Andrew Dismore (Chair): Good morning, everybody, and welcome to City Hall. My name is Andrew Dismore and I am Chair of the Economy Committee here. Welcome to our seminar on London's relationship with the European Union (EU). With all the debate that has been going on about the EU, often with more heat than light, we thought it would be a good idea to try and bring some people together to discuss, not whether Britain or London should be in or out of the EU, but more importantly what the issues are and to try and bring some factual analysis and thought to what is an important debate but with a particular London perspective.

We are going to have two sessions today: one on the finance sector and the second on the high-tech creative panel. You are an invited audience, it is not people who wandered off the street, so we think you have something to contribute to today's proceedings, so welcome and I hope that you will be able to put your point of view as the morning progresses in one or indeed both of the sessions.

So we are going to start this morning with Gerard Lyons, who is the Mayor's Chief Economic Advisor. Gerard was formerly Chief Economist and Group Head of Global Research at Standard Chartered and previously Chief Economist and Executive Director at DKB International and Chief UK Economist at Swiss Bank Corporation. I am not going to read out huge biographies because they are there for people to read anyway and I think that just eats into our debate time. So Gerard I think is going to start.

Gerard Lyons (The Mayor's Chief Economic Advisor): Thank you, Andrew. Good morning, it is a great pleasure to be here. In terms of preparatory comments, I would like to mention three areas: first about where the debate is and that we have been here before; second I think it is very important to look at London and the UK relative to the global picture; and then third the crux of the issue, UK/London and Europe.

First, in terms of we have been here before, it is always worth reminding ourselves of that. The then Chancellor Gordon Brown set up five economic tests to examine whether the UK would benefit from joining European Monetary Union (EMU) and in turn the euro, and I think those five tests were very good at the time because they highlighted what were then key areas, and very briefly I think it is just worth reminding ourselves of what those five tests were and what the outcomes were.

First, it is basically about whether the UK was ready for, and whether the EMU would be suitable for the UK. First, in terms of business cycles and the economic structures, could we live with European interest rates, and the answer was not really, given significant differences, particularly in housing. Second was, is there sufficient flexibility within the EMU setup to deal with problems, and the answer was no, and I think results since then have borne that out. Third, would joining the EMU be better for longer-term investment decisions in the UK, and the Treasury concluded investment would pick up, but if, and only if, there was sufficient convergence and flexibility. I think this is probably the key test we should remind ourselves about in terms of the debate today. Fourth, would the competitive position of the City of London and financial services be improved by going into the EMU, and that was a clear yes, yes, yes, and indeed you could say that any closer ties with Europe do tend to help the City, a key part for the debate this morning. The final fifth test was, would EMU lead to high growth, stability, and the lasting increase in jobs, and again, like one of the other tests, if and only if convergence and flexibility took place.

The UK of course did not join the euro. I was heavily involved in the "No" campaign then and it is worth again reminding ourselves that people who predicted that there would be doom and gloom if we did not join the euro, in some respects those comments are again being repeated now; that if we decided to leave the EU, or indeed if we decided continuously not to join the euro, at some stage we would suffer immense economic pain. So we should bear in mind that we have heard the doom and gloom before; it did not turn out to be the case before, and I think that is worth bearing in mind now. So, first, just to remind ourselves that, even though this in some respects is an intense and new debate, many aspects of it have been played out many times before.

But that really leads on to what I think are the key issues, the second point, the UK and the rest of the world. The global economy has significantly changed. Since the financial crisis hit five years ago, two-thirds of global growth has been driven by the emerging economies. This last week, the Mayor was in the Gulf economies and I joined him on that trip and he was going to the Gulf economies, and it is worth reminding ourselves that in previous cycles those economies were heavily tied into the West. As we have seen, even though Europe, the UK and the US have been weak in recent years, energy prices have remained stubbornly high, and hence the Gulf economies are no longer just tied to the West; they are tied to the East. The point made a number of times on our trip in the last week is that, even though many of these countries like to invest in the UK, particularly London, and they probably will continue to do so, the percentage of that increased cake that we can get in the future is by no means certain. It was pointed out to us a number of times that there are greater opportunities in the East for many of those countries.

The world is significantly changing. The global economic cake is getting bigger. The figures I often like quoting are 32, 62, 72. The size of the world economy at the beginning of this century was $32 trillion; on the evening that Lehman Brothers was going bust it was just under $62 trillion; at the end of the last calendar year it was just under $72 trillion. In nominal terms, some of that growth is inflation, but the vast bulk of it is real economic activity driven by the emerging economies.

Therefore, in the debate we have about Europe, it is vitally important that we continue to think beyond Europe and think globally. In some respects, what that means is that, whatever the outcome of the referendum, which none of us can predict, the UK needs to be doing the right things in terms of having the correct regulatory environment in place for the financial sector, the correct supervisory environment in place, and also the right macroprudential measures in place to support monetary policy.

I would argue that, even though you can say what you may wish to say about the Bank of England before the crisis, I think since the crisis the Bank of England and the UK regulatory authorities have done a very good job and have been at the forefront of many of the key issues and at the forefront of many of the key debates. Therefore I think it is important that, whatever happens in terms of our relationship with Europe, we continue to do the right thing to make ourselves attractive as a financial sector and in turn to make the economy as competitive as possible.

That leads on to the third issue, the whole relationship with Europe itself. In the last few years I would describe the European economic situation as a self-feeding downward spiral: political problems feeding economic problems feeding debt problems feeding banking problems. The European Central Bank, particularly under Mr Draghi [Mario, European Central Bank President] have in the last 18 months acted by basically putting circuit-breakers in there to stop that self-feeding downward spiral, politically in terms of the break between economics and debt and between debt and banks, that has worked. It has however created other types of issues, which are very relevant for the UK.

