# BREXIT

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## EARLIER EDITIONS



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*REUTERS/Neil Hall*

# May's Brexit plan likely to survive parliamentary assault

*By William James*

Prime Minister Theresa May's plan to leave the European Union is expected to survive weeks of intense parliamentary scrutiny, which started on Tuesday, despite pro-EU lawmakers' attempts to force the government to rethink its strategy.

May's government is seeking approval for a new law giving her the right to trigger Article 50 - the legal process for leaving the bloc - after the Supreme Court ruled last week that she could not take that decision unilaterally.

"This bill simply seeks to deliver the outcome of the referendum - a decision the people of the UK have already made. They will view any attempt to halt its progress dimly," Brexit minister David Davis told lawmakers at the start of a two day debate on the bill - the first stage in the lawmaking process.

Some lawmakers will try to use the legislative process to press May to reveal closely-guarded details of her negotiating strategy, give parliament and devolved governments more say over the exit talks, or even block Brexit entirely.

But Conservative leader May's majority in parliament means her plan to start Brexit negotiations by the end of March is currently expected to pass through parliament's legislative process relatively unchanged and on time.

"I suspect at the moment there isn't going to be enough for a majority for any amendment," a source close to cross-party discussions on the legislation told Reuters.

Disquiet among Conservative lawmakers, many of whom campaigned for Britain to remain in the EU, has so far been contained after May last week bowed to pressure to set out her Brexit plan in a formal policy document.

"The bottom line is that there is very, very, very little appetite for Conservative MPs (Members of Parliament) to back any amendments," the source said.

**"HARD BREXIT"?**

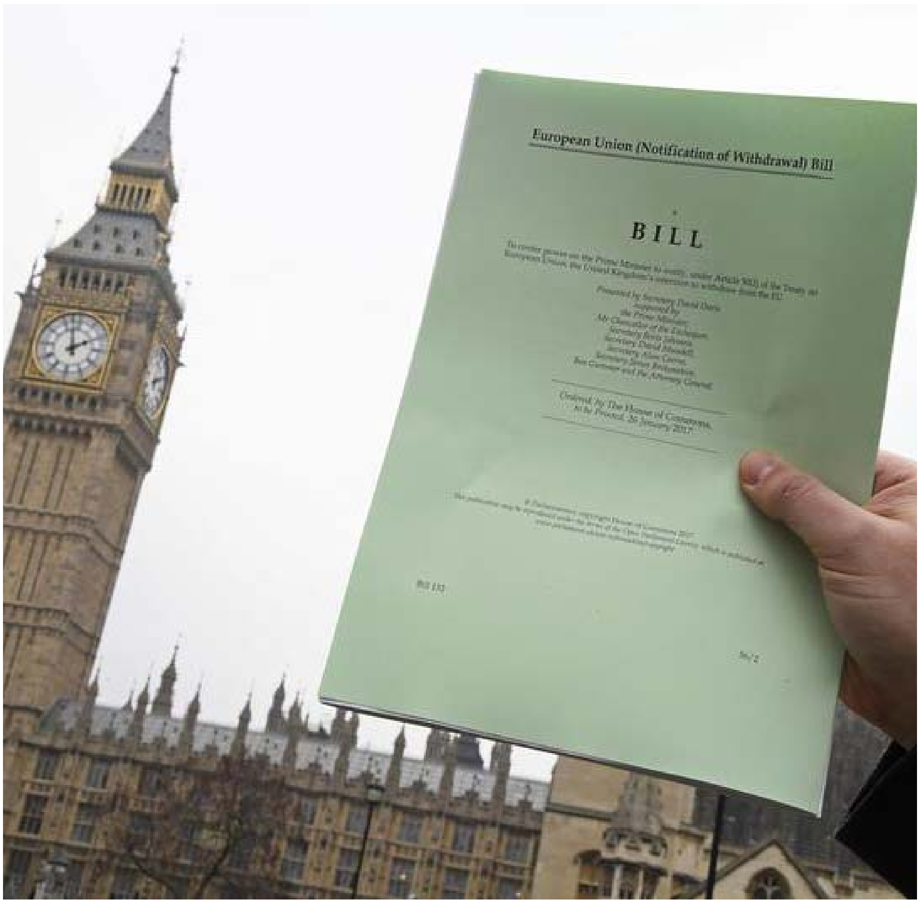
The second largest party, Labour, called for more parliamentary scrutiny of the Brexit process, but has said it will not ultimately try to thwart it. Several Labour MPs disagree with this stance and will oppose the law.

Lawmakers who disagree with the government's plan to leave the EU's single market and negotiate a free trade deal with the bloc - a strategy described by some as a 'hard Brexit' - are gearing up for a fight.

Five separate amendments designed to halt the bill before it can become law have been submitted by lawmakers from different opposition parties. One of these motions, written by the pro-EU Scottish National Party, will be put to a vote on Wednesday.

"Today's debate falls shamefully short in time and in detail and that is why SNP MPs will be voting against the bill proceeding," SNP lawmaker Stephen Gethins said in a statement before the debate.

In addition, 85 pages of proposed amendments to the short two-clause bill have been submitted for debate at later stages in the parliamentary process, seeking to change the law for a wide range of reasons.




*A journalist poses with a copy of the Brexit Article 50 bill, introduced by the government to seek parliamentary approval to start the process of leaving the European Union, in front of the Houses of Parliament in London, Britain, January 26. REUTERS/Toby Melville*

FACTBOX

# Could parliament change Britain's Brexit legislation?

British lawmakers have submitted 60 pages of proposed changes to legislation published last week which will give Prime Minister Theresa May the authority to start Britain's exit from the European Union.

The bill, consisting of only two clauses and less than 150 words in total, was drawn up after the Supreme Court ruled May could not trigger the legal 'Article 50' exit process without the approval of parliament. May wants to start the exit process by the end of March.

Below are the details of amendments submitted so far and how they will be discussed in parliament in a debate beginning on Tuesday.

*A bus and taxi pass Big Ben on Westminster Bridge in London March 10, 2012. REUTERS/ Kieran Doherty*

**KEY POINTS**

- Amendments seek to change the meaning of the legislation, or attach additional conditions to it. These range from changing the purpose of the bill significantly to minor technical alterations.
- Any amendments will need to win approval in both houses of parliament, and as such are unlikely to pass unless a substantial number of the ruling Conservative party rebel against their leader. There has so far been no indication such a rebellion is likely.
- May's Conservatives have an overall majority in the elected lower chamber of parliament, the House of Commons.
- The Conservatives do not have a majority in the unelected House of Lords.
- A 'Reasoned Amendment' seeking to scupper the legislation will likely be voted upon on Wednesday. It is not expected to win sufficient support to derail the government's plans.
- The first batch of substantial amendments will then be debated in the House of Commons next week during a three day 'Bill Committee' debate due to start on Feb. 6. Votes are expected to be held during this stage.
- Not all proposed amendments will be debated, or will make it to a vote.
- There is currently a fixed timetable for the debate in the House of Commons. Amendments are not expected to slow this down. If there is insufficient time to debate amendments, they will be voted upon without debate.
- There is no fixed timetable yet in the House of Lords, but Labour and Conservative Party sources have said there is a willingness to ensure the legislation can be passed in time to trigger Article 50 by March 31.

