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THE BREXIT DEBATE



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As the UK referendum on EU membership draws closer, Clifford Chance held a lively panel debate on the implications of ‘Brexit.’ Our panellists were Jo Johnson MP, Minister for Universities and Science and Sir Michael Rake, Chairman of BT Group Plc and Worldpay Group, speaking for the UK to remain in the EU. They were joined by Craig Mackinlay MP for South Thanet and Nigel Webber, founder and Chairman of Peak Partners Ltd and former Global Chief Investment Officer at HSBC Private Bank, speaking for the leave campaign.

The event was moderated by Axel Threlfall, Editor at Large at Reuters. In this extract, each of the four speakers outlines their position and then they discuss how each side will win over undecided voters, what the future relationship with Europe may look like and what impact a possible Brexit would have on financial services.

Jo Johnson MP

“The debate about Brexit is one of the great national issues of our time. It has divided families, it has divided political parties and it is preoccupying many people across the country. When you come to Canary Wharf, you can’t help but be struck by the cluster of global firms based here that are contributing an enormous amount to our GDP and to jobs and growth in the UK economy. The financial services sector is accountable for about 7% of our GDP; it employs over a million people – more than half of whom are based outside of London; and it’s our biggest export sector. A very important aspect of its success is the fact that we are part of the European Union together with the passporting rights which enable firms based here to operate easily across this market of five hundred million people and twenty eight countries. This is critical to these global firms decisions’ as to where to base themselves. In considering whether or not we should take the risk of leaving the European Union and

taking that leap into the dark, we’ve got to weigh up what it means for financial services. We would have to reinvent passporting, which I suspect would be extremely difficult.

Of course this great national question is about much more than our financial services industry. When you look at the economy as a whole, it’s clear that the arguments are very much in favour of the case that we’re safer, stronger and better off inside the European Union. The Treasury has published analysis that shows that in any of the alternative scenarios following Brexit our economy would be considerably smaller in 2030 than it would be if we stayed within the EU. If we adopted for example, the Canadian model, our economy would be 6% smaller. We would be trading less, there would be fewer jobs and less growth and households on average would be £4,300 less well off than if we continued to stay inside the EU.

Let's look at trade. Half of our exports currently go to the EU. They benefit from a zero quota system. The EU has struck on our behalf, fifty further trade deals around the world. Other trade deals are presently under negotiation with countries such as Japan, the US, China and India. This means that in due course around 82% of our trade, exports, and goods and services will be covered either by the single market or by trade deals that are in negotiation or trade deals that the EU has struck on our behalf. If we go for Brexit we will have to renegotiate our way back into all of those kinds of relationships. We are part of the EU's five hundred million person bloc and £11 trillion economy and if we were to leave, we would not come anywhere close to getting terms of trade on the same advantageous basis that we presently enjoy under the EU.

Finally in my capacity as Universities and Science Minister, I see on a daily basis the extent to which our future as a knowledge economy depends on our relations with the European Union. Our universities and our scientists win an outsized share of European funding streams. Oxford, Cambridge, London and Imperial are the top four universities in terms of securing competitive science funding from the EU. Our universities benefit from the fact that we can pick the brightest researchers to come and work in our labs and in our lecture halls – 15% of our universities' academic staff are from around the European Union. We would be absolutely mad to put all that at risk."

Craig Mackinlay MP

"The leap in the dark is staying in. In the Five Presidents' report it is clear that they are willing to do anything to defend the ultimate empire creation of the Euro. If you were to ask youngsters in Greece what they think of the European Union I think you would get a fairly abrupt answer. To me, staying in is the uncertain course. The EU will expand – there are already discussions that perhaps Turkey will join and Serbia, Albania, Macedonia.

There isn't a pause button and there is not an À la carte Europe on offer.

