

## **SPECIAL REPRESENTATIVE FOR THE CITY TO THE EU, JEREMY BROWNE**

### **SWITZERLAND** 7<sup>th</sup>-8<sup>th</sup> March 2017

This was a strikingly different visit: to the most significant economy, and the financial services powerhouse, outside the EU but in Europe. Switzerland's investment in Britain's financial services sector exceeds that of the BRICs - Brazil, Russia, India and China (and sometimes South Africa) - put together.

There is a compatibility of outlook. Curiously for a land-locked country, they share some of Britain's island mentality. They also have significant overlap with Britain in their national economic strengths: financial services, pharmaceuticals, technology and science, education. It is not hard to see the basis for an enhanced post-Brexit UK-Switzerland trade agreement, unencumbered by the need to accommodate the lowest common denominator requirements of dozens of different national interests.

This will be sensitive though. Beyond the direct commercial benefits, the British government will be keen to demonstrate that the negative process of extracting Britain from the EU is not the only show in town, and that exciting new opportunities can present themselves too. It is one thing though trying to strike a deal with New Zealand, another thing dealing with a country that shares a border (and a culture) with Germany, France and Italy. That is not a reason to be blind to the potential for enhanced UK-Switzerland relations; it is a reason to have our eyes open to how that could be perceived by others in Europe.

The Swiss are quite negative about the EU. It is a big fact of life for them, but they can feel dominated and manhandled. They are engaged in a difficult and highly familiar debate about the trade-off between access to other European markets and asserting more control over immigration. Switzerland is both a super-internationalised and super-localised country; there is an obvious tension. They complain that the EU throws its weight around, but also about its institutional inertia (contrasting it with the well-organised efficiency of Switzerland). If anything, they add, the EU has got harder to deal with, as it has become more insecure and defensive. Switzerland is a fiercely independent and sovereignty-minded country.

So the Swiss see opportunities in Brexit. Suddenly they will be joined by a much bigger non-EU kid in the European playground. They are excited about 'Global Britain' as a concept and what it could mean for them. They strongly feel that there is the scope for enhanced UK-Swiss relations when these do not have to be routed through Brussels. They comment unfavourably not just about the EU's one-size-fits-all mentality and bureaucratic slowness, but also about its default protectionism. They see opportunities for acting together with Britain on the global stage: the concept of an 'F4' was floated with me: some form of greater collaboration between the financial centres in London, Hong Kong, Singapore and Switzerland.

But they are nervous too about Brexit. The endlessly repeated phrase is 'Mind the Gap': their strong nervousness about a potential British 'cliff-edge' departure, and their wider anxiety about the possibility of inadequate transitional arrangements and overall business uncertainty. They accept that it is highly likely that they will have to move activity related directly to the single market out of London, but they want to move as little as possible, and retain London as the primary European centre. The Swiss feel comfortable with how London operates, and share the familiar checklists about the limitations of various alternative financial centres within the EU27.

The Swiss also, as an interesting flip-side to their enthusiasm for enhanced bilateral UK-Switzerland relations, are worried about the loss of British influence in Brussels. They fear that the EU without Britain will become more inward-looking and less free-market. As the EU will remain as their overwhelmingly dominant trading partner, that has potentially alarming implications for them.

There is considerable interest, from the distinctive Swiss perspective, of how financial services regulation in Europe (and London) will work post-Brexit. The Commission, I was told, is technically competent and good to deal with on that level, but the politics of any agreements are harder. Britain would not want to be left at the mercy of the Commission's discretion. The Swiss preference is for global standards, locally implemented, but this relies on a degree of technical and political trust. There is concern about a 'prudential gap' forming as EU-Swiss agreements need to be modified into UK-Swiss agreements for their dealings with Britain after Brexit. But they are alive to potential opportunities too: as there will be a need to revise existing arrangements, and Britain will be less bound by equivalence (even if it remains broadly equivalent), there should be some scope for positive and innovative deviation. This is all significantly dependent on London remaining an open, global centre, and Britain remaining an active and economically liberal voice in international forums, both of which are very important for Switzerland.

