COMMENTARY, JEAN MONNET

Let's Talk Business: How a Brexit Would Influence the British Economy – Part 3

A Four-Part Brexit Blog, hosted by CCCU Politics/IR Jean Monnet Chair in European Foreign Affairs, Dr Amelia Hadfield.

Featuring: guest Jean Monnet Scholar Mechthild Herzog.

Disruptions in Everyday Business? – Prepare to Pay More for Energy, Food and Communication


(https://canterburypoliti
/2015/05/mechthild-herzog.jpg)
Guest blogger Mechthild Herzog

Britain's political elite has been talking about a possible Brexit for months now. So long, in fact, that it is getting harder and harder for them to surprise the public, and thus to impress, influence, or fundamentally alter people's opinions. Prime Minister David Cameron and his colleagues might, however, find support for their cause in a group that has traditionally had little say in politics, but might hold they key to making people listen: single business players. Be it for reasons of assumed influence on both politicians and electorate, or of simple and honest concern, many entrepreneurs have come down on one or other side of the debate. Today our main focus is on those not joining the choir of the entire economic sector, but expressing their concern independently, who are often closest to the citizens who will eventually decide the matter. Before we consider the role of individual business leaders, however, a brief glance must be cast on another sector taking a stand against a potential Brexit: the energy sector.

Energy sector

Some major players in the energy sector are, at present, holding back. Although they stress the importance of the EU for Great Britain, and vice versa, they seem to be waiting for what may come. None, however, have taken up a position on the 'withdrawal' side of the referendum; although their voice might not be the clearest among the UK's business sectors, the energy companies unambiguously stand on the side of continued membership.

The National Grid, for example, the company charged with managing the UK's daily gas and power exchange with neighbouring countries, is currently investigating the benefits of EU membership for Britain's energy security. The head of the Anglo-Australian mining, metals and petroleum giant BHP Billiton[1], Andrew Mackenzie, has also expressed concern over the UK leaving the EU in 2014, claiming straightforwardly: "If we [the UK] weren't in Europe it would weaken one of the reasons for being in London. I don't think in a fatal way but it would 'piss me off' – because we would have to have people based in Brussels and maybe do other things and we would have a more complex business as a result."[2]

Thus far, however, it is probably the energy and petrochemicals group Shell which has taken the clearest standing pro-EU membership.[3] The headquarters of the Anglo-Dutch company are in London, meaning Shell would be heavily affected by the re-establishment of borders between the continent and the UK. CEO Ben van Beurden accordingly declared last year that the company would be "in favour of the UK maintaining its long-established place at the heart of the European Union: it provides greater investment stability and certainty."[4] He added he was convinced "that the UK's national interests are best served by a close relationship with Europe".

The loss of influence in EU decision-making, when coupled with the need to remain subject to the rules and regulations of the single market, has been perceived as one main threat of a potential Brexit by many in the British economy. Among them is Iain Conn, CEO of the UK energy company Centrica, who has pointed out that the UK would not be able to enjoy the full benefits of a competitive energy market if it found itself "outside banging on the door"[5]. He warned that the "UK needs to be fully inside, driving a competitive Europe, rather than outside, because at that point nobody will listen."

Less decisive words have come from the energy company SSE's CEO Alistair Phillips-Davies, who declared in May this year he would take "no view" at this point on the in-out referendum.[6] However he stated that SSE believes "that the progressive integration of the GB energy market with other countries in Europe is in the best interests of efforts to deliver clean, affordable and secure supplies of energy". Bob Dudley, the chief executive of the UK's second largest oil major BP, declared it would be too early to form a view on how a potential Brexit might affect his company, but added with a view on whether or not the UK might leave the EU: "Sitting back looking at the role of Europe and Britain I'd find it highly unlikely".[7]

Overall, despite some reserve in their statements on the issue, it is remarkable that most of the big energy companies with business in the UK have addressed the Brexit scenario, not only via spokespeople, but through their CEOs. Their concern is understandable in terms of keeping their overall European business running smoothly. However, a Brexit would not necessarily change much in terms of energy. If the UK, after leaving the EU, chose to stay in the European Free Trade Area (EFTA), or the European Economic Area (EEA), it would most probably remain part of the EU's integrated gas and power markets.[8] The British government might lose its influence in decision-making in Brussels – the companies possibly not. They would still be able to lobby in Brussels and present their interests and concerns to national politicians of other member states in which they are active.

