

<b>Committee:</b> Economic Development and Public Relations Sub-Committee	<b>Date:</b> September 2013
<b>Subject:</b> The City, the UK and Europe	
<b>Report of:</b> Director of Economic Development and Director of Public Relations	<b>Public</b>
	<b>For Decision</b>
<b><u>Summary</u></b>	
<ol style="list-style-type: none"> <li>1. Following the approval of the City of London Corporation's EU engagement strategy at the June meeting of the Policy &amp; Resources Committee, attached is a revised version of the 'Background paper' that accompanied the proposed strategy. This was following the decision of the Policy &amp; Resources Committee to ask Officers to revise in response to points raised by Members.</li> <li>2. This paper will be used to contribute to City Corporation briefings and policy positions.</li> </ol> <p style="text-align: center;"><b>Recommendation</b></p> <ol style="list-style-type: none"> <li>3. That the content of the position paper be noted and agreed.</li> </ol>	

## 1) Conservative Party Policy

i) On 23 January 2013, the Prime Minister, David Cameron, gave a speech as leader of the Conservative Party on Britain's relationship with the EU. The key theme running through the speech was the opportunity to reform Europe to make it better able to meet the challenges of the 21<sup>st</sup> century.

- The problems of the Eurozone;
- The 'crisis' of European competitiveness;
- A growing gap between the EU and its citizens.

In response to these challenges, the Prime Minister proposed a reformed EU built on five principles:

- Competitiveness;
- Flexibility;
- Power should flow back to Member States with more focus on subsidiarity;
- Democratic accountability;
- Fairness to those inside and outside the Eurozone.

In conclusion, the Prime Minister committed a post-2015 Conservative majority Government to an ‘in-out’ referendum on Britain’s membership of the EU in 2017, following a renegotiated settlement with our EU partners.

The Prime Minister said he wanted to reform the whole of the EU, not just secure special status for Britain. He said that if he achieved a settlement where Britain could be comfortable, he would campaign for Britain remaining with the EU: *“And when the referendum comes let me say now that if we can negotiate such an arrangement, I will campaign for it with all my heart and soul.”*

*“Because I believe something very deeply. That Britain’s national interest is best served in a flexible, adaptable and open European Union and that such a European Union is best with Britain in it.”*

The full text of his speech can be seen [here](#).

- ii) As part of the UK’s presidency of the G8 this year, a summit was held in Northern Ireland. In advance, the Prime Minister gave a speech on his ‘Plan for Britain’s Success’ in the world.

In his speech he challenged those whose opinions he characterised as *“stop the world, I want to get off”*, saying we should not cut ourselves off from influential organisations.

He linked Britain’s success with its capacity to engage with international institutions and to wield influence within them: *“the common thread running through all of these things is ambition, a desire to shape the world because we know the world shapes us. Now, another key part of that effort is our place in international organisations – at the United Nations, the Commonwealth, NATO, the WTO, the G8, the G20 and yes, of course, the European Union.”*

*“Membership of these organisations is not some national vanity; it is in our national interest. The fact is that it is international institutions, and in them, that many of the rules of the game are set: on trade, on tax, on regulation. And when a country like ours is affected profoundly by those rules, I want us to have a say on them.”*

The Prime Minister links the UK’s participation and membership of supranational institutions as key to our national economic interest. Again, this provides the City Corporation with an opportunity to engage in the debate on an area of policy strength: international competitiveness.

The full text of the speech can be seen [here](#).

- iii) In July, the Foreign Secretary William Hague, gave a speech to the think tank Open Europe on the ‘Future of Europe’. In his speech he made the case for reforming the EU so that the UK would be happy in continuing to be a member, but also so that all Member States would benefit:

*“But I believe that reforming the EU so that Britain wants to stay in it would be the best outcome for our country, and indeed for Europe ....  
...So change in the EU is worth fighting for and that change would not just benefit Britain but every country in the EU.”*

## **2) Domestic and European Political Background**

### **i) UK**

The debate on how to reform the EU is not confined to one political party, nor indeed to one particularly Member State, and this provides the City Corporation with an opportunity to engage with, and to inform, this debate.

#### **Conservative Party**

The Prime Minister’s speech was well received by the Parliamentary Conservative Party, with cross-party approval for his analysis of the challenges facing Europe in the 21<sup>st</sup> century. Many political commentators noted that the speech was successful in uniting the Conservative Party on an issue that has caused divisions for a long period of time.

An important development since the Prime Minister's speech is the introduction of the 'European Union (Referendum) Bill'. The Bill was introduced to Parliament by James Wharton MP, the Conservative Member for Stockton South who came top of the ballot for private members' bills. His Bill enjoyed the support of the Conservative leadership and was passed when the majority of Labour and LibDem Members abstained from the vote.

