The politics of Brexit: the Dutch perspective

This is a thematic summary of a recent dinner discussion hosted by New Financial with His Excellency Simon Smits, the Dutch Ambassador to the UK, and executives across the capital markets industry, including a number of Dutch nationals.

Please note that this summary by New Financial should not be taken as representing the views of the Ambassador or any of the individual participants.

1) A bad outcome all round
A widespread view in the Netherlands (and the rest of the EU) is that Brexit is a bad outcome for everyone involved: it is a lose-lose situation for the UK and the EU. Project Fear will probably become more like Project Reality as Brexit starts to bite harder as it progresses. The rhetoric of Brexit could damage longstanding relationships, trade will be disrupted by an increase in bureaucracy, and an awful lot of time and effort that could be spent more productively will be consumed by Brexit in the coming years. The EU will also lose one of its most powerful liberal voice that helped create the single market and drive enlargement. But both sides will adapt and move on.

2) The UK exception
The UK’s critical attitude towards the EU almost from the day it joined has not been particularly helpful. Many of the concerns behind the vote Leave, such as immigration, are shared by Eurosceptics in other countries and are not new: when the Fens were drained and reclaimed by a Dutch engineer in the 17th century the locals complained about Dutch workers. Not only the UK has been critical of the way the EU operates, but other Member States have tended instead to work together and encourage reform. European countries have benefited enormously from working together over the past few decades, yet these benefits are not always sufficiently acknowledged. If the EU didn’t exist today, most countries in Europe would be working out how to invent it tomorrow. Since the Brexit-referendum, support for the EU has increased in the Netherlands and other countries.

3) The UK’s position
On the continent the UK’s hand in the Brexit negotiations is believed to have weakened by the result of the general election. The government set very optimistic expectations of what a hard Brexit would look like and how quickly it could be agreed. Some of the red lines that were laid down in the Lancaster House speech last January – such as no future jurisdiction of the European Court of Justice, no freedom of movement, and no membership of the single market or customs union – seem at odds with the desire to maintain frictionless trade be after March 2019. This looks even harder given the election result, and while the UK may look to blame the EU for any problems ahead it is hard to avoid the conclusion that the government has not helped itself.

(Perhaps Theresa May could learn about coalition government from her Dutch counterpart Mark Rutte: it is four months since the Dutch elections and there is still no government: the average time to form a government in the Netherlands is 72 days.)

4) A close relationship
The Netherlands and the UK have long enjoyed a close political and economic relationship. The Netherlands is the second largest investor in the UK (after the US) including, but not solely, through big Anglo-Dutch companies like Royal Dutch Shell and Unilever, and Dutch pensions funds. The UK is the country’s second largest trading partner (the Netherlands is the fourth largest EU trading partner for the UK after Germany, France and Ireland). Half of all foreign direct investment in the EU from the UK is in the Netherlands. The two countries also share a common history (William of Orange was crowned King of England in 1689) and they have a similar liberal outlook within the EU.
5) The Dutch priorities:
It would, however, be dangerous to confuse these close ties with the Dutch adopting a soft position on Brexit. Of course, the Netherlands will aim for a close trading relationship with the UK and to protect the interests of an estimated 150,000 Dutch nationals in the UK (many of whom are young and mobile won’t have been in the country for five years to automatically qualifying for ‘settled status’). The Dutch don’t want an acrimonious divorce, but fully share the joint stance of the EU27 that above all will want to make sure the EU unity and the integrity of the single market are preserved. Like every country, the Netherlands has sectors that would be most visibly impacted by a cliff edge – agriculture and fisheries – which may not coincide with those of the UK. And the Dutch have a very practical attitude: in the past Dutch exporters have adapted very quickly to disruption in their markets.

6) The ticking clock:
The UK’s position is not helped by the clock ticking down. It is hard to see how anything more than a headline agreement on a future permanent settlement could be negotiated within the two-year Article 50 process, particularly given the disruption of the election. So far, many Dutch companies have been relatively sanguine about the impact of Brexit and there has not been a huge amount of contingency planning, but that will change as March 2019 approaches. From the UK perspective, there are a range of outcomes from bad to acceptable. If there was more time for negotiation there would be a better chance of a better outcome, particularly if the UK were to aim for a temporary agreement by March 2019 with a transition period. It may be better to ask for more time now than wait until the 11th hour.