**PROCESS**

Any Member of Parliament (MP) can submit a proposal to change the bill which is formally known as the 'European Union (Notification of Withdrawal) Bill'. These amendments are then grouped according to their aims by parliamentary officials ahead of the committee debate. Some are rejected on technical grounds such as being outside the scope of the original bill. The final say on which amendments are selected for debate will rest with deputy speaker Lindsay Hoyle. These amendments are first discussed and voted upon at the committee stage of legislation under broad subject groupings. If MPs vote in favour of a particular set of amendments, they are carried forward to the 'Report Stage' where they will be debated in more detail.

Similar amendments are likely to be consolidated and redrafted at this stage and new amendments can also be introduced.

Amendments passed at this stage will be incorporated into the bill and subject to a final vote, after which it is then passed to the House of Lords, where it will undergo a similar process.

Both houses must agree on the final draft, and the bill can be passed back and forth until they do.

**PROPOSED AMENDMENTS**

The amendments submitted so far have been grouped into the following categories:

1. **PARLIAMENTARY SCRUTINY**

Currently proposals include changes to ensure that the government reports regularly to parliament on its progress in exit negotiations with the EU, and calls for a debate prior to triggering

Article 50 on whether Britain should remain a member of the EU's single market.

2. **DEVOLVED ADMINISTRATIONS**
These include creating a duty to consult the Scottish parliament and demands for devolved administrations in Scotland, Northern Ireland and Wales to be given a greater say in agreeing Britain's negotiating aims.

3. **VOTING ON BRITAIN'S FINAL EU EXIT DEAL**
May has promised to give MPs a vote on whether to accept the deal she has negotiated for Britain with the EU. Amendments to the bill include calls for more negotiating time if lawmakers reject her deal and even a second public referendum on the terms of the exit package.

4. **IMPACT ASSESSMENTS**
Some lawmakers want to change the bill to make the government publish their assessment of how different aspects of Britain's exit will affect various sectors such as climate change, equality and the public finances.

5. **NEGOTIATING PRIORITIES**
Several amendments in this large category seek to legislate to define what the government can and cannot negotiate with the EU. Some seek to ensure the rights of EU nationals living in the UK are protected, others look to guarantee visa-free travel between Britain and the EU.

Some amendments call for the government to publish a clear plan of its negotiating strategies.

## "Show me the money": divorce first, then trade deal, EU tells UK

*By Alastair Macdonald and Jan Strupczewski*

Since Prime Minister Theresa May set out her Brexit goals last week, interest in Britain has focused on the future trade deals she may one day strike with the United States and other powers, as well as with the European Union.
In Brussels and European capitals, that looks like putting the cart before the horse. "They're talking about their future relationships," said one EU official preparing for talks with London. "But first we need to get divorced. This is not going to be easy. Frankly, it's going to be very, very messy."
In diplomatic language, the European Commission's spokesman Margaritis Schinas told a news conference this week: "First, one needs to agree on the terms for an orderly separation and then, on the basis of this, build a future new, good relationship."
As with other divorces, the bitterest battle may be over money. And there is no certainty that any settlement can be agreed at all.
"Britain’s payments to the EU budget and the issue of the EU quickly starting talks on an FTA (free trade agreement) with Britain will be linked," said a second senior EU official.
"There cannot be discussions of a future relationship without first regulating the issue of an orderly separation."
EU negotiators reckon Britain has a weak hand to play; May must accept a two-year guillotine on talks that she hopes will end with a deal to keep "maximum" British access to EU markets while pulling Britain out of the single market and its obligations.
Put simply, if May wants to draft an FTA in only two years as she says -- a goal that prompts head-shaking in Brussels -- continentals think they can hold her hostage with the threat of trade tariffs from 2019 unless she settles British debts.
Many discount as bluster May's warning that she would rather have no deal than a bad deal, walking away without free trade and daring continentals to take a hit to their own exports. But some diplomats voice concern that London may be tempted to flounce out without paying EU bills worth tens of billions.

*European Commission Chief spokesperson Margaritis Schinas is seen during a plenary session at the European Parliament in Brussels February 24, 2016. REUTERS/Yves Herman*

**YOUR BILL: 60 BILLION EUROS**

May insists Britain wants to remain a friend and constructive partner for the EU. It would hardly enhance Britain's reputation among future global trade partners to flee with bills unpaid.

The other EU member states want it to pay its share of the spending commitments that were agreed when it was a member, stretching out some years, as well as possibly funds to cover the pensions of British EU staff.

There will, however, be differences over the size of the bill, estimated informally by EU officials at very roughly 60 billion euros -- more than Britain spends on defence each year.

"I can see this turning very bloody over money," said a person who has had preliminary contact with negotiators on both sides. EU officials have prepared arguments to counter suggestions that Britain should be credited with a share of EU assets - buildings, say - to offset what it will owe Brussels on leaving. The bloc's negotiators will argue that Britain was not asked to pay extra for a share of existing EU assets when it joined in 1973, so it has no right to demand repayment of any share now. Filling the hole left by the bloc's second biggest economy in the EU budget is already causing jitters as the remaining 27 brace for the seven-yearly blood ritual of financial planning.

German leaders see a grim prospect of picking up the biggest tab, while the ex-communist eastern states, who are the major net beneficiaries of EU spending, fear they will lose out.

British officials say they can use the money card to divide the 27. On the EU side, diplomats are saying that if London tries that, it will find its hopes of a quick free trade deal put on hold.

Other knotty issues to be settled in the withdrawal treaty include border arrangements, notably in Ireland, and the rights of EU and British expatriates. Brussels has accused May of underestimating the problem by calling for a deal on that right now.

INTERVIEW

## UK lawyer plots legal bid to make Brexit reversible

*By Michael Holden*

As British lawmakers gather to debate whether to trigger the formal exit from the European Union, London lawyer Jolyon Maugham is building a case which he hopes will ensure that British voters can still reverse it.

The 45-year-old tax specialist, an opponent of leaving the EU, said it was right for Prime Minister Theresa May to start the exit process, but voters should also have a right to change their minds if parliament rejects the terms she negotiates.

