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## 1. Introduction

Meine Damen und Herren, Guten Morgen.

It is truly an honour to address you at the 2016 “Isny conference”. I am sorry I have to address you in English.

When Matthias invited me to do this speech, Britain had just taken the momentous decision to leave the European Union. Theresa May had just become UK Prime Minister. It is not yet clear what the consequences will be.

America looked set to put a second Clinton in the White House. America has since voted for a Trump Presidency, and many fear its implications.

Many European countries are facing internal challenges and the potential for change, and as a result the European Union feels less confident and stable than at any time in my lifetime.

Perhaps the UK’s Brexit vote was the “canary in the coal mine” – the latest indicator that not all was well in the major economies of the “west”. The American Presidential election appears to have confirmed it.

Today I want to discuss the common trends which have led to where we are now. The underlying issues go back even before the crisis of 2008, but some of the indicators were there in Southern Europe in the aftermath of the “great recession”.

I want to discuss the difficult challenges that we now face within the borders of Europe, those which sit just outside these borders, and the alliances which we will need to confront them.

The world is a more dangerous place right now, which means that it is more important than ever that the developed democracies come together.

And yet our national politics are pulling us apart, just when there needs to be an axis of alignment between the US, the UK and the EU.

## 2. Challenges within Europe

Within Europe there are three big current challenges: Brexit, low growth and poor competitiveness, and social inequality.

### *(i) Brexit*

Let me start with Brexit. The UK has voted to leave the European Union. I can honestly say I was shocked, and do not believe we made the right decision. However, it is what more than half the people wanted and now we have to implement it.

It is not going to be easy. Putting this vote into action is like a bomb disposal exercise. We have to be careful which wires to protect and which to cut. And we must not make detailed discussions too complex and far-reaching. We need to focus on the priorities which really matter.

A deal must be possible. A successful exit is in the mutual interest of Britain and Europe.

Europe has an economic interest in keeping the UK close and it has reason to value the UK's diplomatic, military and intelligence capabilities. Those capabilities also form the foundation for a very strong relationship with the United States. The UK is therefore an important component in the maintenance of a strong axis of alignment between the US and Europe.

From the UK's perspective, we have to recognize that so many EU laws and regulations have become our own. We will not wish to change them all. We are therefore going to remain highly aligned and compatible with the EU.

We also need to remember the value of membership of the single market. On some measures Europe is the largest economic bloc in the world. Much inward investment in the UK comes from Europe. We share common goals and joint programmes in so many areas.

It will be a difficult negotiation, to secure as much access as possible while limiting the free movement of people, something fundamental to the popular vote in June.

At the moment Britain is looking at the question of separating from the EU from a commercial perspective, and Europe is looking at it politically. This runs the risk of "missing each other". The two have to come together.

Everyone is demanding to know whether it will be a "hard" or a "soft" Brexit. This misses the point. I believe because of the sheer complexity and number of dimensions if we tried to negotiate everything, by definition in the majority of areas it will be a "soft Brexit". However, there are a few issues which will be key and likely characterised as "hard Brexit" areas including access to the single market, the price the UK will have to pay for that, "passporting" for financial services, and the terms regarding the free movement of people.

I am optimistic. The realities for both the UK and the EU suggest that we will be able to find a solution.

Let me also touch on the importance of the relationship between the UK and Germany. I have been doing business with Germany for 30 years, and particularly over the last 15 years since I led the acquisition of Veba Oel and Aral for BP, and the sale of BP's interests in Ruhrgas to E.On. Germany and the UK are so similar on many dimensions, although we regularly champion our differences.

There are good pragmatic and commercial reasons why Germany and Britain should be able to come to an understanding. Germany may even become the UK's honest broker during the Brexit negotiations.

The commercial link between our countries is too valuable to be set aside lightly. Germany is the UK's second largest destination for exports and the UK's largest source of imports. The UK is Germany's third largest destination for exports and its 9<sup>th</sup> largest source of imports.

In my sector, energy, the investments by UK companies in Germany and by German companies in the UK is significant.

We are also drawn together in dealing with common challenges such as the relationship with Russia, which I will return to in a moment.

*(ii) Low growth and poor competitiveness*

Let me turn to the second problem of low growth and poor competitiveness.

The problem is stark. In simple terms Europe is falling behind in global competitiveness and our growth is weak.

Europe has energy costs which are twice those of the United States and labour costs which are twice those of Asia. This is fundamental.