For anyone who has, after 23 June, acquired an aversion to referenda, be grateful that you do not live in Switzerland: I was told that over half of all referendums that have been held worldwide (presumably since the advent of modern democracy) have been held in Switzerland. I am currently combining on-going visits to the full-range of member states - Romania, Bulgaria, Estonia and Latvia in the next fortnight - with time closer to the institutions at the heart of the EU. I have been told that a decent Brexit outcome will be "negotiated in Brussels; won in capitals": we will see, but as Article 50 is triggered the City of London should aim to try and cover as many bases as possible.

## **ESTONIA AND LATVIA**

20-23<sup>rd</sup> March 2017

There is plenty to admire in Estonia and Latvia. They both extol the virtues of free-markets, balanced budgets and entrepreneurialism. They are a pragmatic, level-headed presence in the EU. They take their security and NATO membership seriously, and there is widespread appreciation voiced for Britain's enhanced contribution to their defence.

Even so, Estonia, which holds the Presidency of the EU in the second half of 2017, will feel the need to be an honest broker on behalf of the EU27. In so much as they are able to shape the Brexit process, they will be even-handed arbiters rather than covert supporters of Britain. Or, as their parliamentarians put it to me, "limited friends for six months". They can though be reasonably relied upon to have a positive frame of mind; seeking solutions, not just accentuating problems.

It is worth remembering that security against the Russians is the overwhelming priority for Estonia and Latvia. They want a strong EU as a bulwark against Russian aggression. It is emphatically not in their strategic interest to have an EU27 structurally weakened by Brexit and vulnerable to further departures. The disintegration of the EU would be a disaster for them. But, at the same time, they also want a strong UK as a bulwark against Russian aggression. They value Britain's big defence budget and willingness to spend it on meaningful military end product, combined with Britain's leadership in NATO and close relationship with America. It is important for them to avoid unnecessary acrimony between the EU27 and the UK.

The issue for Britain is not whether Estonia and Latvia are instinctively supportive; they are like-minded on pretty much everything. The problem is their limited administrative capacity and their lack of assertiveness. It is in the City of London's interest to have the EU27 in harmony with our agenda: free-market, free-trading, outward-looking, self-confident, avoiding statism and protectionism. That will help during the Brexit negotiations and afterwards, when the success of the EU27 will be of benefit to the City of London and Britain generally. The countries with the greatest zeal for a liberal and open agenda are generally small and have looked to Britain for leadership. We should hope that they become more self-confidently assertive within the EU27.

Apart from security, the other big topic, particularly in Estonia, is technology. They are both start-up countries with the mentality to foster a start-up enterprise culture. Estonia is particularly innovative: e-medical records, e-citizenship for non-nationals, tentatively introducing artificial intelligence to file personal tax returns without any need for accountants. Their partnership relationship with London is readily understood. "Estonia is a country, not a market", I was told: with so few domestic consumers, they are outward-looking by necessity as well as by natural disposition. They have embraced capitalism as a rejection of their Soviet past. Estonians were proud to tell me that, unlike most other Eastern European countries, instead of having to liberalise their economy to join the EU they had to de-liberalise it. Much of the political debate across Europe can feel world-weary and defensive; Estonia and Latvia are small, but they are refreshingly optimistic and bracingly forward-looking.

Meanwhile, a broader perspective on the City of London has been emerging in my discussions, this week in Estonia and Latvia, but also over recent months in other meetings across the EU, and during the Brexit Bill's passage through Parliament and the debate that is being held in Britain about the next few years.

It is widely believed that the City of London has the essential attributes to be successful in the future; it needs to not lose sight of them. Britain's political debate risks being too backward looking: the NHS pledge on the bus, George Osborne's 'Emergency Budget'..... that was in the past. Success for the City of London is not turning back the clock to 23 June 2016. We did not reach the evolutionary end point of financial services on that day. The goal, so the argument goes, is not to aim to freeze those arrangements indefinitely, measuring our success by how little changes.

