.

And on trade issues, distance matters (source WTO).

In short: the UK is a European island, not a ship the British government can easily move towards America or Asia.

➤ The EU Single Market is also important for all of the UK's potential trade and investment partners.

Many of them saw the UK as the main gateway to the rest of the EU. Losing access through this gateway will impact the UK's relations with its external partners.

What the Brexiters never say is that third countries, like China or India, might face a new choice, which could soon become a dilemma: to keep good relationships with the UK (65 million consumers) or with the rest of the EU (445 million), including countries like Germany (a commercial giant) and France or Italy. Japanese businesses have underlined this aspect in papers on Brexit for example.

➤ Many British studies confirm that it is far from certain that new trade deals will compensate for the loss of EU trade that will stem from Brexit.

A very recent paper, quoted by the CER, from the National Institute for Economic and Social Research published on January 27th 2017, *“estimates that leaving the Single Market would in the long term cut the UK’s total trade between 22% and 30% (depending on whether the UK concludes an FTA with the EU or not); meanwhile new trade deals with all the BRIICS countries < Brazil, Russia, Indonesia, India, China, South Africa> (2%) as well as the US, Canada, Australia and New Zealand (3%) would boost British trade by around 5%”*.

The author, Monique Ebell, concludes that *“the stark difference reflects that the single market is a very deep and comprehensive trade agreement aimed at reducing non tariffs barriers, while most non-EU FTAs seem to be quite ineffective at reducing non tariff barriers that are important for services”*.

In a nutshell, it is not so easy to replace the amazing contribution of the financial services provided by the City to the British wealth with exports of goods.

➤ It is also important to bear in mind that the global attitude to embracing free trade has dramatically changed recently. While Donald Trump is at the helm of the White House he has made it clear that it will be “America First”. A report from the Trump administration to Congress, leaked last week, reported by the Financial Times, indicates a shift in the US position towards free-trade.

The US could in the future even refuse the WTO dispute settlement panels, which could undermine global trade.

Last but not least, public opinions are less keen to engage in trade deals that change norms or might have redistribution effects. The difficulties to negotiate CETA and the violent opposition to TTIP are good examples of this tendency.

➤ Finally, former Commonwealth countries expect ambitious trade deals to include greater visa access for their citizens, as India and Australia have already made clear. The price to pay in order to reach a deal could be costly in terms of controlling immigration.

In a nutshell, it is very optimistic to imagine that alone the UK could negotiate better trade deals with third countries than those which the EU 27 can negotiate.

And in any case, trade negotiations are complex and long (7 years on average for big agreements).

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If some global facts and figures remain unchanged, irrespective of the negotiations, some factors will naturally depend on the outcome.

2) The potential gains and losses need to be objectively evaluated

It is very early to have definitive answers.

At this stage nobody can say what that outcome will be.

There appear to be many illusions about just what kind of deal is possible.

After Theresa May's Lancaster House speech and *The United Kingdom's exit from and new partnership with the European Union White Paper*, the British position is becoming clearer.

Ms May is not asking for access to the Single Market, nor to the Customs Union and refuses the jurisdiction of the Court of Justice, which, by the way, goes far beyond the 2015 Tory manifesto on the basis of which the referendum was organized.

From the EU side, the position is clear and pretty united, at least up to now.

Article 50 recognizes the sovereign right of a country to exit the EU, it does not foresee that the leaving country could change the nature of the EU by exiting.

There cannot be a trade-off of “access versus money”, nor cherry picking; the 4 freedoms are not a dogma, they are the base of the current “affectio societatis”. It is a sensible economic vision where human resources are as important as capital or goods and services.

The jurisdiction of the Court of Justice is part of the European rule of law. It is crucial that the only trade off could be access versus rules/enforcement.

Theresa May promised the withdrawal agreement and the new free trade agreement within 2 years. This is very challenging.

For the European Parliament – which has to give its consent to any deal – as well as for the 27 Member States, the main question at this stage is the withdrawal agreement, as it includes the status of the citizens and would be necessary to put an end to uncertainty for business.

➤The first tough discussion will be on the sequencing: will we discuss the withdrawal first, then have discussions on the future relationship, or will we manage to organise both in parallel?

In the UK people seem not to realize that there are upcoming elections in France and Germany. We all have our own internal political constraints.

➤ The second tricky element is the financial settlement i.e. the exit implementation costs.

If I may, no-one on the Continent has asked for Brexit.

Everyone is expecting the UK, a great country, to honour all of its commitments.

There are legally binding budget commitments for the current financial framework, the pensions of EU officials, contingent liabilities, EIB loans...

No new relationship between the EU and the UK may be agreed without the conclusion of a fair and comprehensive withdrawal agreement.

Any agreement concerning free trade with the Single Market must be accompanied by a legal framework ensuring fair competition and a dispute settlement mechanism.

At that point the UK will also have to negotiate with the rest of the world, or rely on WTO rules.

Discussions on an FTA with the EU and with other countries in the world are intertwined.

In any case, the current Treaties have to be respected: new trade deals with third countries can only be negotiated once the UK has left the EU. If the UK violates this principle, we will not be in the situation of “sincere cooperation” as the Treaty states (Art 4.3 TEU). It will make the conclusion of a fair agreement more difficult.

From the Continental viewpoint it seems clear that the harder the Brexit the greater the losses.

To conclude allow me to focus on the non-economic elements of the relationship.

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3) This approach of gains and losses puts other crucial cooperation between the UK and its European partners at risk.

If there is no deal, or an ugly divorce, then trust will be destroyed between the partners and collaboration will be in danger, I fear.

The UK negotiators should not underestimate to what extent the Continental Europeans feel let down by the pro-Single Market, pro-trade UK.

Last year, the proposal made to the UK by the 27, in order to keep it in the Union, went very far. It was in vain.

It is not enough that the UK has a permanent seat on the UN Security Council to enable it, as Theresa May said, to *“continue to work closely with our European allies in foreign and defence policy even as we leave the EU itself.”*

Nor it is enough for the Home Secretary Amber Rudd to recognize the advantages of the European Arrest Warrant for the UK police’s work. It would require accepting the jurisdiction of the Court of Justice, and maybe the European Convention on Human Rights.

In a rapidly changing and dangerous world, these fields of cooperation are crucial.

That is the reason why we should absolutely avoid threatening each other.

National party political games are far less important than the safety of our people and the defence of Western values.