

# Food standards and future trade deals

I enclose a copy of a letter I have today received from the Government. They rightly confirm that they have no intention of compromising on our high food standards or animal welfare.

Dear John

## **Food standards and future trade deals**

I know that many of you will have been contacted by constituents concerned about recent media reports that UK food standards will be lowered as part of future trade deals.

**This UK Government will not compromise on our standards.** Our manifesto is clear that in all of our trade negotiations, we will not compromise on our high environmental protection, animal welfare and food standards. We remain firmly committed to upholding our high environmental, food safety and animal welfare standards outside the EU and the EU Withdrawal Act will transfer all existing EU food safety provisions, including existing import requirements, onto the UK statute book.

These import standards include a ban on using artificial growth hormones in domestic and imported products and set out that no products, other than potable water, are approved to decontaminate poultry carcasses. Any changes to existing food safety legislation would require new legislation to be brought before this Parliament.

The UK's food standards, for both domestic production and imports, are overseen by the Food Standards Agency and Food Standards Scotland. These are independent agencies and provide advice to the UK and Scottish governments. They will continue to do so in order to ensure that all food imports comply with the UK's high safety standards. Decisions on these standards are a matter for the UK and will be made separately from any trade agreement.

All parts of the UK should be proud of our world-leading food, health and animal welfare standards and we will not lower our standards as we negotiate new trade deals.

Best wishes,

THE RT HON ELIZABETH TRUSS MP

Secretary of State for International Trade & President of the Board of Trade

THE RT HON GEORGE EUSTICE MP

Secretary of State for the Environment, Food and Rural Affairs

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# Are Central Banks independent? Central Banks, Covid 19 and the era of President Trump and the German Constitutional Court

Yesterday, I delivered a talk about the independence of central banks. I am reproducing the slides from my lecture below:

## **Four assertions to test**

- Central Banks are not independent, and never have been. They are the agents of the state or regional grouping they serve
- Euro area government bonds are not sovereign bonds as the governments which issue them cannot create money to repay them
- The Karlsruhe judgement underlines the lack of a transfer union in the Euro area to ensure smooth running of the currency and banking system
- National Central Banks are now working closely with national governments to try to offset the huge economic damage done by the anti virus lock down and social distancing policies

## **Independent?**

- Central Banks are usually established by elected assemblies on the advice of governments. Their functions, objectives and constitutions can be changed any time the political sovereign wishes
- In Europe the doctrine of CB independence was strongly promoted as part of the creation of the Euro. It derived from the German CB set up after the war to create a low inflation stable currency the DM
- The UK also changed from a CB that worked with the Treasury to a narrow idea of independence based around the decisions on interest rates. The Labour government also gave the powers of the CB over the banking system away to a new Regulator

## **Collaborative?**

- The Fed always had a twin objective of low inflation and decent growth or employment, and always accepted it had to be in sympathy with government policy
- The Peoples Bank of China makes a virtue out of working within the economic policy framework set out by the President of China

## **How independent was the Bundesbank?**

- The German Central Bank enjoyed a long run making its own decisions about interest rates and general levels of money and credit. It was able to do so because it was successful in its remit and had no serious political opposition to what it was doing

- It proved to be anything but independent when East and West Germany merged. The Bank's advice on delayed timing and on the rate of exchange for the merger of the Ostmark and DM was ignored. The political imperative of union took priority
- The final irony of the so called independent Bank was when the German government decided to abolish the successful DM currency that the Central Bank was there to uphold and support
- The Bundesbank accepted most of the important monetary powers it possessed being transferred to the ECB

### **How independent was the Bank of England, 1997-2019?**

- The Bank had to accept the loss of powers, including the power to regulate the commercial banks, and the power to issue government debt, in the legislation passed to create so called independence
- The Bank then had to accept a change of inflation target when it suited the Labour government to flip to the softer target of CPI from RPI
- The MPC agreed to an extraordinary meeting during the banking crash to lower rates as part of an international agreement brokered by the Chancellor
- The Bank accepted joint control with the Treasury over Quantitative easing
- The Bank then agreed to a change of powers from the Coalition government, who wished to give it back some powers over commercial banks

### **The battles between the Fed and the President 2016-20**

- The Fed decided on a policy of raising interest rates which the President opposed in public. He favoured zero or negative rates like the EU with more QE
- In 2019 the Fed had to admit they were wrong and changed course to rate cutting, given the sluggish performance of the economy compared to forecasts and aspirations
- In 2020 the Fed altered their opposition to near zero interest rates and proposed more QE as the virus effects gave them good reason to do so

### **Sovereign bonds are treated differently in markets, usually commanding lower rates and higher prices than corporate bonds, for two main reasons:**

1. The state that issues them can demand tax payments on threat of imprisonment to service and repay its debts
2. The state can require the Central Bank to create extra domestic currency to repay the debts if necessary. German, Italian French and Spanish government bonds no longer enjoy this latter characteristic. The ECB and the EU authorities determine money creation in the Eurozone

### **The ECB offers mixed messages on Euro government bonds**

- Mrs Lagarde famously said the spreads or differential interest rates between say Italian and German state bonds was not a matter for the ECB to manage
- The sharp adverse reaction by markets led to the ECB announcing Euro 750

bn more QE, and spending some of it on trying to get the prices of Italian state debt up

- In practice the ECB partially manages the spreads, but allows Italian, Greek, Spanish and other weaker country debts to offer higher yields than German
- Intervention has been controlled by the so called capital key

**The Karlsruhe judgement goes to the heart of whether the ECB should make it easier and cheaper for Italy and others to borrow, drawing on the strength of other member states finances:**

