



Dublin, 23rd September 2016

AIB Chairman Richard Pym's opening remarks, IIEA lunch discussion September 23, 2016

The European Union and Ireland's place in it is significantly changed by the British referendum result. There are short term risks, long term opportunities and change to be faced up to.

I have no special wisdom on these issues. So please see these comments as an introduction to the broader discussion to follow on the subject of the European Union.

To anyone who witnessed the British referendum campaign the final result was not a surprise. It was a demonstration of the growth of what has been called "post truth" politics, best demonstrated by Mr Trump, where statements like "President Obama founded Islamic State" are given currency. The lie that Ukraine and Turkey were imminently to become members of the European Union and their citizens flood the country was one myth that stuck in the UK campaign. A poster campaign of poor and distressed Syrian refugees lined up on the south east European border made the same point.

So Britain now plans to leave the European Union but not a single thought was given in advance to what happens next. It is like a manufacturing business announcing the sacking of its main distributor without having a replacement lined up; just thinking they had heard there was a better distributor somewhere out there.

For Ireland this creates a short term economic problem, a few political problems, and a long term economic opportunity.

So please follow me on that journey through those three headings.

Short term the economic effects are serious for exporters to the UK, reflecting the Euro strengthening and the inevitable slowdown in the UK economy. And once the UK sorts out its approach to the EU, there are going to be some very difficult conversations on farming and fisheries policies, and then tariffs.

The British economy, apart from the weakening of sterling, has held up well since the referendum. Brexiteers have celebrated this as proof of being correct all along. However this is really like one of those cartoons with Wile Coyote chasing Road Runner over the edge of the cliff. Momentum carries the creature forward for a while, but then gravity has its inevitable victory.

The British currently have no strategy for what they want from the EU exit. They talk about having free trade with Europe similar to now, but then talk about having new trade agreements with emerging economies. But you are either in the customs union or you are out of it. This is another

example of “post truth” politics and the British foreign secretary memorably commented that his policy on cake was both having it and eating it.

The UK Prime Minister talks about protecting workers from the effects of globalisation but then talks of Britain being a champion of free trade. How free trade with India and China protects the jobs of South Wales steel workers remains to be explained. The European Union being the largest free trade area in the world seems a pretty good place to start if you want to protect jobs.

There is a frequent comment from Brexit politicians that the Germans will still want to sell their cars in the UK and therefore will plead for the continuation of free trade. Somehow proving the strength of Britain’s negotiating position. However what no-one mentions is that if the UK slams tariffs on German cars then they will reciprocate. The Jaguars, Minis, Hondas, Toyotas and Nissans made in the UK on Europe’s roads will be hit with the same tariffs.

The EU represents almost 50% of UK exports; the UK represents less than 10% of EU exports. The UK has just determined to worsen its terms of trade with its largest trading partner; that does not seem a smart strategy.

Trade talks are all about economic muscle and whilst the UK boasts about being the fifth largest economy in the world, up against the rest of the EU they are tiny and the UK public will be shocked when they find the rest of the Union are not in a charitable mood.

Trade talks are like arm wrestling, strength wins. In this case the UK has had a fore-arm amputation which rather reduces the chances of success.

It is unprecedented that Ireland will now have more leverage in these discussions than the UK. Long gone are the days pre-1973 when Irish trade delegations would head to London, scratching around for crumbs to fall off the table.

The British Brexit Minister David Davis came to Dublin earlier this month, and after his discussions with government stayed over for the British Irish Chamber of Commerce dinner that evening. He didn’t need to, but it showed clearly his realisation that Ireland is an important part in the upcoming discussions. I know he enjoyed the evening and it was a nice start to what will be a difficult journey.

I know David, we started together at the University of Warwick in 1968, and graduated on the same day in 1971. His degree was in Molecular Science and Computing, mine in Physics. I recollect his degree was one level higher than mine and I’ve been sore ever since. However it does demonstrate he is a smart guy, and I can also confirm he is a nice and decent man. Although our politics have diverged since, I can state with personal confidence that for the difficult task ahead that he is an excellent choice of minister.

In the last eight years I have worked closely with civil servants in the UK unravelling the complexities of the government wholly owned former banks destroyed by the 2008 financial meltdown. These civil servants are fantastic; bright, intelligent, hard working and they are also remarkably young. The Brexit department is being populated by the best of Whitehall, and whilst I am concerned by some of the debate being discussed by politicians I am optimistic that the best of Britain’s young brains is being assembled to confront the huge task ahead.

So at the moment Britain is headed to the door. However this will be a long process, as Brendan Halligan so brilliantly described at the IIEA conference at the Aviva pre the referendum. If anyone thinks this can be concluded in two years they need to think harder. In that extended period things might change, economic pressures build and some of the more intelligent voices in British politics are

pointing out that the referendum was on a departure but not the destination, and they suggest a new vote needs to be held when the post Brexit destination is decided.