The House of Lords at the end of last year came out with a report about the whole relationship between the UK and Europe. Like many of these big issues, they have been examined quite intensely, both in Commons and the Lords, but the interesting angle - and hence worth mentioning here - that the Lords highlighted was they felt that the European Central Bank was going to be given maybe too many powers, was not going to be accountable. The issue that rises out of that is that there needs to be symmetry in the relationship between the European Central Bank and the European Banking Authority (EBA), and also between the non-euro area authorities and the European Banking Authority.

Let us put it another way: the Prudential Regulation Authority here in the UK is bound by EBA decisions in the future as it is at present. The European Central Bank will not be legally bound but will have a "comply and explain". So the House of Lords report was more concerned maybe than any other report I have read about the future strong position of the European Central Bank. That leads naturally on to the comments made by Mr Noyer [Christian, Governor, Banque de France], the Bank of France official, at the end of last year, when he was very much highlighting the fact that there needs to be a distinction between those countries that are in the euro area and those that are outside.

This is a big grey area for the City of London and for the debate. What we basically have is, for the EU 27, a harmonised regulatory framework in financial services, aiming to ensure that the single market works. The challenges that, as the ECB, with the banking union, becomes more important, the banking union is primarily there to secure the position of the euro and to make sure that the euro survives. The European Central Bank now has basically greater control over about 5,000 or 6,000 banks and credit institutions on the Continent. So, as the banking union becomes entrenched and as the euro basically survives, how will the "in"s versus "out"s interact? We should remember that in terms of the debate on the banking union, last June it was suggested that the banking union should have a three-pronged approach, a single supervisor, a common resolution scheme, and a common deposit insurance scheme, all were seen as essential. The single supervisor is there through the European Central Bank, but there is not political agreement on the Continent about these other areas, common resolution, common deposit insurance.

So what it comes down to is that, for the UK, assuming that we do not go into the euro, and I do not think we should assume we will, we are then in a situation of remaining in the EU trying to make the single market work. The Department for Business, Innovation and Skills (BIS) has a review about core competencies about making the single market work, but it is being felt that the single market has worked very well in terms of financial services, and as a result London has effectively become the global financial centre for Europe. As we see the problems with the euro persist, and the banking union becomes more entrenched, there will be some concerns, I would argue, about whether the single market will work as effectively in future, and it really comes down to how London and the UK authorities have to argue and debate.

Bringing it all together, three points: first we have been here before in terms of the five tests; we have been here before in prophets of doom and gloom, before it was the doom and gloom if we do not join the euro; second the big issue I think that has changed in the last 12-13 years is that the rest of the world has moved on and it is up to us in the UK to ensure that London remains the centre of emerging market finance, but whatever happens we need to make sure we have the right regulatory and supervisory and macroprudential framework in place here in the UK; and then third it is very much about how we renegotiate or position ourselves in terms of the EU debate and clearly there are some issues, as I have tried to touch on. Thank you.

Andrew Dismore (Chair): Thank you, a lot of food for thought there. What I plan to do is to move on to all our speakers and then we will open up for discussion, so I will ask Christian to speak next. Christian is from the Deutsche Bank Group, he is the Deputy Chief of Risk Management, and he has worked at a variety of posts, including Head of Credit Risk Management for European mid-caps and was Chief Credit Officer for Japan. So he is around the world a bit, having been in Toronto as well.

Christian Sewing (Deputy Chief of Risk Management, Deutsche Bank Group): Yes, good morning everybody, and thanks a lot for the invitation. I was asked, not only to talk about the relationship with the whole EU, but also London's importance as a financial centre and that in particular from the view of the bank.

I think in particular for Deutsche Bank, and I think we can talk quite well about this; London is for us of enormous importance. Deutsche Bank was founded in 1870 and only three years later we opened our first European branch in London, so you can see we have a quite long history. The real step into the London market - and I would like to make that very clear - was then with the takeover of Morgan Grenfell in 1990. A lot of people think it was just because of the investment banking; that is not true, it was in particular also with regard to asset management. So we tried to use London, not only as investment banking operation, but also to enlarge our overall asset management operations in the City.

We have, as of today, more than 8,500 people employed in London, which is the largest employer in the City when it comes to investment banking and asset management operations, and also looking how global London is and how important it is, out of the 138 nationalities we have at home at Deutsche Bank, more than 100 are in the City.

Why is that, and why is London so important for us and therefore also important for the overall European Union? I am sure you are aware, but some numbers that are staggering, the number one in global market for foreign exchange. We think about foreign exchange or other over-the-counter derivatives, it always sounds like an investment banking product but that is what mid-cap companies need, small and medium-size enterprise need, just to hedge their currencies. If you think that London has a market share in the foreign exchange, which is still rising, of over 40%, so if you want to be a global bank, if you want to have the operations, if you want to really be in that business, you need to be in London I think. That is one point why London is the leading global financial centre.

Not only derivatives like rates of foreign exchange, but also the interbank lending, and there has been much talk, in particular after Lehman, about the interbank lending. But if you look into the balance sheet of the banks that is still a very important refinancing source and London again, in the financial centre, is the number one in the interbank lending with 45% of the global market share, so again that is I think one other reason for the dominance this place has.

Why is it? These reasons are easy and not easy to mirror for other cities, potentially for Frankfurt a little bit, but I am German so I always try to bear the flag for Frankfurt too. But one thing is geographical location and that is obviously sitting between the US and Asia and you have heard I have been in the US, I have been in Japan, but being in a geographic location where at the same time you can call on Asian countries as well as to the US is of enormous importance and therefore, just because of that, allowing to deal with both sides of the world at the same day is critical.