The question it requires to be put is: *"Do you think that the United Kingdom should be a member of the European Union?"*

If it becomes an Act, it does not require a particular government to hold a referendum, but it commits a referendum to be held. So, in theory, a government of any political party would be committed to hold the referendum, although in practice a Labour majority or led government could repeal the Act.

The Bill has had its Second Reading in the Commons and is presently at Committee stage (August 2013).

The Backbench Conservative Party group Fresh Start Project, founded by Andrea Leadsom MP, Chris Heaton-Harris MP and George Eustice MP, has been looking at areas for potential reform. The group has also been visiting policy makers in other European capitals with the backing of the Party leadership. The Policy Chairman hosted a roundtable discussion with Fresh Start Project in May 2013.

### **Labour Party**

At present, the Labour Party has refused to support a referendum on Britain's membership of the European Union. The Labour leader, Ed Miliband MP, has said he believes a pledge on a future referendum creates years of uncertainty that hurts the economy.

However, the Labour leadership has come under pressure to match the pledge to hold a referendum. Whilst there are only a small number of the Parliamentary Labour Party who support a referendum, one of Labour's biggest financial donors, John Mills, has called for the party to commit to holding a referendum if they win the next general election.

## **Liberal Democrats**

The LibDems are regarded as the most ‘pro-European’ of the three major parties and they do not support the proposed referendum.

However, the LibDem 2010 General Election manifesto supported a referendum on EU membership, "*the next time a British government signs up for fundamental change in the relationship between the UK and the EU.*" Given the UK Government is not currently negotiating a new Treaty, the LibDems do not believe a referendum is necessary.

## **UKIP**

This year has seen the continued strong electoral performance of UKIP, as well as its frequent out-polling of the LibDems in national opinion polls. The party has performed well in by-elections, coming second in a number and polling over 27% in the Eastleigh by-election.

In the May local elections, UKIP achieved its best ever results averaging 23% in the wards where it stood candidates and winning 147 council seats.

On the issue of a referendum, UKIP would prefer for it to be held as soon as possible.

## **ii) Europe**

Reaction in Brussels and in EU Member States to the Prime Minister’s speech has been mixed. Whilst some Member States, notably France, have been critical of what they see as the UK’s lack of commitment to the EU, some have been supportive of the Prime Minister’s analysis of the challenges facing Europe.

Several of our EU partners have said that they want the UK to remain in the EU, but there is no public support for unilaterally renegotiated terms of membership – the Prime Minister’s speech did not call for unilateral renegotiation, but that was how his speech was interpreted by some critics. This demonstrates the importance of approaching this debate in a constructive manner and for the UK to recognise the concerns and ambitions of other Member States.

However, significant support exists for a Europe-wide reform agenda to address the issue of competitiveness.

The Dutch government has published proposals for what it believes are areas for potential reform. The Dutch Foreign Minister, Frans Timmermans, has said, “*the time of an ever closer union in Europe is over*”. The proposals call for greater decision making and implementation of policy at a national level. You can see the proposals [here](#).

It is widely held, that many key decisions on European policy issues will be influenced by the outcome of the German Federal election in September 2013, and others are being delayed until the result. For example, we have been given clear indication from stakeholders in several Member States that the proposed Financial Transaction Tax (FTT) will be different in scope from its current form, but not revised until after the German election.

### **iii) European Parliamentary Elections and the new Commission**

The European parliamentary elections in May 2014 are likely to see widespread changes to the composition to the Parliament. ‘Establishment’ parties are expected to lose seats, and reformist or protest parties are likely to do well.

The composition of the UK delegation is uncertain, but it is predicted that UKIP could send the largest grouping, with Labour the second biggest group

The new Commission offers an opportunity for the UK to regain influence over areas of importance, such as financial services or competition policy, but to have any realistic chance of securing a key Commissioner portfolio the UK would need to offer a credible candidate with international recognition. At this stage, there is no more than speculation as to who the UK candidate will be.

Whilst the likely candidates from other Member States are also only the subject of speculation, there is the suggestion that Eastern European countries could be given more important portfolios this time.

### **3) European Competitiveness: From ‘Austerity’ to ‘Jobs and Growth’**

A key objective of the City of London Corporation’s work is to explain to policy makers in the UK and Europe the role of UK based financial and professional services in supporting the wider European economy.

Increasingly, the policy debate within the Eurozone is focused on how to move from implementing austerity, to how to deliver growth to tackle deficits and address high unemployment, especially youth unemployment. Having the world's leading international financial and business centre within the Single Market is a major advantage for all businesses looking to access finance or business support.

The City Corporation provides the joint secretariat for the International Regulatory Strategy Group (IRSG) in partnership with TheCityUK. The IRSG delegates to working groups of members to examine individual issues effecting European competitiveness, including the FTT, Data Protection, MIFID, and the Recovery and Resolution Directive. The work of the IRSG can help inform the competitiveness and reform agenda both in the UK and across the EU.

