

EURO-PHOENIX'S LES NEMETHY
EXCLUSIVELY FOR ADN

Brexit and Exit

"Businessmen in Albania and other EU aspirant countries still have the accession process to look forward to. Companies that cannot withstand competition from within the bloc will disappear. Those that are competitive will grow and thrive, with opportunities beyond imagination," says Mr. Les Nemethy

by **Genc Mlloja**
SENIOR DIPLOMATIC EDITOR

"While there may be legitimate political arguments for Brexit from the point of view of Britons who wish to repatriate sovereignty, as an economist by training, I cannot think of a single economic argument that would support Brexit," has said Mr. Les Nemethy, founder and CEO of Euro-Phoenix Financial Advisors Ltd.

Mr. Nemethy is a former World Banker involved in supporting Albania during the 1990's. He is founder and CEO of Euro-Phoenix Financial Advisors Ltd (www.europhoenix.com), a company focused on cross-border capital raising and Mergers & Acquisitions for mid-sized companies. Mr. Nemethy is author of Business Exit Planning, published by John Wiley & Sons in the US (www.businessexitplanningbook.com) and translated into 12 languages, including Albanian.

Albanian Daily News invited Mr. Nemethy to draw parallels between Brexit and exit, in the corporate context, and to discuss how Brexit might affect the countries and businesses of southeast Europe, and whether other countries should plan an exit from the EU.

"Businessmen in Albania and other EU aspirant countries still have the accession process to look forward to. Companies that cannot withstand competition from

within the bloc will disappear. Those that are competitive will grow and thrive, with opportunities beyond imagination," said Mr. Les Nemethy in the interview which follows:

-Albanian Daily News: Did UK voters know at the time of the Brexit vote what they were voting for?

- Mr. Les Nemethy: The Brexit vote was a most unfortunate accident of democracy. The vote was very close: a mere 51.9% of votes were cast in favour of Brexit, with 72.2% percent of the UK voting population participating in the vote. Pollsters said that if weather patterns were different, Remainers would have won. Furthermore, nobody really knew what they were voting for: soft Brexit, hard Brexit, let alone the details of a Brexit. Scotland and Ireland were solidly opposed to Brexit-- and remain opposed. (The Scots may still constitutionally challenge Brexit). For a little spice, throw in some possible manipulation of the Brexit vote by the Russians, perhaps also others.

Theresa May compounded the problem by giving notice under section 50 of the E.U. Treaty, triggering the possibility of the UK crashing out of the E.U. on March 29, 2019 without an exit agreement. This may have been the worst po-

litical mistake of her career.

The "original sin" related to Brexit, however, belongs to David Cameron, who called the original Brexit vote in the first place. Not because he wanted Brexit, but because calling the referendum was a calculated gamble to create consensus in the Conservative Party and the country at large, regarding staying in the European Union. It's almost as if he were trying to scare party and country into backing him. The gamble backfired in spectacular fashion. The UK embarked on the bumpy ride toward Brexit without any common understanding of what constituted Brexit or where the voyage would end.

- Which is the economic and political impact of the Brexit?

- While there may be legitimate political arguments for Brexit from the point of view of Britons who wish to repatriate sovereignty, as an economist by training, I cannot think of a single economic argument that would support Brexit. Brexit fragments the European common market. It means that production and supply chains have to be re-optimized to account for tariffs, requiring time, expenditure and effort to reach a state less economically efficient than the current state.

Donald Trump recently learned that tariffs don't just protect production and jobs remaining at home; they can actually motivate companies to move production and jobs abroad: when the EU slapped tariffs on Harley Davidson motorbikes Harley Davidson had to seriously consider moving the production of bikes abroad.

Similarly, in a post-Brexit world, UK companies would have to move production elsewhere, and non-UK companies will have to move produc-

tion to the UK, to overcome trade barriers. The higher the trade barriers, the more the disruption. Shorter production runs will diminish efficiency and productivity, meaning that salaries will stagnate or decline, with adverse effects on per capita income and standards of living. Did UK voters know at the time of the Brexit vote that they would be voting for this? (If you recall, there was a recurring theme in the UK press prior to the Brexit vote dismissing the views of "experts"). I would argue that voters had no idea of the potential messiness of the divorce, and potential chaos that might ensue.