He filed a case in Ireland last week that he hopes will go to the European Court of Justice (ECJ) in Luxembourg, to establish that Britain can reverse the exit process without requiring permission from the other 27 EU members.

*British lawyer, Jolyon Maugham poses for a portrait near his law firm chambers in London, Britain, January 30. REUTERS/Toby Melville*

Maugham told Reuters at his offices in central London he believed last year's referendum meant parliament should vote to give May the authority to invoke Article 50 of the EU's Lisbon treaty, which would pull Britain out of the bloc in two years.

"But we have a very uncertain political climate, economic climate, defence climate. The world is changing fast, we cannot know what the world will look like in two-years time," he said.

"We cannot know that what we regarded as being in our national interest in June of last year will continue to be in our national interest in two years from now."

By establishing the legal principle that voters can change their minds, Maugham said he hopes to keep the debate over the wisdom of Brexit alive as a political issue.

"If revocability is established, people will continue to ask the question whether in this fast changing and uncertain world Brexit is in the national interest," he said.

A bill authorising May to invoke article 50 starts its route through parliament on Tuesday, expected to pass overwhelmingly.

Although most members of parliament campaigned to stay in the EU, most, including the leader of the centre-left opposition Labour Party, say they will vote to uphold the result of the referendum, which "leave" won with 52 percent of the vote.

May has said that she will put the final deal she reaches at the end of negotiations to parliament for a vote, but that if parliament rejects it, Britain would have no choice but to leave the EU anyway, without any trade agreement with the bloc. Maugham said that all-or-nothing stance means parliament cannot hold the government to account. "It dawned on me without a viable alternative to rejecting the deal the government negotiated, parliament had no ability to control the government," he said.

The legal question of whether Britain could change its mind and revoke article 50 is still open. Government lawyers have said the process cannot be reversed, but even David Davis, the cabinet minister in charge of leaving, said he was unsure.

"We don't intend to revoke it. It may not be revocable. We don't know," he told parliament's Brexit committee in December.

European Council President Donald Tusk has said he believed Britain could unilaterally withdrew its request to leave. One of Article 50's authors, John Kerr, a former British ambassador to the EU, has also said Britain could change its mind.

**POSITIVE EUROPEAN VIEW**

Maugham said his warm feelings for Europe were shaped by a year studying in Belgium on an EU-sponsored programme.

"It gives you a very fixed, positive view on the desirability of an open and progressive Europe," he said.

He advised former Labour leader Ed Miliband on tax issues ahead of an election in 2015, and has set up the Good Law Project which aims to use legal challenges to "advance a progressive, responsive and forward-looking society".

The day after the June referendum, as he attended a festival at his daughters' school, he began formulating ways to hold a second vote. Within a week he was working on a crowdfunding project for what would become a successful legal challenge that forced May to seek parliament's approval to trigger Article 50.

He has since raised 70,000 pounds through crowdfunding for his Dublin challenge.

One obstacle is that the ECJ does not rule on hypothetical questions. However Maugham said he did not view the question of whether Britain could reverse Article 50 as hypothetical.

Brexit supporters have accused those like Maugham of usurping democracy by using the law to thwart the will of the people. Gina Miller, the investment manager who fronted the successful court challenge requiring lawmakers to approve the triggering of Article 50, became a hate figure in Britain's right-wing press and received death threats.

Maugham said there was nothing anti-democratic about establishing the principle that voters can change their minds.

"I do think the people were misled. What happens if the promises that Brexiteers made about sunlit uplands, extra money for the NHS (state-funded health service), no VAT (value-added sales tax) on domestic fuel, wonderful trade deals with the rest of the world -- what happens if those come to nought?"

"What if the economy turns sour? If the people come to agree with me, I think it would profoundly damaging to democracy and profoundly bad for a country we all love if we were forced to Brexit anyway."

## Tens of thousands protest in cities against Trump's travel ban

*By Alistair Smout*

Tens of thousands of people protested in London and other British cities against President Donald Trump's ban on entry to the United States by refugees and people from seven predominantly Muslim countries.

Thousands of people, some holding placards reading "No to Racism, No to Trump", "Dump Trump" and "I stand with Muslims", joined a protest on Monday outside the Downing Street residence of Prime Minister Theresa May, the first leader to visit President Trump.

REUTERS/Stefan Wermuth

Some chanted "Shame on May" for her offer to Trump of a visit to Britain while 1.5 million people signed a petition calling for Trump's planned trip - which will involve lavish displays of royal pageantry and a banquet hosted by Queen Elizabeth - to be cancelled.

"It's a lot worse under Trump than I was expecting, because it's only been 10 days but he's changed so much already," Rawnak Jassm, a 23-year-old British-Iraqi, who joined the protest, told Reuters. "It's pretty scary."

Trump's immigration order, which

was signed just hours after his meeting with the British prime minister in Washington, has soured May's attempt to show that post-Brexit vote Britain can have a "special relationship" with the world's superpower.
Some British voters, including thousands on protests across Britain, have expressed concern that May has failed to criticise Trump sufficiently for his temporary ban on travel to the United States by people from Iran, Iraq, Syria, Libya, Somalia, Sudan and Yemen.
While the protests in Britain were smaller than those in the United States, they illustrate how Trump's first days in office have had a sometimes unexpected impact on politics across the world, even in some close allies such as Britain.
Trump said the new controls were aimed at securing the United States by keeping out radical Islamic terrorists, but protesters in Britain said the measures were racist and anti-Muslim. Trump has denied the measures are anti-Muslim.

**"THERESA THE APPEASER"?**

Jassm, on the protest outside Downing Street, expressed anger at May's lack of criticism of Trump and urged the prime minister to stand up for the rights of all people.
"We have to campaign and make sure May stands up for the rights of everyone everywhere," said Jassm, who is a project manager in local government.
May's attempt to court Trump, who hailed Britain's June 23 vote to leave the European Union as a "wonderful thing", came in for particular criticism with some saying Britain was now in a weaker position after the Brexit vote.
"With Brexit, they have to go around the world, cap in hand," said Rhys Edwards, a 29-year-old art consultant who attended the London protest.
One picture of May at the protest was adorned with the words: "The lady don't protest enough". Another read: "Theresa the Appeaser".
May, who wants to control immigration from the EU after Brexit, said on Monday that Britain has a different approach to immigration but that the United States was a close ally and that the invitation to Trump stood.
"The United States is a close ally of the United Kingdom, we work together across many areas of mutual interest and we have that special relationship between us," May said.
"I have formally issued that invitation to President Trump and that invitation stands."


