



POST-BREXIT EUROPE: JUST GOOD FRIENDS?

Club of Three Plenary Meeting 2016
Spencer House, London 28-29 October

INTRODUCTION

Some 70 senior figures from business, politics, the media and academia in France, Germany and the UK gathered at Spencer House in London on 28-29 October for the annual Plenary meeting of the Club of Three. The purpose was to discuss the way forward for our three countries following the June referendum on the UK's membership of the European Union.

This high-level meeting focused on the lessons that could be learnt from this referendum for both Britain and the rest of Europe, as well as how France, Germany and the UK can best work together in the world irrespective of the

outcome of the Brexit negotiations, especially in the fields of security and defence and on the many matters of business and financial interest that they have in common.

This year's Plenary meeting also marked twenty years since the first meeting of the Club of Three which had taken place at Spencer House in March 1996. An evening reception was held on 28 October to commemorate this special occasion and to look to the future with members and friends who had taken part in Club of Three discussions over the years – either since 1996 or more recently.



Left (left to right): Sir Malcolm Rifkind, Ambassador Peter Ammon, Thomas Matussek, Joachim Rogall and Ambassador Sylvie Bermann



Right: Ron Soffer (left) and Peter Littger, evening reception

FRIDAY 28 OCTOBER

SESSION I – EUROPE POST-BREXIT: WHAT HAVE WE LEARNT?

Chair: Marwan Lahoud

Speakers: Laura Sandys | François Lafond | Norbert Röttgen

- **Populism:** how can we best tackle popular frustration with traditional political parties, elites and metropolitan culture?
- **Economics:** if our economies cannot deliver growth, what is the remedy for increased inequality and the backlash against trade and globalisation?
- **Migration:** are any of our societies up to the challenge of mass movement of people, whether asylum seekers, refugees or economic migrants?

The meeting was divided into three sessions. The first one took place on the Friday afternoon and addressed three key factors that had largely influenced the Brexit vote in Britain: populism, economics and migration.

One of the main lessons of Brexit was that the elites had lost their credibility in the eyes of the public. They had failed to address the rising inequalities in society, often seen as a consequence of globalisation and European integration. They had failed to handle immigration and migrant flows well enough. Political systems in the West were no longer fit for purpose. Populism, which had to be better understood rather than blindly condemned,

would only grow further unless the way we do politics changes.

One of the participants stressed that, from the Iraq war to the 2007-08 financial crisis and subsequent sovereign debt crisis in Europe, a series of bad policy decisions had widened social inequalities. This had led to a loss of trust in the political class and damaged the EU's legitimacy which, for voters, had to be based on results. If high youth unemployment was to persist, for instance, future generations could not be expected to look to Europe for solutions or even what could be delivered by a free market economy.

MEETING PARTNERS

This meeting was made possible thanks to:

Robert Bosch **Stiftung**

The Club of Three is extremely thankful for additional support from:





Left: Norbert Röttgen speaking during the first session on Friday afternoon



Right: Sir Malcolm Rifkind

These successive crises also had created inequalities between EU Member States, which was another cause of discontent towards the EU. Winners and losers had emerged. Germany was better off whilst France and Italy had serious economic difficulties. This was changing the internal dynamics of the EU with political consequences.

There was a consensus that across Europe it was centrist parties – of both left and right – that had failed to address people’s grievances. The parties that stood for the rule of law and market driven economics had grown complacent and were now seen as defenders of an unsatisfactory status quo. Their failure in the UK referendum campaign and beyond to defend their principles adequately had left a vacuum within which populist movements and fringe parties could flourish. This demanded a strong response from the progressive centre.

But the rise of populism was also seen as a symptom of something more fundamental: the Western political model developed in the 19th century was running out of steam. Significant reform was urgently needed to develop a new system. If the elites could not manage this transition, radical political and

economic changes were going to be forced upon them. A rapid upheaval with echoes of the 1848 revolutions across the European continent was looming.