7) The future of Amsterdam as a financial centre
While Amsterdam emerged in one survey last year as the most attractive financial centre for banks and other firms relocating from London (based mainly on quality of life, transport connections, the quality of regulatory bodies and a virtually bi- and often tri-lingual workforce), the Netherlands has not promoted itself as visibly as some other countries. The Dutch are hesitant to harm their strong ties with the UK by too actively going after its losses over Brexit.

One of the big issues for UK-based firms has been the Dutch bonus tax that limits bonuses to 20% of fixed pay (compared with 100% at an EU level). While there are some exceptions available to this rule for internationally operating institutions, the rules appear stringent. There is discussion about realigning the Dutch system with the rest of the EU as part of the coalition negotiations. On the other hand, Amsterdam could be more attractive to brokers and asset managers, where the Dutch have a long history: the Amsterdam Stock Exchange was the first in the world when it was set up in 1602. (Note: so far Amsterdam has attracted RBS, MUFG, TradeWeb and MarketAxess)

8) A long-term rebalancing act
The bigger question is what will happen to the long-term balance of financial markets and banking in the EU. The cumulative effect of UK-based firms relocating a few hundred staff combined with pressure from local supervisors on firms to have a substantial presence, will inevitably involve the decline of the London-centric system. Frankfurt will have a strong gravitational pull as the financial centre of the EU’s largest economy and home of the ECB, and will likely emerge as a significant ‘twin peaks’ banking centre alongside London. The problem for firms in the UK is that once they start to re-evaluate their business model it is hard to stop. At the same time, this fragmentation poses a more strategic question of higher costs and complexity for all market participants and customers.

9) A change in direction for the EU?
The Netherlands and other more market-oriented countries such as Ireland and Scandinavian member states are concerned about losing such a powerful and like-minded ally as the UK at the EU negotiating table (as well as losing a significant net contributor to the EU budget). The recent election of Emmanuel Macron could lead to the resurrection of a closer relationship between France and Germany, which would take the EU in a different and not always welcome direction. Germany may have to become more British in its outlook, and other member states may have to step up, in order to avoid a more interventionist approach in EU policy.
10) Back to the future:
Here is a selection of some responses to the question ‘what will Brexit look like in 2027?’ (some of them more feasible than others):

1. **The UK never leaves:** by March 2019, after several short-lived governments, the UK negotiates a five-year EEA-style transition period which is then extended to 2027. In 2026 Prime Minister Ruth Davidson (who narrowly beat Sadiq Khan in the 2025 election) calls a second referendum and the UK votes 62% / 38% not to leave.

2. **A long-term downturn:** after a hard and largely chaotic Brexit in 2019, the UK enters a prolonged economic downturn with unemployment peaking at 12% despite a 6% fall in its population. But after a bailout by the IMF in 2025, UK GDP finally recovers to its 2019 level in 2027.

3. **A long slow Brexit:** the EU offers a two-year extension in the negotiations in late 2018 after it becomes clear that the government of David Davis doesn’t have a consensus position on Brexit. After a difficult Brexit in 2021 with a two-year transition agreement, the economy flatlines and negotiations on a permanent settlement – which mirrors much of its former EU membership but without much input - are finally concluded in March 2026.

4. **A new lease of life (1):** freed from the constant criticism and special pleading from the UK, the EU accelerates its integration towards a federal superstate. In 2027, Emmanuel Macron, the first directly elected president of the United States of Europe, opens talks with the UK about re-admission to the EU, but these talks are subsequently vetoed by the USE’s most recent member Turkey.

5. **A new lease of life (2):** Prime Minister Philip Hammond negotiates a three-year transition position to a hard Brexit but a decent free trade agreement. While a large chunk of the City migrates to Frankfurt and Dublin, the UK limits the damage to its economy with a series of bilateral trade deals and forms a loose trade zone with other non-EU countries in Europe.