



# The EU and the City of London

**Robert Oulds is the Director of the Bruges Group which published the *City of London in retreat: The EU's attack on Britain's most successful industry* by Professor Tim Congdon, CBE. Robert Oulds is the author of *Everything you wanted to know about the EU: But were afraid to ask* published by Bretwalda Books**

**F**or the City of London membership of the European is a double-edged sword. Coming with EU membership is full access to the single-market in services. Whilst this market is far from complete being part of it, also known as the European Economic Area, is the only way to have full unencumbered access for the sale of services into the EU.

The services industry is an especially important part of the UK's economic links with the EU. In 2011 the UK's trade in goods with the EU was in deficit by around £43 billion; however trade in services was in surplus by £16 billion. This reduced the overall deficit to approximately £28 billion.<sup>1</sup>

The UK's entire financial services sector, which supports the resulting and even larger international business services, is however threatened by UK's membership of the EU. These businesses sell their services much further afield than the EU, yet inside the European Union they will still be subject to the whims of EU laws proposed by the Commission and agreed by qualified majority vote without the UK having a veto.

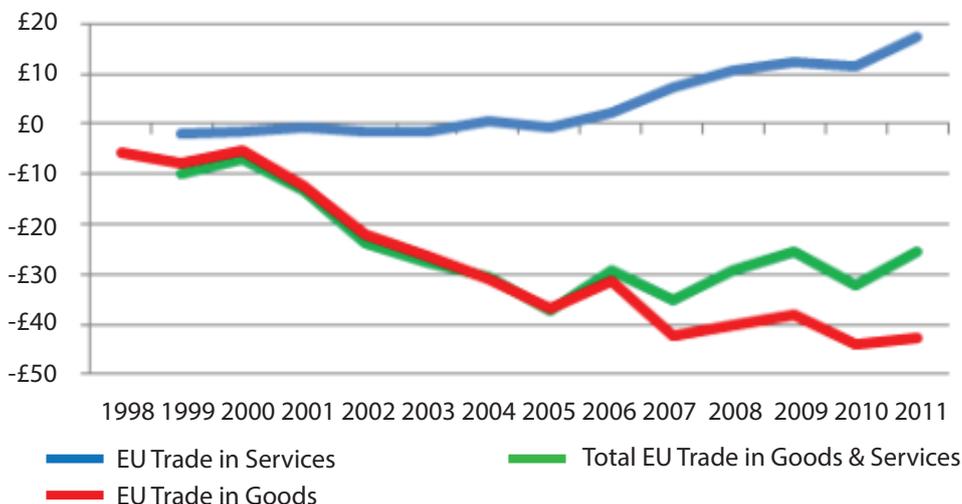
EU regulators, the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities Authority have been established to regulate and standardise. Under the European Systemic Risk Council and the European System of Financial Supervisors control, enforcing the writ of the European Commission, the City of London may face its biggest test. These new bodies have the power to close down a financial institution. The EU bureaucracy has already begun interfering in UK financial institutions.

Research by the leading economist Professor Tim Congdon CBE has concluded that this threatens the UK's position as a world leader in international business services. These businesses are highly mobile and can easily relocate to more welcoming climates; taking their tax revenue and employment with them.

Research published by the Bruges Group found that 'in the fourth quarter of 2013 business services accounted for 1,517,000 jobs in London, which was 28% of all London employment. (Their proportion in UK employment as a whole was much lower, 15.7%.)

'These business are based primarily in or around the capital. London-based international business services (ie, both financial and non-financial services) employ about 5% of the UK's working population and produce perhaps 8% - 10% of its national output, with most of that output exported. Continued growth of these activities at above the growth rate of output as a whole would be positive for the UK's average living standards.'

Since the 1960s financial services in Britain have enjoyed stellar growth. It was the most dynamic part of the British economy. This has now ended, and Professor Congdon sees EU regulation as being largely to blame. He argues that the EU's regulatory structure is less efficient than Britain's previous national system and the EU's rules are in effect anti-growth. The 40 years of expansion is now at an end and the indus-



Source: Hansard

try is in retreat.

If Britain is to remain a prosperous nation then the UK must follow a path that will both protect businesses from the harmful effects of EU regulators whilst preserving full access to the Single Market. What can be done to achieve this?

There is the example of the Swiss, like Britain they have a strong financial services industry. Although they have a series of free trade agreements in goods these do not cover the export of services.

Swiss-based companies do not have the right to sell their services to the EU unless they establish a subsidiary inside the European Economic Area. This is not an insurmountable problem but should be avoided. Multi-national companies by definition can and do establish themselves in different jurisdictions. However, small and medium-sized enterprises will find creating subsidiaries burdensome, restricting opportunities, in the EU's internal market.

The Swiss experience is that rules that would deprive British financial service firms from operating inside the remaining EEA can be sidestepped. A Swiss report found that *'Though extremely cumbersome this does give them full access to the EU market.'*<sup>2</sup> However, if the subsidiaries are based in the EU they will be subject to the same heavy handed bureaucracies.

There is however another way.

The UK can leave the EU, freeing businesses from the European Commission's quangos, and keep full access to the Single Market. The only one way that this can be achieved is for Britain to rejoin the successful and non-authoritarian European Free

Trade Association (EFTA) and thus remain a member of the European Economic Area (EEA), also known as the Single Market.

Aligning the UK with EFTA will at a stroke free Britain's financial services industry from control by:

- The EBA (European Banking Authority)
- European Insurance and Occupational Pensions Authority
- European Systemic Risk Board
- European Securities and Markets Authority (ESMA)
- Community Programme for Financial Reporting and Auditing

EFTA/EEA nations not only enjoy freedom from EU financial oversight, they also have the benefit of being able to run their economies as they see fit. They are free from EU debt risks and are not subject to European Union tax law, an area which the EU law is steadily expanding into. The City of London will also free from an EU Financial Transaction Tax. As a member of EFTA, Britain will also be able to veto the regulations that threaten pay within the financial services sector, such as; 'Recommendation on remuneration the financial sector 32009H0384'.

The City of London brings capital to this country financing wealth creation as well as public services throughout the land. It attracts skills and other business supporting the economy as a whole. Yet the EU has become a threat to the future of this industry.

The UK's financial services industry has a global role and should not be hemmed into little declining Europe. It is time to make the switch. ■

1. <http://www.theyworkforyou.com/lords/?id=2012-11-14a.1507.0>

2. Centre for Swiss Politics, University of Kent, *Switzerland's Approach to EU Engagement: A Financial Services Perspective*, City of London, April 2013, page 4