Then obviously the language, English language is the chosen language, there is no way beyond that, and obviously the chosen language for all the financial industry. I think London, compared to other countries and also to the European Union, has done very early and very importantly - and I know it sometimes also results in conflicts - market liberalisation, and I think with the big bang in 1986 with removal of fixed commissions it really gained its place as number one in the financial sector, which has led to improved efficiency, reduced costs in trading. I know all that is now discussed and potentially burdened with some additional regulations, which I refer to in my next chapter when I come to the challenges of remaining the number one in the financial industry.

What we value very much, and I think also the colleagues of all other banks globally, is the stable political and legal and regulatory environment and, honestly, I have been at the heart of restructure in Greece two or three years ago, you cannot even think about how bad it is if existing documentation is changed from one day to the other and how international investors react to this. Therefore, being in a country, doing business in a country with a stable regulatory and legal environment, like the UK, it is of utmost importance to gain the confidence of investors, but then obviously also of banks and other industries. So overall, the openness to the foreign investment and the lack of protectionism has been decisive for getting where London is.

In my view, we have five or six challenges to London as the dominant player. First of all there is the rise of the emerging markets, we just discussed it before, and my pre-speaker being in the Middle East, we talked about the rise of the emerging markets, and in particular Hong Kong and Singapore being now the number 3 and 4 behind London and New York. One thing is clear, if I just talked about foreign exchange market position, number 1, the gap is narrowing, it is not widening.

The other thing is I have just been in New York last week and a couple of times last year. When we talk about global regulations, when we talk about the regulations that, in particular, will hit the banks in the European Union, potentially not one to one in the UK, but as we are in the European Union most of that also hits the banks in the UK. Let us not forget that New York is very hungry, and hungry in terms of taking business away from Europe, and I am not even talking now about Hong Kong and Singapore and other Middle East places, I am talking about New York. New York wants to have this industry back; they were the prominent financial centre in the 1980s. Because of the big bang, a lot of business has moved to London with all its advantages, but I can tell you from all the discussions I have there is a lot of hunger in New York and the US to get business back.

I cannot get away from another third challenge and this is regulations; that is for the one hand derivative clearing, I said before on purpose that London is the number one in foreign exchange, over-the-counter derivatives, but you will have heard about exchange traded derivatives that the exchanges are getting more and more market share in that business. That means it goes away from the bank and most of the exchanges have their headquarter already in New York and not in London; that means part of the big business, which we have seen in London, will move overseas.

I know there is a lot of discussion about bonus caps, I think one has to see that very carefully and I know that there have been exaggerations, but we also have to be careful about that discussion, because at the end of the day those banks who can move away from the European Union, but also from London, will try to do this in order to really keep the talent and move them to other places where these bonus caps will not apply in the way they apply in the EU and in London. Also we should not forget about the shadow banking, hedge funds and funds are not that regulated, and also there will be a big migration.

I think these are the key challenges for London to deal with, nevertheless, as I said before, because of this geographical location, because of the stable regulatory environment, and very important, because of the provision of the soft infrastructure, and that means in particular for banks, if you want to do good banking you need to have lawyers, you need to have other infrastructure, you need to have auditors, all that is obviously all set in London. I think London will continue to be a key global financial centre but, just as a teaser, we have to think about the challenges I just discussed because I think we should not threaten that position.

Andrew Dismore (Chair): Thank you very much. What we are going to do is take James next and Nadia will finish the speakers from the table for this section and then we will open up to general discussion. So, moving on to James, James is a senior manager in

PricewaterhouseCoopers' Global Immigration Team, and when he said they have 600 immigration practitioners I thought that is a rather large operation to be in charge of.

James Perrott (Solicitor, Global Immigration, PwC Legal): Thank you very much. From looking at this from an immigration standpoint, I want to echo a lot of what both Gerard and Christian have said: one about the fact that the UK needs to continue to look globally rather than just within the EU; and secondly about the importance of having a stable regulatory environment.

It is quite interesting that, with the UK currently, the current topic of debate about looking at the UK's relationship with the EU, that immigration has come up again due to the fact that Bulgaria and Romania at the end of this year are going to be given full free movement rights to come to the UK because they have now completed their sort of seven-year transition period. There is a lot of concern about what effect that will have on the UK economy and what kind of migration flows that we can look at.

Going back to 2004 when what are called the A8 countries joined the EU, including the Czech Republic, Hungary and Poland, we were expecting an influx of approximately 30,000 migrants per year, what we actually got was over 170,000 per year, and obviously that has caused a lot of concern around the pressure on jobs, on the use of public services. A lot of work has been done to look at what the economic impact of that level of migration has been and broadly the impact seems to have been broadly neutral and if anything it has been positive to the UK economy due to the fact that the workforce coming from those countries is young, well-motivated, and does not put a lot of pressure on public services.

The Government has been very keen not to make the same error it did back in 2004 by putting any sort of figure on what it expects migration flows to be from Bulgaria and Romania once the restrictions are lifted. There has been some research, notably by the National Institute of Economic and Social Research report, which had a look at what it was going to be. What its conclusion was, in fact it is very difficult to predict what that migration flow is going to be due to the lack of accurate data on current immigration flows and the inherent unpredictability of migration, because the future migration will depend on a number of factors, including the propensity to migrate and obviously political and social factors as well.

Looking at other factors in this, the majority of migration from Romania and Bulgaria since the joined the EU has been to Spain and Italy, who attracted approximately 83% of all mobile Romanians and 49% of Bulgarians, compared with 4% of Romanians and 6% of Bulgarians living in the UK. This is mainly due to reasons of geographic and linguistic accessibility and the presence of existing migration networks. So, looking at that, it would seem to be that the chances are that we will not see a huge set of migration from Romania and Bulgaria once they have full free-movement rights. We also have Croatia, who will be joining the EU in July, and the UK Government has already pledged to maintain the work to introduce work restrictions, as it is entitled to do, on those coming from that country.

