

## Meeting Summary

### ***IBDE's First Informal EU Ambassadorial Luncheon***

*The Bentley Hotel, London, 21 September 2016*



On 21 September 2016 the International Business and Diplomatic Exchange (IBDE) hosted its first informal EU Ambassadorial Luncheon as part of IBDE's Ambassadorial Discussion Group. The meeting was held in line with IBDE's EU engagement strategy and as a follow-up of IBDE's eight seminars on debating the consequences of Brexit, which IBDE has hosted since June 2015 with the kind support of the European Commission Representation in the UK.

IBDE's First Informal EU Ambassadorial Luncheon was kindly sponsored by the City of London Corporation and hosted by The Bentley Hotel in its luxurious premises at 27-33 Harrington Gardens, London. The meeting featured keynotes from Sir Thomas Harris, Board Director and Chairman of Policy at IBDE, Mark Boleat, Chairman of Policy of the City of London, and Jeremy Browne, the City's Special Representative to the EU.

Held under the Chatham House Rule, the meeting brought together senior representatives from the EU Embassies, European Commission, FCO, Department for International Trade, City of London, and the IBDE Board and Advisory Board members, to explore the future UK-EU Relationship following the UK's vote to leave the EU. Given IBDE is the only organisation that covers international commercial and trade diplomacy, the meeting provided an opportunity to showcase IBDE's expertise and experience as it continues to play an invaluable role in the post-EU referendum policy dialogue. The meeting also explored the ways in which IBDE can play a constructive role and support the UK Government, European Commission and its Embassy and business partners.

## **Opening Session**

The meeting was opened with welcoming remarks from the IBDE Executive Chairman who extended special thanks to sponsors; the City of London and The Bentley Hotel. The chairman extended his warm welcome to all participants, and members of the IBDE Board and Advisory Board. Given the City of London plays a crucial role in the economic growth in the UK and EU, as a leading global financial centre, the chairman looked forward to a productive collaboration with newly-arrived ambassadors and encouraged everyone to work actively with City institutions in the future. He further urged members of the IBDE Boards and guests, including representatives from Whitehall, to engage actively in the issues brought up by keynote speakers in “brainstorming the Brexit debate”. Following the Chairman’s opening remarks, the remainder of the meeting was held under the Chatham House Rule.

## **Discussion**

The discussion was opened with statements exploring the consequences of the UK’s vote to leave the EU and the uncertainty that such an event has created, noting the fact that no one was in a position to foresee the final outcome of the Article 50 negotiations. However, the meeting was able to identify some of the critical issues facing the UK and the EU.

One of the most prominent of these was the scope of a new post-Brexit UK-EU trading relationship. The options ranging from an EEA-type deal, free-standing bilateral FTA, or a stand-alone deal seem to be too complex - all facing the intractable tension between the UK’s political requirement of some form of national controls over free movement of labour and the insistence of other EU members that this is incompatible with full access to the single market.

One participant stated that it seemed inconceivable, at this stage, that it will not be possible to conclude some sort of equitable deal over trade in goods. The rest of the EU runs a massive surplus in its trade in goods with the UK. To fall back to third country WTO-type access would be enormously costly on both sides of the channel. The real challenge is not how to retain tariff-free trade in goods, but how to deal with trade in agriculture, as the UK withdraws from CAP, and trade in services, particularly in financial services. Issues also arise in such sectors as aviation.

The meeting went on to discuss the importance of the financial services and their critical importance to the UK and the EU economies. London is the financial centre of the EU. There is an assumption that Brexit will mean that much of the City’s business will move to other EU financial centres. This may be true of some Euro denominated transactions but, unless there is a sensible deal, the result of moving away from a single market in finance could well mean that the business flows not to Paris or Frankfurt but to New York, Singapore or Shanghai. The meeting benefited from the participation of the City’s most senior representatives who were able to provide an expert assessment on the implications of Brexit for the financial services sector.

Unlike the more nation-oriented New York financial centre, the City has a long relationship with the rest of Europe. The meeting noted that we have to take into consideration the outcome not only for the City of London but for Europe as a whole. It is important, and highly likely, that all financial institutions have well-advanced plans for location decisions going forward, and there is a need upfront for an organised, orderly transition. It is, however, unlikely that anywhere else can offer what London offers – eg that Euro clearing involves other currencies, most importantly the dollar.

