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Financial services

The City of London is the predominant financial centre in Europe. It does six times more financial services business with the EU than the EU does with the UK. More financial services business is done in Canary Wharf than in the whole of the EU combined. London accounts for 40% of Europe's assets under management (and 85% of hedge fund assets), 60% of its capital markets business, 78% of its foreign exchange trading, and 74% of its derivatives trading. The UK securities market is the biggest in Europe, the UK banking sector is the biggest source of cross-border lending to EU banks and corporates with more than £1tn of loans outstanding, and the UK is by far the largest market in Europe for 'alternative finance'. Exports of UK financial and insurance services are around £82bn, of which £33bn or 40% go to the EU.

Fishing, by contrast, contributes 0.02% (£437m) to UK GDP. So financial services is around 300 times more important to the UK economy than fishing. Yet the new UK-EU Trade and Cooperation Agreement (TCA) gives the EU a 5.5-year transition agreement on EU fishing boats in UK waters, but has no transition for financial services sold into the EU.

Instead, all that has been agreed is a non-binding commitment for the UK and the EU to cooperate in order to reach a 'memorandum of understanding' (MOU) on financial services regulation, negotiations have begun. Each side is able to suspend any agreement for a number of reasons, 'including in order to preserve financial stability and the integrity of financial markets'.

Under current EU rules, the UK financial sector can only access the single market if the EU determines that the UK financial regulatory system is deemed to be 'equivalent' to that of the EU, meaning that it achieves the same outcomes as its own rules, as well as preserving financial stability, investor protection, market integrity and a level playing field in the EU single market.

However, equivalence only allows for market access in specific areas and excludes most types of banking (such as deposit-taking, lending and payment services), as well as the provision of fund management services to retail customers. Equivalence can also be withdrawn at short notice (typically 30 days). Furthermore, despite being a technical matter of determining whether a third-country's regulations are equivalent, there is a 'clear political dimension' to the decision. In the case of the UK, the EU is concerned about 'possible divergence from EU rules' as a reason for withholding equivalence.

It is clearly not a sustainable long-term position for the UK to operate a £30bn+ business in the EU which can be stopped on a whim with 30 days' notice. There is also the question of costs as Omar Ali, the head of financial services at EY, points out: 'Equivalency isn't just about access; it's about the cost of doing business. A lack of equivalence decisions would increase the cost of doing business for financial services firms and the clients they serve'.

Furthermore, the nature of the political dimension is clear. The EU sees Brexit as an opportunity to force significant chunks of UK financial services to move to the EU. More than £1trn of investment funds have been moved from London to the EU since 2016. The EU is particularly keen to see euro-denominated business – most of which has been carried out in London - moved into the Eurozone. For example, it has refused to allow trading in euro-denominated shares on platforms outside the EU after Brexit. As a result, Monday 4th January 2021, the first day of trading following the introduction of the TCA, witnessed the first-ever trading of shares - some £6bn-worth in total - on the Cboe NL and the London Stock Exchange's Turquoise platforms both in Amsterdam and Aquis Exchange's platform in Paris. This means that trading was split across three separate trading platforms, thereby reducing liquidity.

While the UK has granted a temporary permissions regime to a large number of EU companies, allowing them to continue to do business in London and to allow UK firms to use venues in the EU, the EU has refused to reciprocate and has banned EU companies from trading swaps and other derivatives on platforms in London. The euro-denominated derivatives market in London is worth €78trn.

There are two additional important issues of concern and these are movement of people and data. While the TCA permits visa-free travelling for 90 days in any 6-month period to attend meetings, conferences and conducting research, any sale of goods or services to the public will require a visa. In terms of data, financial services firms need to ensure they comply with EU data sharing rules, which covers client paperwork and personal data under GDPR.

The UK's City Minister, John Glen, who is leading the UK negotiating team on the MOU says 'what we want is a model of structure and co-operation with the EU that allows us to maintain that stability and mutual market access'.

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Clearly, simple equivalence is not the answer. A number of other alternatives have been put proposed. These include:

* 'Enhanced equivalence' under which the gaps in existing equivalence regimes – such as deposit-taking and lending – are filled in and regulations are accepted as being sufficiently similar, but without actually being identical. There would be two key issues to resolve: the EU and UK agree to treat each other fairly in assessing rules as being equivalent; and they would agree terms on which equivalence can be withdrawn without political interference.

'Mutual recognition' (including professional standards). A different alignment concept is 'mutual recognition' through 'mutual market access'. This achieves a similar result as enhanced equivalence, but assumes that financial services regulation and supervision in the UK and EU would remain sufficiently aligned in the future. It would be jointly monitored by a committee to ensure regulatory alignment.

The EU has said it will refuse a financial services agreement based on mutual recognition, but a leaked draft of an annex to the EU's Guidelines for negotiating a future trading relationship with the UK suggested that the EU might be willing to consider 'improved equivalence mechanisms' to cover financial services. The UK's financial regulator (the Financial Conduct Authority) has issued a statement saying that 'The FCA continues to view the agreement of mutual equivalence between the UK and EU as the best way to avoid disruption for market participants and avoid fragmentation of liquidity in [derivative] products [such as swaps], reducing costs for investors'.

