



DEBATE

Thierry de MONTBRIAL, Founder and Chairman of the WPC

Thank you very much; now the floor is open. Mohammed, you are first, as an honorary member of the European Union.

Mohamed LAICHOUBI, Former Minister of Labor and Social protection and Minister of Youths and Sports, Algeria

Merci beaucoup. J'ai écouté avec beaucoup d'attention cette intervention extrêmement intéressante. J'ai pour ma part une question à deux ou trois volets. La première c'est que j'aimerais connaître les raisons profondes - selon vous - du désenchantement vis-à-vis de la mécanique de l'Union européenne. La question complémentaire c'est que vous avez aussi noté apparemment une rupture entre le personnel politique puisque vous avez dit qu'une majorité de parlementaires était pour rester et que les membres du gouvernement - une majorité aussi - étaient pour rester, mais que manifestement l'opinion, elle, était inverse. Est-ce que vous estimez qu'il y a là une rupture entre une dynamique populaire et le personnel politique ? Ma troisième question est d'ordre plus général, elle est toujours complémentaire : est-ce que vous estimez qu'il y a un émiettement et qu'il y a une remise en cause du modèle de la professionnalisation politique et de son incapacité à gérer les nouvelles dynamiques d'opinion en Europe notamment et aux États-Unis ? Merci.

Uri DADUSH, Senior Fellow, OCP Policy Center

Devil's advocate question, if I may: even though I am a European, are we making too big a deal of Brexit in the sense that you have a 15% devaluation of sterling, which is hugely larger than any potential most favoured nation tariff that would be applied to the UK by the European Union? Basically, the UK has become a lot more competitive than it was before, and, even if you raise the tariff, it would still remain far more competitive.

The issue about regulations, which is the other *volet*, as they say, is that the regulations have to be harmonised, but to a large degree that is up to the UK, to harmonise or to keep the regulations that it wants to keep, so are we making too much of it?

Thierry de MONTBRIAL, Founder and Chairman of the WPC

Thank you Uri. I can take one further question.

Riad TABET, President of Berit International Holding SA

Merci, je voudrais vous poser une question sur les conséquences du Brexit sur la place financière de Londres. Va-t-il y avoir un déplacement des places financières de Londres vers d'autres capitales européennes telles que Paris ou Berlin ou Francfort ?

John KERR, Member of the House of Lords, former British Ambassador to the United States and the EU

That is a very good one. Let us start with the last first because I think it is the easiest to answer. I think the one great gain from Brexit will be New York. It seems to me that quite a lot of business will go back across the Atlantic; businesses that came to London from the United States in the 70s and 80s I think will go back.

I do not see huge gains for Paris or Frankfurt, to be honest. I think that the loss, the reduction, in the size of the City – and I do not want to exaggerate it; a lot of it will remain and flourish – but there will be some reduction in size and I think that is the loss of a major European asset. I do not think it will be easy to replace that in Frankfurt, or Milan, or Paris; that does worry me.

I think that some business will certainly go. I think that the clearing houses case will appear again and I think that it is not unreasonable that those who run the Euro should want the clearing of Euro transactions to be in institutions regulated by the Eurozone, that seems to me to be not unreasonable, and likely to happen.

I do not see a sort of cliff edge, I do not see a sudden shock, but I think the size of the City will probably reduce over time, and the biggest beneficiary will, in my view, be New York.

As for 'Are we making too much of it all?', the British have a wonderful track record of devaluation; we devalue and we devalue and we devalue and it never does us any good because our productivity record is lousy. I agree; this is a big devaluation this time. The effects will come through next year when inflation will rise. At present it is about 1%; it will go up to about 3-3.5%. Prices will go up. I think that inward investment, for the same sort of reason I am thinking about the City, is likely to turn down. I do not think people will go away but the new flow of investment will be down.

I would expect prices in the shops to be up, partly as a result of devaluation, and I would expect this to make the Brexit story rather unpopular with the man in the street in about 18-24 months.