The EU itself is developing with pressure for further integration of the Eurozone which will be of concern to the non Euro states now excluding the powerful voice of the UK. The noises coming from the Visegrad Four – the alliance of Poland, Hungary, the Czech Republic and Slovakia - sound very much like an east European version of the UK Independence party. The EU might yet reshape itself in a way that the UK can be more easily accommodated.

However if that does not occur my own feeling is that the UK will end up out of the single market and out of the customs union.

However moving on to the political space, Britain's departure will leave Ireland lacking its best friend in the EU chambers. I would suggest that Denmark and Sweden will become key partners in the future, neither are in the Eurozone but they are essentially English speaking nations with liberal open economies. I am probably the only person to have simultaneously chaired a bank in both Sweden and Ireland and I can tell you the transport links are poor. It's a tough commute. Post Brexit, Ireland's travel connections must change to reflect the new economic and political links. It would be unwise to be dependent on London as the transfer hub and the investment in the new runway at Dublin airport is a timely and wise investment.

And then we have the problem with the north. The obvious problems arise if Britain is outside the customs union, and then there is the problem of cross border workers if Britain is applying controls against EU workers at say Heathrow and Dover. If economic growth in the Republic settles manifestly higher than in the north then the question of reunification will be raised, as noted recently by the Taoiseach. The EU has faced this before with the reintegration of the two Germanys and obviously this does have to be addressed in a grown up way. Northern Ireland voted strongly to remain in the EU, and if they see economic growth higher in the Republic and government spending in the north being restrained thenwell, who knows what might happen.

But my last point in this three point thread is that there are significant long term opportunities for Ireland which will become even more attractive as a centre for foreign investment. The British exit opens up massive opportunities for an English speaking business platform within the European Union. Ireland is generally business friendly, has favourable corporate tax rates and a clean judicial system. The country also has a brilliant system for welcoming foreign firms. Central government, the regions, the banks and the education system co-operate to bring a business idea to fruition. Having seen this at work I am hugely impressed by Ireland's FDI system. But everyone in the country needs to put down the welcome mat if the full opportunity is to be seized.

A limiting factor is that the infrastructure in the country has been underinvested, and house building is lagging demand, and this all needs to be fixed if large corporations are going to move to Ireland. Dublin is obviously going to be the main centre of interest, but here public transport is poor and the difficulties for new arrivals in finding accommodation are well known. At least the government has recognised the challenge and we are actively working with them to solve the problem. And the other cities are preparing their pitches to attract new business as well.

I would also suggest that language skills could be improved in the business community of Ireland. I mentioned that I had chaired a bank in Sweden. From Stockholm we lent to Sweden, Norway, Finland, Denmark and Germany, the staff speaking all the languages and recording their conversations on the computer files in English notes. So a Swedish member of staff, would speak Finnish to a customer in Helsinki, and simultaneously write notes of the conversation in English on their screen. That is how

you maximise the opportunity of the single market and cross border trade. I wonder whether foreign language skills can be improved here to maximise on our chances of success.

Ireland's retail scene is dominated by UK chains. However outside the customs union their distribution model is threatened. No more will store ready distribution cages be able to move freely through Ireland's ports. Country of origin customs forms and differential tariffs will be a new complexity in the supply chain. This will offer opportunities for indigenous retailers.

However there are new risks potentially to face. Immigration could increase, displaced from the UK, putting pressure on public services. The Eurozone could consolidate more, removing jurisdiction from the nation states on some aspects of tax policy. As has been shown by the UK failure, the civil population have to be sold the benefits of Europe otherwise the type of resentment shown by the British population could arise in Ireland. Politicians must not use Europe as a convenient "bogey man" to blame for all ills, as British politicians conveniently did for years. As Mrs Merkel is alleged to have said to Mr Cameron, "if you spend years blaming Europe for everything what did you expect".

So whilst the next few years could be tricky as our industries in Ireland adjust, following that period I would be very optimistic on the country. And AIB is ready, and prepared to play a full part in maximising the opportunity. The non-performing loans on the balance sheet are now contained and well provided for, the capital base is restored and state capital subscribed in the past is being repaid and replaced by private capital. The state can now sell its remaining equity shares whenever it wants and it is now beginning to approach the time when the board will be in a position to begin examining the issue of a prudent dividend in consultation with our regulator.

We are very much open for business and we have shown in many instances in recent years how we are supporting the economy and I am delighted that our reputation is growing, in a positive way. We want to be a good corporate citizen and in the next few years the country – and our customers - need a strong banking system to support the change and seize the opportunities.

I hope those thoughts have stimulated your brain cells for the discussion which follows. I think we have to eat something as well. Thank you.