Yet despite signing up to a G20 commitment to improve the functioning of financial markets (including over-the-counter derivatives markets), the EU has acted in a way that has deliberately contributed to the fragmentation of those markets. It seems to be determined to harm the UK's financial sector, even if EU users of financial services are also harmed.

The TCA specifically makes 'framework' commitments on lowering barriers to services trade and the mutual recognition of professional qualifications. However, we know that the EU always takes a very long time to make decisions, typically 5-7 years. To circumvent this, the UK might end up having to negotiate 27 bilateral arrangements with each member state on mutual access to financial services.

This is clearly not as good as a formal EU-wide financial services deal. However, the UK's bargaining position has been greatly weakened by what was agreed in the TCA. It's *déjà vu* all over again..... by giving away our strongest bargaining chips by committing to paying the £40bn divorce bill and agreeing to the disastrous Withdrawal Agreement which preserved the EU single market but at the cost of splitting the UK single market between Great Britain and Northern Ireland. The EU.... is forever saying: 'nothing is agreed until everything is agreed'.

Yet we fell into precisely the same trap again by accepting the sequencing of the negotiations for the TCA that suited the EU. The first thing it wanted was a deal on fishing that preserved indefinitely its full existing access to UK fishing grounds. The final thing it wanted was a deal on financial services that would only be negotiated after the TCA was signed. And this is what it got, almost in its entirety. It was only last-minute pressure on Angela Merkel from German carmakers, fearful of losing their one million per annum car sales in the UK, that forced the EU to compromise and agree a 5.5 year transition deal for fishing. Surely, the UK-side could have insisted on a 5.5 year transition deal for financial services in exchange? But it was not to be.

It has been clear for some time what the EU's terms for agreeing the MOU will be – for the UK to become a rule taker from Brussels in respect of financial services by adopting its financial services regulations and changes in those regulations over time, so-called 'dynamic alignment'. It is not hard to work this out, because it is exactly the same as the EU demanded – and which Theresa May would have conceded had she still been in power - for the TCA.

But this is the last thing we should accept. For a start, the EU hasn't got a clue how to run a financial system. The main banks on the continent - big names like Deutsche Bank, Société Générale, BNP, Santander, ING and UniCredit - are in very serious financial difficulties (i.e., as close to insolvent as you can get) and the Eurozone is teetering on the edge of collapse. Further, the single market in financial services – one of the supposed four freedoms of the single market – has barely got off the ground, poleaxed under the weight of excessive regulations, like Markets in Financial Instruments Directive (MiFID) II, the Alternative Investment Fund Managers Directive (AIFMD), Capital Requirements Directive IV and Solvency II.

Andrew Bailey, the Governor of the Bank of England, has made it absolutely clear that the UK must not become a rule taker from Brussels. Speaking to the Treasury Select Committee, he said: 'the UK must be able to make its own rules for the City, even if it means EU authorities refusing to allow access to markets across the Channel. If the UK agreed to take EU rules, it would be bound to follow Brussels' decisions even when regulators in London thought they were unsuitable for British banks, or even threatened financial stability'. He pointed out that the UK already wanted to change the Solvency II rules governing the insurance sector and to reject the EU decision to count IT systems towards banks' capital buffers.

So what is the alternative to the UK refusing to be a Brussels rule taker and the EU refusing to agree a financial services deal based on enhanced equivalence or mutual recognition? The straightforward answer is that the City of London is strong enough to go it alone and adopt what is known as the World Financial Centre model.

This would allow the UK to continue doing business in the EU –

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even without single market access via passporting, an enhanced equivalence regime or mutual recognition – by making maximum use of international law protections: exploiting 'reverse solicitation exemptions' or 'overseas persons exemptions' which allow financial institutions to provide certain cross-border services to a wholesale client without being registered or authorised in that client's member state, so long as the services are provided on the initiative of the client; making use of existing EU and member state laws that allow private placements and cross-border dealings – including multiple on-the-ground visits – without a local branch or licence; and making use of human rights legislation – the European Convention on Human Rights and the EU's own Charter of Fundamental Rights – that protects property rights under contracts between UK and EU27 businesses that existed prior to Brexit.

In addition, it is common for financial regulators to permit the 'delegation' of certain financial services to entities regulated in other jurisdictions. This is typical of portfolio management, where fund managers frequently operate a portfolio management hub, enabling economies of scale and other efficiencies. In Europe, this hub is London. Two key questions are whether the EU will: a) allow EU fund managers to continue to use London as their European portfolio management hub and b) allow UK portfolio managers to enter into arrangements with a third-party 'host' EU fund manager, subject to complying with EU delegation rules.

An IEA report discussed the financial services regulations that would be needed to support the World Financial Centre model. The regulations must: not restrict growth in financial services, not encourage regulatory arbitrage, not prevent sections of the economy from accessing capital or other financial products, help to develop safe but competitive markets, and facilitate the growth of new and small businesses.

With these aims in mind, the report recommends that London should form an alliance with other major financial centres, such as Switzerland and Singapore, to enable further and deeper integration opportunities. A UK regime of multilateral mutual recognition would allow the UK to strengthen its involvement in global regulation formation and dispute resolution.