Instead success constitutes creating the conditions necessary for London to be the indispensable financial centre a decade from now, well after this whole Brexit process is completed. We should not be defensively focused on maintaining 2016, we should be thinking about having the most dynamic, entrepreneurial 'eco-system' in 2026. Every day jobs are created and jobs are lost in a rolling Darwinian process. In every modern economy the solution to losing some of the jobs of the past is to create more of the jobs of the future. It does not always come down to a choice between the two, and we should not be complacent about any activity leaving London, but the way that businesses have made money over the last 20 years is not a reliable guide to how they may make money over the next 20 years. A decade ago people had barely heard of 'FinTech'; now 45,000 people in London work in the sector.

Imagine we did have another Brexit referendum in 2018 or 2019 and the result was reversed: 52-48 to be in the EU. Could we then pretend the whole saga had never happened? Could we return to the world of the morning of 23 June 2016? No. The gini cannot be forced back into the bottle; the tightly packed suitcase never accommodates everything at the end of the holiday. For better or worse, we have entered a new era. It is always good to devote energy to succeeding in the new era rather than lamenting the passing of the old one. That is not a guide to the practical decisions that need to be made, but it is a suggestion for the mindset that should inform them.

The approach the EU takes towards the City of London is clearly important, but the vitality of London is not a gift of Brussels. In my many conversations, a constant theme is respect for London's creativity and adaptability. There are many admirers of the City of London across Europe who forecast a difficult and frustrating Brexit negotiating process but who are, never-the-less, bullishly confident about our future prospects.

**CZECH REPUBLIC**  
12-13<sup>th</sup> April 2017

The mood across the EU towards Brexit has softened since the initial shock after the referendum result. I do not want to overstate this shift because Britain's departure still causes sadness, resentment and anger, but it is discernible.

The initial fear was that a wave of 'populism' would wash away the established European political order and imperil the EU itself. Politicians talked endlessly about avoiding "contagion" in a way that is much rarer now. There are multiple reasons for this calmer atmosphere. The Dutch political elite were shaken but the fortress held; if Le Pen wins that would be an existential threat to the EU, but the received wisdom is that she will not, and Macron represents everything with which the EU governing class feel a natural affinity (although if an improbable Le Pen-Melenchon run-off materialises that will cause a meltdown). Theresa May's orderly approach has helped to facilitate an operational mindset. Most of all, though, time is a great healer and politicians realise that Britain, in ways which they find both infuriating and endearing, has its own distinctive outlook. Maybe, many believe, a new accommodation could be made to work in the interests of everyone.

But it would be wise not to assume anything. The immediate task is to negotiate the terms of the separation. Contentious issues like the size of the exit fee and the status of EU (and UK) nationals will cause angst for the negotiators. It should, though, be possible to achieve a result which leaves some committed combatants on both sides unhappy but which is satisfactory to the majority.

There is also scope for achieving some consensus on the final deal. Many politicians across Europe, when asked where they think EU-UK relations will be a decade from now, are cautiously optimistic. There is a determination to ensure that being outside the EU does not come with all the advantages of being inside the EU. But there is some recognition too that Britain is an exceptional case, bigger and different from Switzerland and Norway, and that a bespoke deal will need to be crafted and struck. That does not mean it will be easy. The EU will give priority to trade in goods and the City of London will need to ensure that the British government does not sign up to too much without assurances on services. Even so, where there is a will there is a way, and after endless twists and turns and prophecies of disaster, the long term relationship can be made to work, even if in some respects it will inevitably be inferior to the previous arrangements. There was interest in the Czech Republic, as there will be across the EU, in the IRSG's report on mutual recognition, and it is productive for the City to continue to put forward constructive solutions.

But what is then left is what seems most difficult: how to straddle the gap between Britain leaving the EU in March 2019 and the eventual adoption of the final deal. This is the transition. The implementation phase. Avoiding the cliff edge.