## France to hold London roadshow to lure finance jobs to Paris

*By Maya Nikolaeva, Jean-Baptiste Vey and Michel Rose*

French authorities will head to London next week for a roadshow to try to lure financial jobs to Paris which will show off the French capital's advantages versus Frankfurt as an alternative to Britain's financial centre.
Valerie Pecresse, the head of the wider Paris region and Gerard Mestrallet, president of France's finance industry lobby Europlace, will next Monday meet executives from BlackRock, Bank of America Merrill Lynch and others to present a study by McKinsey, aimed at highlighting the attractions of Paris.
In the run up to Britain's June vote on Brexit, leading financial firms said they would move jobs out of the country if there was a vote to leave but have set out few details since on how many will go or where to.
"The battle narrows down to Paris and Frankfurt," a spokesman for Pecresse told Reuters.
HSBC, Europe's biggest bank, has said it could move a part of its operations to Paris. HSBC already has a large subsidiary in Paris that holds most of the licences needed by an investment bank.
"There will be others," one French minister, who declined to be named, told Reuters.
Paris has a network of international law firms and asset managers and the city is also home to the European markets authority, ESMA and has its own financial supervisor, which looks after some of the largest banks in the eurozone, French officials say.
"We have a very good supervisor and that's important for American banks," a source at the French finance ministry said.
Also in Paris's favour is its status as Europe's only other "world city" alongside London, with some of the most-visited cultural attractions in the world and the headquarters of many multinational companies, French authorities say.
Germany is also on a charm offensive to attract finance jobs from Britain. The country's senior regulators met about 50 envoys from foreign banks on Monday to explain how they could move business to Europe's biggest economy after Britain leaves the European Union, German financial watchdog Bafin said.
Beyond the financial sector, Paris's allure has recently been boosted by an influx of investment in its tech sector, with Facebook choosing the French capital to open its first ever start-up incubator.
But French officials have

*The financial district of La Defense is seen at dusk near Paris, France, January 5. REUTERS/Christian Hartmann*

acknowledged France's strict labour laws can put off businesses.
The finance ministry source said the French administration was working on ways to allow firms to lay off teams of 50 people or so more easily, but this could not be implemented before the presidential election this spring.
Nordine Hachemi, chairman and chief executive of Kaufman & Broad, a France-based property developer and builder, is optimistic about Paris's attractions but expects any actual moves to take time.
"We should be realistic, no-one is going to rush to settle in Paris," Hachemi told Reuters, adding that he saw no impact from Brexit on the property market with regards to companies considering relocation plans. "This will take time ... There is competition with other European cities, there is no impact at this stage," he said.
Behind the scenes though, companies and employees are already making enquiries with French institutions about practical matters.
Ecole Internationale Bilingue, one of Paris' most prestigious bilingual schools, told Reuters they received quite a lot of registration requests from British-based families who were concerned about the consequences of Brexit.

## Germany talks to banks about Frankfurt move after Brexit

*By John O'Donnell*

Germany's top regulators met about 50 envoys from foreign banks on Monday to explain how they could move business to Europe's biggest economy after Britain leaves the European Union, German financial watchdog Bafin said.
Bafin, which has been approached by numerous banks in recent weeks, said it answered questions from the banks such as how to get a banking license in Germany. One official said representatives of about 25 banks had attended.
Peter Lutz, a Bafin official in charge of bank oversight, said the authorities wanted to help banks considering a move to understand the rules in Germany.
"Foreign banks are welcome," Lutz said, adding that U.S. banks, "real UK banks", as well as lenders from Japan and Australia had attended the meeting.
He said he had made clear that strict rules would apply. "It's not enough to have a letter box here," he said, adding that senior managers must also be based in Germany.
The meeting underscores a growing willingness to consider alternatives to London, after Prime Minister Theresa May said that Britain would leave the EU's single market, a move that would isolate the City of London from many


*A sign for Bank Street and high rise offices are pictured in the financial district Canary Wharf in London October 21, 2010. REUTERS/Luke MacGregor*

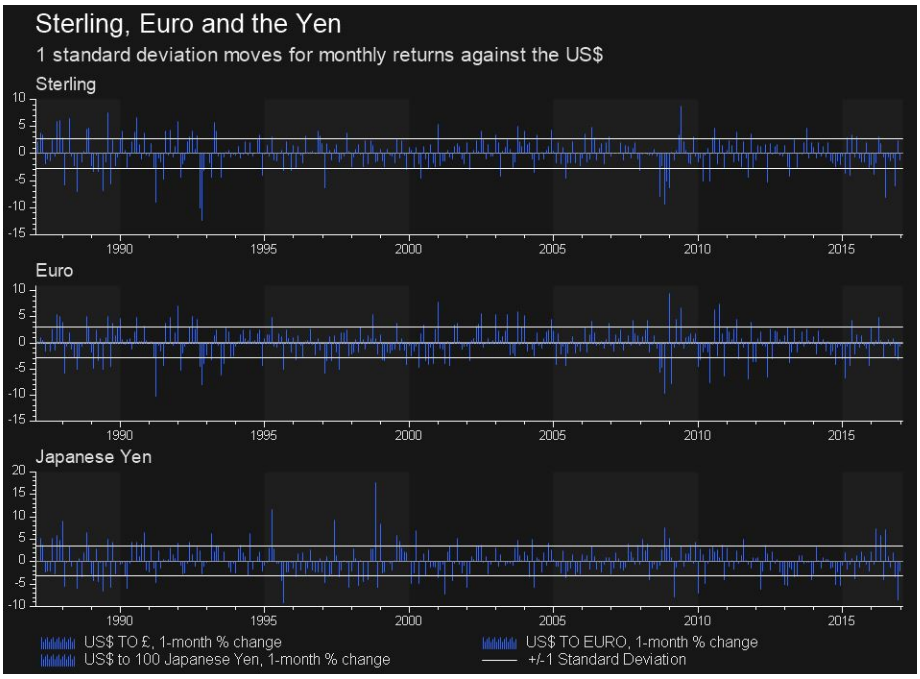
European clients.
Executives, chiefly those in charge of regulatory issues, from banks including Morgan Stanley, Goldman Sachs and Citigroup were to attend the meeting in Bafin's Frankfurt offices, people familiar with the matter have said. Those banks declined to comment.
Many Germans are sceptical of the aggressive practices of largely U.S. and British investment banks.
Nonetheless, the country's politicians are seeking to show a friendly face to banks in London searching for alternative locations in the European Union to continue selling in the bloc once Britain leaves.
May has said her government will invoke Article 50 of the EU treaty, starting two years of negotiations to arrange Britain's departure, by the end of March.
Frankfurt looks set to be one of the biggest winners from any exodus from London.
Hubertus Vaeth, head of Frankfurt Main Finance, a group backed by local government to promote the city, has predicted that 10,000 jobs will move from London to Frankfurt over five years, with investment banks among the early movers.
Lutz said that no bank had yet signed up to move and that he expected decisions to be made around the end of March.
Germany's economic strength and the fact that Frankfurt is home to the European Central Bank makes it attractive for banks.
But it faces hurdles. There is a shortage of housing, while the region's 13 international schools are already well subscribed. Nightlife in the city - where many bars are largely empty for much of the week - is also seen as a turn-off.