The British government would make sure that the power cables running from Britain to France and the Netherlands, and the gas pipes connecting it to the Netherlands and Belgium, keep functioning smoothly, simply because they would have to in order to avoid shortages. To a certain extent, a Brexit might in fact bring some currently inaccessible liberty to British energy policy-making: backing out of the EU energy regulations would allow the UK to prolong the lifetime of some nuclear power plants, and continue to let coal play a more central role. Remaining in the EU implies heavy investment in renewables, which are supposed to produce 15% of British energy – electricity, heat and transport combined – until 2020, according to EU demands. Renewable electricity generation alone would have to be raised to 30% by 2020, from ca. 18% at the moment.

Yet Britain and the EU have the sourcing of more environmentally-friendly energy supplies on their agendas. Both of the last two governments have devoted themselves to supporting renewables; thus British climate and energy goals might well remain close to those of the EU, even if parting ways in the future. In any case, the climate targets set by the British government in the Climate Change Act of 2008 would remain legally binding. Adaptions might only become necessary in consequence of a Brexit, which might result "in poorer security of supply through decreased interconnectivity to Europe, reduced harmonisation of EU energy markets, or less investment into the UK by multinational companies"[9].

The single voices of British business

Your mobile phone bill, your restaurant check, your hotel rate; all are influenced – lowered, in fact – by EU regulations. Many customers may not be aware of that. The service companies themselves are, however. Though nobody can predict exactly what might happen if the UK would decide to leave the EU, the threat is tangible for many enterprises. It is unsurprising, therefore, that a number of individual players on the British market have decided to voice their opinion on the UK's immediate future in Europe.

One local producer that feels considerably threatened is Diageo, the world's biggest spirits maker, at the top of whose product line range the Scotch whiskies Johnnie Walker, J&B and Talisker, making for 30% of the company's sales and operating profits. Diageo fears closed doors to the European single market: a Brexit would imply that the UK would no longer profit from 31 trade agreements between the EU and third countries. The UK would have to negotiate all of them anew, on its own. "The major benefit for Diageo, for our industry, is in global trade and in having the EU as a significant bloc promoting global trade", argued Ivan Menezes, chief executive of the company.[10] Though he complains about too much "onerous regulation", the benefits of EU membership would clearly outweigh all bureaucratic hurdles.

David Frost, chief executive of the Scotch Whisky association (the sector's trade association), stated that there is more to lose than market access; EU food and drink regulations and its single trade policy would be "central to Scotch Whisky's success" and "the EU's weight and expertise in international trade helps give us fair access to overseas markets".[11] Frost appealed to the government to shape rules at European level in a way that would support the UK's own businesses – instead of stepping entirely out of the process. After all, the Scotch whisky industry depends on EU protectionism: in order to be called Scotch, the whisky has to be distilled in Scotland, and must contain specific ingredients. Such provisions ensure fair competition for the Scottish producers, both within the EU and in all third countries with which the EU has bilateral agreements on the matter. The European market accounts for around 40% of total Scotch sales, with France the biggest national market within the EU – nearly twice as big as the US.[12]