While there is a willingness to shape a bespoke deal for the final EU-UK relationship, there is no obvious appetite for a separate bespoke deal to bridge this interim phase. Many in the EU believe that the existing framework of rules will suffice during this period. That, of course, is extremely difficult for the British government. After Britain

has left the EU in 2019 it is a hard sell to say that the country should continue to be subject to the rulings of the EU. That model would cast Britain as a 'rule taker': the EU would frame the terms of trade and any disputes between the EU and the UK would fall under the arbitration of a referee employed exclusively by the bigger team. And even these problems presuppose some progress. At the moment, when Britain leaves, we have no bridge to step on to, no knowledge of how long the bridge will be assuming it eventually exists, and no certainty either of where it goes to.

That is why, in addition to 'market access' (a comprehensive final deal) and 'access to talent', the City is right to focus so much attention on the transition. The best outcome is that the maximum progress is made on the final deal by March 2019. That will allow for the bridge to be as short as possible and for much greater clarity about what exists at the other end of the bridge. There will then need to be agreements on phasing the implementation to reduce business (and political) uncertainty. An added complication is that throughout this process there may frequently be a divergence between the political calculus and the business calculus.

Still, starting the formal negotiations in the coming weeks will be helpful: getting into a rhythm of practical decision-making should change the nature and tone of the discourse, and allow practical considerations of mutual interest to come to the fore. There will inevitably still be stand-offs and grandstanding speeches, but if the grinding wheels of the negotiations continue to turn then progress will be made.

Meanwhile, the Czech Republic remains aligned with many British instincts. Suspicious of EU federalism, it stays outside the Eurozone, with no obvious inclination to join. The favourite to become the next Czech Prime Minister later this year is an avowed single currency sceptic. The Czechs default too to liberal economic solutions. Yet they also benefit from remaining tonally mainstream in the EU, rejecting the provocations and theatrics of their V4 partners Hungary and Poland.

This is all welcome, but as always with sympathetic small-to-medium sized EU countries, its value should not be overstated. They are not quick to assert themselves or take risks to challenge the EU orthodoxy. When France, claiming to represent the overall EU interest but in reality pursuing the narrow French national interest, flexes its muscles within the EU27, should we expect others with a differing perspective to speak up? We will see.

A significant disadvantage that Britain faces in the negotiations is to be outnumbered 1:27. But the 1:27 ratio has advantages too. The often stated determination of the EU27 to maintain collective positions reveals some nervousness about the multiplicity of differing and competing interests on their side of the negotiating table. Even the division of Brexit spoils is a source of potential contention. It is every city/country for itself when it comes to luring jobs away from London. Prague would also like to be the next home of the EBA, but it seems hard to believe that the bloc within the bloc - the Eurozone19 - would permit that outcome.

There remains, in the Czech Republic and elsewhere, a recognition of the scale of the City of London, and acknowledgement that inflicting excessive harm on London would have negative consequences for the EU27 as well as for Britain. The City is

making (and should continue to develop) thoughtful cases for what the long-term, permanent EU27-UK deal on financial services could look like. The Brexit specialists in the Czech government and elsewhere have an appetite for this type of detailed material. As well as being a constructive search for policy solutions, it also demonstrates London's continued intellectual leadership on financial services. Bringing our collective minds to designing interim solutions is also essential. Everybody is feeling their way through unexplored territory: providing some maps is a useful way to encourage progress in broadly the right direction. But we should not lose sight of the politics. Workable technical solutions will be essential but not sufficient: they will sit redundant on the sidelines if the political will does not exist to utilise them.

## **LITHUANIA AND POLAND**

18-20<sup>th</sup> April 2017

### **OVERVIEW**

Assuming attitudes in Poland and Lithuania are replicated around the EU, Theresa May's dramatically announced General Election is a source of much less excitement across the continent than it is in London. That is hardly surprising, partly because it is Britain's election and not theirs, but mainly because the outcome seems unlikely to change the fundamentals. Barring the most extraordinary upset, on 9 June Theresa May will still be Prime Minister, the Conservatives will still be in government with an overall parliamentary majority, and Britain will still be leaving the EU.

But that does not mean that the General Election is irrelevant, and once the more immediate and unpredictable French presidential contest is resolved, interest may well increase if the campaign in Britain proves to be more revealing than anticipated.

