Brexit and Britain - what would it mean for UK trade?

REUTERS, *London*

THE stakes will be high for Britain's historic role as a free-trading nation when it holds a referendum on whether to stay in the European Union on June 23.

There is no precedent for an economy as big as Britain's leaving a trade bloc, and the rival campaigns paint contrasting pictures of what quitting the EU might mean for its trade.

Below are some of the main issues around the potential risks or benefits for British trade of a so-called Brexit.

Britain's most important trade partnership is with the EU's single market, the world's biggest trade area.

Campaigners seeking to keep Britain in the EU say it would be in a weak negotiating position if it left and then sought to hammer out a trade agreement with its former partners, something many "out" campaigners say they want.

Government figures show 12.6 percent of Britain's economic output is linked to exports to the UK's 27 other members, for whom only 3.1 percent of output is linked to exports to Britain.

Pascal Lamy, a former head of the World Trade Organisation, said a post-Brexit Britain would probably have to resort to raising its import tariffs on EU and other countries' goods or restricting access to its market in services in order to gain some muscle for trade talks that could last as long as a decade.

"Britain would have to say, 'Sorry, consumers, but you have to pay more'. It's just crazy," said Lamy, an ex-EU trade chief.

In return for a trade deal, the EU would want Britain to make contributions into its budget and to keep on allowing EU citizens to work on its soil -- two big concerns for the Brexit camp. It could also face a long battle to ensure its banking industry did not face hurdles doing business in Europe.

"Out" campaigners say the EU would probably be reluctant to reward a breakaway Britain with a trade deal but would not want to impede its firms from selling into the world's fifth-biggest economy by raising tariffs or imposing tough new regulations.

They say the boot would even be on Britain's foot because, in value terms, EU exports of goods and services to Britain were worth 289 billion pounds in 2014, substantially more than Britain's 230 billion pounds of exports the other way.

"Commercial imperatives are very powerful, much more powerful than politicians," William Dartmouth, deputy chairman of the UK Independence Party (UKIP), said.

If a deal could not be reached and WTO-compliant tariffs were imposed on trade between Britain and the EU, they would be low enough not to impede business, Dartmouth predicted.

Tariffs agreed by the EU with the WTO for imports from countries outside the bloc stand at below 5 percent on over a third of factory goods but have been abolished on about 30 percent more; the EU has a nearly 10 percent tariff on cars, a big British export.

A breakaway Britain would also need to renegotiate its WTO membership terms with all WTO members, including some with which Britain has frosty relations such as Russia and Argentina.

The Brexit camp says the EU moves too slowly on trade and Britain on its own would strike deals more quickly.

The big prizes would be agreements with heavyweights such as the United States, India and China, none of which have full trade pact with the EU to date.

But others warn that Britain, with a population of 60 million people, would go into talks in a weaker position on its own than as part of the 500-million strong EU.

"It's not a question of being smart or not. At the end of the day it depends on how much clout you have," said Arancha Gonzalez, head of the International Trade Centre, a joint agency of the United Nations and the WTO.

A 2013 trade deal between Switzerland and China, which some Brexit supporters say shows what Britain might achieve on its own, got rid of tariffs on 99.8 percent of Chinese exports to Switzerland immediately compared with 77.3 percent of Swiss exports to China, rising to nearly 90 percent by 2028.

Fredrik Erixon, at think tank ECIPE in Brussels, said a UK-China deal could provide big gains for British exporters and investors but might come at the cost of Britain providing China with privileged status as an investor or more political support.

Simon Evenett, a trade professor at St Gallen University in Switzerland, said Britain might be able to do a deal quickly with Brazil because it does not share the concerns of other EU countries about Brazil's ambitions to export more farm goods.

But he said India could repeat a demand it made in trade talks with the EU -- namely that more of its skilled workers be given work visas, touching on a sensitive issue for many Brexit supporters for whom high levels of immigration are a concern.

As for the United States, its top trade official said last year Washington's focus was on deals with regional groups not individual nations.

And as well as seeking to open up new markets, a post-Brexit Britain would face the challenge of regaining the preferential trade access it currently has with over 50 countries under EU deals, ranging from Mexico to Egypt and Ukraine.

The European Commission has exclusive competence to forge trade deals on behalf of the bloc. If Britain left, it would have to create its own negotiating team able to handle the wide range of complex issues immediately on the agenda.