I salute the Prime Minister for trying to renegotiate but I don't think that renegotiation actually means very much. It seems we are just dancing on a pin head about in-work benefits. Staying in the EU is dangerous. Leaving puts us in the lead of the very normal nations on this planet. We are the fifth biggest economy in the world and we have every opportunity, despite what the scaremongers say, to actually get those trade deals that are right for Britain.

We will hear much from the scaremongers over the coming weeks. We've heard a lot already and I'm afraid that document from the Treasury was very one sided. I came at this whole argument 25 years ago. I am a chartered accountant and chartered tax advisor. Back in the days of the Exchange Rate Mechanism – the precursor of what Europe wanted to do with the single currency – I saw my clients going bankrupt and there were huge interest rates because we were shadowing the Deutschmark. I began to think that this institution had moved rather substantially away from what we thought we were joining in the 1970s. We thought it was about free trade and friendship, access to markets, and an opportunity to join a new group. It seemed like a good idea. It's something that I agreed with. But it rapidly moved on. This has got nothing to do with trade; this is about creating a country called Europe with a destination unknown, uncertain and very costly. We now spend £350 million a week before rebate.



“ “ We're safer, stronger and better off inside the European Union.”

Jo Johnson MP

What drives me more than anything is the democratic deficit. Over 50% of the rules, laws and regulations that we live under come via the Brussels machine. When I go to my electorate and say “I will do this” and “I will do that, here’s the manifesto,” I feel like a bit of a fraud. I have got one hand behind my back. Why would we as a free people; the fifth biggest economy in the world; the fourth biggest defence force sitting at all the high tables of international organisations, want to throw that away into an unknown abyss of where the European Union wants to go?

I think there are two questions people should ask themselves. If the EU hadn’t been invented, would you invent it? And if we weren’t a member of it, would you want to join it? The world has changed. The big opportunities for Britain lie outside Europe. In 1980 the 28 EU countries represented 30% of the world’s economy. By 2020 that will be down to 15%. Why do we want to shackle ourselves to the slowest growing area on this planet apart from the Antarctic? We should be opening our eyes to what this country can be and should be: fleet of foot and looking for international opportunities.”

Sir Michael Rake

“I think this debate is not about fear mongering. It is about facts over fantasy. We have to live in a globally interconnected world and the UK is a small part of that. We have to also remember that we have had the longest period of peace and prosperity in Europe, in history. We’ve gone from being the sick man in Europe in 1975 to one of the fastest growing countries in Europe with half a billion people that are our market place.

We have benefited from the skills of people that have come to work in our businesses where we have had skills shortages. We’ve benefited from the migrant populations in the City of London, in the National Health Service and in tourism. Across the UK, 65% of businesses said they need the migrants that we have had in this open and progressive environment that is the European Union.

We have developed more environmentally-friendly policies than arguably we would have ever developed if we had been on our own. We have soft power because we have no military power effectively left. Yet, we can work together on sanctions and against Russia and the Ukraine. It’s not for nothing that the only global leader who thinks we should leave the European Union is Vladimir Putin. I think that tells you a lot.

I think the Prime Minister has negotiated some really important clarifications for the future around ever closer union, clarity about the euro versus sterling, the need to introduce subsidiarity into regulation and the need to improve competitiveness. We have to work together in a global world to constructively engage and make the European Union more competitive. Richard Reed, founder of Innocent Drinks, has developed an enormous business exporting right across the European Union, he has only been able to do that because there are non-tariff barriers. 85% of his business is in the European Union, 85% of his people are in the UK and believe me there are numerous examples like this.

What really are the alternatives? We will get no free rides if we want to remain in the single market. Do we want to be Norway? If you want to be in the single market by definition you have to agree with all of their requirements, free movement of labour and contribute to the budget. There is no easy option here. The average free trade agreement takes five and a half years to negotiate. The Canadian treaty took seven years and it isn’t yet executed.



“The average free trade agreement takes five and a half years to negotiate.”