The discussion went on to suggest that it was becoming clear that the other EU Member State regulators cannot cope with all the requests for license changes that will arise. It might be interesting to note in this light the transition arrangement put forward by the Japanese government in a paper at the G20 covering manufacturing as well as services.

As for the concerns of financial services moving away from London, one of the participants noted that HSBC is moving not to any other European centre but to Birmingham.

Another key issue that the meeting explored was the impact of Brexit on UK's trade arrangements with the rest of the world. The EU currently has FTAs with over 50 other countries. These EU trade deals will need to be renegotiated. Once the UK leaves the EU, trade deals need to be refined. For the UK the task will be made easier when it is no longer forced to follow EU common policies on such issues as protection of the audio-visual sector, restrictions in products such as GM foods for which there is no scientific evidence of consumer harm, or insistence on social clauses which are regarded as intrusions in national sovereignty by many developed countries.

However, yet again, a core UK objective will have to be improved access for its services sector. In over 30 years of trying, the WTO has failed to agree on significant multilateral liberalisation of trade in services. Indeed, alterations in services are made more difficult because of their reliance on local establishment. This means that removal of barriers at the border are not sufficient. There have to be rules on regulation and investment protection which allow for true non-discriminatory access to the market.

The meeting further noted that there has been a tendency in recent years for the EU to close down access to its own market for financial services in the event of third country suppliers meeting onerous and arbitrary equivalence requirements. The UK will have an opportunity to remove such barriers in London in return for better access in third countries. This will require the UK regulators to be much more proactive in serving regulatory cooperation arrangements with non-EU markets. This means that HMT, BOE, and other UK regulators will need to work alongside the new Department for International Trade.

Another important point raised at the forum, was the growing evidence that the Brexit vote is only one aspect of a much broader and deeply worrying shift in public attitude towards globalisation and trade liberalisation across the whole of Europe. One participant noted that in Germany, currently the most successful beneficiary of global trade liberalisation, a recent poll found that support for TTP has now fallen to 49% compared with 61% in the EU as a whole. 150,000 people recently signed a petition to the supreme court in Karlsruhe, the largest ever, calling for the court not to ratify the FTA with Canada. Furthermore, the wave of anti-globalisation is sweeping both sides of the channel. The Prime Minister of Hungary, Mr Victor Orban, has railed against globalisation and called for restriction on "international capital". NGOs and left wing politicians across the whole of the EU are campaigning against the conclusion of the TTIP negotiations with the USA.

However, the meeting noted that with regard to the Brexit vote "we are where we are" and this is the price one pays for democracy. Looking ahead, there are options following the referendum as diverse as Norway or North Korea. An upfront approach to Brexit must offer an organised orderly transition. We cannot have that two-year post article 50 exit period finish only then to be confronted by the announcement of a "transition period" – by that time it will be too late.

One of the participants noted that the so-called "cheering crowds of Doncaster" (characterising the largely English response to the leave vote) will be concerned about "real jobs" and therefore comprehensive talks will be needed with the regulators to maximise job creation going forward. However, citing the comments of one financial regulator, the meeting noted that moving financial services is as complex and risky as moving nuclear waste.

Another participant stated that in most discussions in EU capitals he had found the subject under discussion to be overwhelmingly about Brexit, with variations on opinions and options between government ministries and businesses. The overwhelming European feeling expressed was that in order to be in the single market, the "four freedoms" must be adhered to. The participant noted that during the time when Theresa May was in the Home Office, the "real" issues of concern then were population growth and cultural change.

After the Brexit vote, there will be issues of political versus economic imperatives. The EU countries' response to the UK is likely to be that you "can't have a club where everyone makes their own rules". It is important to demonstrate regarding Europe the "right way" rather than "Britain has lost".

One of the participants stated that it must be acknowledged that there are European institutions which put their own interests above whom they serve. Therefore, it would be against the founding spirit of the EU to punish a

country in order to serve the interests of an institution. Wider interests are best served. If the UK hadn't joined originally, would France have such a good trade relationship enriching citizens on both sides of the Channel. Europe at the moment has low growth and low employment within a competitive environment.

One participant attempted to explain such financial services functions as Clearnet and Euroclear. He emphasised the importance of keeping all transactions in one place, not only for economies of scale, but to reduce risk. There will be a higher "quantum of risk" if these services are pulled apart.