But, looking more broadly, about how does the UK sit within Europe and globally and what are the challenges from an immigration standpoint, the UK has pledged to bring down its net migration levels, which currently are sitting at around about 160,000; they want to bring that down to below 100,000. The Government has been reasonably successful in this; at its peak net migration levels during this Parliament reached over 250,000, so in that way it is going in the right direction, although there are a lot of challenges that will be associated with getting it below the 100,000 level.

But having a look at that, with all the changes that the Government has been bringing in, those changes have obviously been focused on non-EU migrants because the Government cannot at the moment control - because of our relationship with the EU - the level of EU migration.

I would say that there are a number of issues and a number of measures that they have brought in, which are having a detrimental effect on London as a global financial centre, and which need to be addressed in order for us to maintain the position that Christian spoke about, one of which was the introduction of the cooling-off period for those who are sponsored workers in the UK. Essentially what this means is, if you have an individual you transfer into the UK to work, once their assignment in the UK is finished, they have to leave the UK and wait for 12 months before they can come back into the UK. This has had a big freezing effect on the labour market especially within the financial sector, bearing in mind that the UK has one of the highest per capita rates of intra-company transfers (ICT) in the world, and that is not counting the number of people who come in from the EU. This is mainly due to our financial services sector, which accounts for some of the highest proportion of ICTs. One of the effects of the introduction of the cooling-off period is, if someone does come to the UK on a transfer, they cannot move between companies while they are in the UK, and also if they do come and transfer and that person is required to remain in the UK, they are required to be localised, that is not possible under the current rules.

The Government have listened to businesses' concerns on this and just two weeks ago they introduced a change for those who are highly paid, so those earning over £152,100 - do not get me started on where they got that number from - they are no longer subject to this cooling-off period, and certainly from our experience, where we have seen the most pain from business over the cooling-off period, it is at that level.

Banks and companies within the financial services sector have not been doing a lot of recruitment in the last few years, so in all fairness the effect of the cooling-off period has not been felt that much, but hoping that we will move out of our current economic downturn, the effect of that is going to - we believe - have more effect on businesses as the labour market movement becomes more prevalent.

The other biggest challenge that we have as compared to other countries is processing times. When I am speaking to business, one of the biggest problems that they are emphasising is how long it takes to get a visa to come to the UK. The Government has been looking at this because they realise that they are not being competitive in this area and they are looking to introduce measures to bring in faster processing times, including processing times of five days or less across the globe. At the moment there are some British diplomatic posts in some countries that do offer faster processing times, New York is always held to be the beacon for this, as they process a significant amount of the applications within 48 hours, and the Government wants to look at a way to roll that out globally. They have already changed the system in India so if you are an international travelling to the UK from India and you have been to the UK within the last five years as a visitor your application now can be dealt with on a priority basis.

But we are not the only country who are looking to improve our processing times, Germany is also looking to reduce its processing times, making their immigration process much less bureaucratic, because they see it as important for attracting global talent to have a visa system that is both flexible and easy to use from an end-user perspective.

So what do I think we need to do in order to maintain London's position as a preeminent financial hub from an immigration standpoint, I do think that the immigration rules do need to be changed to make sure that we attract and retain global talent, to make it more straightforward for people to come to the UK and more straightforward for them to move from temporary categories into permanent categories where there is a need for them to remain here.

I also think that we need to improve our processing times, make the processing time much quicker, be able to bring people to the UK much more quickly, so that businesses can bring in people who they need at short notice to respond to changing business demands.

My final thing is that, once all these changes have been made, we want them to stop changing the immigration system. One of the biggest challenges, the immigration rules changed nine times last year, even though they are only supposed to change twice, once in April and once in November, we are only in April and they have already changed four times. This obviously causes a big concern for business. I always say that my full-time job is immigration law, that is all I do, I struggle to keep up with all the changes that happen with UK immigration rules, and so I can only imagine from what I hear about from business how difficult it is for business to keep up with those changes.

Andrew Dismore (Chair): Thank you. Now, our last speaker this session is going to be Nadia. Nadia Calvino is Deputy Director General in the Directorate General for internal market and services and has been since November 2010 and previously was Deputy Director General in the Directorate General of competition at the Commission with special responsibility for mergers and anti-trust. So, welcome, and thank you for dashing over from the Continent to be with us today and over to you.

Nadia Calvino (Deputy Director-General, DG MARKT): Thank you very much. Following up on what I heard, I would like to focus my remarks on three main subjects: first what is special about London and in particular the City, which has already been mentioned, and I presume is one of the main topics of our panel; then secondly what is going on in Europe in terms of European legislation in the field of financial services, which is my special responsibility inside the Commission, within the field of internal markets there is a special area for financial regulation and that is what I am heading right now; and finally a couple of reflections on potential implications of all these.

First, what makes London so special, and, as some previous speakers have said, the City is very important for London; the City is very important for the UK; the City is very important for

Europe. London is a global financial market; it has become one of the most important financial destinations in the world. To us, from the perspective of the Continent, as you said, it is the most important European financial centre; it is the European financial centre for the euro, and thus it is a very important asset for all of us that we need to protect.

The reason why London is so special and has been able to reach these standards is, as has already been mentioned, but I would like to stress it, not so much that there has been weak regulation, liberalisation has indeed reduced the cost of making business as compared to other places, but I think that the main attractiveness of London, not only since the 1980s, but for centuries already has been the legal framework and the legal certainty that operators have had that a contract signed here was advised by the best lawyers, by the best financial advice, etc. I think that those assets should not be forgotten and people should not think that, because of lowering standards, that is the right way to go when protecting the City, because the money is not coming to London because this is the lowest standard in the world, I am sure that there are many other jurisdictions that can have a better go at that kind of hierarchy or that kind of record.