As for regulation, yes, of course regulation in the British market is precisely the same as it is in the European Union as a whole now, and the British have a better record, actually, than most implementing laws written in Brussels. What are we talking about? The idea was to take back control. Can you see British ministers going down to Parliament every time there is a new law written in Brussels, British ministers going down and proposing an identical law, an identical change in regulation, in order to retain the access which regulatory equivalence would require?

I think that is quite difficult to see. I think, on a static analysis, there would be no difficulty but, over a dynamic analysis, it seems to me it is likely to go wrong.

I turn now to the first question which, really, is a deeper question; it is about what caused all this. Why are we where we are? I think there are many reasons. It is absolutely true that the educated voted to stay and the less well educated voted to leave; it is perfectly true that the young voted to stay and the old voted to leave. The tipping point was age 34, which I think is exactly the same as the tipping point in the United States presidential election, so I think you can see some resemblance there. I would not want to exaggerate that.

I do not think we voted to leave because of the economy, stupid. I really do not think so. The Conservative government's handling of the economy was rather successful, the deficit is still too big, but the growth rate was quite good and unemployment is at an 11-year low at the moment. I think the idea that it was a protest about inequality, or about economic decline, does not really work.

I think it was partly about immigration, I think it was partly about David Cameron, and there, I think, there is a resemblance to the referendum that defeated Giscard d'Estaing's constitutional treaty and the re-election of President Chirac in 2002. David Cameron was voted back in 2015 as Prime Minister, which he did not expect to happen. He was voted back because the Labour Party was seen, by the country at large, to have an unelectable leader. In 2016, people chose to vote against Mr Cameron, I think partly to show him that they did not really like him. They had to vote for him but they did not really like him, which is, I think, what happened to Giscard d'Estaing's treaty with people who had been, with no left candidate in the second round, required to vote for Chirac, showing their disagreement. I may be



wrong about that but I think it was not any demerit of my beautiful treaty; I think it was more French politics than the Polish plumber.

I think that Cameron had got himself into a tactical fix. He did not expect to have to carry out this referendum when he promised it in 2013; he expected that either he would not be back in power or he would again be in coalition with the Liberal Democrat party who would prevent him from having a referendum. In his years in Number 10, he never made a single speech in favour of the European Union; he was always critical of it; he liked to cast himself as the heroic defender of an isolated Britain coming under continual attack in Brussels, which is sometimes the case but not always the case.

He distanced the UK quite a bit from Europe; he refused to join in any bailouts; he refused to accept any refugees who had reached Italy or Greece. These were mistakes. His negotiation in the early months of the year was a very minor negotiation, not the talk of reform of Europe as a whole which he had originally presented, but further UK-specific changes that he sought, some of which he achieved but they cut no ice in the country at large.

I am arguing, I think, that the referendum result was more accidental than existential. Unfortunately, its consequences go very deep, and I think a further cause that I should mention is that there definitely was resemblance to the United States in that there was a curious nativist anti-globalisation, nostalgic tinge to the leave campaign. They were looking for a Britain that existed at some mythical time in the past, and I think that there is quite a lot of that behind the vote for Trump in states like Pennsylvania and Wisconsin.

I think there are some resemblances. I do not think that the elite, the Oxford and Cambridge, London, where there is a strong majority in favour of remaining, really feels that it can resist the referendum result. I think it feels that, and I think Mrs May is correct in this, it really has to act on the result and start the process. Some, like me, believe that, as the economic consequences become clear, and as it becomes clear that the leavers disagree amongst themselves and told the country a number of things that were not true, it may be possible to revisit this at some future date.

I go back to what I said before; the central assumption everybody should make is that, sadly, Britain will leave the European Union.

Thierry de MONTBRIAL, Founder and Chairman of the WPC

Thank you very much. Normally we would stop here but I can take one or two more questions and then we will wind up.