British specificity

But of course there were also characteristics specific to Britain that had led to Brexit. Large parts of the country had been very sceptical about the European project ever since it had begun the transition from an economic and trade area towards a more political union. Even the elites had doubters within their ranks, and during the referendum campaign few in the Remain camp had shown real enthusiasm for Europe. This was part of the problem.

The UK had had a difficult relationship with the European project ever since it had joined the European Economic Community in 1973. It had been a semi-detached member, with successive Prime Ministers opting out of key areas such as Schengen and the single currency. For one participant, this was an inevitable response to the progressive expansion over the years of the EU’s competences to cover employment, justice and home affairs, and consequently of its legal powers in these areas.

This historical resistance to EU expansion was clearly visible during a referendum campaign in which the majority of people on both sides were Eurosceptics of varying degrees. The result was a lacklustre Remain campaign that focused on the macro-economic picture. It had failed to pick up on the fact that, for many people, the argument was an emotional one based on whether they felt they were on an upward or downward trajectory, regardless of their income.

To those who believed there was a possibility that the Brexit vote could be challenged in Parliament or by a second referendum, one of the participants close to UK decision makers pointed out that the majority of MPs, including pro-Europeans, intended to acknowledge the June outcome in any parliamentary votes. Doing otherwise would be politically very difficult. Equally, a second referendum would surely only be called by a new Labour government, the prospect of which looked unlikely.

Brexit negotiations

Difficulties were starting to appear however as Theresa May's government was having to deal with the reality of Brexit. How could Britain boost its trade with countries like India and not grant visa waivers and access for overseas

students? How could it regain control over certain policy areas without increasing bureaucracy and government spending?

The key question for her government ahead of what were likely to be strenuous and lengthy negotiations was whether to opt for a 'hard' or 'soft' Brexit. British officials received a word of advice if they wished to be successful: they would have to be clear about priorities, focus on just one or two core demands and be prepared to pay to get a deal if necessary. Bombast and grandstanding had to be avoided at all costs. There was a danger that a rhetorical escalation would provoke a dogmatic response from the EU.

However, the UK's European partners would have to be willing to compromise too. Brexit was not a zero-sum game and it was a mistake to think that others in Europe would gain from Britain's losses – though this might be the case for financial houses in the City of London if they lost their European passporting rights.

The negotiations would be long and cumbersome, and it was in everyone's interest not to waste time in a war of words between Brexit hardliners and dogmatic thinkers in Brussels. All of our societies were facing far bigger challenges that would require a collaborative approach.



Left: Arnaud Leparmentier and Joachim Bitterlich



Right: Sophie-Caroline de Margerie

SATURDAY 29 OCTOBER

SESSION II – PROMOTING EUROPE IN THE WORLD: COMPETITION AND COLLABORATION

Chair: Louis Schweitzer

Speakers: Laurence Boone | Margarita Mathiopoulos | Matthew Kirk

- **Business:** How do our best companies compare with their US, Japanese and Chinese counterparts?
- **Trade:** is TTIP finished? Will there be a continuing shared commitment to the current international trade order?
- **Digital:** How can the Three take full advantage of the digital revolution whilst ensuring that data is used appropriately and kept securely?

One of these challenges bigger than Brexit was digitalisation, which could be compared to the industrial revolution on a much faster scale. Data analytics was playing an increasing role across the economy, with major consequences for knowledge-based professions that had until now been considered 'safe' - such as law and medicine. France, Germany and the UK needed to work together to address the very rapid changes that were going to disrupt their social and economic models.

Countries with a flexible labour market, such as Britain, would do better than others in this new environment.

The structure of the British economy, with a higher degree of digitalisation in its predominantly service-based small and medium enterprise (SME) sector, would give the UK an advantage compared with Germany for example. But in order to remain competitive, Britain would also have to ensure that Brexit does not hinder the free movement of data.

A comparison was drawn between digitalisation and the industrial revolution of the 19th century.



