Twitter Thread by Raoul Ruparel



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Off the back of the thread below, lots of people asked for one on services & financial services. So here it is. The deal is very thin in both areas, though that was expected. I don't think it amounts to making the deal unfair/unbalanced but it is a missed opportunity. 1/

> As many others I'm still working through the detail of the agreement & all the annexes. But some initial thoughts based on my first read & associated documents. My overriding feeling is that it is pretty much exactly as expected in many parts & largely a balanced deal. 1/
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> — Raoul Ruparel (@RaoulRuparel) December 27, 2020

First, we shouldn't look at this through the lens of UK having trade deficit with EU in goods & surplus in services. That is too simplistic. EU accounts for a large proportion of UK's goods trade so zero tariff zero quota is beneficial for UK as well for the EU. 2/

Similarly, having a very thin deal on services & financial services is also bad for EU. Belief in some quarters than business will simply move from UK to EU in these areas. But its not that simple. Will be costs & duplication while some business just won't make sense any more 3/

We also shouldn't forget that while services is the largest part of our economy, it is inherently much more domestically focused. Furthermore, the single market in services is less integrated than that in goods so there are already some non tariff barriers to contend with 4/

It is also important to remember how we got here. Services was ultimately deprioritised under the previous Govt Chequers approach. This was because the Govt was seeking frictionless trade in goods. 5/

Asking for an ambitious deal on services as well would have essentially amounted to asking for single market membership but without the same obligations. It wouldn't have flown (of course, it turned out the EU didn't like the approach even with that factored in). 6/

This meant the Political Declaration was drafted to be pretty basic on services. However, when new Govt came in, while it dropped the ambitious asks on goods it didn't correspondingly increase the asks on services. This was the real missed opportunity. It came over a year ago 6/

In terms of what the deal does on services, it is in line with precedents. Mutual recognition of professional qualifications is a good example. It feels like a missed opportunity as well, but at least it is drafted to allow for bilateral agreements between sectoral bodies 7/

Similarly, the mobility provisions are maybe marginally better than expected by allowing 90 days business travel out of 180 rather than 365. But there are lots & lots of reservations. The social security coordination is also better than expected which helps people move 8/

On financial services the deal is particularly thin, but the sector had been expecting & preparing for that for some time. The real questions is, what would have been needed to get a more ambitious deal here? 9/

Ultimately, it would have required committing to ongoing alignment of financial services rules with the EU without a say over them. Which just doesn't feel feasible for UK given size of financial services sector. 10/

I was always personally a fan of the Bank of England's mutual recognition type approach, but its been clear for years now that the EU isn't willing to countenance that kind of arrangement. 11/

In terms of the impact this will have, the day one impact has probably been less than expected, though there have been movements of assets & people from UK to EU. Bigger issue is how EU regulators approach this over time & seek to pull more into EU. 12/

Even then though, it won't be an existential threat to financial services in UK & I expect sector will continue to prosper. Indeed, globally the sector faces some big challenges & choices about how to operate post Covid-19 (in areas from real estate footprint to digitisation) 13/

It is also true of the wider services sector that it would have been difficult to reach a much deeper agreement without making a big shift on red lines such as free movement of people or aligning with regulations. 14/

Overall, deal could have pushed boundary more on services & FS. But it didn't largely due to major red lines of both sides. Not recent, but set over a year ago with decisions around the Political Declaration. Missed opportunity by both sides, maybe marginally more the UK 15/

They could have set a world leading framework here. But chose to prioritise other things. But when questioning whether more could have been done on services we should also be realistic about what else we would have deprioritised instead ENDS 16/