No seven week campaign can ever be entirely predictable; it will not be a perfectly smooth procession. Theresa May has a real opportunity to win a mandate for her brand of politics. That means radical policies should emerge that depart from the previous orthodoxies: possibly on tax, on public spending commitments, on immigration. The reputation of some senior politicians will be enhanced and that of others diminished. Ministers will be drawn further down policy paths than they may have intended. A reshuffle in June would alter the complexion of the cabinet.

A fresh mandate will allow the Conservatives to govern without further troubling the electorate until 2022. That allows for an 'implementation phase' of two years, or even three, from March 2019, without an extremely inconvenient May 2020 General Election in the middle. And might we expect some serious articulation of what the 'Global Britain' vision means in practice? On labour mobility, transport infrastructure, universities, science, and the overall alignment of government. The combination of Brexit and a more emboldened Prime Minister has the scope to be transformational and the election, despite the outcome appearing to be close to a foregone conclusion, need not be as "boring" as some may believe.

Poland remains a broadly good partner for Britain; possibly the most instinctive ally in the rest of the EU 'big six'. Comfortably the biggest EU27 country outside the Eurozone, and the de facto leader of the 'V4' grouping, it is a proper player within the EU. Whether it is always an astute and wise player is another matter. Poland's stand-alone refusal to support the reappointment of Donald Tusk, for example, felt ill-judged rather than principled.

Poland is also very narrowly focused on what it regards as its national priorities in the Brexit debate. That means a myopic obsession with the size of Britain's exit fee and the future status of Polish nationals in Britain. These are, of course, entirely legitimate interests, but there is a wider agenda too which feels under-emphasised. Poland is sceptical about EU integrationism and protectionism. In both of these areas they will be more exposed once Britain leaves the EU. Poland needs to think how it can intelligently shape the post-Brexit direction of the EU: there is a bigger picture than just being alert to opportunities for more free money. I occasionally hear



opinion formers in Eastern Europe lament the flow of wealth transfers into their economies, saying that they have distorted decision-making and allowed politicians to avoid making necessary but unpopular structural reforms, but that is very much a minority view. There will, though, need to be some adventurous new thinking across the Eastern European countries: even without Brexit the transfer funds are scheduled to dry up in the next few years.

There is limited emotional attachment in Poland and Lithuania to the City of London. Our well-being is not seen as being a strategic interest. Instead, not surprisingly but slightly depressingly, the focus is again more limited. The question they ask themselves is not 'how can Europe retain and enhance its global status in financial services provision?' but 'how can our country attract some (probably back-office) jobs from London?'. Fine, but not visionary.

I worry sometimes that the EU seems so preoccupied by a grimly transactional negotiation with Britain rather than something more bold and imaginative. Of course the terms of Brexit need to be agreed, but it would be better if everyone's sights could also be raised. How can Europe best be globally relevant and competitive in this century? How can our continent have the most dynamic economy, the best equipped defence and security services and be a beacon for education, science and innovation? How can the EU27 partner most intelligently with Britain to achieve these objectives? I know Britain made the decision to leave, but even so, it all feels rather insular and counting-the-pennies (or billions of euros). Maybe that is inevitable - and the EU approach towards Brexit has at least become more business-like - but it does not make the spirits soar.

## FINLAND AND SWEDEN (2<sup>nd</sup>- 4<sup>th</sup> May 2017)

### OVERVIEW

Here is the conundrum with the Scandinavian countries: their instincts are overwhelmingly good; their willingness to apply them - to assert themselves; to put themselves centre stage - is frustratingly limited. They are so often (unnecessarily) cautious and withdrawn.

This matters because if Sweden and Finland were leading the Brexit negotiations for the EU27 we would be much more likely to have a successful outcome. And not just a successful outcome for Britain; a successful outcome for the EU too. Outward-looking, liberal instincts would prevail. There would be much less of the brittleness masquerading as strength. The desire to achieve mutual benefits would prevail over any urge to inflict punishment.