Freed from burdensome and costly EU regulations – equivalent to 2-3% of the financial sector's annual costs – Economists for Free Trade have estimated that the City would grow by £20bn over the next ten years under this model. Chancellor Rishi Sunak argues that Brexit will be equivalent to 'Big Bang 2.0' and that the City's 'culture and creativity' will see it rise to greater global heights. He said he was keen to re-examine the listing regime, so that London became a more compelling listing destination for the biggest new firms. He was also keen for London to become a global centre for financial innovation, such as in green bonds and digital currencies.

There are grounds for optimism coming from the industry itself. Immediately following the Brexit Referendum in 2016, there were scare stories about massive job losses in the City of London as firms moved workers to Paris and Frankfurt. Consultant Oliver Wyman predicted 75,000 job losses, while Xavier Rolet, then chief executive of the London Stock Exchange, predicted 200,000 job losses. In the event, just 7,000 jobs were relocated. This indicates strong confidence that the UK can thrive after Brexit even in the absence of a deal.

This is confirmed by a New Year survey conducted by the strongly anti-Brexit *Financial News* on 4th January 2021:

* The City of London is going to be fine. London has adapted to changing circumstances time and time again and will continue to be a global financial hub (Bob Diamond, former Barclays chief executive)

* London will remain one of the world's leading financial centres and an attractive place to do business. It has a diverse pool of talent, a reputation for innovation and a business friendly regulatory and legal environment. Many financial institutions have long factored Brexit into their plans (Farmida Bi, chair EMEA, Norton Rose Fulbright)

* London will remain one of the world's leading financial hubs – I don't think there is any city in Europe that can compete with its combination of infrastructure and quality of life and it will continue to shine (Manolo Falco, co-head of banking, capital markets and advisory, Citigroup)

* Financial services was one of the first industries to prepare for Brexit, because of the importance of having the right licence to operate, and it moved quickly to set up new operations to continue operating in the EU. I expect many financial institutions to step back now and consider how they conduct business across Europe, and where efficiencies can still be made. An evolving regulatory environment in the UK could spark innovation, attract new talent and push UK financial institutions to consider new areas of growth, like investing in clean technologies (Richard Hammell, UK head of financial services, Deloitte)

These quotes from senior industry practitioners make clear two things. First, they believe that the UK financial services industry was so well prepared for Brexit by setting up operations in the EU that they are now in a position to rationalise their pan-European operations to reduce costs. Second, they believe that London's future as one of the world's leading financial centres is secure so long as London adopts an evolving regulatory environment that sparks innovation and attracts new talent. This is very good news. ...The even more anti-Brexit *FT* reports a 'senior EU official' as saying 'you can't expect the UK to remain a [financial services] hub for the EU. It's not sustainable, and makes no sense in the mid-to-longer run, even if that drives up costs for some businesses'. Peter Foster, the author of the article, states that 'The prevailing view in Brussels seems to be that given that dual regimes [for financial services and food etc] will emerge over time…it makes no sense to have the UK as an EU hub for very much. This penny is now starting to drop'.

Call for a UK digital E-Pound

Extract of an article by the Bruges group.

A major city group has just published a report calling for an immediate development of an E-Pound.

Britain could create a Western alternative to a Chinese digital/e-currency

It is not generally appreciated that over 98% of UK transactional banking (by value) takes place in what is known as 'the wholesale market'. Less than 2% takes place in the retail market, which is what most people deal with in their daily lives. This multi-billion daily wholesale market represents a massive opportunity for the UK.

China is already well advanced in their declared aim to launch their version of what is known as a 'Central Bank Digital Currency' (CBDC), by the time of the Beijing Winter Olympics next year.

The EU and the US have also embarked on developing their own systems, but both are potentially hidebound by the usual legal and constitutional morass and bureaucratic delays. Enter the newly-independent United Kingdom, with its 'Sterling Central Bank Digital Currency' (CBDC). On the 19th April the Bank of England and the Treasury announced that they were setting up taskforces "to coordinate the exploration of a potential UK CBDC".

A major group representing the interests of the City of London – the CityUnited Project – has been assembling a team of world-leading specialists from the UK including Fintech entrepreneurs, central market infrastructure specialists, payment system architects, City Executives and other specialist personnel all of whom have strong connections with the City of London and the UK finance industry both at a wholesale and retail level.

The CityUnited project has launched its 'Auropa' report.

Named 'Aurora' (Latin for dawn), this initiative looks well-timed. It offers the UK first mover advantage for a western alternative to the Chinese CBDC, exploiting the UK's world-leading technology, financial leadership, and innovation, providing benefits for all. The proposal is effectively in two parts:

1. A CBDC for the wholesale sector, representing the bulk of UK banking transactions, involving the BoE and City institutions, followed by,

2. Further enhancements designed for the retail sector, improving cost and efficiency for items such as fares, fees and media purchases; and providing simple payment and receipt access for the many still without bank accounts.

The Aurora CBDC also aligns fully with the Government's green agenda and climate change laws. A CBDC platform would have a lesser energy signature than any of the individual clearing platforms or payment platforms.

The retail phase will particularly benefit lower income brackets and the currently unbanked through cost and availability benefits, thus falling in line with the Government's 'levelling up' policies.

When complete, the Aurora model can provide significant efficiency, security, and cost benefits across the UK's political, security, economic, social and cultural spectrum, and would meet the Government's green and levelling-up objectives, providing benefits for all.