Left: Charles Grant (first session) **Right:** Bernard Spitz

In the UK, the introduction of railways led to a major transformation of the workforce, 75% of which switched from agriculture to manufacturing within the space of two or three generations. Changes of a similar scale could be expected as a result of digitalisation. Participants believed that, in the long term, it would make societies more affluent, inclusive and democratic. But in the short term there would be a great deal of disruption. Europe had to prepare for this as soon as possible.

One of the main issues would be to restructure the workforce to meet the requirements of the digital age. In the legal field, cognitive computing systems such as IBM Watson were now able to perform research tasks previously carried out by law firms, saving their clients significant costs.

But it also meant that fewer legal professionals would be needed. This was a particular concern for SMEs where, unlike large companies who had adapted to new technology, there were mixed levels of digital literacy – especially in the manufacturing sector. The need for investment and training in this area was crucial.

Another area subject to significant disruption was politics. The effect of digitalisation on the way people engage with politics and on the expectations they place on their political leaders could exacerbate the challenges to Western political systems highlighted by Brexit. Traditionally, they would vote for whichever party best represented their own beliefs and philosophies.

List of participants

Edmond **ALPHANDÉRY** *Euro50 Group* | Peter **AMMON** *German Ambassador* | Rowan **BARNETT** *Twitter* | Marie-Hélène **BÉRARD** *MHB Investment and Consulting* | Sylvie **BERMANN** *French Ambassador* | Joachim **BITTERLICH** *ESCP Europe Business School* | Laurence **BOONE** *AXA Group* | Jochen **BUCHSTEINER** *FAZ* | Ann **CORMACK** *Rolls Royce* | Philippe **COQ** *Airbus Group* | Paola **DEBRIL-LOISEAU** *French Embassy in the UK* | Charles **DE CROISSET** *Goldman Sachs International* | Gilles **DE MARGERIE** *Humanis* | Sophie-Caroline **DE MARGERIE** *Conseil d'Etat* | Andrew **FRASER** *Mitsubishi* | David **FROST** *Scotch Whisky Association* | Jean-Louis **GERGORIN** *JLG Strategy* | Christine **GRAEFF** *European Central Bank* | Charles **GRANT** *Centre for European Reform* | Sir John **GRANT** *Anadarko Petroleum Corporation* | Field Marshal the Lord **GUTHRIE** *of Craigiebank Former Chief the Defence Staff* | August **HANNING** *Former President of the BND* | Rebecca **HARDING** *Equant Analytics* | Jacqueline **HÉNARD** *CNC Communications* | Steffen **HOFFMANN** *Robert Bosch UK Ltd* | Peter **JUNGEN** *Peter Jungen Holding GmbH* | Paul **KAHN** *Airbus Group UK* | Matthew **KIRK** *Vodafone* | Eberhard **VON KOERBER** *Eberhard von Koerber AG* | Marie-Hélène **LABBÉ** *Sorbonne University* | François **LAFOND** *Sciences Po* | Sergey **LAGODINSKY** *Heinrich Böll Foundation* | Marwan **LAHOUD** *Airbus Group* | Philippe **LEGRAIN** *Open Political Economy Network* | Arnaud **LEPARMENTIER** *Le Monde* | Peter **LITTGER** *Journalist, author and consultant* | Markus **LUX** *Robert Bosch Stiftung* | Michael **MACLAY** *Club of Three* | Sir Christopher **MALLABY** *Former British Ambassador* | Anne-Elisabeth **MOUET** *Columnist* | Baroness **NEVILLE-JONES** *Former Minister for Security and Counter-Terrorism* | Sir Michael **PAKENHAM** *Access Industries* | Hella **PICK** *Institute for Strategic Dialogue* | Sarah **RAINE** *International Institute for Strategic Studies* | Nick **REDMAN** *International Institute for Strategic Studies* | Sir Malcolm **RIFKIND** *King's College London* | Joachim **ROGALL** *Robert Bosch Stiftung* | Norbert **RÖTTGEN** *Foreign Affairs Committee of the Bundestag* | Laura **SANDYS** *Challenging Ideas* | Stephan **SATTLER** *Hubert Burda Media* | Christian **SAUER** *Franklin Law Firm* | Heinz **SCHULTE** *griephan defence and security industry publications* | Louis **SCHWEITZER** *Commissariat General for Investment* | Lord **SIMON** *of Highbury Club of Three* | Ron **SOFFER** *Soffer Avocats* | Bernard **SPITZ** *French Insurance Federation (FFA)* | Larry **STONE** *BT* | Michael **STÜRMER** *Die Welt* | Peter **WATKINS** *Ministry of Defence* | William **WELLS** *Rotschild & Co* | Caroline **WILSON** *FCO*