The final characteristic of the City is that it has been a place for strong innovation and change and has been able to adjust to many different circumstances and been the first one to take advantage of the challenges, but also the opportunities out there. I think that is one of the main assets that we all should try to protect.

What is going on in the EU? Indeed, as has been already mentioned by a previous speaker, we are in what we call a very ambitious regulatory reform project. Some people see ambition as a negative connotation, we think that in the current circumstances and given the fact that the crisis had originated and is still very directly linked to the situation of financial markets, we need to put in place a number of rules and safeguards so as to avoid that this happens again.

It means unfortunately that we have to touch a number of different pieces of legislation. The crisis was not caused just because of one thing going wrong, it is not only the capital levels of banks or it is not only the clearing of derivatives, there were a significant number of things that have not been going right and that we need to address and we need to make sure that is corrected so that going forward the financial sector plays the role it should for economy as a whole and for society as a whole.

The starting point of our regulatory package is the G20 agreement. What we are trying to do is implement standards that have been agreed at the global level and, let me be very honest with you, sometimes we have the feeling that other jurisdictions may be going slower or maybe are not taking the thing so seriously, but to us, given the importance of the financial sector for the European economy as a whole, this is a matter of life or death; we cannot really risk saying, "Well, we are going to delay it, we are going to wait until other jurisdictions do it:, because other places have not suffered the crisis as we have and other places may have other assets or other ways to go forward that are less reliant on the health of the financial sector, most notably of the banking sector.

That is why, going beyond the G20 agenda, we have also had to implement a number of changes in the European legislation, which are very specific to Europe, and not only financial regulation, but the whole economic architecture of the Eurozone, which more broadly affects the 27 Member States, or very soon 28 Member States. It means that we have had to go beyond ensuring that financial markets function to deepen financial integration in Europe, to ensure that there is a really integrated financial market, which is very fast disintegrating before our own eyes because of the crisis. More and more, banks are taking a more national approach, supervisors are ring-fencing assets, so the trend that we are seeing is one towards the ring-fencing and the disintegration of financial markets and this is one of the main obstacles to recovering the growth in Europe and that is why we are so worried about it and that is why, from the European Commission's perspective, one of the top priorities going forward is the creation of what is known as a banking union.

The UK has supported this project; they have clearly said, "We do not want to participate in it", I still think that this should be accompanied by, "For now". If it functions, I hope that the UK will want to join it. But, in any case, there is no alternative. Within the Eurozone, we need deeper financial integration; we need that the monetary union is accompanied by a deeper fiscal and economic union, and that means we have to put in place this new architecture that we call the banking union with a single supervisor for banks within the Eurozone, single resolution authority, and common backstops for the banks inside the Eurozone. I think this is going to have an impact on the UK, whether it joins or it stays outside. I think it is mostly a positive impact because of enhanced stability in the Eurozone, which is very important for the stability of the UK economy too, but in any case it will have an impact.

This is all put within a broader agenda, which has to do with trying to recover the path to growth and the conviction that we have that a deeper integration of financial markets and a deeper integration of the single market for goods and services is our best recipe for trying to go back to sustainable and sufficiently large growth, job-enhancing, job-creating growth in Europe. That is why, on top of this regulatory reform agenda, there is a single market agenda trying to move ahead and to be more ambitious in terms of the integration of, for example, energy and transport networks, creating a real digital single market facilitating the mobility of businesses and people, etc.

There are lots of things going on in the European Union, many of them have an impact on London, on the UK, on the City. What are the implications? I would like to just mention a couple of them that have come to my mind by listening to the others, because I am not able to talk about immigration and mobility of people in so much detail. But two thoughts that have come to my mind: first, the UK's influence on European affairs, sometimes we have the perception that the Government does not have sufficient influence and in particular is not having sufficient influence to protect the City. The latest debate has had to do with the bonuses to be paid to bankers that you just mentioned and there is this feeling of they do not care about us, they do not listen to us.

I would like to tell you that is not true and I cannot be more nuanced in saying it because in fact the UK has a very strong influence in anything that is going on in Brussels and in particular in the area of financial services. Because of the importance of the City, because the City is our financial centre, and to be very frank with you and sharing a confidence, whenever we are going to propose something the first thought we have as civil servants is, is this going to hurt the City? Is the UK going to think that this is fine? I mean we may disagree but it is not because we have not thought, listened and considered very carefully the potential implications, because we consider this to be our best ally and the best asset that we have in this area.

The UK has been extremely skilful in putting forward their proposals and achieving their objectives, whether it is in the negotiation of the capital requirements, whether it is in ensuring that they have an influence on the European Banking Authority so as to offset the potential power that the European Central Bank will have as a supervisor of the banks, there are many feel, when it comes to clearing of derivatives the UK has had, has, and I am sure will continue to have, a very strong influence in whatever is going on in the financial sector going on.

My second thought is that, once we have delivered on this regulatory agenda, which I hope most of it will be achieved this year and another part of it will go on next year, so by 2015 we hope that we will have a new architecture for the banking union and that there will be a small rule book for all financial institutions in the 27 Member States that can be applied and give us at least a feeling that we have addressed the problems of the last crisis and it will not be repeated. Also, hopefully, we have also tried to anticipate the risks that will lead us to the next crisis and we have managed to prevent it from happening.

Once we are done, it will be good to have a regulatory pause. As you were saying about immigration rules, we do not think that having legal uncertainty is good, it is not good for businesses, it is not good for investment. In our case we did not have a choice, we had to do this package, we have to implement it to honour our international commitments and because we think it is right thing to do. But afterwards I think it will be good to calm down, look back, try to adjust those things that maybe have not been properly calibrated and try to have a bit of peace for a while so as to see how the revamped financial sector, a new financial sector that is very different from the one that brought us into the crisis, is developing in Europe. I think that is the executive summary of what I tried to say.