- It says of QE "The more its total volume increases, the greater the risk that the Eurosystem becomes dependent on member states policies as it can no longer simply terminate and undo the programme without jeopardising the stability of the monetary union"
- The Judgement condemns QE saying the ECB "completely disregards the economic policy effects of the programme"

**The constitutional battle for control of the ECB**

- The German court asserts that the member states are "the masters of the Treaties" that embody the laws and constitution of the Union
- It dismisses the judgement of the ECJ, the EU's Supreme court, as "a view"
- It asserts that the ECJ's upholding of ECB monetary policy is "simply untenable"
- The Court however seems to give the final power to the German state which may well wish to confirm ECB power over QE

**A new era of collaboration between Central banks and governments**

- The advent of anti Covid policies closing down great swathes of the world economy and requiring new business models when lock down is relaxed has led to joint Bank and government action
- In the USA, the UK, Japan and elsewhere the government encourages the Bank to lend and create money on a huge scale, and the Bank encourages the government to spend and borrow on a huge scale
- Both have done so with the approval of each other
- In the Euro area the Bank has expanded QE substantially, but the lack of a clear single sovereign for the EU has limited the fiscal response at EU level and caused more debates about pooling of risks and EU borrowing levels
- Meanwhile member states have expanded their budget deficits greatly without EU demands to limit them to the 3% of the Treaties

**The future**

- How will the new era of collaboration work out?
- Can the pretence of independence be re created and should it be?

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## Lawbreaking and riots

I am asked why I did not write today about the violence over the week-end. I am not running a newspaper and had nothing original or new to say about it. The Home Secretary made a Statement today condemning it and telling us the perpetrators would be prosecuted.

There are democratic ways of moving statues from prominent places if people no longer wish to remember the individuals concerned. The Labour Mayor of Bristol did not get around to doing that.

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## Let's have higher animal welfare standards

One of my many disappointments with our membership of the EU was the EU's attitude towards animal welfare.

As an opponent of bull fighting, I thought it bad that farmland and farmers involved in rearing bulls for fighting attract payments under the CAP, even though they can claim there is no direct subsidy for bullfighting itself.

As a lover of wild birds, I thought it unfortunate that the so called Wild Birds conservation Directive was also a hunting of wild birds directive, allowing countries to permit hunting a wide range of species that goes well beyond the permitted species like gamebirds allowed in the UK.

As someone concerned about standards of farm rearing, I thought the EU unduly slow in responding to UK pressure to improve standards over veal crates and sow tethers. It has still left us with relatively low standards.

Worse still for the animals, the UK banned veal crates in 1990 but the EU failed to do until 16 years later. We banned sow tethers in 1998, with the EU resisting until 2013, 15 years later. These differences led to relative gains in market share serving price conscious customers to the continental industry at the expense of our farmers.

In the very vexed area of chicken breeding, the EU was again reluctant to improve the cage space for battery hens. It took until 2012 to get a ban on the worst conditions.

I find the argument over chlorine washes misleading. The EU allows chlorine washes for items like bagged salad, which I never get complaints about, yet I

get complaints about alleged chlorine washes for US chicken. Our water system relies on chlorine washes for hygiene in the pipe network, and medics advise that small traces of chlorine are not harmful.

I am strongly in favour of proper labelling and explanations of how food is produced. It will always be the case that those with higher incomes will be able to afford the best welfare standards. There does need to be a minimum standard. The question we should ask is can we raise that standard a bit as we leave the EU, without making affected foods unrealistically expensive? I think we can. Those who think the EU guarantees high standards should look at this dreadful history of opposition to and delay of better standards to grab commercial advantage. All the time we were in the single market we have had years of being forced to take meat and eggs produced in cruel conditions we had banned at home.

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## A new trade vision for the UK

I find some of the media and email arguments I read and hear about our trade future bizarre. Remain politicians and spin doctors are still peddling the lie that we cannot live with any changes to our current tariff free trade arrangements with the EU, whilst we must not enter into a tariff free Agreement with the USA.

There has always been a central lie behind the Remain position on trade, based on the so called gravity model. This states that trade with near neighbours is both more likely and more important than trade with countries further away., The model's economic forecasts are weighted so EU trade matters and rest of the world trade doesn't, for no particularly good reason.

In recent years our single biggest national trading partner is the USA, not Germany or France. 3000 miles has beaten a few hundred miles of distance. Our trade with China on the other side of the world has grown far more quickly than our trade with the low countries, near by. This is despite facing tariffs on our non EU trade and no tariffs on our EU trade. How much more could we trade with the TPP and the USA on a tariff free basis?

The dislike of opening a Free Trade Agreement with the USA predates President Trump but has been intensified by Remain's distaste for the present incumbent of the White House. There has been an orchestrated attempt to disrupt good relations between our two countries, and to vilify US food. The people who do so have often flown across the Atlantic and enjoyed US meals in hotels and restaurants without a murmur then about what they are eating other than to sometimes praise it and their hosts.

In a few posts I am going to explore some of these issues one more time. Today I wish to stress four obvious truths from the figures concerning our trading patterns in recent years.

1. Our trade has grown more quickly with the rest of the world than with the EU in recent years, despite EU barriers and tariffs and despite distance. Non EU trade is now the majority of our trade.
2. Our non EU trade shows you can have a substantial and profitable trade without a special FTA in place. FTAs are helpful but not essential to trade, expanding it a bit.
3. If you enter a Free Trade Agreement with another country you do not have to obey their law codes, and you do not have to buy products they make which you do not want or like.
4. Once we are fully out of the EU we will decide on our animal welfare and food growing standards.