Commenting on this report, the Rt Hon The Lord Hannan of Kingsclere said: "State-backed digital currencies are coming: that is not in doubt. The question is whether another country will get there early enough to offer an alternative model to China's - a model more rooted in the principles of privacy and private property. Britain, with its concentration of financial services expertise, its fintech hub and its common law system, is ideally placed to be that country."

Commenting further, the head of the Aurora team, the CityUnited Project's Chairman Professor Daniel Hodson, said: "We believe that there's a great opportunity for the United Kingdom to gain 'first mover advantage' in the western world. The Aurora plan is based on proven technology thanks to the existing world-beating expertise and innovative drive of the City of London. If this can be brought together with the kind of 'can-do' approach that Kate Bingham brought to the vaccine rollout, then the UK would be very well positioned to protect and enhance the UK's financial services globally, and to deliver real benefits to every person in the United Kingdom. Our Aurora team is looking forward to discussing these proposals with the Bank of England and HM Treasury and other interested parties and stakeholders in the coming days and weeks."

Against the background of so much negativity, the launch of 'The CityUnited Project' in mid-February 2021 might appear well-timed to many people in the Square Mile and beyond. As the CityUnited's Chairman Daniel Hodson put it: "The post-Brexit City and the UK financial services industry stand at the gateway of their greatest era of prosperity and global leadership."

The CityUnited Project: https://www.cityunitedproject.com

Source: *The Bruges group web site at www.brugesgroup.com*

Fears of a digital E-pound

The article above has caused a great deal of fear and concern for those worried that this will be used to remove cash payments completely.

The fear expressed is that this will favour central government and the banking industry and allow more information to be collected by banks and government on individuals habits.

More UK good news

Following the last issue of *eurofacts* showing positive signs for the UK economy. The UK's service sector rebounded in April with growth climbing to a seven year high as lockdown restrictions were eased, according to an influential survey.

The sector, which accounts for 80% of the UK economy, had the fastest rise in output since October 2013.

The purchasing managers' index from IHS Markit/CIPS climbed to 61 for April; up from 56.3 in March.

Any figure above 50 shows growth in the sector.

In May the economy grew by a further 0.8% following the 2% growth in April.

Furthermore, the owners of Vauxhall, Stellantic has announced plans to build electric vans at the Ellesmere Port plant in Cheshire.

Following hot on those heels is the plan approved by the Northumberland County Council for a huge electric car battery 'gigofactory' which is claimed will create 3,000 jobs. The Council described the plant on the site of the former Blyth power station would be a game changer. The planning permission that has been granted covers an area of 235 acres.

The company said the plant will be operational by 2023 and bring much needed employment to the region.

Then comes the news from a survey by big recruitment firms, that shows the number of permanent jobs available in England rose at its fastest rate since 1977 in June as the economy opened up. Availability of workers however, has hit a 24 year low.

EU founder for sainthood!

Robert Schuman, a post-WW2 French politician who helped create the EU, is to be given the title "venerable" by the Roman Catholic church in recognition of "heroic virtues", in what constitutes the first step on the path to canonisation, the Vatican announced a few weeks ago. The church needs to attribute a "miracle" to Schuman for the next step - "beatification" - and a second miracle before he becomes a saint.

Wind power

It appears that France and Spain have requested the European Commission to take action against the British government over its contract procurement.

They are accusing the British government of favouring national suppliers in procurement contracts for the multi-billion euro wind-turbine industry, which they believe is a breach of its Brexit agreement.

The *Guardian* newspaper reported that, "The [EU] commission expressed its concerns about compliance with the trade and cooperation agreement," a diplomatic source said. The UK has denied any wrongdoing.

Will the UK ever be free of the EU?

EU citizenship available for the wealthy

The wealthy who wish to become EU citizens can do so easily.

Wealthy non-EU nationals can still receive Maltese citizenship after spending just days in the EU state, a journalist investigation has found.

Leaked documents show some investors met the one-year residence requirements by renting empty property.

The EU has repeatedly raised concerns over "golden passport" schemes in Malta, Cyprus and elsewhere.

The brokering company involved denied any systematic problems, and Malta has previously defended its scheme.

Covid-19 source tracing

The US president Joe Biden has ordered intelligence officials to "redouble' efforts to investigate the origins of Covid-19, including the theory that it came from a laboratory in China.

He said the US intelligence community was split on whether it was the result of a laboratory accident, or emerged from human contact with an infected animal.

Mr Biden asked the groups to report back to him within 90 days. (This request was made on the 27th May.) Many believe tracing the true source of Covid is a priority. Meanwhile, China's embassy in the US has warned against "politicising" origin tracing.

Good news for Germany

In America the Joe Biden's administration has waived sanctions on a company building a controversial gas pipeline between Russia and Germany. Theses were imposed by the previous administration.

The US also lifted sanctions on the executive - an ally of Russia's Vladimir Putin - who leads the firm behind the Nord Stream 2 project.

The move came in a report on Russian sanctions delivered to Congress by the Department of State. Critics say the pipeline is a major geopolitical prize for the Kremlin.