GRAPHIC

## Despite Brexit trauma, sterling is no more volatile than euro, yen

*By Jamie McGeever and Vikram Subhedar*

One narrative that has emerged from the fog surrounding Britain's exit from the European Union is that sterling has gone from being a long-established global reserve currency to one of the most fragile and volatile currencies in the world.
The line is a good one, made more compelling by the plunge of as much as 20 percent against the dollar following June's Brexit referendum that made the pound one of the worst -performing currencies last year, ahead only of devalued ones like the Egyptian pound and Nigerian naira.
Extending the emerging market analogy, Britain's current account deficit means sterling needs huge foreign capital inflows just to stay stable, and is being buffeted as much by unpredictable political developments as traditional economic fundamentals.
But is it accurate?
A Reuters analysis of foreign exchange market volatility and positioning over the last 30 years shows that sterling may be more vulnerable to periodic one-off shocks than its peers, but is no more volatile over time.
Sterling suffered severe bouts of volatility and sharp depreciation in 1992 (sterling's ejection from the Exchange Rate Mechanism), 2008-09 (global financial crisis) and 2016 (Brexit vote).
But aside from that, its volatility against the dollar has broadly been in line with that of the euro and yen over the past three decades.
"This doesn't look like an emerging market currency. This is the sterling we know and love," said Simon Derrick, global head of FX strategy at Bank of New York Mellon in London.
The first graphic shows how often sterling, the euro and yen have moved against the dollar beyond the normal range in any given month - measured by 'standard deviations' - over the past 30 years.
The data shows that a normal move for all three currencies over a rolling one-month period is around 3 percent.
Sterling/dollar has broken out of that range 91 times since 1987, euro/dollar 105 times and dollar/yen 95 times.
By this measure, sterling is less



volatile than the euro and yen over the long run. The second graphic shows the same three currencies' 'two standard deviation' moves against the dollar, where gains or losses are twice the monthly norm. The two-standard deviation is just over 5 percent for all three currencies. Sterling/dollar and dollar/yen have moved beyond that level 20 times since 1987, and euro/dollar 18 times.
The third and fourth graphics show one- and two-standard deviation moves in the world's most liquid emerging market currencies, the Mexican peso, Turkish lira and Brazilian real. These currencies move beyond their normal trading parameters less than their major counterparts, but as would be expected of higher risk emerging market assets, their standard deviation ranges are wider to begin with.

## UK finance hails new opportunities despite Brexit uncertainty

*By Huw Jones and Andrew MacAskill*

Britain's finance industry can benefit from new global opportunities allowing it to remain a world leading financial centre after Brexit, top industry officials said on Tuesday, in a softening of their tone towards leaving the trading bloc.
After Britain's vote last June to leave the European Union, banks warned that London's future as a top global financial centre was in doubt without continued full "passporting" rights to the bloc's single market.
Passporting is the ability under EU rules for any financial firm to serve the whole region from a single base, cutting costs and red tape.
But this month Britain's Prime Minister Theresa May said the UK would not be part of the single market after Brexit, meaning continued full passporting rights were not possible.
Top officials reflected this new reality on Tuesday in a hearing in parliament.
Anthony Browne, chief executive of the British Bankers' Association, Chris Cummings, chief executive of the Investment Association, and Gary Campkin, director of policy at TheCityUK told lawmakers they wanted a "mutual market access" trading deal with the EU in future.
"There are huge opportunities here absolutely," Browne told the International Trade Committee.
This would stop short of passporting, but still allow financial firms in the UK and EU based customers to do business with each other.
The CityUK was also upbeat on the "once-in-a-generation opportunity" to reframe Britain's trade policy and not just focusing solely on negotiating new trading terms with the EU.
"It's important that we look creatively at new deals and new arrangements. I don't think it's a question of saying which is more important, it's a question of looking at it in the round," Campkin said.
Browne said there will be new opportunities to strike new free trade deals and negotiate new market access for financial service companies.
He said the most lucrative opportunities may be in more advanced nations rather than faster growing emerging markets that tend to have restricted economies.
"You may find some of the more established markets are lower hanging fruit in terms of removing obstacles to trade," he said.
When asked by a lawmaker if he was now bullish on Brexit, he replied the exit from the trading bloc presented challenges and reasons for optimism.
"It does present opportunities and one thing I have learnt in life, particularly in this job, is we should embrace the inevitable," Browne said.
Browne said it was important that the government prioritises negotiating market access first and then decides what EU laws it can dispense with.
Banks may be able to secure market access by so-called equivalence, whereby banks in Britain would have access if they abide by rules similar to those in force in the bloc.
"What I don't think would be in our national interest is to tear up some bit of local regulation we don't live and say ha we have done this and then find no one wants to trade with us," Browne said.

*Canary Wharf and the city are seen at sunset in London, December 14, 2016. REUTERS/ Eddie Keogh*

## EU's Verhofstadt sees Trump as one of a trio of threats to bloc

U.S. President Donald Trump is part of a three-pronged attempt to undermine the European Union, Guy Verhofstadt, one of the EU's top officials and its chief Brexit negotiator, said on Monday.

The other two threats were from radicalised Islam and from Russian President Vladimir Putin, who Verhofstadt said was also working against the progress of the EU project.

"We have a third front, for the moment, undermining the European Union, and it is Donald Trump," Verhofstadt said in a speech at the Chatham House think-tank.

"Trump spoke very favourably of the fact that also other countries will want to break away from the European Union, and that he hoped for a disintegration of the European Union."

Verhofstadt served for nine years as prime minister of Belgium, and has served in the European Parliament since 2009.

He said that the European Union had severe problems, saying it was in a "poly-crisis", but nevertheless argued that the solution was for greater co-operation between states.

"A disintegration of the Union would be a disaster ... not only for Europe but also I think for our allies and for the world."

Some Britons criticised the appointment of Verhofstadt as the negotiator on behalf of the EU Parliament in Britain's forthcoming talks to leave the bloc, with those who campaigned to leave the EU describing him as a "fanatical" federalist.

He again expressed his regret at Britain's decision, and said that the Europe would not accept "cherry-picking" of EU policies without Britain accepting the liabilities and obligations that came with them.

However, he said that security issues, which have come under scrutiny after a spate of attacks in European cities in the past 18 months, should be negotiated separately to economic issues such as the European single market or trade.

"What we are saying is that you have the whole economic membership withdrawal agreement, that's one thing," he said.

