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AUKUS

Alex Mulholland

What is the AUKUS Pact?

AUKUS is a trilateral defence pact signed by the United States, the United Kingdom and Australia. Aimed at countering the influence of China in the Indo-Pacific region, the pact will involve the US and UK helping Australia to build nuclear-powered submarines. As such, Australia will become one of only seven countries with nuclear-powered submarine capabilities.

Whilst none of the three AUKUS leaders have explicitly mentioned China, the pact comes after a wave of Chinese expansion, particularly in the [South China Sea](#) (an important shipping route for the Indo-Pacific region).

As well as working together on naval technology, the three AUKUS nations will cooperate on cyberwarfare and artificial intelligence capabilities.

Diplomatic Fallout with France

The AUKUS pact meant the end of a €56bn (£48bn) submarine deal between Australia and the French company Naval Group. Due to concerns about the slow progress and heavy cost, Australian officials had been looking for a way out of the contract [for months](#).

On 17 September 21, following the announcement of the pact, France recalled its ambassadors from the US and Australia, with the French foreign minister Le Drian describing the covert negotiations between the AUKUS nations as a [“stab in the back”](#). The French embassy also cancelled a dinner in Washington to celebrate the 240th anniversary of the Battle of the Chesapeake, a French victory over the British in the American Revolution.

Diplomatic relations between France and the UK appear only marginally stronger, with Le Drian describing the British role in the pact as demonstrative of its “usual opportunism”.

What are the benefits for the UK?

Prime Minister Boris Johnson said the pact would ["preserve security and stability around the world" and generate "hundreds of high-skilled jobs"](#).

The pact also shifts international priorities from Europe towards a more global post-Brexit Britain. The Integrated Review of 2021, which outlines the UK government's vision for its role in the world over the next decade, describes a ["tilt to the Indo-Pacific"](#) with regards to defence priorities. The AUKUS pact makes this ambition more concrete.

What are the commercial implications?

Recognising the growing importance of the Indo-Pacific region in the global economy, businesses in all three of the AUKUS nations have been pressuring their governments to expedite trade agreements. [For example, 16 of America's biggest business lobby groups are urging the Biden administration to negotiate an Indo-Pacific digital trade agreement, which would include Australia.](#)

The highly sensitive nature of the pact means AUKUS members will expect that technology and materials can be shared "in an environment that both facilitates transfer and allocates commercial benefits fairly." This may necessitate changes to intellectual property and AI application regulations.

Candidate Articles

Taper Talks Materialising: should we be worried?

Yousun Cha

In the wake of hiking inflation, soaring employment, and a rebound in spending, taper talks are gaining traction by the day. The Bank of England has announced that it will cease to purchase long-term government assets as of its current £150bn round of Quantitative Easing (QE). Whether this will spur a "taper tantrum" as in the likes of 2013 is yet to be seen; however, many doubt it, given market expectations have already adjusted accordingly and since it is unlikely to result in an immediate dry-up of liquidity.

From a client's perspective, it is vital to understand liquidity restrictions and liability structures to gauge how tapering (and subsequent rises in yields and/or short-term rates) may affect its refinancing and potential solvency. Law firms' finance practices may see an increasing need to advise on flexible income strategies that comprise of unique bond funds that offer lesser volatility in the face of market uncertainty.

Further reading:

<https://www.investopedia.com/articles/economics/10/quantitative-easing.asp>

<https://www.brookings.edu/blog/up-front/2021/07/15/what-does-the-federal-reserve-mean-when-it-talks-about-tapering/>

<https://www.ft.com/content/f27909ee-9284-4718-95d0-076717460a33?shareType=nongift>

<http://blog.axsinvestments.com/fed-tapering-impact-on-portfolio-decisions>

Understanding Derivatives: Swaps

Suzanna Gu

What are derivatives?

Derivatives are financial instruments derived from bonds, shares, currencies and other transactions. There are three main types of derivatives: Swaps, Options, and Futures. We will focus on Swaps today.

1. Interest rate swaps

An interest rate swap allows companies to exchange fixed or floating rates in order to reduce or increase exposure to changes in interest rates. For example, if company A has a fixed rate loan and company B has a floating rate loan, they may enter into an interest rate swap agreement because company A believes that a floating rate would generate stronger cash flow and company B believes that receiving a fixed rate would help them hedge interest rate exposure.

2. Currency swaps

A currency swap allows two companies to exchange an equivalent amount of money with each other in different currencies and trade back at a later date. The benefit of entering into a currency swap agreement is that companies can mitigate the risks brought by currency rate changes.

What does a derivative lawyer do?

A derivative lawyer may review and negotiate derivative contracts, security agreements and other trading documents. They are also responsible for advising on a range of regulatory obligations.

Note: there are other types of Swaps such as credit default swap (CDS) and property swaps. You can read chapter 9 of "The City" by Christopher Stoakes for more details.

Further reading:

All You Need to Know About the City, Christopher Stoakes

<https://www.investopedia.com/ask/answers/042315/how-do-currency-swaps-work.asp>