Wokingham Conservatives Lunch Club

I was the guest speaker at the Wokingham Lunch Club today. I would like to thank the organisers led by Barbara Houghton, and the 90 who turned up for the event. We had a good range of questions following my comments. I covered local issues, education, transport, law and order, taxes, the economy and the general state of play on Brexit and the negotiations.

The dollar is surging against all currencies – this has nothing to do with Brexit

I see that the usual suspects in the pro Remain press and BBC are out and about arguing that the recent falls in sterling against the dollar are the result of Brexit speculations. What nonsense. The pound has been very stable against the Euro in recent weeks, staying around 1.12 to 1.13 Euros to the pound. Sterling has risen against the vulnerable emerging market currencies. It bought 5.7 Turkish lira in May and now buys 7.4. It has been stable against currencies like the Australian dollar and the New Zealand dollar, not currencies which are experiencing any Brexit effects either!

The dollar is going through a period of great strength for a variety of economic reasons. It is proving very uncomfortable for many emerging market countries and companies that have borrowed in dollars. That is the story, not Brexit. Some of the journalists and commentators involved claim to be independent well informed people providing fact based analysis, so can they begin by explaining these simple facts about recent currency movements?

Turkey at the crossroads

Turkey is a member of NATO and has a comprehensive and complex Association Agreement with the EU. In some senses Turkey's border is the EU's border given the provisions on movement of people. Germany is friendly towards Mr Erdogan, not least because the EU welcomes Turkey's willingness to provide a home for refugees from war torn parts of the Middle East. The EU offers Turkey financial assistance with the refugee programmes, and with strengthening the long Turkish border with Middle Eastern countries. All this implies Turkey remains an important part of the Western system.

Turkey also has a complex set of relationships with Arab countries to the south. An opponent of Islamic State and similar terrorist groups, Turkey is also opposed to Kurdish independence movements and worried about the likely attack on Idlib by the Syrian state given the number of rebels and displaced persons in the last remaining rebel stronghold in Syria, close to Turkey. Turkey has allied herself with Qatar, a state which has fallen out with Saudi Arabia, the USA's main ally in the region.

In recent months there has been a sharp deterioration in US/Turkish relations. President Erdogan felt the US did not offer sufficient support and sympathy when there was an attempted coup in Turkey. The USA thought Turkey over reacted and imprisoned too much of the opposition to the regime. Turkey does not like the way NATO works with Kurdish forces in its interventions in Syria, and is now locked in a trade war with the USA over steel and aluminium tariffs. Recently the USA has renewed its demands for the release of Pastor Brunson, and Turkey has imposed a range of high tariffs on items like cars and rice from the USA.

President Erdogan timed his re election well. The economy was growing at a rapid 7%. Public spending shot up just before the polls, and the government urged the Central Bank to keep interest rates down despite the obvious build up of inflationary pressures. Shortly after the election win markets turned against the Turkish lira and demanded action to raise rates, slow the economy, rein in debts and curb price rises. The President has no wish to do these things, and has appointed his son in law as Finance Minister to help him see off unruly markets.

So far markets have been getting the better of him. A massive slide in the lira is posing problems for the Turkish companies that took out substantial dollar borrowings in the good days. The Central Bank has raised rates to 17.75 % despite Presidential reluctance, but markets want more. Now Qatar has provided some much needed relief for the banking system by offering loans of $15bn to ease shortages of foreign exchange. The Central Bank has imposed controls on commercial bank dealings in foreign exchange, and the government may turn to a wider range of controls on the movement of money to stem the run against the lira.

Russia sees all this as an opportunity. Turkey has already bought some anti aircraft missile defences from Russia despite being a NATO member. The USA is now blocking the sale of F35s to Turkey and is concerned about what technology and intelligence it shares with a member state that is developing closer relations with Russia. Tomorrow I will look at the options facing the main participants and discuss what might happen next.

How modern borders work

The people who churn out the latest absurd version of Project Fear are stuck in a time warp. They think that if we leave and go to the WTO model our borders will immediately be congested with lorry drivers in queues waiting for a staff member at the border to carry out an inspection and calculate the tax there.

In the modern world most of the work is done away from the border by computer exchanges. Our border with the rest of the EU is already in their terms a complex border. Goods passing need to be charged to VAT, Excise needs to be levied on various items, the currency changes, and various UK domestic rules on health, safety and migrants have to imposed . In the case of the majority of imports coming in from outside the EU there are also tariffs to levy.

Most coming across our border comes on big trucks organised by approved traders. The tax is sorted out from the electronic manifest away from the frontier. Any checks on products are carried out at the originating factory, and subject to inspection and spot checks there. Any additional requirements as we switch from EU to WTO can be done in the same way.

So what exactly is the problem? All imports will be under our control to deal with at our borders. We have no need to put in queues and special border checks. Those who say the EU will impose some version of the Napoleonic blockade on us when we leave also live in an imaginary world. It is strange the people who most love the EU expect it to try to start an economic war. They do not understand that even in the unlikely event they wanted to under international law and WTO rules that would not be possible. How would the EU seek to prevent a French cheese maker or a German car maker sending product to the UK? And how would that be legal?

The reasons the PM gives to surrender our powers of self government again over the supply of goods

In her letter the PM says “the rules of goods are long established – the last substantial change was in 1987”. This is untrue. The EU is regularly updating and extending its rules over business. Once we have left we lose the little influence we did have whilst still a member with a vote to prevent or delay the most damaging proposals.

“Many of the rules are based on international standards set by bodies that we will have a seat on”. Fine, then there is no need to bind us into the EU version anyway

“British businesses which export to the EU have been clear they will continue to follow the rules in order to continue selling into the European market”. Of course if a customer wants a given specification the supplier will meet it. That does not mean we have to adopt those same standards for everything we do at home, or be bound by them if selling to third countries with their own different requirements. Exports to the EU are only 12% of our economic output. The ability to improve and change our own rules is important in a democracy, and important to be able where we wish to do trade deals.

“any changes to our rules will be subject to a Parliamentary lock” – but each time Parliament objects to EU rules or changes to EU rules we will be told we are not allowed to alter them as it would disrupt our relationship and trade with the EU.

She argues we could still do trade deals with non EU countries, though the EU control over our goods market would make this much more difficult.