Speech by Michel Barnier at the European American Chamber of Commerce

Ladies and gentlemen,

Let me first thank the European American Chamber of Commerce, its President James Rosener, and Executive Director Yvonne Bendinger-Rothschild for inviting me.

It is a timely occasion to talk about Brexit.

I am happy to be in the United States to make the European voice on Brexit heard.

After Brexit, with 27 countries, 440 million consumers and 22 million businesses, we will remain a major partner for the US and a global player.

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Let me now make a few introductory remarks.

1/ I deeply regret, as a politician and a citizen, the United Kingdom's decision to leave the European Union. It is my conviction that we are stronger together.

Brexit will necessarily have a cost.

The United Kingdom has decided to leave the European Union's Single Market and the Customs Union.

This means that Brexit will create friction to trade that does not exist today.

For various economic sectors, this will have an impact on value chains, which are currently closely integrated across national borders of European countries.

This will impact in particular manufacturing and logistics, as well as the agricultural and food sectors.

The cost of Brexit will be substantially higher for the UK than for the EU. But Brexit is clearly a "lose-lose" situation for both.

On both sides of the Channel, businesses, including subsidiaries of US firms, should analyse their exposure to the other side and be ready, when necessary, to adapt their logistical channels, supply chains and existing contracts.

They should also prepare for the worst case scenario of a "no deal", which would result in the return of tariffs, under WTO rules.

The "no deal" is not our objective. By the way, you do not need a negotiator for no deal. We are negotiating to avoid the “no deal”, but it still cannot be excluded.

Our objective is to reach an agreement by October on the UK’s orderly withdrawal from the EU. This would allow proper time for the British and European Parliaments to vote on the Withdrawal Agreement before the UK actually leaves the EU on 29 March 2019.

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2/ Over the last few months, we have made progress in the negotiations, as you can see in this draft Withdrawal Agreement which we have published – more or less 80%. In particular:

We reached a deal to protect 4.5 million European citizens in the UK and British nationals in the EU.

We agreed that all decisions taken at 28 will be financed at 28.

We agreed on a transition period of 21 months during which the economic status quo between the EU and the UK will be maintained. It will give business more time to adapt.

However, a number of major issues remain open.

In particular, we need to find solutions for the difficult issue of Ireland and Northern Ireland.

Historically, alongside other partners such as the US, the EU has played an important role in supporting the peace process in Ireland.

And a key feature of the peace process was to make the border between Ireland and Northern Ireland invisible.

This was facilitated obviously by the fact that both Ireland and Northern Ireland were part of the EU.

We need to avoid a hard border and the UK has committed to this.

As the same time we need to protect the EU’s external border to preserve the integrity of our market.

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3/ We want an ambitious future relationship with the UK – not only in trade, but also in police and judicial cooperation and foreign policy, security and defence.

However, the basis for such cooperation between the UK and the 27 EU countries will necessarily be different.

Therefore, the level of integration will have to be lower than it is today.

Because what the Single Market creates is the most developed form of free trade among sovereign countries. It is as close as it gets to a domestic market.

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Since we are in New York, only a few miles away from Wall Street, let me take the example of financial services.

Within the EU Single Market, companies established in the UK can provide their services across the entire European Union – we call it "passporting".

Many US financial institutions decided to establish their European hub in London to have these passporting rights and to be able to service clients across Europe.

This is made possible by the EU Single Market, where EU countries are bound by a common framework, and in particular:

By a single rulebook, which we have reviewed following the financial crisis to increase the resilience of our financial institutions and markets. In doing so, we have implemented the G20 roadmap, just as the US did with the Dodd-Franck Act.

By coordinating or centralising supervision of this single rulebook for banks, insurance companies and financial markets.

By ensuring the uniform interpretation of the single rulebook by the European Court of Justice.

Outside of this common "ecosystem" of regulation, supervision and enforcement, there can be no passporting. The UK has recognised this point, in Ms. May's Mansion House speech.

But the UK still wants continuity. It would want the EU to accept UK standards by means of a system of mutual recognition.

The UK needs to understand that the EU cannot accept such mutual market access without all the safeguards that underpin it.

This would go against all our objectives:

- First, ensuring financial stability,
- Second, protecting investors,
- Third, securing market integrity
- And fourth, maintaining a level playing field.

These objectives would not be reached if financial institutions could passport in the EU and serve clients based on a licence by the supervisors of a third country.

I do not know of any country in the world that would accept such a loss of sovereignty.

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Ladies and gentlemen,

That being said, I think that we should have a close relationship with the UK, also in financial services.

This is our common interest.

I see a number of ways to achieve this.

First, the EU Single Market is open to third countries, in general, to the US, and also to the UK. And it will remain so.

In the EU, free movement of capital is open to third countries.

As regards market access to provide financial services, the European Council made clear that our future Free Trade Agreement with the UK should include the right of establishment, with EU rules applying.

Secondly, the EU has a long history of relying on the regulation and supervision of third countries.

This is what the G20 calls deference, what you call in the US substituted compliance, and what we call in the EU equivalence.

To date, the EU has adopted more than 200 so-called equivalence decisions covering more than 30 foreign jurisdictions, including of course the US. This integrates financial markets and facilitates the work of financial operators in the EU and the foreign jurisdiction.

Today, to be very clear, we are in the EU the most open jurisdiction in the world for financial services.

Why would this equivalence system, which works well, including for the US industry, not work for the UK? Why?

Thirdly, in order to draw lessons from the financial crisis and limit the risks in the future, EU countries collectively developed more effective financial regulation and supervision.

And we were very happy to do this hand-in-hand with the UK.

I can personally testify it: for five years, I was in charge of financial services for the Commission and all these regulations, but two – short selling and banker bonuses – have been adopted in full agreement with the UK.

We need to keep this joint regulatory effort in mind, and be ready to exchange our ideas for future rules in the context of close and voluntary regulatory cooperation.

Here also, we have a regulatory dialogue with the US. We could build on this experience with the UK.

Fourthly, we will of course cooperate with the UK – as we do with the US – in international fora such as the Financial Stability Board and the Basel committee.

The world of finance is global and interdependent. We have a mutual interest in working together, not separately.

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Ladies and gentlemen,

One thing is clear: we will not change who we are as the European Union because the UK is leaving.

The EU is and will remain the most open market in the world.

No other jurisdiction operates a framework that is more open, comprehensive and rules-based for foreign jurisdictions.

US companies are well aware of this. Many of them have been able to take a leading role in EU markets.

Open markets for financial services are an asset for the EU and will remain so in the future.

Thank you for your attention.