The UK-Australia trade deal

Catherine McBride (Brexit watch)

Many UK protectionists are claiming the UK-Australia agreement will be a template for future trade deals and therefore conclude this will be a disaster for the UK's cossetted agricultural sector. I totally disagree, it will not harm UK farmers, but it may not even benefit UK consumers – yet there are some sections in this agreement that are worth templating.

For the UK's first independent trade deal the good news is the acknowledgment in the trade agreement that both countries have the right to establish and uphold their own regulations in relation to the environment, domestic laws, Sanitary and Phyto Sanitary (SPS) regulations, and labour standards.

This may not sound like a significant proclamation but with the EU still trying to impose dynamic alignment with its SPS regulations on the UK, claiming that it is the only way of saving the Northern Irish Protocol, trading with countries that accept mutual recognition as best practice should hopefully become the new normal.

The SPS section is clear and sensible "Imports will still have to meet the same respective UK and Australian food safety and biosecurity standards. Both the UK and Australia agree the importance of independent SPS regimes." It may surprise anyone who has been listening to the NFU propaganda to discover that Australia has incredibly strict SPS regulations – not only have they managed to keep out foot and mouth disease, swine fever, BSE, and bovine tuberculosis – but they also search tourists for fruit, nuts, dried fish, raw meat etc., spray plane passengers with insecticide as they land and Australian customs agents will clean your shoes if you have visited a farm before flying to Australia. Those readers who have ever watched the TV show *Border Security: Australia's front lines* will know this is for real.

The UK Australia agreement is proof that regulatory independence does not prevent trade in goods or in services. That is another thing that we should be templating: this agreement includes services – Financial Services, Legal Services, Business Services, Transport and Delivery Services, and Telecommunications. The deal also increases investment limits; encourages digital trade while ensuring data protection; protecting digital innovation by preventing enforced tech transfer of source code or encryption keys; commits to protect intellectual property; and maximise opportunities to supply government procurement markets. It shows what can be achieved between friendly foreign powers that want to grow trade rather than arrange a punishment beating.

The garden is not all rosy - There is still a very definite bias in UK trade towards the EU. Only six months ago, the UK was happy to grant UNLIMITED tariff-free access to its markets for EU agricultural and manufactured goods even though many EU producers undercut UK producers. And yet without the imposition of quotas or tariffs, UK farms, factories and even car manufacturers are still in business despite the potential for the EU to 'flood' the UK market.

However, while the Australian side of section 1.2 GOODS MARKET ACCESS is one line: "full liberalisation of UK originating goods entering Australia", the UK's side has a page of exceptions – most of them agricultural.

For some reason UK farmers have an irrational fear about Australian farmers and have insisted on restricting Australian agricultural goods. The whole point of trade is to buy things from more efficient producers – but while UK farmers are not fearful when the more efficient producer is the EU, their representatives become hysterical when the more efficient producer is on the other side of the world.

Consequently, the UK Australian 'Trade deal' still limits trade in the commodities where Australia is clearly the more efficient producer, such as beef, but bizarrely it also restricts trade in a couple of areas where it is not, such as butter. This makes me suspect these restrictions were imposed to quell future protectionist demands even though New Zealand already exports more lamb to the UK than the Australian tariff-free quota allowance, and does so without so much as a peep from the NFU.

Beef Quota - Some commentators have argued that increasing the tariff-free quota for Australian beef to 35,000 tonnes is a massive increase on present imports, but present imports are severely restricted by the tiny EU quota that was split between the UK and the EU27 after Brexit. The previous EU quota limited Australia to a total of 7,150 tonnes of beef for all 28 members. This is a rounding error in terms of international trade, and it does not surprise me the quota was often unfilled. It is far too small to regularly supply a supermarket chain or more than a handful of specialist butchers.

When the UK left the EU, the EU insisted it take part of this tiny quota with it because the UK had traditionally imported the most Australian beef. Australia has been disputing this quota division at the WTO. However, the UK Australia trade agreement, demands that Australia withdraw its WTO objection. At least Australia should be happy the new 35,000 tonne quota is tariff-free – the old EU quota still carried a 20% tariff and any beef imported above the quota had eye wateringly high, fixed and variable tariffs applied to it.

To put this new import quota in perspective: The UK imported 242,528 tonnes of beef in 2020 but this was low due to the closure of many restaurants. In 2018 the UK imported just under 290,000 tons of beef and most of this – 210,000 tons – came from Ireland. So why are UK farmers insisting that the Government limit Australian beef imports to only 35,000 tonnes? The UK market is already swamped by cheaper Irish beef, so why all the irrational fear about Australia?

A 35,000 tonne quota is still small for Australian exporters: even with

The UK-Australia trade deal

2020 lockdowns Australia exported 1,140,274 tons of beef, while in 2019 they exported 1,330,600 tons. Australians are very efficient beef producers. In the world outside the EU: trade is about buying products from efficient producers.

Lamb Quota - The duty free quota given to Australian lamb is only 25,000 tones which is small when you consider that the UK imported 60,000 tons of lamb last year – 38,000 tons from New Zealand and 8,500 tons from Australia. We could excuse the protectionism here because the UK does export lamb but lamb is seasonal so the UK producers in the Northern Hemisphere are not in direct competition with either Australia or New Zealand in the Southern Hemisphere where the seasons are reversed. So again, why the irrational fear?