"Separately from this, there is the whole internal and external security issue. And I don't think it is a wise thing for there to be a trade-off between the one and the other."

BREAKINGVIEWS

## Britain's global trade dream is second-best option

*By Olaf Storbeck*

Who needs Europe when the world is available? British Prime Minister Theresa May seems to be hoping that free trade agreements with the United States, China and others can offset the effects of leaving Europe's single market.

May's meeting with Donald Trump could pave the way for a deal with the world's largest economy. The U.S. president has already said he would be welcome a swift agreement. But any uptick is unlikely to be big enough to outweigh the trade Britain might lose by leaving the European Union.

Geography is one factor: when two countries are closer trade flows tend to be larger, as transport costs as well as cultural barriers are lower.

China's economy is 15 times larger than the Netherlands but the UK exports almost twice as much to its neighbour across the English Channel as to the People's Republic. While the digital age should make geography less important, there is little evidence for this in trade data. Membership of Europe's single market has also given cross-border commerce an extra boost. UK trade with the 27 other EU members is 55 percent bigger than can be explained by its geographic proximity and size, a study by the Center for European Reform shows.

Assume that British exports to the EU fall by 10 percent after Brexit.

To make up this shortfall, Britain would need to increase sales to the United States by more than 25 percent, or more than double its exports to China. That looks hopeful.


REUTERS/Paul Hackett

Based on the impact on historic agreements, deals with China and the United States would lift UK exports to those countries by up to 5 and 8 percent respectively, according to Monique Ebell, an economist at London-based economic think tank NIESR. These effects usually take a decade to fully materialise.

Services, which account for 35 percent of UK exports to the EU, are particularly troublesome. Lowering trade barriers requires agreement on complex regulatory rules like the mutual recognition of professional licenses. Hence British bankers, lawyers and architects might struggle to replace lost EU business with new customers in China, the United States or elsewhere.

Theresa May wants Britain "to get out into the world and rediscover its role as a great, global, trading nation". However, this is a second-best option to retaining its links with the EU.

# German carmakers see no way around post-Brexit tariffs

*By Edward Taylor and Costas Pitas*

Germany's auto industry is losing hope that trade tariffs with Britain can be avoided, several executives have told Reuters, despite warnings from British Prime Minister Theresa May that an overly tough stance on post-Brexit commerce would seriously harm the country's EU partners.

"Merkel may force us to walk away from UK profits for the sake of preventing further EU fragmentation," said a senior executive at a German luxury carmaker.

The executive, who asked not to be identified because of the subject's sensitivity, said Brexit looks increasingly likely to be "a disaster" for trade and for German manufacturers.

BMW, along with the Germany-based European arms of GM and Ford, which all have UK plants, know trade barriers would bring large, currently incalculable costs.

Under World Trade Organization (WTO) rules, British exports of complete vehicles could be subject to tariffs of up to 10 percent.

Ford, Britain's biggest engine maker, warned of 2.7 percent duties on engines ahead of last June's Brexit referendum.

Duties on components such as gear boxes and brakes shipped from Britain would likely vary around the 3.7 percent average currently levied by the EU on similar imports from third countries, according to the WTO, unless a preferential deal is struck.

May recently vowed to take Britain out of the EU single market that allows tariff-free trade in order to gain more control over immigration. At the same time May argued for the "greatest possible" market access.

But German Chancellor Angela Merkel responded that London should not get an attractive Brexit deal that might encourage other departures.

## GERMANS WORST HIT

Much is at stake for carmakers in general, and the Germans in particular. About every other car built in Britain is destined for another EU market. German-owned brands claim more than one-third of UK car sales.

Think tank Civitas estimates that if Britain leaves the EU without a trade deal, German automotive exporters would pay 1.8 billion pounds ($2.3 billion) in tariffs, nearly half the total 3.9 billion pounds faced by EU-based firms.

UK-built vehicles and parts, on the other hand, would be hit by tariffs of around 1.3 billion pounds, according to the group.

But German car bosses are unwilling to undermine Merkel's position.

Merkel recently reiterated that EU governments would not negotiate Brexit terms until London had triggered the irreversible "article 50" leaving process, before adding pointedly that business leaders should show similar restraint.

That sentiment was quickly echoed by Matthias Wissmann, head of Germany's influential auto industry lobby, the VDA.

"Everything must be done to allow the unfettered flow of goods and services," he told reporters. "But there is one clear priority: we must stand together among the 27 EU member states."

Wissmann's counterpart at Britain's SMMT car industry group also warned UK lawmakers that BMW, Daimler and VW may not push too hard for free trade.

German carmakers see "Europe as more important than the UK market", SMMT chief Mike Hawes told a parliamentary committee in January. "They will align with what is best for Germany."

BMW employs in the region of 8,000 workers in Britain, including at its plants which export roughly 2.4 billion pounds of vehicles and engines, most notably a large majority of the Mini and Rolls-Royce cars assembled there.

Ford, which has warned against tariffs, builds engines in Dagenham and Bridgend for vehicles assembled in mainland Europe. GM builds Opel/


*Volkswagen cars are parked outside a VW dealership in London, Britain November 5, 2015. REUTERS/Suzanne Plunkett*

Vauxhall Astras on Britain's west coast and expects Brexit to have wiped $400 million from 2016 earnings.

"We are worried," said a director at the German unit of a major global carmaker. "I don't expect there will be special deals for any industry."

**TARIFFS UPON TARIFFS**

Trade duties on components, which can cross the Channel several times before a vehicle is assembled, would require costly supply-chain upheaval to avoid a compounding of duties.

Raw castings from mainland Europe are machined into engine blocks at BMW's Hams Hall plant near Birmingham. Many are then shipped to Germany and fitted into cars destined for the UK.

In all, UK car plants purchase 59 percent of their components overseas, and two-thirds of those from the EU, the SMMT says. Even where cross-Channel supply chains stayed viable, border formalities would hurt delivery timings, raising warehousing costs and ultimately consumer prices.

Locally made components would become more attractive for British-built cars, but the UK assembly plants could find it harder to win new vehicle programmes in the first place.

Investing in an assembly line for the British market alone - rather than export - becomes viable only above an annual output of about 150,000 vehicles, industry experts explain.

For many models, Exane BNP analyst Dominic O'Brien said, "the UK market is not necessarily big enough to sustain its own dedicated plant."

Again, consumer choice and prices suffer.

Some German carmakers have been more vocal in urging Britain to give ground, stressing attachment to their EU workers' freedom of movement.

"Not only free trade but also cross-border employment opportunities ... are of proven benefit to business," BMW said.

Still, huge unknowns remain, including French and German elections this year that could change the direction of Brexit.

Already there are some signs of dissent within the governing coalition between Merkel's conservative CDU and its Social Democrat SPD junior partner.