Economic growth in Europe is lower than the US and lower than most Asian countries. We may be the largest economic bloc on many measures, but we will fall behind over time. We need to focus on the effectiveness of our markets, and the efficiency with which we produce things. The UK has been a champion of free deregulated markets and competition. I worry about a Europe without the UK around the table.

*(iii) Social Inequality*

The third major issue we have is social inequality.

A quarter of young people are without work in Spain, Portugal and Greece.

Echoes of this issue can be observed in most advanced democratic nations. This is the link between Spain, Greece and Brexit. The rewards of prosperity are not flowing equally.

I believe that the key issue behind the Brexit vote and the US election is that while globalisation has been, on average, good for the world, it has left a significant number of people behind. They are now making their voice heard.

We need to listen. Average improvement globally and nationally is no longer satisfactory. Our policies and priorities must ensure that we do not leave parts of our economies behind. We have failed in this so far.

I have to say, I believe Germany carries a great advantage with the "Mittelstand", something which the UK is keen to emulate.

These are the key issues we are dealing with inside Europe. I would now like to turn briefly to the problems on our borders and how we should address them.

My emphasis is on the importance of maintaining the “axis of alignment” between the United States, the UK and the EU.

### **3. The Axis of Alignment**

America has just been through the most extraordinary election in recent memory.

Social inequality is even more advanced in America than it is in Europe. The working class of America has not had a pay-rise for 30 years; Donald Trump was speaking to rust-belt America.

America’s temptation now will be to turn inward and focus on its own issues.

I hope it doesn’t do so. The dangerous world needs an engaged America. We in Europe need to maintain our alignment with the United States. Here the UK has an important role to play. The UK is a key relationship with the US in terms of security, defence and intelligence. Our systems of governance flow from a common foundation established 800 years ago. The UK has an important role to play in establishing an axis of alignment in the west. This alignment has been fundamental to peace and prosperity for the last 70 years. This cannot be lost.

It is more important than ever because the world is full of dangers.

There are three on the perimeter of Europe, all of which require us to stand together.

They are: relations with Russia; Iraq and Syria; and North Africa.

Russia’s actions in Ukraine and specifically its invasion of Crimea are an affront to the rule of law in international relations. Yet constructive relations between Russia and both Europe and the US are crucial for the continuation of a peaceful world.

Germany has deep relationships with Russia. The UK can also help. UK-Russian relations have been difficult over sanctions but there are important linkages with Russian investment in London and British investment in Russia.

Turning to Iraq and Syria, the tragic developments have left a vacuum in a crucial part of the world. The human toll is a calamity. The old alliances have been unable so far to mount concerted action. Yet we must play a leading role in peace and stabilisation of the region. The role of Russia is again complex and challenging, and there can be no progress without an aligned front.

Parts of North Africa have become largely lawless and a crucible for terrorism and immigration to Europe. Like Iraq and Syria, radical Islam has a hold in some countries. Many countries do not have stable governments. Dealing with North Africa will require the same coherent and aligned axis between the US, Europe and the UK.

In all these places our nations have withdrawn from a direct role. Yet in some we helped to create the instability in the first place but we are not prepared to police it.

Our internal issues - in the EU, in the UK and in the US - are all causing us to be inwardly focused. The effect of this is pulling us apart. However, all of these problems on the borders of Europe need us all to come together.

The alternative is that these issues are not dealt with, or worse that we allow Russia and other countries to step in and gain power and prestige, so worsening the situation.

Europe needs to use its full strength in these regions and that requires a close relationship with the US, both bilaterally and through organisations such as NATO. Here also is where Britain, even outside the EU, can play an important role on the world stage. Europe is stronger when the UK plays a full role.

#### **4. Conclusion**

So let me conclude.

In a dangerous world we need to forge new partnerships and deepen old alliances.

There are forces causing us to turn inward which is then pulling us apart. We must resist this at all costs.

The axis of alignment between the US, UK and EU has a heritage of understanding. It has many strong foundations. These include the special relationship between the UK and the US, the formation of the European Union, NATO, and hundreds of years of the rule of law and established trade relations.

The UK is leaving the EU but it is not leaving Europe.

The EU will need a good strategic partnership with the UK, for economic, diplomatic, military and strategic reasons, even though that will no longer take place within the EU itself.

The United States is entering a new phase, and we must reach out to it. We need to ensure we don't drift apart.

Ladies and gentlemen, there are many forces pulling the world apart. We run the risk of focusing on internal arguments and tensions rather than the big issues which are creating significant global instability.

In the face of this risk, we must see past the details of the moment and focus on the long-term bonds that keep us together. They are still strong.

The ties that bind give us cause for pragmatic optimism about the future.

Thank you.