Dairy Quota - However, the extra-ordinary part of this agreement is the Dairy quotas. The UK has little to fear from Australian dairy farmers – they produce some exceptional brie, but milk production requires water and cheese production requires large amounts of milk: it takes about 10 litres of milk to make about a kilo of cheddar. Fresh cheeses use less milk – but you don't have to know too much about Australia to know which country in this agreement should be exporting cheese.

But incredibly the UK imported over 490,000 tons of cheese last year and 535,000 in 2019 while UK cheese exports were only 192,000 and 208,000 tons respectively. UK farmers can hardly claim they will be flooded by Australian cheese – the UK is already flooded with EU cheeses and the largest supplier is Ireland who undercuts UK cheese producers with good imitations of UK cheddar.

Rather implausibly, the UK has also insisted on an Australian butter quota of 5,500 tonnes rising to 11,500 tonnes in five years' time. This is crazy. Australia is a net importer of butter, importing just over 41,000 tons, worth US$191 million, last year. The UK exported 61,363 tons of butter in 2020, almost four times as much as Australia. Yet inexplicably the UK has limited Australian butter imports to 5,500 tonnes. In your dreams – that would be a third of all of Australia's butter exports and more butter than Australia exported to China (3,217 tons) in 2020.

Comparative advantage and protectionism - Who advised the DIT that Australian butter imports should have quotas? It makes the whole UK market access section look random – did they pull product names out of a hat to placate the UK's protectionist National Farms Union (NFU)? It is a testament to the self-reliance of Australian farmers that they did not ask for protection from UK dairy farmers – Australian farmers know what they are good at. If only UK farmers would accept their own shortcomings and concentrate on their comparative advantages, not demand protection for uneconomic UK beef farmers.

In an ideal world, the UK should be selling butter to Australia and buying beef in return. The UK should be an efficient producer of butter but instead it sells milk and cream to Ireland and then buys it back again as value added butter. The UK imported 78,000 tons of butter in 2020 – 48,000 tons came from Ireland – giving the UK a butter trade deficit of 17,000 tons. UK butter producers should see Australia as a potential gold mine but instead they are cowering with fear of Australian imports due to misinformation pushed by the uninformed NFU.

The quota restrictions in the trade agreement would not be so hard to stomach if UK farmers had made even the slightest attempt to improve their productivity since the Brexit referendum by increasing their beef herd size or their butter production. But according to DEFRA figures, UK farmers are not even vaguely attempting to meet UK consumer demands. Instead, they seem happy to sit back and allow the EU's industrial farms to supply the UK population with tariff-free and quota-free food.

Conclusion - Some commentators have suggested that this agreement will be the template for the UK's other non-EU trade deals, but would the UK try to impose similar restrictions on the US? Would US car manufactures be limited to exports of only 35,000 cars while the UK happily imports around 2 million cars from the EU each year? Would US pork producers be limited to a 35,000 tonne pork quota when the UK imports an average of 440,000 tons of pork each year, 438,000 tons of it tariff and quota-free from the EU?

If this is a template for the New Zealand deal, then it is even stranger. As I have mentioned New Zealand already exports more lamb to the UK than the tariff-free quota granted to Australian lamb exports, but would New Zealand be granted a similar beef quota to Australia? New Zealand is already the world's largest butter exporter, but its main brand, Anchor, now produces butter in Wiltshire for the UK market. I would be surprised to see this change although rebranding it as Wiltshire butter and exporting it to Australia might be worth considering. But New Zealand does produce some good cheddars that could displace Irish cheddars in UK supermarkets – unless of course they are hobbled with similar-sized quotas as Australia.

If this agreement becomes the template for future deals then Global Britain is stillborn because the UK will remain a captured market for the EU. Instead of importing a useful amount of beef from Australia and a useful amount of dairy from NZ, the UK could end up giving sub-commercial quota amounts to both countries regardless of their comparative advantages or market efficiencies. In all likelihood these quota restricted imports will not be used outside of specialist butchers or provider's. They are unlikely to be cutting the price of meat or cheese for the average UK consumer. In trade deals we should buy from the most efficient producer - i.e., beef from Australia and dairy products from New Zealand not half and half from both countries.

Let's hope that in the next trade agreement, the Department for International Trade stands firm against the protectionists in uneconomic UK industries.

The impact of woke economics

Ewen Stewart

In part five of his series for Brexit Watch Ewen looked at inflationary risks for the economy.

"In this short essay I look at a further factor and perhaps under-appreciated force in undermining price stability and more importantly personal choice and preference; what I describe as WOKE ECONOMICS.

The definition of being WOKE is imprecise. The cynic might say it is whatever the radical left want it to be at any time to suit their ends but the Oxford Dictionary defines WOKE as alert to injustice in society.

That COULD mean many things. This clearly is broad and, to an extent, subjective definition but in the context of the impact on an economy I take it to mean the economic impact of 'progressive politics,' on the economy. This impact I believe is becoming an increasingly significant and potentially illiberal, anti-free market and inflationary force.

Accepting my definition of WOKE ECONOMICS is broad includes, therefore, the economic impact of going 'carbon neutral'; or the economic cost of increasing the minimum wages not just in the home market but further down the supply chain; or perhaps the regulatory cost of increased compliance to a number of progressive goals. While BLM or the so called Extinction Rebellion might be at the spearhead, the impact is being felt far and wide.

