The Telegraph

Paris will be hoping the 'Macron effect' can strengthen its planned City scalp on back of Brexit

AMBROSE EVANS-PRITCHARD

7 MAY 2017 • 8:22PM

The political newcomer Emmanuel Macron has brushed aside rival Marine Le Pen to win the French presidential election

The sweeping victory of Emmanuel Macron in France opens the way for a radical shake-up of the country's antiquated labour code and punitive tax regime, greatly boosting the hopes of Paris as it tries to capture valuable business from the City of London.

The French financial industry is seizing on the 'Macron effect' to step up its charm offensive in the Square Mile and Canary Wharf, convinced that the election of an ex-Rothschild banker in France has combined with a hard Brexit to create a perfect opportunity.

Officials have been criss-crosing London over recent days meeting sovereign wealth funds and bankers from the US, Japan, China, and other countries, selling the promise of a reformist revolution in Paris. What is faintly ominous for London is that they are pulling forward the timetable for what they believe to be the expected exodus.

"We think that the process will now accelerate because it looks like a hard Brexit, and we think it will happen within months," said Arnaud de Bresson, head of finance federation Paris Europlace.

"Investment banks and asset managers now understand that they will have to move part of their euro activities, which was not the case in our earlier meetings when it was still business as usual," he told the Daily Telegraph.

Emmanuel Macron waves to supporters during the second round of the French presidential election

"We expect them to move some of capital market as well as fund management business to Paris in phases. We think we can gain 20,000 jobs, 10,000 directly. This is quite reasonable," he said, though he was coy about names. City advocates say such claims are wishful thinking.

The French are targeting the lucrative business for clearing operations in euros. Some 75pc of euro-denominated derivatives are traded in London but the European Commission stepped up the pressure last week, sketching possible plans to force clearing houses with "key systemic importance" to move these activities to EU hubs.

Paris, Frankfurt, Luxembourg, Dublin, and other centres, are all elbowing each other side in hopes of carrying away the biggest prizes, though Mr de Bresson is careful to add that total annihilation of the City is not intended. "London will remain the leading financial centre in Europe. We will preserve our long-term partnership," he said.

What has changed the prospects for the French team is the election of a free marketeer with a sophisticated understanding of global finance and a track-record for seeing through reformers.

As economy minister he won a long battle to help struggling companies strike deals with their workers, to crack open closed professions, and to free up rigid transport rules - earning his sobriquet as the 'Uberisation' candidate.

His 'Macron Law' was pushed through by executive decree under the Article 49 of the French constitution in defiance of parliament, to the fury of the French Left.

He plans to go further as president, eroding the 35-hour week with new overtime rules, and changing the law to allow company-level and even branch-level wage deals with unions. He wants to cap redundancy awards by labour tribunals.

Mr Macron also wants to cut the corporate tax rate from 33pc to 25pc, and exempt investments from the French wealth tax, currently an annual confiscation of 0.5pc to 1.5pc on assets above €1.3m.

The latter move is crucial to attract seriously rich financiers and entrepreneurs to Paris. The research group New World Wealth says there has been a net outflow of 60,000 millionaires since 2000. The rules for 'non-domicile' taxation have already been relaxed.

French diplomats are making a concerted legal push in Brussels to bolster their strategy of capturing City business, almost to the point where this effort is taking over policy and acquiring a logic of its own.

Officials intervened at an EU strategy meeting on Brexit two weeks ago, adding demands that financial services be excluded from a trade deal. The modified text stated that the City must respect the "regulatory and supervisory standards regime" of the EU in any future arrangement.

The clear intent is that Britain must accept the writ of the European Court, which would violate the Theresa May's red lines. The language almost seems designed to head off any compromise that could allow London to prevent the exodus of jobs and business.

Paris already has the eurozone's largest financial centre. It employs 170,000 people, with a €3.6 trillion industry in asset management and dominant position in insurance. It hosts the eurozone's biggest stock market, and three of the eurozone's five biggest banks, led by BNP Paribas, Credit Agricole, and Societe General.

It is slightly ahead of London in corporate bond issuance, and carries out more trade in interest rate derivatives than the rest of the eurozone combined.

There may be limits to French ambitions, however. Bankers told a French Senate panel on Brexit that finance houses lack the flexibility needed in the fast-moving world of high finance and complex trading under the infamous 3,000 page Code de Travail or Labour Code.

“As the saying goes, it takes three days to fire somebody in London, three months in Switzerland, and three years in Paris. It may be an exaggeration, but it is probably quite close to reality,” said Jean-Frédéric de Leusse, head of UBS in France.

The labyrinthine legal system has 400,000 business norms and regulations, with 360 separate taxes, some pre-dating the French Revolution.

Morgan Stanley's chief in France, Rene Proglio, said tax levels and the cost of labour render Paris uncompetitive against other eurozone hubs, and warned that the delights of French food and and the Gallic lifestyle are not enough to offset this. “Employer’s social charges are colossal. It is a handicap, and the gap with Frankfurt is a very big problem,” he said.

The French banking federation (FBF) admits that it is risky to take the plunge on extra staff in France. “Employers don’t have any margin for error. They can’t manage their head-count,” it said.

Mr Macron aims to change all this but it remains to be seen whether his new party 'En Marche' will secure a working majority the French parliament next month. He may have to govern in 'cohabitation' with the centre-Right Republicans. If so, it will be a fractious alliance.

What is certain is that the far-Left and the far-Right - which now make up such a large bloc of the French people - will wage an implacable campaign of civic resistance to defend the sacred Modèle Français.