Another participant proposed that if Brexit risks becoming a "lose/lose" situation, how can the damage be managed, and what would be a list of expectations by the City? The meeting noted that if the City were to reveal too much of its negotiating position, it might be "rubbished as scaremongering". There is a "hardening on the transition period". For example, the Norwegian option upon examination was reckoned to be a "bad" option. There is constant discussion, partly from out of Brussels, including "raw data". The UK government must have all possible knowledge available. One civil servant observed to one of the participants that "I may never have another holiday (owing to volume of Brexit research), and do I want to spend my entire life on Brexit when there are so many issues such as education and housing to be dealt with". UK jobs and taxes remain prime public concerns.

Another participant observed that the competition for the City would be the likes of Singapore not Frankfurt. The danger lies in completely getting rid of London as a global centre of excellence – such a disaggregation would result in a fractured system - "Europe matters less in global terms". Financial services are one area where London has global excellence – with the EU ultimately benefiting from London being in such a position.

One of the participants observed that in this lose/lose situation the EU Council has no model that works. This has been a huge long term relationship – and there has been anger and disappointment – now things are moving on. Given a depth of knowledge so great as that of the City, it is not possible to move and compete globally.

The meeting noted that although there is respect for the outcome of the vote, there is little respect across the Channel for the way the referendum was held – for no good purpose, no good use. Furthermore, a deep regret was expressed at the referendum outcome – painfully coming so close to the 100-year anniversary of the Easter Rising. It makes it all the more important that as nations we stay as close as possible. For example, there is a great amount of trade across the Irish Sea, but there is now a cut in projected growth and Irish jobs are in jeopardy. Brexit is surely a "spanner in the works", but the UK should "recoil" from the idea that in a changing world there can never be a rival financial centre.

The meeting further noted that as the public appears to be losing interest in the Brexit issue, it is important that Whitehall engages publicly with European affairs. It is important that the diplomatic community reflect the public's feelings. The department for Exiting the EU should cover different interests within business. Many business groups operate across the EU. There is a risk of different groups "talking past each other". Never has work of such a deep and detailed nature had to be done – it is as if "every time you turn over a stone" more issues are uncovered. It is important that so-called "spirals of misunderstanding" are addressed.

One participant observed that it was unfortunate that all the concentration has been on the "four freedoms" rather than just tariffs, stating that it is not easy to "poison the well continually and then ask people to come and drink". The question was raised as to whether it was possible to consult the people after the agreement. And what is the role of Parliament? In response to the question one participant observed that it is the nature of the British constitution for Parliament legally to be "advisory". Legal action will go to the courts in November concerning the sovereignty of Parliament on this issue – the thinking is that they will lose. There are powers of sovereignty where foreign treaties are concerned. Any deal on EU removal requires the revoking of the EU Communities Act – this needs a Commons majority and it would seem not to be possible to outvote the government.

Another participant added (ironically) one should never hold a referendum unless you can reverse it or because it doesn't matter or it's been decided in advance. It was difficult for business to debate with the standard set by the Leave side. There are still problems with the result in Scotland and opinions in the Lords. There may be an "underground movement" against the Brexit result, but the damage has already been done. There has been "a lot of change in public opinion" with regard to having another referendum. But there are risks of being "savaged by the media" if losses are revealed.

One participant commented that there will be a trade-off between thorough preparation for Brexit and prolonged uncertainty as to what will be the "least detrimental" to any future relationship. How can you define future welfare of economic security, foreign policy in every state and weigh up the domestic debate? There is an apparent lack of UK loyalty to the European principals. One should not underestimate the commitment of EU countries.

## **Conclusion**

The meeting concluded that Brexit was only one aspect of what seems to be a deeply disturbing turning away from the liberalisation forces which have served us so well in the past, hoping that discussions such as the IBDE's Informal Ambassadorial Meetings will identify ways forward which would prevent a relapse into 1930s style policies of protectionism. This is a bad time to be against globalisation. People across the EU appreciate the UK's constraints and that the UK and EU governments must negotiate with flexibility and imagination.

The City, as a truly European international financial centre, is an excellent asset and will continue to provide the much-needed support to business throughout the UK and Europe and particularly to those firms that may not have good access to domestic finance in order to drive economic recovery and growth in Europe.