These factors are hard to quantify globally and nationally as there are often long lead and lag times and adoption rates are gradual and non-uniform – but the direction of travel is clear and gathering pace – and ironically it is often trade bodies and so called 'corporate governance professionals' who are driving a series of diverse, environmental and WOKE goals.

Much of this woke revolution that is sweeping western, particularly Anglo Saxon countries, does not come from Government directly but from quangos and a burgeoning compliance bureaucracy feeding on itself – committees, osmosis and fear of being 'left behind' rather than philosophical belief in the cause.

Western economies are thus moving away, at very rapid pace, from a traditional model of fairly light regulation, where shareholders are the key stakeholders and free trade, personal preference and economic efficiency the primary motivation, to a world where there are multiple stakeholders – from employees, to government whim, from a regulatory quangocracy, to environmental 'emergency.'

This is a world where economic efficiency is no longer measured as profit, re-investment and market-led innovation, competitive choice and productive efficiency but a multi-dimensional world where profit and traditional economic efficiency is but only one factor added into a bubbling melting pot that now includes modish and often radical social and environmental causes, diversity before merit, risk constraint and quantification, abstract political goals, and critical parameters defined by regulators – all with limited, or completely absent of, customer input or recourse.

Moving, however, from an optimal economic efficiency model to a more politically driven WOKE approach is likely to be very expensive – and not just from inflationary pressures as less optimal economic solutions are sought but also from the classically liberal perspective of personal freedom and choice.

Since the Industrial Revolution, as a generalisation, corporations have been measured primarily by productive efficiency and market demand. Today, while that may remain partially true, it they now operate within the bounds of a much tighter framework where the lowest cost of production for a quality level is no longer the sole or in some industries even the primary motivation.

A simple example is the combustion engine. It might be that 2050 is the legal cut off for all cars to be 'carbon neutral' and it might be that the last diesel car will role of the production line some time in 2030 but while what replaces them may, in some peoples arguable judgment, be a more environmentally friendly product it is almost certainly not the most economically efficient.

Further, whose call should it be? The man from the ministry or yours? Surely in a free society the individual should make that call? Improved technology and innovation is certainly a noble and right call but to do so summarily by legal pen closing overnight whole industries employing literally hundreds of thousands of people offers up not just significant economic shock but also a democratic one.

Similarly, if living wage practice is employed simply in the UK the impact on the cost of a garment may be moderate as the domestic labour element is relatively small. If however, pressure is applied to enact living wage regulation in Vietnam or Bangladesh, where the garment may be made, the impact on Primark will clearly be significant. The pressure to apply the so called living wage across the supply chain and borders is very real, as Boohoo discovered, and the impact on the price of clothing may, in time be material.

There are numerous examples of WOKE CREEP and while individually each may have a small impact in totality the effect is to reduce economic productivity and increase the cost of production. Worse, in many cases, it reduces choice and imposes one set of morality on others, like it or not. Wearing a trendy tee-shirt or playing footie with, respectively, garments and balls made at western pay levels may make some feel

The impact of woke economics

righteous – but how do they feel about the cost to workers made unemployed who cannot then put food on their tables for their starving children. Where is their concern when the documentary makers and the flown-in-today and flown-out-tomorrow journalists are not reporting the unintended consequences?

This woke revolution has been gathering pace for several years and what was a stream is now becoming a flood. Fortunately Brexit will make it easier for us to resist changes that will undoubtedly be adopted with alacrity by the EU.

Unless we can find an antidote to the compliance, risk reduction and increasingly regulatory world that is pervading business we risk creating a dystopia where the traditional model of market economics and personal preference is overthrown into a highly regulated, politically volatile and modish morality dictated by a few self-proclaimed moral guardians.

It is neither economic nor democratic, it is making all life political but without any say for the consumer of goods, services and the exercising of basic freedoms."

Source: *www. brexit-watch.org*

LETTERS

Tel: 08456 120 175 email: info@junepress.com

BBC excess pay

Dear Sir,
The recent announcement from the BBC that Gary Lineker was still being paid a salary of £1.36 million even after a £400,000 reduction is outrageous.

The licence fee payer is clearly taken for granted by the BBC. No media presenter on any platform is not worth more than £250,000 a year, and that is being over generous.

The BBC seem to think that paying Zoe Ball £1.13 million, the highest paid female is also acceptable.

These salaries are proof that the BBC is in need of serious reform, maybe they should be forced to requiring public consent or top salaries should be in line with government ministers pay.
RICHARD STUDY
London

Chinese further takeover

Dear Sir,
I cannot understand how the UK government has allowed a microchip factory in Wales to be taken over by a Chinese company.

The company Newport Water Fab is an electronics firm that produces semiconductors and employs 450 people at its site in Tredegar Park, Newport.

Nexperia, the Chinese company already has a site in Manchester, how many more takeovers are the government going to allow to foreign communist countries?

The outgoing chairman of Newport Water Fab, Dr Drew Nelson has said that the deal was a "key part" of the industry in South Wales. What will be said if China moves the operation to its own country?
BLODWIN EVANS
Wales

ID cards by the backdoor

Dear Sir,
The government announcement that photo ID will be necessary for voting at poll stations will lead to many not voting.

