

# Was this the undercurrent conversation at the EU dinner?

Prime Minister

It is a pleasure to be here with you today for dinner. I come to renew my friendly proposals about our future relationship. The UK wants a comprehensive and deep partnership with the EU. We will offer you tariff free access to our market with no new barriers. We will continue our substantial contribution to European security and intelligence. We will carry forward joint working on space , science, academic life and much else. We will continue our welcome for all EU citizens legally settled in the UK

Mr Juncker

Thank you for coming. I do hope you have brought your cheque book. You must understand that we cannot keep on meeting like this unless the UK pays the bills for the dinners and much else. The EU is getting cross with the UK for not being realistic, so I hope this evening we can make some progress on the divorce settlement.

PM.

As I have made clear the UK will pay anything it owes, but you have to understand UK Ministers do not have powers to send money to the EU after we have left. We need to look at all the issues together including our future relationship.

Mr Juncker

I dont think you understand. The UK has signed up to a soup course for future meals which is going to cost billions of pounds. Doubtless you want coffee, which does not come cheaply either. I have explained before to you that we decided to order drinks right through to the next decade, so that will be another big bill. The UK cant expect to get away without paying

PM

I can do without the soup course, and coffee late in the evening keeps me awake at night. In the UK we accept we have to pay all the time we remain in the EU but not after we have left. You should cancel the drinks for us for when we have gone and save some of your cash. As to this dinner I thought you had invited me, and I have had the cost and inconvenience of coming to you here in Brussels.

Mr Juncker

You British are so unreasonable. You cant just walk out and leave us short of cash. There is a big bill to pay.

PM So how much is the bill, and what is the legal base for the items you want to charge

Mr Juncker

Theres no need to get legal with us. We want you to make a realistic offer. Its all about European solidarity, about setting the right tone for our future relationship. We dont have an itemised bill backed by a legal base.

PM

When we joined the EEC we did not get a discount or a payment to deal with all the spending commitments the others had decided on before we joined, so why would there be any bill for future spending after we left?

Mr Juncker

You agreed then to join on the terms available. That is different.

PM Are you also saying that if a country left the EU now that gets money out, the EU would go on paying it after it had left?

Mr Juncker

Theres no point in getting clever wth the EU. The rest of the EU expects you to pay a large sum. I do hope you understand we cannot possibly talk about trade any time soon given the UKs stubbornness.

PM

That is a pity, as it hugely in the EUs interest to have continued tariff free access to the UK market. We have to go ahead and plan for WTO tariffs on EU food and goods without sensible discussions.

Mr Juncker

The EU has other priorities.

PM

So the EU does not care about all its exporters to the UK?

Mr Juncker

The impact on the EU is containable

PM

May I suggest we talk about something else, like Iran, where we may agree and put out a statement on that?

Mr Juncker

Thats the best we can do

---

## Revisions to international investment figures

The ONS published its latest balance of payments data on 29 September. This included a final table which showed that the ONS have revised their view of how much UK investment abroad is worth relative to how much overseas investors have invested in the UK. Some have now suggested these figures show the UK has “lost” £490bn. This is an odd way of looking at it. The figures show an increase of £334bn in inward investment, which of course is a figure that is taken off our overseas assets to derive the net figure. It does not however mean we have got poorer!

The maximum downward revision to the net figure was for the 2016 figure (£490 bn), with the bulk of the downward revision relating to a period before the referendum vote. The main reason for the downward change in the net figure arises from strong inward investment in 2016 accounting for an extra £334 bn investment.

I have often referred to the large balance of payments deficit we have been running, and pointed out that an important part of our net outflows arise from the substantial contributions we make to the EU and from our large overseas aid payments. I have often argued to stop the EU payments, to up the UK content in the overseas aid spending where the money cannot be spent in the country we are trying to help, and to follow policies which promote more import substitution. All the time the UK continues to send large sums abroad, and to run such a large trade deficit with the EU, there will need to be continuing inward investment into the UK to pay the bills. Alternatively we will have to sell overseas assets to pay for the imports and the remittances overseas. Either of these ways of paying for the trade and payments deficit will tend to reduce our net overseas asset position.

This is nothing to do with Brexit. The biggest part of the deficit is trade with the EU and payments to the EU.

It is also a reminder of how much trouble the ONS have in measuring things like the stock of overseas wealth held by UK people and institutions, which they have recently reduced as they change their way of estimating. They also have difficulty in knowing how much overseas investment has been committed here. Those who think Brexit has caused the fall in the pound should of course acknowledge that so far if this is true Brexit has helped swell the net overseas asset figure, by increasing the sterling value of foreign assets. Readers of this site will know I do not think Brexit is the main reason for the fall of the pound since 2015, nor for that matter for the recent rise of the pound against the dollar.