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On behalf of IBDE, the meeting's chairman once again thanked the [City of London](#) for sponsoring this meeting and [The Bentley Hotel](#) for their hospitality. He also thanked the keynote speakers, members of the IBDE Board and Advisory Board and all other attendees for providing a stimulating discussion but also for voicing their support to the work of IBDE.

IBDE is proud to have played an important and constructive role in the [UK's EU Referendum debate](#). With the kind support of the European Commission Representation in the UK, IBDE hosted 8 seminars at Europe House debating the consequences of Brexit. Seminars have been inclusive, in that they have attracted leading representatives from various institutions and the fields of politics, policymakers and opinion shapers (including businesspeople, politicians, diplomats, academics, civil society representatives and the media). In addition, these seminars have been thematically comprehensive in their content, having offered speakers and the audience an opportunity to explore the various viewpoints of the In/Out EU referendum debate.

IBDE hopes that the pooling of experience and intellectual resources through these meetings has been useful to participants. Given IBDE is the only organisation that covers international commercial and trade diplomacy, the meeting was a great opportunity for IBDE to showcase its expertise and experience as it continues to play an invaluable role in the post-EU referendum policy dialogue. In essence, the meeting explored the ways in which IBDE can play a constructive role and support the UK Government, the EU and its Embassy and business partners.

Following the closing remarks by the chair, the participants had the opportunity to continue their conversation informally during the networking coffee.

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## ABOUT IBDE



*IBDE is a London-based non-profit, non-political, membership organisation providing leadership in promoting international trade and investment flows, financial and professional services, energy, infrastructure and ICT sectors as well as championing commercial and trade diplomacy. IBDE delivers its services, which effectively contribute towards the strengthening of dialogue on international political, business and economic issues, through enhanced consultation and resource-sharing between businesspeople, policymakers, academics and the diplomatic communities. Bridging the gap between business and governments is the game changer for business people and diplomats today, and this is the focus of IBDE.*

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- **Rudi Guraziu**, Executive Chairman
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- **Sir Thomas Harris KBE CMG**, Non-Executive Director (Chair of Policy Committee)
- **Alan Houmann**, Non-Executive Director (Chair of Nominations Committee)
- **Alfred Kovaci**, Non-Executive Director
- **Paul Sizeland CMG**, Non-Executive Director (Chair of Finance and Audit Committee)

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The IBDE's Advisory Board is chaired by Sir Roger Gifford. The Board brings together the most senior business leaders, ambassadors, academic experts and policymakers. Its main role is to advise and support the Executive Chairman and the Board of Directors in its policies, strategies and activities, ensuring that we achieve our mission and objectives.

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- **Cyrus Ardalan**, Chairman, OakNorth Bank
- **Andy Baldwin**, Managing Partner, EMEIA, EY
- **Mark Boleat**, Chairman of Policy, City of London
- **Edward Braham**, Chairman & Senior Partner, Freshfields Bruckhaus Deringer
- **Simon Collins**, Chairman & Senior Partner, KPMG UK
- **Wim Dejonghe**, Chairman & Senior Partner, Allen & Overy
- **Sir Simon Fraser GCMG**, Managing Partner, Flint Global (Head of FCO and Diplomatic Service 2010-2015)
- **Martin Gilbert**, Chief Executive Officer, Aberdeen Asset Management
- **His Excellency Dr Ivan Grdesic**, Ambassador of the Republic of Croatia to the UK
- **Simon Levine**, Global Co-Chief Executive Officer, DLA Piper
- **Professor Marianne Lewis**, Dean, Cass Business School
- **Christian May**, Editor in Chief, City A.M.
- **Helena Morrissey CBE**, Chair, Newton Investment Management & The Investment Association
- **Saker Nusseibeh**, Chief Executive Officer, Hermes Investment Management
- **Anne Richards CVO CBE**, Chief Executive Officer, M&G Investments
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- **Max Steinberg CBE FRSA**, Chief Executive, Liverpool Vision & Chair of International Festival for Business
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*IBDE membership is open to all those with an interest in the organisation's work ranging from individuals to diplomatic missions, national and multinational businesses as well as academic institutions, government organisations and NGOs. The membership contributes to, and is an integral part of the funding of the activities of the IBDE.*

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