Equally concerned to lose their customer base is Britain's hospitality industry. Peter Gowers, CEO of the hotel chain Travelodge, fears the UK might be "sleepwalking into real danger if [the sector] doesn't stand up and be counted. If the result leads to it being more difficult for people to visit this country then we have a problem as an industry."[13] Yet the sector has not always been the biggest supporter of the EU; indeed, European administration has repeatedly been seen as "bureaucratic nightmare"[14], visible amongst others in an open letter, signed by more than 100 leading chefs, restaurateurs and hoteliers in March 2015, in an attempt to block EU allergen regulations from the previous December. The new rules required caterers to catalogue and display the presence of 14 allergens in any dish or drink they serve, a measure many perceived as disproportionately restrictive. Nevertheless the sector depends upon Europe – if not its regulations, then still its (travelling) citizens. In Peter Gowers' words: "If people can't get in to the country then the infrastructure and level of service are all irrelevant." Yet there is one counter-argument against this fear: the number of Britons travelling within their own country has been rising for some years now.[15] Going on so-called "stay-cation" boosts the domestic economy strongly, and would not be hampered by leaving the EU, given the increased complexity of travelling to the continent.

Even representatives of the hospitality sector, for whom at first glance a Brexit appears less of a threat, have begun to raise their voice. McDonald's, firmly established both in EU and non-EU countries, supported continued British membership of the EU. Jill McDonald, president of the fast-food restaurant's North West division[16], implied their British jobs would be at risk. McDonald's employs 94.600 people in 1.200 restaurants in the UK, and claims to support in total 130.600 jobs per year through its suppliers.[17]

In an entirely different business altogether, German engineering company Siemens chose the same strategy, arguing against Brexit via threats of re-structuring their British branch, instead of pointing out advantages of one or the other vote. The UK is the fourth-biggest market for Siemens and re-imposed tariffs would hamper its imports and exports considerably. Accordingly, Jürgen Maier, the UK chief executive of the company, remarked, with an eye on a potential Brexit: "Would it [affect] investment decisions between UK facilities versus other European cities? Yes it would", adding: "One thing is for certain, uncertainty is poison for investment."[18]

The business representatives mentioned thus far have chosen to express their view publicly, as did those individuals and sectors mentioned in the previous two parts of our examination of the Brexit on the British economy. There is, however, a sizeable group of business people who have not been so eager to enter the debate. If and when encouraged by the media to give their opinion, they may do so, but generally by sticking with the virtue of non-disclosure as to their own opinions.

Among these is the British telecommunications company Vodafone. Its head Vittorio Colao warned that the uncertainty over a Brexit might damage business, and called for support for the EU digital market as necessity for staying competitive with America and China.[19] However, he rejected the call to arms of some industry representatives, among them Sir Michael Rake, president of the Confederation of British Industry (CBI): "I don't think it's the role of businesses to campaign if I'm honest. My role as CEO is to say on any issue, not just this one, what is in the interests of my customers and shareholders. I don't campaign, I don't take sides." While Colao had clear words on the Brexit question, supermarket chain Sainsbury's tried with all its might to avoid getting drawn into the debate, whilst not being able to keep entirely outside. A misunderstanding led Steven Woolfe, financial affairs spokesperson of the UK Independence Party, to claim – wrongly – via Twitter that Sainsbury's would financially support the yes campaign.[20] In the background were press reports stating that David Sainsbury, the company's former chairman, would be involved in the campaign. This in fact is not entirely wrong, as he privately donated "hundreds of thousands of pounds of his own money to the cause of continued British membership of the EU"[21].

Sainsbury's had to learn that even being wrongly associated with either side of the Brexit debate has real consequences – with angry customers protesting via social media, letters and phone-calls, some declaring a permanent personal boycott against the supermarket chain again. Sainsbury's has attempted to remedy the situation by declaring simply that it is "…apolitical. We would not get involved in this at all."

Having recently told British businesses to "shut up" about the Brexit,[22] David Cameron may welcome such an approach. He went on to express disapproval of business representatives speaking out in favour of remaining in the EU, fearing it would jeopardise his re-negotiations of the UK's role in the Union, and could ironically turn public opinion against remaining a member. Currently, Cameron stands out regarding his choice on expressing any affiliation with either the 'remain', or the 'leave' side.

In the early 1970s, when the UK's accession to the European Community was being debated by European heads of state, the UK was considered by some a threat to the European market. At the time, it was a fear based largely on flexible British exchange rates, Britain seemingly better able to adapt to economic developments than other member states, with their pegged currencies, possibly outstripping them in terms of competition.