Mohamed LOULICHKI, Professor at Al Akhawayn University, Ifrane, Former Permanent Representative of Morocco to the UN

First of all I would like to thank the panellist for his insight. Even if he used the word 'divorce', which gives the impression something is irreversible or definitive, I would like to ask him what the likelihood is of a reverse of the Brexit process.

I think that the last elections in the United States prove that the unexpected can be possible. Therefore, in case of change of heart, we might also consider that the unpredictable could happen before the 10 years to which you referred. Thank you.

Thierry de MONTBRIAL, Founder and Chairman of the WPC

Two more questions, please keep it short, and then John will answer.



Philippe CHALMIN, Professor of Economic History and Director of the Master of International Affairs at Paris-Dauphine University, France

Very quickly, do you not think that if Brexain had won, the negotiation of the Brussels agreement of February would have been a nightmare for Europe?

Masood AHMED, Director, Middle East and Central Asia Department, International Monetary Fund

If I understand your timetable correctly, the time by which this agreement would set in is a few years down the road because that is when the post-Brexit trade deal will become clearer, and that is when the economic consequences will be clearer but the decision on leaving has to be made within two years of the initiation of Article 50.

You will have to decide before the full costs of leaving are clear. Is there a way in your mind whereby you could square the circle on the timetable so that when people make the decision they know what they are deciding?

John KERR, Member of the House of Lords, former British Ambassador to the United States and the EU

Yes, it is legally reversible. I believe that a British change of mind would be accepted by our partners, the question is how to create the political situation in Britain which makes the British government of the day decide to withdraw the notification.

Yes, I agree that the sequence is hard to see, though I believe the economic consequences, at least the uncertainty and the economic effects of uncertainty, will become clear within two years.

I actually did not like the negotiation that the British conducted up to February this year at all. I thought that we were arguing for completely the wrong things. That negotiation is completely dead; as soon as the referendum result came through, the 27 agreed that they would not proceed with any of the concessions that had been made to Mr Cameron, correctly, in my view. I think it would have been difficult.

I feel a huge opportunity was missed. Mr Cameron made a speech at Bloomberg in 2013 which called for the completion of the single market; action on the digital single market; an increase in democratic accountability. It was rather a good speech and it was quite widely supported in large parts of the EU. Unfortunately, we never put forward any concrete proposals, and when it came to a negotiation, we were not arguing for reforms for all Europe; we were arguing for further singularising the United Kingdom – it was a strange negotiation. He argued, 'Give me this or I shall lose my referendum'. He was given part of it and he lost his referendum. He now says if he had been given more, he might not have lost his referendum. This is silly; we need to make up our minds as a country what it is we want to do, and I think it is not at all surprising that the Eurozone did not feel it could give him all he was asking for, or that Eastern Europe could not give him all he was asking for on free movement of persons.

It seems to me that was an unfortunate negotiation; I think that it was also very silly to try to present that in Britain, as the government did, as changing everything and reforming the European Union because, plainly, it did not and, actually, as a tactic, it worked very badly because the leave campaign were able to criticise it as not living up to what he would promise he would do. I think it damaged the government.

I do think it was a series of accidents like that which led to this. I always annoy political scientists by saying that it is very easy after the event to detect great trains and tides in the affairs of men. I think it is mistakes which usually do the trick. I remember arguing that John Major's great success in the Maastricht negotiation, 1991, was principally because Helmut Kohl liked him because he was not Margaret Thatcher, and Francois Mitterrand fell asleep at the crucial moment.



Thierry de MONTBRIAL, Founder and Chairman of the WPC

Are we finished for today? Thank you very much, John. Let me say that you were neither pessimistic nor optimistic; I think you were very realistic, very precise, and I am sure that many of us will have understood better the stakes in the next few months, and probably years. Thank you very much; I hope that next year, when we meet for the 10th WPC, we will have a clearer view.