Realistically the best we can hope for is that Sweden and Finland meaningfully participate. Their herbivorous nature prevents them from grabbing the steering wheel. Finland, in particular, possesses a dry, laconic fatalism. "The bad news about our summers", I was told in Helsinki, "is that they are very cold. The good news is that they are also very short".

As a consequence, despite seeing the EU's limitations, they still deflect to its orthodoxies. What emerges from Brussels is a fact of life. It can occasionally be questioned but not truly challenged. It is unclear what the material difference would be in the EU27's Brexit position if it had been formed entirely at the behest of Germany and France with the other twenty-five marginalised.

So Sweden and Finland talk about avoiding a protectionist EU. About their reservations about EU federalism (particularly in Sweden). About why the failure of TTIP is to be regretted and will compromise the ability of the West to set global standards. About free markets and free trade. Even, in one striking conversation, about concerns that EU trade culture places excessive emphasis on values-based imperialism rather than maximising trade opportunities. But always the default to EU "solidarity"; following the rules. I was told at one event in Sweden that the best realistic outcome for Britain would be to "accept the Norway model": that is not going to happen.

So we now have the EU Commission floating a Brexit exit fee of €100 billion as a prerequisite for merely starting negotiations that they have decreed in advance "cannot be a success". It is true, of course, that they have to create a narrative of negativity around Brexit while the British government has the opposite task. Even so, it is not necessary to be an admirer of Theresa May to see this as oddly cack-handed, especially given that the formal response by the EU to the invocation of Article 50 was more deft. Some brinkmanship is inevitable, but it requires good judgement about where the brink is. The inability of Brussels to comprehend British politics, or read the British character at the most elementary level, is bewildering;

reckless even. It is true that the British often suffer from similar failings, but the relevant consideration with Brexit is the interaction between the EU and Britain. If Croatia was leaving we would all have to brush up on the psyche of the Croatians, but they are not.

It still seems most likely that the negotiations will ultimately succeed, or at least not wholly fail. But it would be a mistake, I think, to be too worldly wise and assume that the current positioning is all posturing. Prudent businesses would be sensible to plan for two main scenarios: departure on the terms broadly outlined by Theresa May (most notably leaving the single market) and departure with no terms at all. The latter would be a monumental failure, demonstrating to global observers the continent of Europe's lack of seriousness. Critics of Theresa May would paint this outcome as her failure, but the maladroit handling of the Commission would also come under the spotlight. In Sweden I was told that the inability to deliver an outcome would reflect badly on the Commission, which has been trusted to lead on the negotiations, including by member states which have the strongest desire to see a functioning and broadly harmonious future relationship with Britain.

Theresa May's likelihood of a significantly increased parliamentary majority can play both ways. It is true that it gives her greater numerical protection from those in her ranks who are most hardline towards the EU. That may be useful if, for example, she feels during the transition phase that it is necessary to compromise Britain's sovereignty by conceding some oversight by the EU, as a necessary interim position to reach a better final outcome. The credit she has established with her own party would also be helpful in this scenario. On the other hand, the Prime Minister's greatly enhanced personal authority would make it more feasible for her to walk away if she believed that the EU was being impossibly intransigent. Her domestic political opponents will discover on 8 June whether their alternatives to Theresa May's version of Brexit command widespread popular support.

I hope the Prime Minister, when time is available, can also attend the Northern Future Forum: an alliance of Norway, Denmark, Sweden, Finland, Iceland, Estonia, Latvia and Lithuania. David Cameron's association with this grouping was hugely appreciated. It matters to Britain how the EU27 evolves after Brexit, and these countries (those in the EU) will make it a better organisation if they are emboldened to adopt a forward stance. At the same time Britain must develop other associations, in Europe and around the world, and few, if any, will be friendlier and more like-minded than this one.