The political impact of the Brexit vote has been considerable. Just to name a few:

1. Scottish First Minister Nicola Sturgeon has indicated her party's desire to hold a new referendum on Scottish independence once there is clarity on the form of Brexit. (62% of Scots voted against Brexit in the previous referendum).

2. The Irish Government is preparing to hire a thousand customs officials and has warned that in the case of a hard Brexit, flights from the UK may be prevented from using Irish airspace.

3. The Financial Times has reported that upon Brexit, the UK would cease to belong to 759 international agreements to which the European Union belongs.

The fallout in the business sector has already been substantial, despite Brexit remaining a possible future event.

1. Airbus has promised to withdraw all its production from the UK in the event that Brexit goes through. (Did you know that wings for most Airbus aircraft are made in the UK?)

2. The EU has decided to relocate the European Medicines Agency (EMA) from London to Amsterdam. (This

is the European equivalent of the FDA, the agency that regulates all drugs in the EU). This will have knock-on effects on the entire UK pharmaceutical and biotech industries.

3. Auto manufacturers have also threatened to shift production from the UK.

4. Goldman Sachs has announced a new European hub in Frankfurt, likely affecting a good number of the 6000 highly paid jobs currently in London.

5. The UK's financial regulator has stated that up to \$34 trillion in derivatives contracts could be in jeopardy.

6. Economists estimate that somewhere between 1.3% and 2.1% of GDP has been knocked off the UK GDP growth rate, attributable to the Brexit vote.

This is only the tip of the iceberg. The list goes on. The potential for litigation around Brexit is enormous.

Might I also add: there is a silver lining for Central Europe here: with its lower labour rates, access to the common market, it could stand to gain in the shift of production from the UK.

- Mr. Nemethy, where do we go from here?

Here are some possibilities:

1. **Second referendum?** There are huge divisions within the Brexit camp itself, which have caused major ructions within the Conservative party, a revolving door of ministers. An increasing number of voices support another referendum. Even the Economist has recently advocated another referendum. This would make enormous sense. A flimsy endorsement for the vaguest of Brexit schemes should be followed up with a follow-up referendum based on the actual, specific plan, so that voters could accept or reject the actual plan, in a much more informed fashion;



Mr Less Namethy interviewed by an Albanian TV channel



'The aftermath' of a remainers' protest in Great Britain

the most difficult thing about such a referendum would be defining the question. In the period leading up to a possible referendum, I would predict that the economic arguments would gather steam, as voters ultimately vote by their pocketbooks, raising the possibility that any Brexit resolution might be defeated.

2. **Crashing out?** If there is no agreement by March 29, 2019, the UK crashes out of the European Union. (The UK could presumably still fall back on general WTO rules, but this would require the EU and even Ireland to levy tariffs on goods arriving from the UK. With a total lack of treaties, the Ireland/UK border would become the hardest border in Europe). Given the lack of consensus and the complexity of the Brexit process, this looks increasingly likely.

I will venture a prediction: Brexit will probably not happen, and if it does happen, it will be in the softest of forms. Why do I say this?

1. Brexit makes no economic sense: it destroys economic value and diminishes income and standards of living. When voters endorsed Brexit by a razor thin margin, they had no idea of the economic consequences.

2. Constitutional challenges. The Scots may well challenge Brexit, and may well also decide to leave the United Kingdom.

3. There is such chaos within the Brexit camp, that they will not be able to arrive at a

consensus as to what form of Brexit should prevail. While a lack of consensus among Brexiteers does not dictate a result that the UK remains within the EU, in my view it increases the likelihood.

4. The Brexit agreement will require ratification by all member states of the European Union. A formidable obstacle!

5. A number of EU politicians, from Junker to Macron have made pronouncements that they would welcome the UK to stay in the European Union, should they change their mind.

Now let's look at the business context of exits (e.g. when an owner decides to exit his or her business). In my book, *Business Exit Planning*, I give three pieces of advice relevant in this context.