#### **4) London as Europe's International Financial Centre**

London is the world's leading international financial centre in part because it is Europe's financial centre, and because of its connectivity with the world's fastest growing economies. Major financial institutions locate their global, European, or EMEA businesses in London for many reasons, but access to the Single Market is an essential part of London's attractiveness. International decision makers have specifically cited access to markets in the EU as a core reason for choosing the UK over other financial centres in over 40% of the UK-positive investment cases considered. In over 45% of UK-positive investment cases, decision makers cited access to skilled staff, including EU nationals, as one of the core reasons for choosing the UK. (TheCityUK November 2012).

This is also true for small businesses based in the City, which also want access to the Single Market or provide part of the supply chain to the major global businesses located here.

London's position enables the provision of cross-border products and services to Europe, and the export of European financial services through London to the rest of the world benefits the UK economy.

#### **5) The importance of the Single Market to London as an International Financial Centre**

Independent of the EU membership debate, given that it is still the world's largest and wealthiest market, it is important that the UK

maintains access to the Single Market. A large number of export related jobs across the country are linked to the Single Market. The size and importance of the Single Market in international negotiations with the US, China and the fast growing markets of the East, should be recognised.

It is in the UK's interests to engage with EU partners and institutions, and have full access to the decision-making process that sets the rules for this Single Market. We should recognise that the Single Market does need reform and there are improvements that can be made.

An open, competitive Single Market that offers a level playing field is crucial to the continued prosperity of the UK and Europe.

## **6) The position of Business**

Business opinion on Europe is not unanimous. The feedback from City businesses in meetings, at events, in roundtable discussions and from a number of opinion polls that have been published, suggests that a majority are in favour of UK membership of the EU, but of a reformed EU, not the status quo.

The City Corporation has commissioned Ipsos Mori to undertake a detailed survey of senior business opinion on EU related matters, to understand what they want to see reformed. The fieldwork will take place in the autumn and top-line results will be available in December.

## **7) City of London Corporation and recent EU engagement**

### **i) Activities Programme**

When engaging with Europe, the City Corporation operates under its own 'brand' and often in partnership with City stakeholders, TheCityUK and other organisations including HMG.

The Lord Mayor and the Policy Chairman made a commitment to engage with every EU Member State this year, either by visiting the country or hosting an event in London with them.

Between them they have so far visited: Brussels, Strasbourg, Berlin, Paris, Stockholm, Warsaw, Vilnius, Dublin, Bratislava, Tallinn, and

Helsinki. Plans are in place to visit the following countries: Luxembourg, Denmark, Netherlands, Czech Republic, Latvia and Spain.

Other events we have hosted in London include: visiting delegation from the Bundestag; keynote speech at Mansion House with Commissioner Barnier; another speech was given by the Irish Taoiseach; hosted meetings with the Finance Ministers of France, Ireland and Poland; hosted conference with President of the Council Herman Van Rompuy, Dutch Foreign Minister Frans Timmermans, the Economic and Monetary Affairs Commissioner Olli Rehn, and MEPs including Sylvie Goulard and Guy Verhofstadt, leader of the ALDE group.

On 23 May, the City Corporation hosted a series of events as part of a “Future of Europe” day. The Lord Mayor hosted a roundtable discussion of senior City business leaders, chaired by Lionel Barber, editor of the Financial Times; the Policy Chairman attended a meeting of the Anglo-French Committee; TheCityUK hosted a seminar in the Old Library on the UK in the EU; and the day culminated in a keynote speech by Mario Draghi, President of the European Central bank (ECB) which concluded with him saying, “*Europe needs a more European UK as much as the UK needs a more British Europe*”.

We have followed up with President Draghi offering to facilitate dialogue with industry on Banking Union and the Single Supervisory Mechanism.

Other activity includes: the Policy Chairman meeting the Europe Minister David Lidington on 18 July, a dinner with the Shadow Europe Minister Emma Reynolds on 9 July, sponsored a major Policy Network Conference on 12 July that featured Michel Barnier, Sharon Bowles and Andrea Leadsom.

The Policy Chairman has hosted two dinners with Conservative Backbench MP groups, Fresh Start Project and European Mainstream, to discuss issues relating to Britain’s relationship with the EU.

## **ii) Media Activity**

Engagement with leading European media has been a major focus over the first half of 2013. ‘*The Future of Europe in the Global Economy*’ event at Guildhall was covered by all major UK broadsheets as well as being covered widely by European media. Meanwhile, the Lord Mayor and Policy Chairman have conducted media interviews with leading

financial newspapers from Sweden, Finland, Denmark, Lithuania, Estonia, Croatia, Russia, and Turkey.