I like many of my friends consider this a step to far and will be used as a means of pushing people into accepting ID cards as a necessity.

The EU will be glad to hear that the UK is falling in line with the EU requirement to produce ID cards for any reason the state so demands.
SIMON STEVENS
West Midlands

UK/EU divorse bill

Dear Sir,
In your previous issue of *eurofacts* (18th June) the front page article showing how the "EU divorse costs escalates" was concerning, but news from the EU reveals that the EU wants even more.

Downing street has a few weeks ago rejected the EU's latest estimate of the UK's post-Brexit divorse bill after new figures put the total debt at £40.8 billion.

This sum was published in the EU's accounts for 2020, which also state that the UK should pay the EU £5.8 billion this year.

Meanwhile, number ten has insisted that the bill - which covers spending committments made before the UK left the EU - stands between £35-39 billion. It said the EU estimate did not reflect "all the money owed to the UK".

The battle with the EU appears to be open-ended.
DEBRA KING
Manchester

Furlough scheme

Dear Sir,
The UK furlough scheme that has suported many workers appears to be now holding up those same workers from seeking new employment as they have become slightly complacent.

People must understand that when furlough ends their previous jobs may no longer be available and with the number of UK jobs currently open, time to change is now.
DONALD MITCHELL
Coventry

LETTERS

Tel: 08456 120 175 email: info@junepress.com

New DUP leader again

Dear Sir,
Only last month I wrote to you *(eurofacts* letters 18th June) regarding the new leader of the DUP. Yet here I am again reporting on the replacement of Edwin Poots by Sir Jeffrey Donaldson as the new leader of the DUP in Northern Ireland.

This has come about because of the way the Northern Ireland Protocol has adversely affected our lives. The only beneficiary will be the IRA and the political battles within Northern Ireland will continue.

The problems in Northern Ireland are now clearly created by the EU and its lust for power at any price. Let's hope history will record this is a war in Europe and any deaths be correctly attributed to the intransigence of the European Commission.

MARY STEVENS
Belfast

Equality

Dear Sir,
Sally Smyth, who wrote in your issue of *eurofacts* (14th May 2021) that she had altered her will to cancel a substantial legacy to the National Trust over its 'diversity training' plans for staff, was right to react to the abuse of their non-political status by charities, and our universities.

Last November, as a former *Daily Mirror* journalist, who later trained newspaper executives of all cultures and religions worldwide, I was concerned by the lack of balance in an article about slavery in *English Heritage Magazine.* It was written by Prof Olivette Otele, the University of Bristol's ***Professor of History and Memory of Slavery*** [my emphasis]. The headline, *Slavery*, purported to be all encompassing. The subheading also suggested it was definitive about

" . . *the legacy of colonialism and the transatlantic slave trade . ."*

The professor is Chair of Bristol's Race Equality Commission. Bristol is by coincidence where so much virulence was directed against statues commemorating influential white figures who helped develop that city using wealth from slavery. Slavery of black people. Bristol's university advertises that it biases its intake in favour of black rather than white students who wish to study the subject under her.

Which prompted me to write last December to the Chairman of the Board of Trustees of English Heritage, Sir Tim Laurence, asking three questions:

1. Do the professor, and the university, have a selective "Memory" about Slavery?
2. Why was there no mention in her article of the first slave traders — **blacks, who for 150 years**, **through the reigns of three English monarchs, enslaved more than one and a quarter million whites including even men, women and children from Bristol?** They were used as forced labour, compelled to become muslims, tortured, starved, kept in filthy cells deep underground, and were beheaded on a whim.
3. Since there was no mention of all those white slaves, how does that serve the stated objective of Equality which English Heritage and the university claim to pursue? I even quoted Giles Milton's book *White Gold* (Hodder & Stoughton 2004; reprinted in paperback in 2015 by John Murray) which used extensively researched and impeccable sources for those facts, including Oxford archives. I received no response, so I emailed English Heritage Customer Services to ask if my letter "had got lost in the post." I included a copy of it, and was assured that "senior management" would forward it and I would get a direct response. I received no further word from English Heritage. There was however a 'reply' to me. The next issue of the magazine carried a solitary letter praising the slavery article. Naturally , it was awarded a cash prize. It was from a white woman. My wife and I cancelled our direct debit after 22 years as joint members of English Heritage.

Where have all the grown-ups gone? To see where the wokes are leading us, I offer this link worth googling: **The Mallard: Generation Orphan: How our Society Lost Adulthood and its Future Henry George**

DON BRIGGS
Cheshire

Neutrality in question

Dear Sir,
The office of Speaker of the House of Commons is supposed to be non-political and to act accordingly.

During his term as speaker John Bercow was often said to be acting in a way that supported the Labour party.

His recent announcement that he is to join the Labour party can only confirm those who complained about his actions as speaker.

Furthermore, while in office Bercow appeared to show that he was in favour of the UK remaining in the EU a position held by the Labour party. This action has brought into question the neutral position of the speaker and may yet result in a democratic upheaval of the way the speaker is found.

MAUREEN COLLINS
London

**Wishing you a happy summer recess,
whilst also staying safe from the Covid-19 virus.
The next *eurofacts* will be on the 10th September.**

MEETINGS

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2023

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