Left: Laura Sandys and Marwan Lahoud (first session)



Right: Christine Graeff

In the digital age, however, people were easily able to find like-minded communities that shared their concerns about single issues, bringing a range of seemingly niche and unrelated policy matters into the public debate.

Political parties would therefore need to adapt to an environment where voters were forming their preferences based on a range of single issues – often either very local or international such as TTIP – regardless of whether the proposed solutions fit into one political philosophy or whether they were offered by a single party.

Governments' ability to generate revenues through corporate taxation was also increasingly called into question, as highlighted during the Google tax dispute. For one of the participants, the answer was to move away from collecting corporate tax, which was unworkable in the digital world, in favour of sales taxes which were much more geographically defined.

Challenges to jurisdiction and boundaries would also erode traditional conceptions of trade. Rather than trade of material goods, digitalisation would eventually prompt an increase in the trade of designs and templates

to be 3D printed on site, for example, raising questions about the best way to keep track of how value is transferred. One participant pointed out that this would take place against a general slowing down of global trade.

Competitiveness gains

Some suggestions were offered to make Europe attractive again. Completing the Single Market, in sectors including telecoms and finance, would bring efficiency gains and boost economic growth. But there were also mixed views on whether the priority should be to increase the EU's external competitiveness – through greater harmonisation – or competitiveness between European states. Brexit, one of the participants argued, would certainly help the latter.

Another participant stressed that more attention should be paid to the competitiveness of the EU as a whole rather than that of individual Member States. This was necessary to make the Single Market a more attractive place to do business and to ensure that the EU could compete at the global level. Three areas were singled out as key priorities for the Single Market: efficiency, freedom of movement and corporate taxation.

In terms of efficiency, there were still many overlaps between EU and national regulations that needed to be eliminated. Different approaches to a financial transaction tax, for example, prevented the creation of a truly level playing field.

A number of possible efficiency gains were cited. Regulatory harmonisation would generate savings worth about €650bn in the EU and a Digital Single Market would deliver gains of €450bn (European Parliament figures). The OECD estimates told a similar story: completing the Single Market would increase the EU GDP by 0.5%/year over a 5-year period, rising to 0.7%/year over 10 years.

EU rules on posted workers would also have to be looked at again in order to protect the freedom of movement principle which had been jeopardised by the increasing use of workers from Member States with lower wages and social rights. Concerns over these unfair practices in France, Germany and the UK were understandable.

Regarding corporate taxation, the lower rates offered by some Member States to attract companies were seen as an obstacle to the completion of the Single Market. Greater harmonisation was also needed in this area.

But for others conventional prescriptions of 'more Single Market', trade and harmonised legislation had run their course. More experimentation, a willingness to look forward and a drive to succeed was the real solution, and Brexit might be the catalyst.

Politically, Germany had an opportunity to use its dominant position to lead through compromise rather than blocking growth in Europe. A more Keynesian approach – for instance accepting a degree of fiscal stimulus in return for reforms in France - was seen as a potential way forward, though this would be difficult to sell to the German public.

The African continent represented another major opportunity for Europe. There was strong agreement that France, Germany, the UK and other Europeans should develop a major economic development plan for Africa. This would be good for European businesses and help address the root cause of the current migration crisis.