A final thought is I think the UK needs Europe for many reasons but definitely our feeling is that Europe needs the UK and that is the positive message that I would like to leave here and to finish these introductory remarks. I am happy to take questions or to discuss further. Thank you.

Andrew Dismore (Chair): Thank you very much. Thank you, Nadia. We have about 45 minutes or so for comments and questions from the floor. I should say for those of you who have been scribbling away we are going to produce a note of the proceedings afterwards which will be circulated, so if you miss a few points do not worry about it because hopefully we will have picked them up.

Could I ask if you want to make a contribution, you put your hand up and then the microphone will find you? Could you also identify who you are and where you are from? Who would like to go first?

Philip Whyte (Senior Research Fellow, Centre for European Reform): Hi. Philip Whyte from the Centre for European Reform. Similar questions, one to Christian Sewing and the other to Nadia Calvino.

Christian, you listed all the historical advantages in the city of London. What you did not talk about was how those advantages would be affected by Britain's position in the EU. If we leave the EU, to what extent are all those historical advantages affected? Could it liberate London or will it actually be a negative for London?

For Nadia Calvino, you mentioned that London and the Eurozone have coexisted perfectly happily at least until I think 2008. What does the position of other European countries become towards the city of London if we left the EU? It is one thing having the city of London outside the Eurozone. It is quite another I think having it outside the EU. Could the rest of the EU tolerate most Eurozone-dominated business being carried out in an offshore centre?

Christian Sewing (Deputy Chief of Risk Management, Deutsche Bank Group): First of all, I do not think that in particular the historical advantages which we have seen here will be washed away or will be a major threat. Again, some very key advantages whether it is a geographic position, whether it is a language. What Nadia also said and I tried to make clear was examples where it did not work this way like it works in London. A stable regulatory and in particular legal framework will not go away, in my view, and therefore I think that was part of the reason why London emerged into the position where it is right now and this will not change.

My view is that in particular, for the time being -- I have been in risk management now for 22 years. If you would have asked me ten years ago how much time I spend with the regulators, I would have said, "Five to ten per cent of my time". Was that good enough? No, it was not good enough because we made mistakes and I fully agree that we need a different type of regulation.

The most important, though, is that we have a level playing field and that we have harmonised regulation. There were some good remarks already before about resolution. It is a kind of living wills concept for the banks which I fully support. We need this. But we need to have one global standard for that. I cannot deal with a bank with 90,000 people with three or four different resolution standards. That does not work. That simply does not work. Therefore, what I think is important going forward also in order to remain London's position within the EU, within the global -- and I am always talking globally in this point of view because I think it is the major global financial centres. We will have harmonised regulations where obviously London works with the EU on harmonised regulations. That is most important for us.

Andrew Dismore (Chair): Nadia?

Nadia Calvino (Deputy Director-General, DG MARKT): Yes. Just one remark to provide the link with what he was saying. Indeed, a global bank needs global regulation and what we are convinced of is that to start with we need European regulation. We need a single rule because until now we had 27 different rules, 27 different supervisors with their specificities. This has been a big fight with a number of governments and this chimes in with your reference to what could happen if the UK could not only be offshore of the Eurozone but also outside the EU. Central bankers and supervisors usually like to control what is going on and that is their job and I can only respect it. They usually want to have lots of flexibility and room for manoeuvring, instruments to use, et cetera. So there is a tension between us wanting to have rules which are similar for everybody and supervisors wanting to have some more room for manoeuvre.

Similarly, there is a tension between the European Central Bank, for example, being the bank supervisor in the Eurozone and the monetary policy authority in the Eurozone and having the business in euros being done mostly outside the Eurozone. There is a tension there. So we need to strike the right balance. We need to give assurances to the monetary authority that if something goes wrong you will be able to react, you will have sufficient information, you will have to ... now, that becomes more difficult if the UK is outside the EU but I would not say it is impossible. It is a matter of finding the right ways to reassure the monetary authority that they will still be able to control monetary policy, that they will still be able to react, for example, if a central counterparty clearinghouse which is the main one clearing euros goes bust or if there is a problem.

So we need to strike the right balance. I do not think that it is a matter of one or zero or black or white, but we would all lose if the UK would leave. That is quite clear.

Andrew Dismore (Chair): OK. Next? Yes, the gentleman there.

Carl Levy (Professor of Politics, Goldsmiths College, University of London): Carl Levy, Professor of Politics, Goldsmiths College, University of London. I am interested in the political side of it and I think one of the reasons why Britain would never leave the EU is the prestige side and American pressure. People talk about it being like Switzerland or Norway precisely for that reason. Britain will not leave because the British public do not want to be greater Norway or Switzerland. They still have a vision of themselves as being at the top table. But that is another story.

What I would like to know is what you think is the reaction to American investors or Chinese investors vis-à-vis the city of London if Britain left the EU? I would imagine that would be a serious problem, perhaps, for certain people with lots of money in Shanghai or New York.

Andrew Dismore (Chair): Perhaps I would ask Nadia and Gerard to come into that.

Nadia Calvino (Deputy Director-General, DG MARKT): Go ahead.

Gerard Lyons (The Mayor's Chief Economic Advisor): Thank you. We have jumped a few steps. The question is if the UK leaves. There are two key steps first. There is a negotiation between the UK and Europe and, second, the outcome of the referendum. Obviously both are very interlinked. So in the renegotiation itself, there is a lot to play for, obviously not just dependent on what we want to argue but also dependent on what the Continent wants to do in terms of how keen they are to keep us. So, if we do renegotiate, then we go to a referendum.

Who knows how it would turn out? If we have an unsuccessful renegotiation, then you could probably say it is more likely that we will leave.