Sir Michael Rake

We don't even have the experience to do that. Why would we throw everything away when we have the possibility to have the best of both worlds? An environment where we are protected in the sterling area, where we have five hundred million consumers and where there is a prevention of ever closer union. I lived in Europe for 14 years and people in Europe themselves don't want ever closer integration. It has moderated into a much more sensible approach – let's trade together, let's work together. For young people it's about the opportunity to work anywhere in the European Union without a work permit, to go to university and to travel across Europe freely and easily. It's also about the ability to live in a city like London which is vibrant, international and doesn't ignore the world. We need to work together with the EU to deal with the admitted issues and weaknesses that have occurred within the EU and the failures of our governments to deal properly with many issues."

Nigel Webber

"Let's look at the current state of the EU. We can describe the EU as a collection of crises. Unemployment is double that of any other developed economic bloc and the scandal of youth unemployment in southern Europe is just beyond belief. Then there is slow growth, and excessive debt, the refugee crisis which was mismanaged in the most appalling way, the rise of extremist parties on both sides of the political divide across Europe and finally a demographic crisis. The working age population of Europe is in decline and it will continue to decline at an ever increasing rate and that is an absolute killer for future economic growth.

How is the EU responding to these multiple crises? It only has one real option – ever closer union. Only by centralising power further in the Brussels bureaucracy will the EU, and particularly the euro zone, have any chance of surviving. This is not hypothetical – it is laid out clearly for everybody to read in the Five Presidents' Report which was issued in June 2015. It states that by 2025 there will be full

financial and political union and there will be a shiny new treaty to wrap it in. I would suggest that the prospect of Britain's exemption from ever closer union is remote at best, given what has been put on the table by the EU.

For those who are voting, I ask are you ready to accept every closer union for Britain and the increasing control by the EU of British political life? If you are, then of course you must vote to stay but if you are not prepared to see EU political control of the UK and further erosion of our sovereignty then you have to vote to leave."

Winning over undecided voters

With the polls fairly evenly split between leave and remain, convincing undecided voters or those who are apathetic about the issues, is crucial for both camps. Sir Michael Rake and Jo Johnson MP both spoke of the importance of engaging with young people and of ensuring that they are registered to vote. "Young people are turned off because they have less respect for institutions and political figures and that does create a problem. Hopefully one tries to make sure there is a balance of the facts presented so that people have the basis to make a choice," Sir Michael said. While for the leave campaign Craig Mackinlay MP said that a concern for young people – although not one that he particularly shares – is immigration. "A young man in the South East said to me: 'I'm concerned about it because I'm living with my parents. This influx of people for good or ill is actually crowding me out of the market, crowding me out of the infrastructure of the UK.'" For him that was a reason to vote leave."



“We can describe the EU as a collection of crises.”

Nigel Webber

The UK's future relationship with the EU

If the UK votes to leave the EU, this will inevitably have an effect on existing trade treaties. Craig Mackinlay, for the leave camp, argued that the UK would be able to renegotiate deals with Europe and the rest of the world. "Every report is predicated on the assumption that we would not be able to negotiate free trade deals around the world, I do not agree with that assumption. We're also ignoring the global opportunities as well," he said. He then outlined where those opportunities lie: "I am absolutely sure that were we independent of the EU we would have had a free trade agreement with the US, Canada, Australia, South Africa, New Zealand and India. I am absolutely convinced these trade deals would happen far more rapidly and to Britain's benefit as a normal independent country."

Nigel Webber added: "I think that we'll eventually negotiate some sensible agreements that are in everybody's best interests. I don't think those agreements will necessarily look like anybody else's. This idea that we will be at the back of the queue and treated like some second rate country is absolute nonsense."

However Jo Johnson argued that "our membership of the EU facilitates our access to other markets around the world," and Sir Michael Rake added: "The European Union gives us the basis to work constructively to create more competitiveness, to have a bigger market place and to go beyond the European Union through trade treaties. The Transatlantic Trade and Investment Partnership (TTIP) alone would add 3% to GDP on both sides of the Atlantic. We can get it through and we would be one of the biggest beneficiaries of this."