Brexit should be used to spur EU reform, not deter would-be leavers, SPD Economy Minister Sigmar Gabriel said last week.

"We should not purely focus on Brexit as a threat," he said. "Should we reach a good result in negotiations with the UK, it could serve as an example for a Europe of different speeds."

# Ford braced for $600 mln Brexit currency hit

*By Laurence Frost*

Ford's 2017 earnings will be hit by a delayed currency impact of at least $600 million from Britain's vote to leave the European Union, the U.S. carmaker told Reuters, putting last year's record European profit levels beyond reach.

The company will no longer benefit from currency hedges that had been shielding it from the pound's slump since the June 23 referendum, Ford of Europe boss Jim Farley said on Friday.

"When Brexit happened we were fully hedged for the first quarter with the stronger pre-Brexit exchange rate," Farley said. "As we enter the rest of the year, especially the second half, we now face the full effects of the weaker sterling."

Ford is Britain's biggest engine maker as well as its top-ranked car brand by sales, with a 12 percent market share.

The UK government has said it will trigger the two-year process for exiting the EU by the end of March.

The pound hit a seven-year low against the euro in October and remains almost one-fifth below its value at the end of 2015, when uncertainty over Brexit began to weigh.  Sterling's slump is the "only major headwind" Ford currently faces in Europe, Farley said. "We think it could be upwards of $600 million this year." Farley was speaking a day after Ford published 2016 results that included a record $1.2 billion European profit, while reiterating that this year's global earnings would be lower. Its shares ended 3.3 percent lower on Thursday.

TARIFF WARNING

Ford, which employs 14,000 workers in Britain and 25,000 in Germany, also repeated warnings against the introduction of trade tariffs with a final Brexit settlement.

The company builds engines at two UK sites for vehicles assembled in mainland Europe, many of which are then sold back in Britain. A weaker pound hurts the exchange value of UK revenues and squeezes the profitability of vehicles with euro-denominated parts and production costs.

"We've all built our businesses on an integrated model between the UK and the EU," Farley said. "We would expect both entities to work for a free-trade arrangement like (the one) we have today." British Prime Minister Theresa May has said Britain will leave the EU single market to increase control of immigration, while calling for the "greatest possible" market access. But German Chancellor Angela Merkel responded earlier this month that London should not get an attractive Brexit deal that might encourage other departures.


REUTERS/Paul Hackett

# Consumers drive UK economy, defying expected Brexit vote hit

*By David Milliken and William Schomberg*

Britain's free-spending consumers again confounded warnings that June's Brexit vote would cause an immediate slowdown in the country's economy, driving robust growth in the final three months of 2016, data showed on Thursday.

Gross domestic product rose at a quarterly pace of 0.6 percent between October and December, keeping up the same above-average pace seen in the initial three months after the referendum decision to leave the European Union.

A Reuters poll of economists had forecast a slight slowdown to growth of 0.5 percent.

Sterling, which lost as much as 20 percent against the dollar last year after the shock vote, hit a six-week high against the dollar and British 10-year government bond yields rose to their highest since mid-December as some investors believed the Bank of England might soon start to move towards an interest rate hike.

"What the figures today show is that the UK economy continues to be resilient and continues to confound the sceptics," finance minister Philip Hammond said.

Though most economists expect higher inflation this year to squeeze consumers - and see longer-term damage to trade from Brexit - Hammond said the economy's resilience meant Britain could be optimistic about the Brexit talks that lie ahead.

"Clearly, life goes on, despite the Brexit vote," Scotiabank economist Alan Clarke said.

The Office for National Statistics said services, which are most sensitive to consumer spending, were the biggest gainers, growing by 0.8 percent. Industrial output was flat and construction only edged up slightly.

## LEADING THE PACK, FOR NOW

Growth in 2016 as a whole slowed only slightly to 2.0 percent from 2.2 percent in 2015, but this was mostly due to weak growth in the first three months of the year, before the referendum.

Many economists had expected Britain to flirt with recession after the Brexit vote. But it was probably one of 2016's fastest-growing major rich economies. Its year-on-year growth exceeded Germany's 1.9 percent last year.

The BoE raised its forecast for growth in 2017 to 1.4 percent in November and it may well raise it again in a quarterly update next Thursday after the run of strong economic data.

But the outlook for 2017 remains murky, largely because of Britain's reliance on its consumers, which BoE Governor Mark Carney flagged as a risk this month. Sterling's fall is already pushing up costs for businesses and households are likely to share the pain soon.

Allan Monks, a J.P. Morgan economist, said the BoE would probably stick to its neutral stance on interest rates next week.

But if the expected slowdown in the economy did not materialise, it could start to signal a hike later this year.

The Confederation of British Industry on Wednesday reported strong orders for manufacturers in January, suggesting a strong start to 2017 for the country's factories. Figures on Thursday showed the number of mortgages approved by banks hit a nine-month high in December and consumer credit continued to expand robustly.

There was a possible warning sign in separate data which showed British retail sales fell unexpectedly in January, hit by weak food sales. Retailers said they thought the fall was a blip, though they did see tougher time ahead.

Also on Thursday, a report showed British carmakers cut investment by a third last year due to Brexit worries.


*Shoppers carry bags on Oxford Street in London, Britain December 18, 2016. REUTERS/ Neil Hall*

# Evoking Reagan and Thatcher, May hails UK-U.S. 'special relationship'

*By Elizabeth Piper*

Evoking the closeness of U.S. President Ronald Reagan and British Prime Minister Margaret Thatcher, Theresa May and Donald Trump shared a "warm conversation" at lunch on Friday to cement their own "special relationship", a source in May's team said.

May's visit to the United States, the first by a foreign leader since Trump was inaugurated as president, has been hailed by her aides as a resounding success, one, they say, that has strengthened her hand in divorce negotiations with the EU.

A statement from May's office said Trump pledged to ensure that the trade arrangements that Britain currently has with the U.S. through its membership of the European Union will continue in place the moment it leaves the bloc.

It was not clear how Trump's aides viewed the meeting on Friday when the two leaders held talks and then had a lunch of baby iceberg salad with blue cheese and braised beef shortribs, but the UK delegation saw the visit as a triumph.

"They talked a lot about Thatcher and Reagan, and both agreed it was one of the most successful political relationships ever," the source in May's team said. "Trump went on to say that he always looked up to Reagan and said that he wanted their relationship to be even better than that one."

Ties between Britain and the United States struck a highly personal tone under Thatcher and Reagan in the 1980s, with the image of them dancing at a ball at the White House epitomising the trans-Atlantic "special relationship"

On paper, May and Trump seem poles apart.

