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FRANCE – EUROPE – UK: WHAT THE FUTURE HOLDS

From Paris, it seems the United Kingdom has been consumed by one issue since June 2016. We can understand why. Brexit is an important issue for your country. As far as France is concerned, we deeply regret the decision taken by the British people to leave the EU but we respect this democratic choice. It is sad to see a close ally and partner leave the EU after 40 years of a mutually beneficial union. It is sad to see your country step out of a common market that it helped design.

But the world did not stop on June 23rd 2016. The fact is that life goes on. Now that the referendum is over, we need to move on. Yes, Brexit will have consequences. But we should not see the future of the UK or the future of our relationship only through the prism of Brexit. Our common history and our ties go much further than that. The UK and France can do a lot together to face global challenges such as climate change, the fight against inequalities, defence and security. And we stand firm in our promotion of fair trade and of a rules-based order, at a time when some countries are calling this into question.

That's why I came here today: to explain what is going on in France, how Europe is changing and how we see our shared future in the world.

In France, we were faced with a choice similar to yours in 2017. Of course, the Brexit referendum and our presidential election were not one and the same thing. But when you look at the issues underlying both votes, you can observe many similarities. They were about determining the long-term future of our countries. Whether to trust in the EU and to strengthen it – or to split from the European project.

We could have followed a similar road as you. But the French people made a different choice. They decided to try something new. A young President has been able to convince men and women from different political parties to work together to transform our country. And more unusual still these days: a leader who openly campaigned on a pro-European platform, who offered to embrace globalisation as an opportunity and not to go back to inward-looking strategies.

Emmanuel Macron's diagnosis is clear. People are worried about globalisation. They have the feeling it only benefits some parts of the country and society. They fear unemployment. Identity is a growing concern. But he and his government do not believe the solutions will come from closing our borders and having debates about our identity. The solution is to transform our economy within a more integrated Europe.

Just a year ago, many would have said that France was incapable of change. Many were saying that we were the sick man of Europe – a stagnant economy, political turmoil, and averse to reforms and change.

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Well, I think that we have proved them wrong in the past few months. We have moved quickly to implement the President's campaign manifesto. To remove the obstacles that have stopped France from fulfilling its potential for decades. We've reformed labour law. We've overhauled the tax system. And we are preparing the future of our country. By changing the business environment. By cutting red tape. By investing massively in innovation. And by revamping our educational and vocational training systems. Because skills are the best protection a government can give its citizens. And we are doing our utmost to develop a new culture – one that is more open to business, more open to risk-taking, one that embraces opportunities and change.

France is changing. And Europe is back.

Let me start with a simple fact: growth is back in the Eurozone. Unemployment rates are falling. Countries that suffered most severely from the crisis are recovering: Ireland, Portugal, Spain, even Greece. In France we have reached a 2 % growth rate.

We now need to go further.

1. Europe needs to take the lead on innovation

The EU faces a clear choice. On artificial intelligence, on space, on energy storage: we need to be global leaders. Otherwise, in a few years' time, our cars, our spaceships, our wind turbines will be operating solely with foreign technologies. Innovation is not only a matter of competitiveness. It is a matter of sovereignty and independence. And we want to be an independent country and an independent continent, as much as you do.

That's why we decided to create in France a 10 billion euro fund for disruptive innovation. It will be financed with the sales of public assets and revenues from privatisations. This fund should pave the way for a European fund. As Churchill said, either we take technological change by the hand or "it will take us by the throat".

2. Europe stands for free and fair trade

Our strength is to be open. Open to globalisation, open to trade, open to investment. Investment fuels growth; it is what's best for society and the economy.

This is why we are strong advocates of free and fair trade. Free because protectionism is the worst economic approach. It leads to less innovation, to lower competitiveness, to higher prices and thus lower growth.

Fair because if we allow protectionism to rear its ugly head once again, or if we stick to the sole pursuit of narrow self-interest, this can only lead to tensions, a race to the bottom – on taxes, on trade, on social protection – that will damage growth, and damage the livelihood of our citizens. There will only be losers. That's why on steel and aluminium tariffs, Europe is determined to take appropriate measures (WTO, counter-measures) if the American administration sticks to the plans it announced last week. I invite everyone to look at the history of trade wars: it's not a pretty sight. They make no winners in the long run. Let's not repeat the mistakes of history. Because protectionism is always a dead end. It leads to short-term gains and long-term disasters.

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But let me be clear. Being open does not mean being naïve – as we have been too often in the past. We can be both open and protect our strategic assets – those which are essential for our future and long-term autonomy. Protection does not equate to protectionism. We need to do that more assertively in Europe. That is why we fully support the European Commission's proposal for a European framework to screen foreign direct investments. Europe has to show it is capable of both being open and defending its own interests.

3. Europe needs to stand up for its values

What does this mean? It means inventing our own model, one that promotes our interests and abides by our core values: fairness and solidarity.

Just two examples.

First: the taxation of Internet giants. Our plans in this area are not a move against specific American companies. And they know it. It's about adapting our corporate tax system to the new economic reality, to a digitalised economy and to ensure greater fairness. We simply can't go on with Internet giants making huge profits in European countries and paying ridiculously low amounts of taxes. Because it is not fair. That's why it's vital that Europe acts and adopts an efficient and rapid solution by the end of 2018. Citizens won't understand if we don't.