Left: Matthew Kirk and Laurence Boone (Saturday sessions)

Making a point (right): David Fost



SATURDAY 29 OCTOBER

SESSION III – PROTECTING EUROPE: DEFENCE, INTELLIGENCE AND COUNTER-TERRORISM

Chair: August Hanning

Speakers: Peter Watkins | Michael Stürmer | Jean-Louis Gergorin

- **Defence:** Will our shared NATO commitments be enough to secure our borders and our immediate neighbourhood?
- **Counter-terrorism:** How well are we doing now in protecting Europe from terrorism and jihadism?
- **Intelligence:** What scope is there for sustaining our cooperation post-Brexit?

Other areas of continued joint cooperation between ‘the Three’ included intelligence, counter-terrorism and defence. Cyber threats from Russia, China or jihadist groups were a major concern and digitalisation was making Europe even more exposed to them. France, the UK and Germany had to align their approaches to national security and involve the private sector, especially major corporates and financial players, in their conversations.

Cyber security

Participants agreed that the major strategic challenges for Europe and the West were Russia and terrorism. In tackling both of these challenges the use of information was crucial. ISIS had become a cyber caliphate, which would allow its influence to continue beyond a defeat on the ground. As well as opening up opportunities for recruitment all over the world, applications such as WhatsApp had equipped terrorist groups with commercially available, highly sophisticated encryption. Meanwhile, Russia had well understood that cyberattacks were a powerful weapon against its opponents. The alleged attack on the Democrats during the US presidential

elections was offered as one example.

Digitalisation and new technology would likely create further weaknesses in cyber security. As increasing numbers of everyday devices were becoming connected in an ‘internet of things’, opportunities for criminals and rival governments to access networks would grow. Recent attacks on Twitter and Amazon had used a technique known as DDoS (Distributed Denial of Service) which was traditionally used to take over PCs and using them to launch an attack. However, in this case a variety of connected devices were targeted. Many of them were everyday smart home technologies produced with little awareness of cyber security.

This was seen as a major issue which would require a joined up response from France, Germany, the UK and other European allies. The private sector also needed to be closely involved in these discussions. Technology companies in particular would have to pay closer attention to their supply chains. A major attack on a financial centre in London or Frankfurt would require Europeans



Peter Watkins and August Hanning (Saturday sessions)

themselves to be able to retaliate – the US could not be expected to act on their behalf. One of the suggestions put forward in this regard was the development of a Fouchet plan for cyber security, i.e. an intergovernmental structure for co-operation between France, Germany and the UK in this area. Another suggestion was to integrate France and Germany into the Five Eyes – the intelligence community consisting of the USA, UK, Canada, Australia and New Zealand. One of the participants felt that the US would be unwilling to welcome these two countries within this group. But it was certainly in the interests of the Three and the US to engage more in cyber intelligence sharing.

European defence

In the traditional defence field, trilateral cooperation was already working well and would continue to do so. The UK had no intention of reducing its commitment to European security, both through NATO and bilateral agreements. After Brexit, 80% of NATO defence expenditure would come from non-EU members. Rather than debating ‘European’ defence, Europe should talk about effective EU/NATO action. This was seen as the best way of guaranteeing Europe’s defence against major threats from its

neighbourhood, namely Russia.

At the same time, several participants urged Europe to try harder to understand Russia. The regime changes in Iraq and Libya pushed by the US and some European countries had fed its view of the West as a hypocritical hegemon. Russia was not an enemy but it was surrounded by an ambiguity reminiscent of the 19th century. It was entirely possible to have differences whilst simultaneously cooperating with Russia on areas where there was agreement such as energy, Iran and the common threat of terrorism.

CONCLUSION

The Plenary meeting of the Club of Three showed that, beyond Brexit, there remain many areas where common interests between France, Germany and the UK can prevail. The Three should not lose sight of the much bigger common challenges that they face, such as digitalisation. Tensions between the national and EU agendas would need to be settled in order to address successfully the major social and economic changes that Europe was undergoing. Failing to do so would only lead to a fragmentation of the European space.

Digitalisation, competitiveness and defence and security were all areas where Europeans could find a common purpose. There was very important work to be done there. Ultimately, the key question for Europe, more than ever, was the same as the choice the American colonists contemplated on the eve of their independence: “If we do not hang together, we shall surely hang separately”.