The panel also explored what the EU will look like in ten years time. Jo Johnson said that while the EU may or may not integrate more, "what's important is that our rights as an independent country with the European Union will be protected." As he explained: "We believe we've got the best of all worlds. We're not in the Euro. We're not in the European bail-out mechanisms. We're not in Schengen but we are in the single market and we get all the benefits. We secured in February an arrangement that protects our status."

Craig Mackinlay's view is that within ten years there will be another Euro crisis, particularly in southern Europe and that the EU will be profoundly changed if the UK votes to leave. "I can foresee some countries leaving the Euro and that people will go back to what we thought we were joining – a free trade and friendship agreement. I feel absolutely sure that if we were to leave we would have a complete rebalancing of what the EU is about. Denmark, Holland and Sweden may seek a different relationship," he said.

The impact on the financial services industry

During the run up to the referendum there has been a great deal of debate about the impact of Brexit on the status of the City of London and on jobs in the financial services industry. Nigel Webber argued that it will not have a significant effect: "Before the handover of Hong Kong to China in 1997 the talk was that Hong Kong was finished and that Shanghai was going to become the new financial centre for China. The opposite happened because the intellectual assets were in Hong Kong. All that fear was completely unfounded and I think exactly the same pertains to London. The intellectual assets of London are not going to walk out to Frankfurt or Paris."

However, Sir Michael Rake said that while the City is very strong and "will not disappear overnight," Brexit will have significant consequences. "In a survey by the International Chamber of Commerce, 58% of respondents said that if Britain leaves the EU it would lead to a reduction in financial services jobs. The City of London would definitely survive, but it would have a painful impact in addition to what's already happening in the City today," he said.



“ I feel absolutely sure that if we were to leave we would have a complete rebalancing of what the EU is about.”

Craig Mackinlay MP

Jo Johnson MP

Jo Johnson was elected as the MP for Orpington in May 2010. He is currently the Minister for Universities and Science and was previously the Head of the Prime Minister's Policy Unit in No. 10. Prior to his election in 2010, Jo was Associate Editor of the Financial Times and Head of Lex, the newspaper's agenda-setting daily business and financial column. His principal areas of interest are the UK and global economy, business and finance.

Craig Mackinlay MP

In May 2015, Craig Mackinlay was elected as the Conservative Member of Parliament for South Thanet, Kent – defeating Nigel Farage in the election for the seat. Craig is currently a member of the Work and Pensions Select Committee and the European Scrutiny Committee. He has significant experience and expertise in financial matters and is a member of both the Institute of Chartered Taxation and the Chartered Institute of Taxation.

Sir Michael Rake

Sir Michael Rake, knighted in 2007, is Chairman of BT Group plc (2007) and Worldpay Group plc (2015). He is also a Director of McGraw Hill Financial (2008), and Chairman of Majid AL Futtain Holdings LLC (2010). His business advisory roles include Chairman of the International Chamber of Commerce UK, his membership of the Advisory Council for Business for New Europe, and Board of the TransAtlantic Business Council. He is also a Senior Adviser for Chatham House and a member of the Oxford University Centre for Corporate Reputation Global Advisory Board.

Nigel Webber

Nigel Webber is Founder and Chairman of Peak Partners Ltd and former Global Chief Investment Officer, HSBC Private Bank. Peak Partners Ltd provides consulting services to Family Offices and today consults to a handful of clients in Europe, Americas, Middle East and Asia. At HSBC, Nigel was Global Chief Investment Officer for HSBC Private Banking for seven years where he held global responsibility for all investment activity for Group Private Banking. He was also Chairman of the Global Investment Committee for Group Private Bank and Chairman for HSBC Alternative Investments Limited.

Axel Threlfall

Axel Threlfall is Editor-at-Large for Reuters. He hosts high-profile engagements and thought leadership events for and on behalf of Reuters and Thomson Reuters, such as the Newsmaker series and the World Economic Forum news show in Davos.

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