Only a few of the 55 British officials in the European Commission's trade department actually work on trade deals.

REUTERS/FILE

Union flag umbrellas are seen at the launch of 2016 Jaguar XF, at the New York International Auto Show.

EU promises more relief for crisis-hit farmers

AFP, *Brussels*

The EU said Monday it was looking for support from the European Investment Bank at crisis talks in Brussels aimed at helping dairy and other farmers hit hard by plunging prices.

Around 100 farmers protested as agriculture ministers gathered just six months after Brussels announced a 500-million-euro ($556 million) emergency package to tackle a crisis partly blamed on a Russian embargo.

The European Union's agriculture commissioner Phil Hogan told the ministers that EIB Vice President Pim Van Ballekom was on hand to offer solutions.

"I look forward to his insights about the work of the EIB and the potentials offered by using financial instruments," Hogan said in remarks circulated by the European Commission, the executive of the 28-nation bloc.

The Commission "accepts that it now has a responsibility to complement the efforts made by governments," Hogan said earlier as he acknowledged the "depth and duration of the crisis."

Hogan, a former Irish environment minister, said he "understands fully the situation across Europe and is anxious to deliver a meaningful package of measures to support European farmers."

A combination of factors, including changing dietary habits, slowing Chinese demand and a Russian embargo on Western products in response to sanctions over the Ukraine conflict, has pushed down prices for beef, pork and milk.

The European Copa-Cogeca farmers union said immediately after the September crisis meeting -- where thousands of farmers protested -- the EU aid was nowhere near enough to compensate farmers for the loss of their main export market Russia.

France has since stepped up contacts with EU governments saying it has rallied a majority around measures "to stabilise then reduce" milk production.

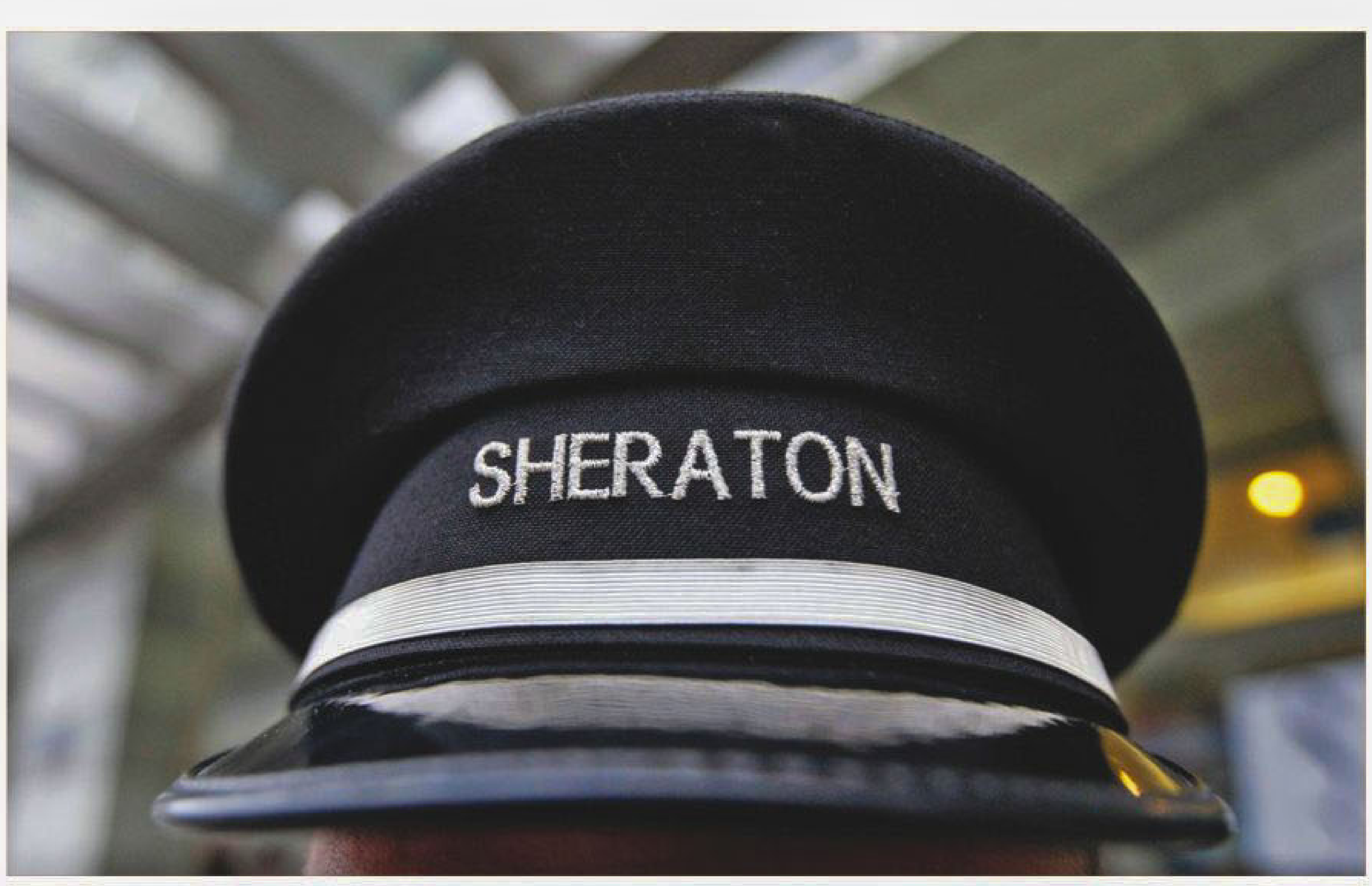
Overproduction of milk since quotas were abolished in April 2015 have led to the collapse in prices.