---

## Farming for our future

The UK currently runs a massive £20bn trade deficit in food with the rest of the EU. In 1984 the UK was 78% self sufficient in food. It produced 95% of all the temperate food we needed at home. The early years under the EEC had been fine for farming. Then the EU put in milk quotas and other restrictions on us which began a long decline in our ability to sustain home production. The Common Fishing Policy led a fast decline in our fishing industry. We have seen home production fall from 78% to 60% of our needs. We now import more than a quarter of the food of the kind we can grow or produce for ourselves. This is despite having one of the best climates for growing what we need.

Under the milk quota system which lasted 30 years from 1984 the UK only had half the milk quota of Germany, and ended up importing a lot of processed milk products from the continent. The Danish pig industry, the Dutch market gardening and flower businesses and many others made big inroads into our home market. Our fishing grounds were taken over by the whole of the EU under the Common Fishing Policy. We changed from landing 1 million tonnes of fish in the year we joined the EEC, to landing just 400,000 tonnes last year. The UK became a net importer of fish, after years of being a net exporter with one of the richest fishing grounds in the world. The large quantities landed elsewhere meant we needed to impose more restrictions on the total catch.

When we leave the EU we will be able to design a fishing and farming policy that allows us to sustain higher levels of home production. It will need further investment. The UK could do more food processing to add value to the staples supplied by the farms. Much of this can be done through co-operatives or processing businesses working in partnership with the farms. Where farm size is relatively small mechanisation will also require collaboration, joint investment or rental agreements to mobilise the high powered and sophisticated machinery that can now automate farming and make it more efficient.

The UK is extending the growing season for everything from asparagus to strawberries by polytunnels. We presently only produce one fifth of our own apples, but have the techniques to greatly increase the output and the durability of the apples over a longer season. All this will be accelerated if the EU does opt for WTO tariffs rather than carry on tariff free as we propose. Only in agriculture are the tariff barriers potential high. They would require a rapid response from UK farms to fill the gaps caused by dearer EU product, rather than seeing us buying more from non EU sources overseas. Even without tariffs following the recent strong performance of the Euro against all major world currencies including the pound, UK farmers are in a good position to expand. Doing so cuts food miles, gives us the pleasure of local produce, and eats away at that colossal food deficit the EU has given us.

---

## The German and UK elections – some political arithmetic that affects the talks

The pro EU media and papers in the UK wrongly reported both the UK and the German elections. They told us Mrs May and the Conservatives lost the UK election, whilst Mrs Merkel won the German election. It is a good idea instead to consider the actual results, now we know the final tally of top up seats in Germany.

Let's take the popular vote first of all. Mrs May and the Conservatives won 42.4% of the popular vote. This was up by 5.5 percentage points from 2015, and was the highest proportion of the vote taken by the Conservatives since Mrs Thatcher in 1983. That was a Conservative win.

In contrast, Mrs Merkel's combined vote for her CDU party and her coalition sister party the CSU fell by 8.6 percentage points to just 32.9%, a new low. Mrs Merkel's own CDU only polled 26.8%.

Mrs May stayed as Prime Minister, with many more seats than the next placed party. Mrs Merkel may stay as Chancellor, but has a lot of work to do to get the votes in Parliament to support her

Then let us consider seats lost. The Conservatives in the UK lost 13 seats, taking them down from 330 to 317. The CDU/CSU lost 65 seats, taking them down to 246. The CDU alone lost 55 seats.

As a result of the German system Mrs Merkel with her CSU allies control just 34.7% of the seats in the newly expanded 709 seat German Parliament. Mrs May and the Conservative party control 49.4% of the seats in the UK Parliament. Mrs Merkel's own CDU only has 26.8% of the seats.

Mrs May and the Conservatives in coalition with the DUP have a majority of 14. Mrs Merkel needs to sure up her relationship with the CSU, and persuade the Greens and the Free Democrats to enter an arrangement with her in order to construct a coalition.

It is commonly assumed that the May-Merkel exchanges will be very influential over the outcome of talks about the UK's future relationship with the EU. Doubtless Germany, as the largest country and economy in the EU and the largest paymaster of the EU, will continue to be more influential than its overall percentage of EU Council and Parliament votes. However, it is also likely to be the case that Mrs Merkel will find it much more difficult to offer decisive leadership given the need to make more demanding and more frequent compromises over the German position to keep a coalition going, assuming she is able to form one. In contrast Mrs May's DUP partners are

likely to be solid on Brexit, as they were a pro Brexit party in the last election.

---

## Meeting with West Berkshire Councillors

On Saturday I met the Conservative group of West Berkshire Councillors. We discussed planning, housing, Council tax, Council funding, schools and school budgets, social care and other relevant issues.

I explained that I am continuing to press for a better deal for West Berkshire and Wokingham on schools funding, the overall levels of Council funding, and social care money. I also advised them of my view on Grazeley. I do not think the Councils should actively support a substantial settlement at Grazeley without promises about government money for the infrastructure that would be required, and without some reassurances about resisting other major sites on appeal.