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UK should seize the opportunities presented by the EU's belligerence

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IT SEEMS ASTONISHING that a sector which contributes nearly 7% to the UK economy, employs over 1 million people and creates exports worth £60bn (with a surplus of £41bn) would have been so neglected in the Trade and Cooperation Agreement (T&CA) London struck with Brussels. Yet with Michel Barnier standing firm as Amsterdam claims a trading win over London, financial services has been largely left to fend for itself.

Little wonder then that Bank of England Governor Andrew Bailey warned the EU's demands of the UK on future rules were excessive compared to global standards. The EU has so far refused to recognise most of the UK's regulatory systems as "equivalent". As our Chairman Ben Habib argued in the *Express*, it was reckless of the UK to grant equivalence without it being reciprocated.

According to Mr Habib: "We trusted the EU subsequently to 'negotiate' an equitable arrangement for financial services. Worse than that, [Chancellor] Rishi Sunak had already unilaterally declared that EU firms could go on selling their financial services in the UK without any limitations as if still operating in the Single Market. We gave away ALL our negotiating leverage. So, no surprises the EU is now refusing to acknowledge 'equivalence' with our financial services industry. This would have allowed us to go on trading our services freely in Europe. They recognise equivalence with the US, Canada, Australia, Hong Kong and even Brazil – but not the UK."

This last point is especially critical. As Ambrose Evans-Pritchard noted in the *Telegraph*, the EU's war on equivalence may have violated international law. The Telegraph's International Business Editor claimed: "Selective treatment of one state for political reasons breaches the non-discrimination principle of the World Trade Organisation. It is strictly forbidden." Mr Evans-Pritchard quoted Lorand Bartels - an international law expert – who said Article VII of General Agreement on Trade in Services (GATS) may not be "a slam dunk but it would be a good case."

According to Article VII, World Trade Organisation (WTO) members "shall not accord recognition in a manner which would constitute a means of discrimination between countries ... or a disguised restriction on trade in services. Unless an exemption applies, a WTO member must treat service suppliers from all other WTO members equally." Echoing Mr Habib, Mr Evans-Pritchard stated that the bloc "grants broad equivalence to Canada, Australia, the US, and others." So, what can be done now with the EU?

According to Mr Habib: "The Chancellor must withdraw his invitation for their firms to go on operating here as if nothing has changed. Their firms must be required to capitalise their branches and convert them to subsidiaries subject to full oversight by British regulatory authorities. British institutions lending to EU member states must also be required to recognise the genuine risk of these states defaulting. At the moment, under EU and other regulations, EU member state sovereign risk is deemed to be nil."

The former MEP added that "we must, prudently, deregulate." Striking a similar note, Matthew Lynn, writing for the *Telegraph*, argued the UK "could scrap stamp duties to make London cheaper than any rivals; link up with Zurich to create a European financial super-hub; create a legal framework for cryptos to grab the fastest growing market; design a fast-track 'finance visa' so banks can bring in talent from around the world hassle-free; and opt-out of crazy rules that have wrapped finance in red tape."

Mr Evans-Pritchard cited William Wright from New Financial think tank who said Britain should stop worrying about business which has migrated to the EU. According to Mr Wright: "If the UK teams up with the US we will together have 75pc of the global market. We'll set the *de facto* global standard." Moreover, Jullian Jessop, a fellow at the Institute of Economic Affairs, said the UK "should focus on the cutting-edge areas of fintech where

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where the UK already has a huge advantage."

While the UK must continue to fight for finance, perhaps the UK can use this as a moment to re-engineer its economy altogether? Yes, in many areas, the Government has poorly defended the UK and cannot let financial services drown, but maybe this is a moment for rejuvenation too. During the pandemic, the value of on-shoring has never been more obvious. Now perhaps is the time to link Government, universities and the private sector not to redevelop the current generation of manufactured goods and digital products, but to develop the next one. The UK needs financial services but it could be so much more.

Source: *www.brexit-watch org 15th February.*