France's agriculture minister Stephane Le Foll warned the situation could get much worse if EU states were not capable of better coordination.

Dutch Agriculture Minister Martijn van Dam, whose country currently holds the EU rotating presidency, said the ministers will meet with members of the European Investment Bank to discuss what tools can be used to aid the agriculture market.

Ireland's agriculture minister Simon Coveney said there would be no decision to reverse the abolition of dairy quotas.

Coveney expected the EU to invest more in promoting dairy products while he said he will call for abolishing import levies on fertilisers for 18 months as a way to ease farmer costs.



REUTERS/FILE

A doorman's hat at Sheraton hotel, a brand of Starwood Hotels & Resorts Worldwide, is pictured in Warsaw. The US hotel operator said it received a non-binding offer from a consortium of companies to buy it for $76 per share in cash. The news comes months after Marriott International Inc agreed to buy Starwood for $12.2 billion to create the world's largest hotel chain. Starwood did not disclose the names of the buyers.

China's supply-side slogan means different things to different people

REUTERS, *Beijing*

TO some it means upgrading China's ubiquitous hole-in-the-wall noodle shops, to others it is manufacturing high-tech toilet seats.

"Supply-side reform" is the buzz phrase at China's annual parliament in Beijing, picking up on an expression introduced by President Xi Jinping in speeches late last year. Analysts say it refers to the scaling back of the role of government in business to allow market forces greater room to flourish, such as through the restructuring of state-owned companies.

But its exact meaning has been left vague, giving room for the thousands of delegates at parliament to come up with their own interpretations, raising the risk of wasteful spending by provincial governments and underlining the difficult task Beijing has in clearly communicating its policies to local governments across the country.

"I think that's always been an issue in China. It's such a big country with so many layers of government - it's a challenge to push the message forward to a local level and make sure implementation is done properly," said Julian Evans-Pritchard, China economist at Capital Economics in Singapore.

So-called supply-side reform in the impoverished province of Gansu in northwestern China means officials are pushing hole-in-the-wall vendors of the province's famous Lanzhou beef noodles to invest more in interior design and "connect to the internet" so they can charge more, the official news agency Xinhua reported last week.

The noodle shops can become "like KFC and other western fast foods," Xinhua said.

Many officials at soporific delegate meetings said one version of supply-side reform should be getting Chinese manufacturers to reproduce the popular high-tech toilets that Chinese consumers are snapping up in Japan.

Yet others say it as a license for companies to go on an overseas acquisition spree.

"What is supply-side reform?

REUTERS

China's President Xi Jinping claps during the closing ceremony of the Chinese People's Political Consultative Conference, in Beijing, China yesterday.

Currently the global economy is struggling, lots of European brands are struggling, why don't we buy them?" Yang Haiyang, an economics professor at Southwestern University of Finance and Economics, said at an alumni event in the southwestern metropolis of Chongqing in January.