Second: crypto-currencies. I am a strong supporter of fintech and financial innovation more generally including blockchain. France is a key player in this field. But being open to innovation does not mean forgetting a government's responsibilities towards its citizens. We have a duty to protect them against the creation of speculative bubbles. To warn them that bitcoins are risky assets. And finally to make sure that those who trade in them abide by the same anti-money laundering and counter-terrorism standards as those trading any other financial asset. Once again, it's about fairness.

Europe should be proud of its unique model. A model based on a single market open to the world combined with strong social values. A model including high levels of social protection and solidarity, good education for all and non-discrimination to mention just a few. A model that has allowed us to avoid big rises in inequality. It has helped us bring sense into finance with the development of green and social finance.

We should not be ashamed to promote our European model that gives a meaning to globalisation.

4. Last but not least, the Eurozone needs to change.

In recent years, the euro has been a source of fragility rather than a common asset for our economies. We did not finish off the job of building the monetary union when we created it. This is one of the reasons why the financial crisis turned into a Eurozone crisis. Our top priority is to transform the Economic and Monetary Union. To make it an anchor of stability and prosperity in the world.

The Eurozone is much more resilient than it was. But it still needs to be complemented. First steps: a fully-fledged Banking Union including a backstop to manage effectively a future banking crisis. And a genuine single market for capital. This will be even more important post-Brexit. Greater tax convergence amongst the countries who share a currency is also essential.

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We also advocate providing the Eurozone with a fiscal capacity. It will take time of course. But it is needed to finance common public goods and crucially, to help absorb economic shocks the eurozone may face in the future. It will foster economic convergence. We can't have economies going in completely different directions in a monetary union.

Improving the functioning of the Eurozone does not mean excluding those who are not part of it. We need to be tough on respecting the EU's core values, but we also need to be more open to discussion and debate with all EU27 countries.

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The EU is back and is reinventing itself. Now, comes the unavoidable question: what will this mean for its new relationship with the UK?

Let's talk about Brexit.

I read in some papers that France is being the toughest in the current negotiations. This is not correct. It's not about being tough or soft. Once a country decides to leave, there are consequences. You simply cannot be 'in' and 'out' at the same time. The EU is a club and it works like any other club – with its membership rules.

Leaving the EU has consequences.

On our future relation: Prime Minister May was clear in her speech last week about the UK leaving both the Single Market and the Customs Union. We will negotiate a Free Trade Agreement – an ambitious one. Every FTA is special because it is the result of negotiations and each negotiation is different. But an FTA is an FTA. It will deal with trade tariffs and facilitate the exchange of goods. But it is not equivalent to the Single Market. It will not enable full access to the single market.

On financial services more specifically: there will be no financial passport. It was reassuring to hear Prime Minister May acknowledge that last week. This means that, in the future, cross border financial services cannot be offered into the EU 27 in the same way as today from the UK. The rules will change. We don't believe that financial services can be part of an FTA. Because financial services are not goods. They cannot be traded and supervised in the same way. For financial services, we already have a functioning approach which - although not the same as a passport - offers many opportunities: the EU regime of equivalence. It works well for other key financial partners (United States, Japan).

We have a clear and orderly process in place to handle the Brexit negotiations – with the European Commission and the 27 Member States. We will stick to this coordinated and united approach.

This being said, the United Kingdom will not suddenly be cut off from the rest of the EU once it leaves. We will remain deeply interconnected.

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Today, our companies – large corporates and SMEs – import and export daily. They are deeply interconnected. And will remain so after Brexit. Of course they need to prepare and adapt to the UK exiting the single market. But goods will continue to be traded after Brexit. It is in our mutual interests to ensure the best possible arrangements with no-tariffs or the lowest possible tariffs.

We will also keep sharing and defending European values on the world scene.

Recent examples show that we can keep working together. Chancellor Philip Hammond joined myself and three fellow finance ministers in signing a letter on the recent American tax reform, to express our concerns on its implications for our economies. On a more positive note, I welcome the Chancellor's support for our efforts to appropriately tax Internet giants. On green finance – even though our two financial places are competitors – we have shared best practice to promote a more responsible approach to finance.

We will have to build on this continued partnership to defend together on the world scene the values we share – because the world is changing. There is a rise in international tensions. Some of the key institutions underpinning the international order as we know it are being called into question – the UN, the WTO, the IMF. This world order arose from the ruins of the Second World War. The United Kingdom and France were pivotal in designing it. Now we need to be ready to defend the merits of the principles it relies on – a rules-based approach, a global level playing field, openness, freedom and fairness. But we also need to reinvent and adapt this order to the new balance of powers and global challenges we face.

We need more than ever to reinforce international cooperation to answer the numerous challenges that face all countries today – climate change, migration, the impact of new technologies on society, rising inequalities, terrorism. In all these areas and many more, countries need to work together – often at a global level.

President Macron proposed a new world deal in Davos for a renewed multilateralism. I hope the UK will help us build together that vision for a fairer, more inclusive globalisation based on multilateral rules, agreed and respected by all. We see in our own countries how globalisation is called into question. If we want globalisation to be a success, if we don't want nationalism to rise, we need to act together.

As you see, despite Brexit, we still share a great deal in common and have many reasons to promote and defend those shared values at a global level. Yes, the United Kingdom is leaving the EU. And it will have an impact on how we live as neighbours. But Brexit is only one part of our relationship. It does not mean the end of our cooperation. We can work together to develop common and positive projects. And the most urgent thing for us to do is to defend a modernised multilateralism based on rules.

The biggest harm Brexit could cause would be to prevent us from building something new together.

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