Meanwhile, in my conversations in Sweden and Finland and elsewhere, the demands of the City are constantly relayed and our perspective sought. On the limitations of equivalence. On the potential for mutual recognition. On the need for "access to talent" to feed our 'ecosystem'. On the desirability of predictability and stability. On the smoothness of the transitions. On the sheer scale of London, and why the alternative, for the foreseeable future, to it being Europe's global financial centre is Europe not having a global financial centre. Our expertise; our vitality; our indispensability. All of these are discussed, constantly, and faithfully recorded in the record of the meetings below. Whatever happens all will not be lost, but without the political will to reach a satisfactory negotiated outcome, this risks all becoming somewhat secondary.....

## ITALY (ROME) AND AUSTRIA (17<sup>th</sup>-19<sup>th</sup> May 2017)

### OVERVIEW

Italians retain a sentimental affinity for Britain. More conciliatory than the French or Germans, they believe Brexit must necessitate pain but feel some unease about the process and its consequences. Nor are they entirely reflex in their adherence to 'ClubMed' stereotypes: they value Britain's promotion of free markets and budget discipline, as a corrective to some EU default instincts and, perhaps, as an implied rebuke to some of their own impulses too. Italy is not always well run but it remains at heart an entrepreneurial trading nation.

There is some interest in the British General Election. Most EU audiences are reconciled to Brexit now, but Italians remain curious and confused as to why the British seem to be so unambiguously reconciled too. There is interest in the phenomenon of the 're-leaver': the sizeable segment of the British population that voted 'Remain' but believes the outcome of the referendum should be delivered in good faith. Theresa May's dominant domestic position on Brexit, and her distinctly European instincts on markets and the role of the state, are noted in the context of the negotiations. There is considerable appetite now for getting the show on the road once the British election has happened, and some belief that beginning detailed negotiations could enable everyone to move on productively from the mildly unedifying pre-fight 'trash talk'.

At the heart of everything sits the same recurring dilemma for both the British and the EU27. The British must decide between a sovereignty-inspired freedom to diverge from the EU27 rule book and the pragmatic business benefits of maintaining some alignment. The EU27 must choose between also leaning towards business-friendly pragmatism or a conscious pursuit of non-cooperation to demonstrate to the potentially faint hearted that "Brexit cannot be a success". The interesting political territory is the grey area in the middle and the willingness and ability of both sides to enter it.

Euro clearing is a case in point. Nobody disputes that the system currently works in practice, but the EU27 (or, more specifically, the Eurozone) has a supervisory and quasi-nationalistic desire to prevent business continuing as usual in London post-Brexit. There is a technical dimension to their position, but they are also affronted by the idea of London remaining brazenly unaffected. The London perspective tends to be coldly pragmatic: 'if it ain't broke, don't fix it'. The EU27 will counter that it is broken, not in operational terms, but because it is not acceptable to them for the fate of their currency to be in the hands of a 'third country'. London counters, accurately, that fragmenting this activity will drive up risk, increase costs and probably divert some activity to New York, to the detriment of the economic self-interest of the EU27. These are the circular conversations I have, endlessly. The most fertile grey area for the politicians to explore is whether they are willing to substantially retain Euro clearing in London but with meaningful supervisory input by the EU27. That would require the EU27 to make a concession to pragmatism and the British to make a concession on sovereignty. It is not ideal for either side but it may represent the

best solution. It is impossible to divorce the politics from the practicalities: these trade-offs will keep unavoidably appearing throughout the negotiations.

The EU has become less paranoid about post-Brexit contagion, but it remains deeply uncertain about its future. All around are existential threats: uncontrolled immigration, terrorism and security, low growth and debt, Eurozone instability, an ageing population, the rise of China, the posturing of Trump.... and Brexit. The best future for London is 'Global Britain': an unambiguous attachment to free markets, free trade and free thinking. It is by no means certain that this will be the outcome, with immigration and tax policies being crucial indicators. Likewise, the best future for the EU27 is 'Global Europe', but the temptation is to follow instead the path of protectionism and insularity. It is comforting to believe that the world revolves around Brussels but it does not feel that way in Beijing. So throughout the Brexit negotiations it would be best if both sides looked outwards and forward. The choice is often framed during my conversations as being between protecting and enhancing the single market or sealing a mutually-beneficial deal between the EU27 and Britain, with the former being a greater priority for the EU. I am not sure that our continent, needing to remain competitive and relevant, can afford to choose: the two objectives are not as irreconcilable as some believe and we need both.