First: business owners should have a good understanding of the objectives of all stakeholders (including shareholders, management, family members, etc.) before planning their exit.

Second, that some type of consensus as to objectives should be agreed among stakeholders prior to planning a strategy; and

Third, that a detailed exit strategy should be precisely defined to even initiating negotiations.

In other words, our approach is to do as much as possible to put business owners in a position of strength before they commence negotiations with possible investors. This

can only be achieved with thorough preparation.

The exit option was never advocated by David Cameron as a course of action; as mentioned, the referendum was more of a scare tactic or political gamble, hence Cameron probably never did seriously investigate objectives to be achieved nor the strategy for Brexit.

It is safe to say that all three of the above principles were violated in the case of Brexit; Theresa May and her Government acted with undue haste in putting the cart (notice and negotiations) before the horse (creating consensus in party and country around objectives and strategy). In other words, the negative referendum vote and premature triggering of section 50 of the E.U. Treaty has put the U.K. in a position of supreme weakness.

From the Central European geopolitical perspective, I believe that Brexit would have one small advantage, and a huge disadvantage.

The small advantage: Britain was always a reluctant participant in the European project, given its historical ties to its former Empire. Perhaps its departure would accelerate the evolution of the European Union toward the common policies that it needs to adopt, from defense to economics.

The huge disadvantage: it would leave the European Union even more dominated by Germany. I am amazed at how little this is discussed in the press. I believe avoiding

German domination is also in the German interest-pushback on German domination would not be pleasant for Germany either. The UK's less bureaucratic, more competition-oriented stance should also be appreciated by many smaller countries in continental Europe.

- Which is your comment on the latest stance of US President Trump towards EU and NATO?

- Donald Trump's snubbing and attacking European Union leaders and countries (at a recent July 15 press conference he called Europe a "foe"), while treating Putin as a friend, should also help galvanize greater cohesion within the EU. It represents a "coming of age" for Europe, that Europe cannot take for granted the US defense shield. (There were even fears that Trump may repudiate Article 5 of the NATO pact, that an attack against one member requires a response by all members). It drives home the point that geopolitically, the most reliable allies for European countries are other European countries, that Europeans must band together and become more self-reliant.

Politicians and voters in the UK should be able to do the calculus: the UK needs friends, allies, and above all trade and investment partners, and they are likely to have more of a future in Europe than with the US under a mercurial President. Governments and voters in central and southeast

Europe should also do the calculus: their future is best assured in the EU, the largest trading bloc in the world, and while far from perfect, a paragon of political predictability and reason compared to some other parts of the world. While the UK may have other geopolitical options - its strategic relationship with the US and the Commonwealth (both of questionable value) - I do not believe that the countries of central and southeastern Europe have any real strategic geopolitical alternative, other than continuing to belong to - or joining - the EU. I say this despite being an ardent critic of EU bureaucracy, its lack of leadership, and its host of other problems.

What do I mean when I talk of "geopolitical" options? The European Union is not just a free trade zone, or a sharing of sovereignty. Citizens of Central and Southeast Europe are painfully aware that their countries have been occupied by multiple powers over the centuries. Germany was at war twice with France and England in the twentieth century. The EU is the best chance of assuring that there is never again a war inside Europe, or an occupation of one European country by another.

- Given Brexit, do you think that other EU countries should plan an exit from the Club?

- I would not recommend that any other EU country draw up an exit plan. Whereas a business owner needs to draw up an exit plan because life is finite, and corporate succession must be ensured, the delegation of national sovereignty to the EU is designed to be permanent, there is no issue of succession, other than the transfer of power in democratic elections.

Businessmen in Albania and other EU aspirant countries still have the accession process to look forward to. Companies that cannot withstand competition from within the bloc will disappear. Those that are competitive will grow and thrive, with opportunities beyond imagination. As the story of other Central European countries that have acceded to the European Union shows, for the general population there is a steady rise in per capita income, standards of living and quality of life.

There is enormous creative destruction as markets become freer, but the future is bright.