A research report from the City of London Corporation of the financial transaction tax published in April was also reported widely across Europe and also in key markets further afield, including China and India.

## **8) Policy Engagement**

### **i) Balance of Competences Review**

The government is undertaking a review of the EU's competences. It is an audit of what the EU does and how it affects the UK. The process is taking two years and is examining all aspects of how European competences interact with the UK.

The City of London Corporation made its first submission in March 2013 to the Department of Business Innovation and Skills which reviewed the Single Market. TheCityUK also made a submission to this review. The submission (see [here](#)) made a number of key points, including:

- The Single Market helps to achieve economies of scale, greater market competition and specialisation;
- Financial hubs are spread across Europe and require open, competitive and efficient markets, and the ability to move people, capital and services across borders;
- The Single Market is a long-term project and further measures, including legislation, are required to complete it.

The City Corporation has also made a recent submission to the Home Office's review of 'free movement of people'. It made a number of key points:

- The UK-based, international financial and professional services industry benefits from access to the pool of skilled and talented people via the free movement of labour provisions of the EU single market;
- It would damage British trade and economic interests to withdraw from these provisions.
- It is, however, essential that access to the wider international market in skills in non-EU / EEA states is not made so difficult that talented individuals locate or do business elsewhere.

- Highly-skilled workers, particularly in financial services, are not a burden on the state (see paragraph 3 below); they generate wealth and are positive contributors to the UK economy. Their spending on goods and services in the UK also benefits the UK economy as a whole.

The next stage of the Balance of Competences review will see HM Treasury consult on 'Financial Services and Capital Markets'. The City Corporation is working with the IRSG to make a submission to this consultation. The consultation is expected to be launched in late October 2013 and will continue until the end of January 2014.

The first six reports (synoptic reviews) were published at the end of July 2013 can be read [here](#).

#### **iv) Alternative 'models' of EU engagement**

As part of the debate on the UK's future relationship with the EU, consideration should be given to alternative models of engagement, such as those used by Norway and Switzerland. Neither are members of the European Union, but both have varying degrees of access to the Single Market.

The City Corporation and the CBI have both conducted research into this subject. The City Corporation commissioned independent research to examine the political relationship between Switzerland and the EU, and the operation of Swiss financial services within this context.

The report found that Switzerland's approach to engagement is, *"complicated, multifaceted and increasingly uncertain.... Rather than seeking to maintain economic and political distance, Switzerland's bilateral approach has been a means of remaining close to the EU. Swiss financial services have accessed the EU's Single Market through their presence in London, however the future of this is uncertain given tighter regulation and new supervisory regimes."*

You can read the full report [here](#).

The CBI report looked at both Norway and Switzerland, and in the context of all business activity, not just financial services. The CBI's Policy Director, Katja Hall, said:-

*“Businesses will get behind what’s best for growth, jobs and the long-term health of our economy – retaining access to the single market in a reformed EU. The test for those arguing that the UK must remain in the EU and for those pressing for our departure is to come up with a clear vision of our future, inside or out.*

*“Whether we are in or out of membership we will still need a relationship with the EU. But Norway and Switzerland simply don’t appear to have set-ups the UK should aspire to. They are half-way houses on the margins of Europe with no influence over the market rules under which they operate.”*

The CBI report can be read [here](#).

## **10) The position of the City of London Corporation**

The City Corporation supports and promotes London as the world’s leading international financial and business centre. Access to the Single Market is a key element of what makes London successful, and means that it is not just the UK’s but Europe’s international financial centre.

Our research, stakeholder engagement and opinion polling demonstrate that the majority of financial and professional services businesses support the UK’s membership of the EU which gives access to the Single Market.

This informs our European engagement strategy and the key messages we use in our dialogue with political and business stakeholders in the UK and in other Member States.

Our engagement strategy has been supported by the UK government and business stakeholders who both agree the UK needs to be more engaged in shaping policy in the EU.

Our key messages for dialogue on Europe are:

- Promote London to policy makers as Europe’s international financial and business centre;
- Explain the role of financial services in supporting the wider economy;
- Europe needs to reform to be more competitive in the global economy;
- Strengthen and complete the Single Market;
- The UK needs to be fully engaged in EU policy making.

## 11) Future Policy Engagement in Europe

The City Corporation's strategy on engagement with Europe will be based on five key aims:

- Greater engagement with EU institutions;
- Greater engagement with EU Member States;
- Dialogue around the City's role as Europe's international financial and business centre, and its role in the wider European and global economy;
- Contributing evidence to the debate on the value to the UK of membership of the EU, and vice versa;
- Work with third parties, such as think tanks, political groups and business organisations, to provide forums to make the case for the importance of the Single Market to the UK.

Many different organisations are involved in the debate on the UK's future relationship with the EU, and Members are invited to agree this role for the City of London Corporation.

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