Milan, meanwhile, remains interested in jobs relocating from London, as do very many other cities across Europe.

Austria, bordering Italy but culturally so different, is hard to categorise. It sits in no neat group: not a founding Treaty of Rome country, nor part of either the Southern or Eastern European wave of joiners. It remains outside NATO, even though its former Soviet Bloc neighbours are now members, yet retains military service. Its business-like competence is attractive to British sensibilities, yet Austria is non-aligned with Britain in its leaning towards both EU integrationism and protectionism. They are leading exponents of a FTT. Hostility towards TTIP is part of a deep culturally conservative desire to protect the purity of its Alpine life. Uneasy, as the Germans often are, about the spirit of 'Anglo-Saxon' capitalism, Vienna never-the-less is a regional centre for banking services, reaching into bordering countries to the east, and hosts some World Bank activities. It would like to host the EBA too, but so would every city.

Austria's government has a 'Brexit team' which includes its central bank. But it feels, justifiably, much less exposed to potential Brexit fallout than many other EU countries. By far and away its biggest trading partner is Germany; the next biggest is a massive gap before a list of the rest. Britain is not irrelevant, but no country except Germany is of existential relevance.

Austria would probably like post-Brexit Britain to keep close regulatory connections with the EU; that is generally the preference I encounter. The issue, though, as always, is what sovereignty Britain may have to dilute to stay aligned with the European family, and, in exchange, how willing the EU27 may be to allow Britain to participate in family discussions. Most central banks and finance ministries are open to pragmatic solutions, but not very flexible in their willingness to accommodate outsiders, which is what Britain will become. The Austrians wonder whether Trump may force Britain's hand: if the Americans go in one direction, and the Europeans

respond by consciously going in the opposite direction, could Britain feasibly stand alone or would it be forced to make a big choice?

There is excitable speculation across the EU over the future location of the EBA; relocating agencies is a tangible Brexit dividend. It has been said that the Germans might support Vienna, but that trail seems to have gone cold, and the Austrians appear more confident about bidding for the Medicines Agency (which every city also wants, and some speculate that Paris might get as a consolation for failing to land the EBA). The word now is that the EBA could end up in Frankfurt, where it may or may not eventually be merged with EIOPA. There are mixed opinions across the EU27 about the desirability of Frankfurt as the winning location. Some see the merit in concentrating activity in Frankfurt, and there is a federalist appeal too in building a pan-EU hub (the sort of idea that would normally excite the French, but this is all unwelcome news for Paris). Others have some concern, expressed *sotto voce*, about even greater German domination being the outcome from Brexit. Theoretically the EBA could even go to an EU27 country outside the Eurozone, but it seems highly unlikely: the opposite impulse - to circle the wagons around the core - is dominant.

As we wait for the Brexit negotiations to begin, people across the EU27 are pleased with their unity. Their mood is fairly bullish. Some uncommon alliances have emerged: the net recipients and the net contributors, for example, both agree that there is a better option than making any changes to their budget or increasing financial discipline: get the British to pay an inordinate amount of money instead. Their collective ability to read the British public or political instinct remains pretty poor, but I am not sure that most in the EU27, if they acknowledge this shortfall, think that it matters. On the face of it, their minds are clear: the EU is the imperial power and holds all of the cards. This is the context behind the demand for €100 billion from British taxpayers and the anti-May briefings. To suggest that less bombast may lead to a superior outcome is to risk being cast as delusional. I suspect some quieter voices across Europe may have concerns that the EU27 seems neither to have a Plan B nor to believe that their dominance will require them to ever need one. But they also think the British government is even more inflexible and unrealistic. This shadow boxing is almost over, and it was Mike Tyson, appropriately, who said "everyone has a plan, until they get punched in the mouth". We will see soon enough how well the plans on both sides stand up to rigorous examination.