Today, that outlook has changed. We are confronted with a real split in terms of opinion. On the one hand, as evidenced by this 4-part series, core voices within the UK, in both the public and private sector consider the European integration project a threat to British business and its wider economy, usually on for oft-cited reasons of over-regulation and entangling bureaucracy. On the other, a visible majority of companies speaking out on the Brexit generally express a clear pro-European opinion, couched in a pro-business discourse. Their message appears simple: joining, and remaining with the Union is a winning recipe, at least for business: producing a huge single market, comparably safe production and trading conditions, and advantageous contacts with non-EU countries. The question is whether economic arguments can convince a majority of voters to support British EU membership from a political, economic, social and even cultural perspective. The EU, as Stephen Fidler puts it in the Wall Street Journal, has "taken a battering – even in countries like France that have been at the heart of its development".[23] This is certainly the case. Prior Eurozone convulsions and the current refugee crisis have shown the EU up as an ineffective and fragmented entity, even on policies established and implemented collectively. This in turn has worsened the situation for Britons trying to convince their compatriots of the EU's benefits.

In the next – and final – part of this Brexit and British business series, we'll take a look at areas might not immediately be connected to the headline: the British higher education sector, and the Irish economy. Both, however, would – in economic terms – be significantly impacted by the UK leaving the EU. How? Stay tuned for part 4 of "Let's Talk Business: How a Brexit Would Influence the British Economy"!

[1] The Anglo-Australian mining, metals and petroleum company is one of the world's largest, especially in mining.

[2] Cf. http://www.telegraph.co.uk/finance/newsbysector/epic/blt/11202622/BHP-Billiton-CEO-says-Westminster-is-out-of-touch-with-industry.html (http://www.telegraph.co.uk/finance/newsbysector/epic/blt/11202622/BHP-Billiton-CEO-says-Westminster-is-out-of-touch-with-industry.html).

[3] Cf. http://www.theguardian.com/politics/2015/apr/07/british-business-leaders-back-tony-blair-warning-over-possible-eu-exit (http://www.theguardian.com/politics/2015/apr/07/british-business-leaders-back-tony-blair-warning-over-possible-eu-exit).

[4] Cf. http://www.bbc.co.uk/news/uk-scotland-scotland-politics-26461833 (http://www.bbc.co.uk/news/uk-scotland-scotland-politics-26461833).

[5] Cf. http://www.ft.com/cms/s/0/45b73ca6-f71f-11e4-99aa-00144feab7de.html#ixzz3l8qsh7vs (http://www.ft.com/cms/s/0/45b73ca6-f71f-11e4-99aa-00144feab7de.html#ixzz3l8qsh7vs).

[6] Cf. http://www.theguardian.com/politics/2015/may/20/eu-referendum-airbus-uk-chief-brexit-hurt-jobs-investment (http://www.theguardian.com/politics/2015/may/20/eu-referendum-airbus-uk-chief-brexit-hurt-jobs-investment).

[7] Cf. http://www.telegraph.co.uk/news/newstopics/eureferendum/11647812/Brexit-EU-European-Union-Bob-Dudley-BP-EU-referendum.html (http://www.telegraph.co.uk/news/newstopics/eureferendum/11647812/Brexit-EU-European-Union-Bob-Dudley-BP-EU-referendum.html).

[8] Cf. http://blogs.platts.com/2015/05/27/brexit-european-energy-market-britain-eu/ (http://blogs.platts.com/2015/05/27/brexit-european-energy-market-britain-eu/).

[9] Cf. report "Exiting the EU: impact in key UK policy areas" (2015), by the House of Commons library (http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7213#fullreport (http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7213#fullreport)).

[10] Cf. http://www.ft.com/cms/s/0/1a15635a-98b8-11e3-8503-00144feab7de.html#axzz3kro5VWRA (http://www.ft.com/cms/s/0/1a15635a-98b8-11e3-8503-00144feab7de.html#axzz3kro5VWRA).