So, if we get to a situation where we leave, coming back to what I was saying earlier, I think it is very important that the UK continues to do the right thing for the UK. From the city's perspective, we need the right regulatory framework, the right supervisory framework. We need the right morals, ethics, as well as values, as well as making ourselves basically colloquially attractive, not just attractive for the EU.

That is one thing. But your question is wider than that and it is about the UK. As we approach the referendum there probably will be some uncertainty. But I think the same argument, going again back to what I was saying earlier, was that if we did not join the euro, we were told that London would not be the financial centre of Europe. At that time we were told that, for instance, Nissan would move their plant from Sunderland. We were told that the UK auto industry would suffer badly. We now have the most competitive auto industry in Europe, selling heavily to the Continent. The city has done well.

So I do not think we will suffer as badly as people think if we leave the EU because my feeling is that if we reached a hypothetical situation where we did leave, it is either because the relationship with the EU has not turned out as good as it should be or it is because we have decided that we can actually put the rights checks and balances and the right economic framework in place to succeed globally.

Coming back to your question, the outcome and the policy of staying in the EU and outside the euro is the right one and I think that is likely to be how we turn out at the end.

Nadia Calvino (Deputy Director-General, DG MARKT): Two comments. First, let me tell you that we have brought these leaflets, because I forgot to say it before, which explain the whole regulatory reform projects and where they are, although we should update them because some have been adopted in the last couple of weeks. We will leave them around so that you know you have more detail about what is going on.

Two comments. First, I think this is 100% of what the UK Government and the political stance of your country has been. One of the main strands of Europe and one of the main advantages is the internal market, the fact that there is a freedom to move goods, services, people and capital throughout the 27. I think that on our side what we are doing is trying to make it even a stronger advantage. Having 200 million citizens and thousands of company, there is a huge potential that we have and that we have to deepen so as to enhance those economies of scale and facilitate it. If we succeed, I think there will be absolutely no economic reason for the UK to leave or nobody will be able to argue, "We are not happy remaining". So what we should do on our side is this one.

But my second remark would be that the same way that this is perceived as a strength for investors, so when you speak to foreigners they see the UK also as a way to enter into Europe. It is not the same to have a country large, strong, wealthy as the UK is and great. It is not the same as having the whole of the EU as your potential market. So I do think that foreign investors would see it as a weakening of the strength of the city or of the strength of London and of the UK. But we are not there. As Gerard very rightly said, I think that when we get to that debate, the assets will be such that the whole of the population will see the advantages of maintaining the current situation or improving it, even.

Andrew Dismore (Chair): OK. The gentleman at the back.

Gareth Macneachdainn (Director, UK Public Sector Team, Cisco): Hi. My name is Gareth from Cisco. I have a question for Nadia. You mentioned macro-stability for growth. What about the micro-misery that is going on? You have talked about the macro-stability. There is the micro-misery for the average person in the street. Regardless of how much we try and create macro-stability, people are political. We have to respond to that. What is being done to actively communicate? These are lovely little brochures. I am not sure if the message is getting through. Anyone who goes to southern Europe and has friends there sees the impact of what is happening. This will not be supported for too long, what is being done.

Nadia Calvino (Deputy Director-General, DG MARKT): I think you are right. First, there is the macro numbers that hide the pain that is going on in your country but imagine what is going on in Cyprus, in Greece, in Ireland or in Spain. So people on the streets are suffering a lot and they blame their governments first and then they blame Europe because the messages that come from Europe are discipline, budgetary constraints, reduce the debt burden, always bad messages. Of course, I must say that there are some intermediate people on the chain that are interested in saying that this all comes from Brussels and in fact we would like to do something different. So unfortunately until now I think that indeed we have been forced to focus a lot in trying to repair the causes of the financial crisis, repair the excessive debt burden which has been accumulated by households, by companies not so much but by the governments, et cetera.

We are not out of the woods yet and unfortunately we still cannot send this message of now we are moving to a growth enhancing agenda. In our internal planning, what we are trying to do is finish this as soon as possible, so to me it is important to get things right but it is also very important to do them fast so that we finish this process, we have a new setting and then we can focus on the new elements for growth.

In the field of the financial sector and financial regulation, we do not have so many tools but we are using the ones that we have. For example, we have agreed and it is going to be implemented soon new legislation for venture capital funds, social investment funds, trying to facilitate these kinds of activities. We are going to be working on a long-term investment fund also, so trying to put some elements out there that investors can use to put investment together there where there are investment opportunities. So I think that in the next couple of years we will have this transition from this repair to growth enhancement.

It is a difficult moment now because we are in the midst of the implementation of all these reforms and all the messages that come through are negative. But if we do things properly, and I am convinced that so many excellent leaders cannot get it wrong, I am convinced we are on the right track, so in the coming months and in a couple of years the scenario should be very different from the one that we are suffering today.

Andrew Dismore (Chair): Gerard wanted to come in.

Gerard Lyons (The Mayor's Chief Economic Advisor): Thank you. Yes, coming back to the question from Gareth, basically the euro is fundamentally flawed. That is the reality of the situation. That was the key issue why the UK did not join and we should congratulate ourselves on why we did not join.

The biggest surprise is that anyone is surprised by what is happening on the Continent. In the good times the euro encourages the money to go from the centre to the periphery. That is why when Ireland joined the European Monetary System (EMS) it was nicknamed in Dublin 'Easy Money Soon'. You basically had cheap money going to the periphery because they were seen as high yielding Germanies. They were seen as having little risk for higher return. That naturally attracts more money. What happens in the bad time is what we are seeing now. The money naturally goes back to the core, so the periphery is starved.

So what do we need to see? We need to see adjustment across the whole of the euro area. What are we seeing? We are seeing adjustment only in certain parts of it. Basically, the periphery is asked to reform. Naturally, reform has to take place because the convergence criteria were never implemented in the first place, so this points to continued misery. Germany needs to have inflation significantly higher within the euro. Naturally, Germany does not like that. So the system is flawed and something needs to give. The shock absorber at the moment, unfortunately for the periphery, is continued high rates of unemployment and effectively the depression.

