

# The Brexit Column

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## UK's passport might still get renewed



### Mark Essex

Mark accurately predicted the outcome of the EU referendum four months ahead of the vote. As a director of KPMG's public policy unit, he now analyses the impact of Brexit on business.

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**Y**ou can't square the circle. If the UK doesn't accept freedom of movement then it can't be part of the Single Market. And then its banks can't passport their services to the Continent. Even the financial services sector seems resigned to its fate. Their passport may yet be saved however, thanks to the competing interests of remaining EU states.

Based on analysis of European media, the statements of European politicians and the schedules of their travel and meetings, we believe the union's 27 remaining members are splitting and coalescing into rival blocs: the northern Europeans, an enlarged Visegrad Group to the east and a Mediterranean alliance, led by France.

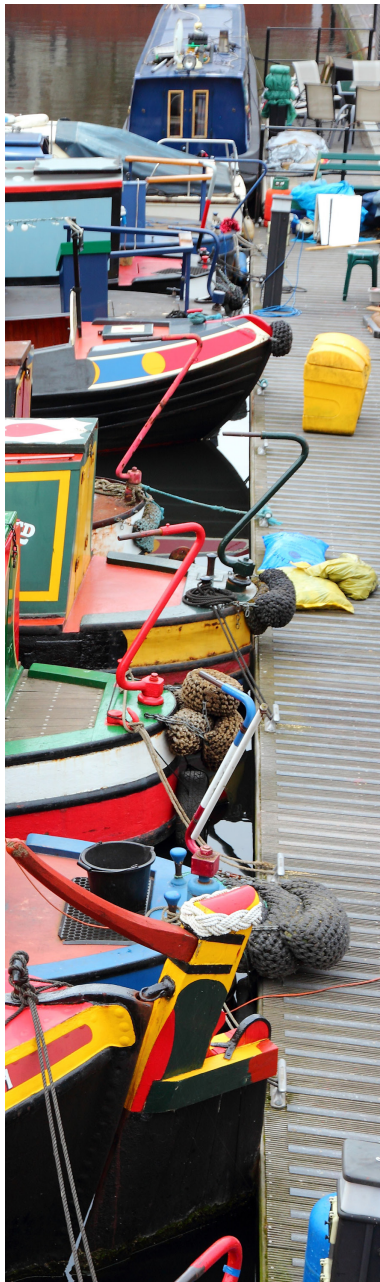
The Mediterranean group's principle aim is to stop the contagion and disintegration of the Eurozone and the wider European Union. They need to show that leaving the EU hurts – to make Brexit as painful as possible – to halt anti-EU sentiment at home and to stop other countries too. Removing the UK's passport would certainly qualify.

But, not at any price. It is unlikely that they will take the lion's share of any flight from the City. After all, where are international banks likely

to relocate to en masse? Ireland – though English speaking – lacks both the infrastructure and also the size of economy necessary to provide a backstop for the largest international banks. Paris is stymied by the perceptions of inflexibility of France's employment law and tax regime. It seems that the options for international banks favour the established financial hubs in Northern Europe. Other EU cities lack the necessary global reputation or depth of experience in finance.

Faced with tilting the economic power still further in favour of Northern Europe, 'Club Med' may decide not to cut off its nose to spite its face and save the City instead. As the sector that accounts for 11% of UK tax receipts, the Treasury will be breathing a sigh of relief.

The UK may hold on to its totemic passporting rights, but the southern European states will demand some sort of sacrificial lamb. That is why other sectors in the UK and other interest groups need to make sure the British Government understands the impact on their sector if they become the price some seek to extract.



## The thing you didn't hear at the Conservative party conference

Brexit turned it into the biggest party conference in years. The Conservative's annual gathering was always going to be significant for the clues it offered us about the deal Theresa May intends to pursue with Europe. Or perhaps just the message she wants them to hear. Either way, Brexit dominated debate inside the main auditorium and in fringe events.

However, what struck me in the nearby restaurants and bars of Birmingham – where the real horse-trading takes place – was just how Brexit had disappeared from the menu. MPs and party figures I spoke with seemed far keener to discuss industrial strategy, productivity, social reform, infrastructure investment or fiscal policy. Mentally, Brexit was a done deal. They had moved on.

There is a lesson for business in this. And by that I don't mean ignore the biggest issue facing companies since the war. No, the lesson is that business must not fixate on the issue. The government realise the scale of the challenge, they have beefed

up their response by creating two new ministries (plus support from the FCO and Treasury) and by doing so, it has (as far as is possible) ring fenced the issue, allowing the machinery of government to continue turning. Likewise, businesses need to make sure they don't drop the day to day, while rightly addressing what Brexit means for them.

My last conference-based observation concerns lobbying. Understandably, corporate Britain has never been keener to land a message, but some approaches will be more successful than others. I heard several major voices in Birmingham who seemed to think that shouting loudest would somehow bend the government to their will. It is likely to have the opposite effect.

Instead, by putting your message into a broader context, by explaining how helping you will help the rest of the economy and society, and by appreciating the fact that thousands of other companies like yours are trying to break down the minister's door, you should have more luck.

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