The British leader is a cautious politician, a vicar's daughter who uses words very carefully, while he is a boisterous former reality TV host whose comments on Twitter have often sent shockwaves around the world.

But, according to the two leaders at a news conference on Friday, they struck up a rapport.

Describing their conversation over lunch as "warm, free-flowing and unscripted", the source said the two leaders not only discussed their "shared admiration" of Reagan and Thatcher, but also Brexit, Russia and the NATO military alliance.

## TRADE PROMISES

On trade, they discussed ways to prepare for a deal for after Britain leaves the European Union, including setting up a trade negotiation agreement that will involve high-level talks to scope out what can be achieved before Brexit.

"President Trump pledged to ensure that the trade arrangements that the

*British Prime Minister Theresa May and U.S. President Donald Trump gesture towards each other during their joint news conference at the White House in Washington, U.S., January 27. REUTERS/Kevin Lamarque*

UK currently has with the U.S. through its membership of the EU will continue in place at the moment the United Kingdom leaves," May's team said in a statement.
May said it was "a step forward that underlines our commitment to use the opportunities of Brexit to build a truly global Britain, increase free and fair trade, and improve the special relationship between our two great countries". But some critics said May had ducked contentious issues to win promises for future trade - a charge repeated when she arrived in Turkey on Saturday to strengthen ties with President Tayyip Erdogan, who has been criticised by rights groups for jailing tens of thousands of people after a failed coup in July.
"Who knows what Theresa May has secured here apart from vague platitudes?" leader of the Liberal Democrats, Tim Farron, said in a statement. "Theresa May clearly spent her time with Trump dodging his despicable comments."
But while questions were asked about Britain's charm offensive, her aides welcomed Trump's comments, including his description of May as a "people person". The source said at the end of Friday's lunch Trump announced that he always kept menu cards to remember significant moments. "He gave the menu card to one of his members of staff and said 'keep that safe, I had lunch with the British prime minister'."

## UK's Fox says committed to free trade with U.S., Canada

Britain is committed to free and open trade with the United States and Canada, UK Trade Minister Liam Fox said on Friday, though he did not elaborate on whether that would mean bilateral trade talks with the two countries.
Fox, speaking at the Montreal Council of Foreign Relations, noted that the UK cannot negotiate trade deals while still part of the European Union, though he said discussions were possible.
"The UK is committed to free and open trade with the United States, as we are with Canada," Fox said.
Fox was speaking as British Prime Minister Theresa May met with U.S. President Donald Trump. May said on Thursday that Britain and the United States could look at areas where both countries could remove some trade barriers to their mutual advantage.
"Our government has been greatly encouraged by the attitude of the new American administration," Fox said.
May plans to trigger Britain's exit from the EU by the end of March, which will start two years of divorce negotiations.
Speaking at the same event in Montreal, Canada Trade Minister Francois-Philippe Champagne said the fact that he has met with Fox two times during the last seven days illustrates Canada's commitment to the UK.
"We start with a strong base because we already have CETA," he told reporters on the sidelines of the event, referring to a planned free trade agreement between the EU and Canada. The two countries signed the Comprehensive Economic and Trade Agreement in October, though it still needs approval from the European Parliament.
"We may have a CETA-plus down the road," Champagne added, without giving further detail.
Canada's finance minister said in November that a post-Brexit trade deal would use a trade deal between Canada and the European Union as a template. Britain is Canada's fourth-largest trade partner.

*Britain's Secretary of State for International Trade Liam Fox arrives in Downing Street for a cabinet meeting, in London, November 15, 2016. REUTERS/Peter Nicholls*

## Scotland, Wales want action from UK PM on Brexit proposals

Scotland and Wales want the British government to prove it is taking their proposals seriously after Britain's vote to leave the European Union put them at loggerheads with Prime Minister Theresa May. Scotland must have a choice over its future if Brexit does not represent its interests, First Minister Nicola Sturgeon said following a meeting between May and the heads of Britain's devolved governments in Cardiff. "The UK government must now show they are prepared to do more than just listen to the devolved governments and demonstrate how they will incorporate our positions – and represent our interests – in their plan to reach a UK-wide agreement (over Brexit)," Sturgeon said in a statement.

"We must see a clear indication from the UK government that there will be a major transfer of powers to the Scottish parliament once the UK leaves the EU," added Sturgeon, whose party supports independence for Scotland. Scotland, one of the United Kingdom's four nations, voted to keep its EU membership in last year's referendum while Britain as a whole voted to leave. Wales also voted to leave but the Welsh government has lobbied for Britain to keep its EU single market membership, something that the prime minister recently ruled out.

In a statement the prime minister's office said considerations of the Welsh and Scottish proposals for Brexit were an "ongoing process" which needed to be intensified. Welsh First Minister Carwyn Jones told the BBC: "The Prime Minister herself said this isn't a talking-shop and I hold her to that."

BREAKINGVIEWS

## Ireland is the filling in unappealing tax sandwich

*By John Foley and Carol Ryan*

Irish politicians vigorously argue that the country's investment appeal goes far beyond its attractive 12.5 percent corporate tax rate. They will soon have a chance to prove it. Ireland, whose leader Enda Kenny meets British Prime Minister Theresa May on Monday, faces a huge challenge on tax and trade, coming from both east and west.

The island state is the biggest potential loser from the United Kingdom's withdrawal from the European Union. Britain is the country's biggest trade partner outside the EU. One risk is that trade flows get snared up with tariffs and onerous bureaucratic checks; another is that Britain forges new trade deals and buys goods elsewhere. Take beef. Ireland sends half of its exports to Britain. But a United Kingdom freed from the EU could also strike accords with other huge producers like the United States or Argentina.

Sausages, for example, are made in Britain with Irish beef and then shipped back to Irish consumers. That could spell double tariffs. Ireland's best defence - short of leaving the EU itself - is attracting investment. The lowest corporate tax rate in the bloc helps a lot, and partly offsets less than stellar infrastructure, and a chronic shortage of urban housing. Companies like Airbnb, Apple and Yahoo have set up shop in the country. Dublin hasn't yet put the hard sell on financial companies looking for an alternative to London, but the ruling Fine Gael party is now starting to get its act together.


REUTERS/Cathal McNaughton

Were Britain to slash its own rate of corporation tax, though, Ireland's relative appeal would erode. And that's before any similar moves in the United States, where President Donald Trump has vowed to cut companies' taxes, as well as slapping new taxes on imports. Then there's Europe. The bloc's tax tsar, Pierre Moscovici, used a trip to Dublin last week to raise the spectre of a common European tax base. Ireland has strongly rejected the idea of such meddling. Companies have other reasons to choose Ireland besides its tax appeal, like access to the single market, and an English-speaking workforce. The actual value of such soft benefits has never been truly tested. It soon could be.

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