"If Chinese people buy these brands, they turn into Chinese brands. Chanel, LV, Adidas, Nike - let's buy them all."

Similarly, Lei Jun, chief executive of Xiaomi, China's second-biggest smartphone vendor, told reporters on the sidelines of the opening of China's parliament last Saturday that supply-side reform meant getting Chinese companies to make products that can compete with imported goods.

Others have interpreted the term - which originated from an English phrase pioneered by former U.S. President Ronald Reagan to refer to deregulation and tax cuts - as approval for price controls.

Li Li, the head of the Health and Family Planning Commission of Jiangxi province, said controlling how quickly medical fees rise was a classic example of "supply-side reform."

"That's not really the sort of supply-side reforms the central leadership are talking about in the key reports they've put out," said Evans-Pritchard, noting Beijing is more focused on cutting back the role of government in business and greasing the wheels of capitalism.

Every year around 3,000 delegates from across China, representing more than 30 provinces, municipalities and autonomous regions, meet in Beijing for the National People's Congress, which lasts around 12 days. It is the one time of the year that the central government has all members of parliament together, so it is an important time for leaders to get their messages out.

This would not be the first time a central government initiative intended to reform and upgrade the Chinese economy turned into over investment by local officials.

China has been battling a glut in solar panels and wind turbines ever since businesses rushed in to take advantage of government subsidies and cheap bank loans after Beijing decided it wanted to be the global leader in renewable energy.

China's government has said it will eliminate entrenched industrial overcapacity, make sure new industries get the capital they need and give freer rein to market forces.

But the government has also said it will prevent mass layoffs, have a controlling hand in state-owned enterprises and continue its accommodative monetary policy.

The country aims to lay off 5-6 million state workers over the next two to three years as part of efforts to curb industrial overcapacity and pollution, sources have told Reuters.

Oil back below $40 as Iran dashes hopes for quick deal on output

REUTERS, *London*

Oil fell around 2 percent on Monday after Iran dashed hopes that there would be a coordinated production freeze any time soon, returning bearish sentiment to the market over a supply glut that has sent prices crashing.

Global benchmark Brent crude futures fell back below $40 a barrel, trading at $39.69 at 0903 GMT, down 70 cents on Friday's close. Brent hit a 12-year low of $27.10 in January. US crude was down 79 cents at $37.71 a barrel.

"Oil is down because Iran said they would only join the output freeze group once they reached production of 4 million barrels a day (bpd)," said Tamas Varga, oil analyst at London brokerage PVM Oil Associates.

Iran's oil exports are due to reach 2 million bpd in the Iranian month that ends on March 19, up from 1.75 million in the previous month, Iran's oil minister Bijan Zanganeh said on Sunday.

Zanganeh poured cold water over hopes for a quick deal on freezing production, saying the Opec member would join discussions only once its own output reached 4 million bpd. Zanganeh is to meet his Russian counterpart Alexander Novak in Tehran on Monday, according to news agency reports.

Saudi Arabia appeared to have stuck to a preliminary deal with some other producers to freeze output as its crude production held steady in February at 10.22 million bpd, an industry source told Reuters. Worries about demand fundamentals also moved back into the spotlight as investment bank Morgan Stanley warned that a slowing global economy and high production would prevent any sharp rises in oil prices.

"Oil prices now seem to have bottomed, even though they are likely to stay subdued for the rest of this year before starting to move higher in 2017," the U.S. bank said in a research note, adding that cheap oil had not provided the boost to growth that many had hoped for.

"When oil prices are falling below production costs, the income gains for consumers will be smaller than the costs to producers, and falling oil prices become a negative-sum game," it said.

Australian dollar hits 8-month high

AFP, *Tokyo*

The Australian dollar hit an eight-month high Monday as commodity-linked currencies got a boost on the back of a rise in global equity markets, with investors focusing on a string of central bank meetings.

The Aussie currency bought 75.94 US cents in afternoon Tokyo trading, its highest level since July, while the New Zealand and Canadian dollars also got a boost.

A pickup in investor sentiment lifted demand for riskier, emerging currencies.

South Korea's won rose to its highest level in more than two months, while the Philippine peso gained 0.41 percent and the Indonesian rupiah was up 0.58 percent.