[11] Cf. http://www.foodmanufacture.co.uk/Manufacturing/EU-exit-would-damage-whisky-exports (http://www.foodmanufacture.co.uk/Manufacturing/EU-exit-would-damage-whisky-exports).

[12] In fact, no country consumes as much whisky as India – almost as much as the rest of the world put together; however most Indians do not drink Scotch, but local varieties with Scottish-sounding names, such as McDowell's or Bagpiper. These are technically not whiskies, but rather rums, and certainly not Scotch according to the EU rules, as they are made from molasses. With tariffs of 150% on imported whisky only very few wealthy Indians can and want to afford real Scotch. Cf. http://www.economist.com/news/europe/21572191-why-scotch-whisky-makers-want-stay-european-union-johnnie-wont-walk-out (http://www.economist.com/news/europe/21572191-why-scotch-whisky-makers-want-stay-european-union-johnnie-wont-walk-out).

[13] Cf. http://www.bighospitality.co.uk/Business/EU-referendum-Hospitality-industry-risks-sleepwalking-in-to-danger (http://www.bighospitality.co.uk/Business/EU-referendum-Hospitality-industry-risks-sleepwalking-in-to-danger).

[14] Cf. http://www.bighospitality.co.uk/Business/Top-chefs-criticise-bureaucratic-nightmare-of-EU-allergen-regulations (http://www.bighospitality.co.uk/Business/Top-chefs-criticise-bureaucratic-nightmare-of-EU-allergen-regulations).

[15] Cf. http://www.bighospitality.co.uk/Business/Staycation-trend-gives-hospitality-businesses-a-boost (http://www.bighospitality.co.uk/Business/Staycation-trend-gives-hospitality-businesses-a-boost).

[16] Responsible for Germany, Luxembourg, Denmark, Finland, Sweden, Norway, Ireland and the UK.

[17] Cf. http://www.thisismoney.co.uk/money/markets/article-2661819/McDonalds-boss-says-Britain-stay-EU-avoid-job-losses.html (http://www.thisismoney.co.uk/money/markets/article-2661819/McDonalds-boss-says-Britain-stay-EU-avoid-job-losses.html).

[18] Cf. http://www.theguardian.com/business/2014/jul/20/jurgen-maier-siemens-british-productivity-catching-germany-manufacturing (http://www.theguardian.com/business/2014/jul/20/jurgen-maier-siemens-british-productivity-catching-germany-manufacturing).

[19] Cf. http://www.telegraph.co.uk/finance/economics/11615785/CBI-boss-Sir-Mike-Rake-to-say-time-is-ripe-for-reform-of-UKs-place-in-Europe.html (http://www.telegraph.co.uk/finance/economics/11615785/CBI-boss-Sir-Mike-Rake-to-say-time-is-ripe-for-reform-of-UKs-place-in-Europe.html).

[20] Cf. https://twitter.com/Steven_Woolfe/status/607891261329174529 (https://twitter.com/Steven_Woolfe/status/607891261329174529).

[21] Cf. http://www.ft.com/cms/s/0/23309138-14bf-11e5-a51f-00144feabdc0.html#axzz3lB6JpVFQ (http://www.ft.com/cms/s/0/23309138-14bf-11e5-

a51f-00144feabdc0.html#axzz3lB6JpVFQ).

[22] Cf. http://www.ft.com/cms/s/0/d59f345e-548a-11e5-8642-453585f2cfcd.html?ftcamp=crm/email/201597/nbe/EuropeMorningHeadlines/product#axzz3l2QAqhYb (http://www.ft.com/cms/s/0/d59f345e-548a-11e5-8642-453585f2cfcd.html?ftcamp=crm/email/201597/nbe/EuropeMorningHeadlines/product#axzz3l2QAqhYb).

[23] Cf. http://www.wsj.com/articles/the-euros-failed-dream-of-a-wonderful-life-1438896566 (http://www.wsj.com/articles/the-euros-failed-dream-of-a-wonderful-life-1438896566).

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