At the same time, the core economies are continuing to actually export pretty well. Germany would have been penalised outside the euro in terms of having a high deutschemark if the deutschemark still existed. The euro is not that expensive relative to where you could project the deutschemark might have been, so Germany basically is competitively doing very well. Mr [Jean-Claude] Trichet [former President, European Central Bank] when he was at the European Central Bank pointed out that the problem was not so much the peripheral economies having rapid competitiveness. He used to point out the problem was that Germany's competitiveness was so good relative to everyone else.

Maybe very briefly, just to bring it back to the London debate, what we have seen since the crisis began four or five years ago is lots of re-examination of things that people took for granted. In terms of the euro area, one is the importance of the deficit countries in terms of Germany. Germany needs to be selling to these countries.

The other issue since the crisis began which I think is worth mentioning this morning is something the Bank for International Settlements pointed out about the flows. It comes back to Christian's point earlier about London's importance in the interbank market. Before the crisis the general perception was the savings from China and Asia went to the west and funded the deficits. What the Bank for International Settlements found out was that the UK was as big a lender to the United States (US) as the big savers were; hence there we were as a big debtor country. Most people thought the debtor countries, Spain, the UK and the US were just getting the savings in. But because of the financial centre, the scale of it in London, we actually were ending up recycling lots of money and were becoming exposed even to debtor countries. Sometimes if you have seen sometimes people do maps of the world where they show the world in different ways. When the International Monetary Fund in some of their presentations show maps of the world based on financial centres, you have London, Lichtenstein and places like this, even Ireland, just out of proportion. That is why the big challenge here in the UK is, regardless of whether we stay in the EU and regardless of whether we leave it, we need to get the city back into shape to have the right checks and balances. As Mervyn King, Governor of the Bank of England, said, in life banks were international and in death they were national. We need to avoid that problem recurring.

Maybe the other point just to mention is we talked a lot about banks this morning. Despite the financial crisis, other parts of the city outside the banking sector have done incredibly well. Asset management was mentioned. Insurance we have not mentioned. It is important that when we look at the relationship with the EU and the debate on Britain in Europe and London in Europe, it is not just dominated only by the banks. There are large other parts of the city that still need to be looked after in terms of this debate and which up to now have been incredibly successful.

Andrew Dismore (Chair): Christian, do you want to add anything?

Christian Sewing (Deputy Chief of Risk Management, Deutsche Bank Group): I have one answer to your micro comment, which I by the way fully agree to. But I think what we can do in Europe is -- and therefore I would like to support Nadia. Yes, we are in a repair mode for the time being and I think it is very important to do this. It is like you have a headache for five years and take one aspirin after the other. That is how we dealt with our sovereign crisis. We never tackled it and now we have to tackle it and potentially we need a surgery and I think we are in the middle of that.

What we must do as a whole society - and I think I can only encourage also the sovereign countries to do this - is to also sell the first successes, which are not that clear to the people on the street. If you see Italy or Spain, they are refinancing on the ten years. Now it is 4% or 4.5%. They have access to the capital markets again, which is not only because of Mr [Mario] Draghi [President, European Central Bank] and his speech in September. I think we have to sell that better because if you compare that with one and a half years ago or two years ago there was no access at all. These countries had to pay 7-8% which would have not been possible to sustain for another year or for two years.

So I think it is absolutely right: repair and hopefully grow. We personally think that some of the even southern European countries will get back to growth in the second half of 2013 and hopefully in 2014. But the early success we have seen from repairing the balance sheet needs to be sold in a far better way to the people on the street. It is hard to understand but the first signals are there.

Andrew Dismore (Chair): Who is next to contribute from the floor?

Stefan Kordasch (Counsellor, Economic Affairs, Embassy of the Federal Republic of Germany): I have a question to Mr Lyons. You mentioned the concept of renegotiating the UK's role or relationship to the EU. I would like to ask you: do you see anything in the area of financial services where there is a real need to renegotiate? Christian Sewing mentioned the need to have common standards as far as possible financial regulations, so would a renegotiation not go counter to that need? Thank you.

Gerard Lyons (The Mayor's Chief Economic Advisor): Yes, thank you. In answering that question, I would like to come back to something Nadia touched on when she was saying that on the Continent the approach is very much based on the G20. I think when the crisis hit it was clear in the months after that people were talking of similar things in certain key areas. One was eventual exit strategies but the other was very much linked to the financial sector, which is that we need to avoid what was called "Balkanisation" of the industry. We need to avoid national governments just doing things in the national self-interest because the crisis highlighted that the financial sector was global. Hence London was very much at the centre of the crisis and events in one part of the world impacted other regions of the world. Therefore what the crisis showed was the importance of finance in terms of the global economy and therefore it was felt that in addition to the exit strategy issue, in terms of the financial regulation we had a common approach.

So that is the first answer to your question: we need to have a global approach to the financial sector and that is not just for UK/Europe. It is for the United States, Asia, et cetera. Unfortunately, the G20 has become not as effective maybe as people would have liked it to and we have some Balkanisation in certain areas of the financial industry, so I think we need to get back to making sure that what the G7 says is actually done as well. It is important to watch what they do, not just listen to what they say.

Coming to Europe itself, against that backdrop, then it is very much about the points that have been made about the level playing field. The core competencies report that BIS is carrying out is vital. It is very much about, regardless of the euro debate, the financial services area remains a level playing field.

The big concern that was highlighted by the Bank of France at the end of last year was this idea that if you are in the EU but outside the euro, you might somehow be penalised in terms of voting because the banking union itself is influenced naturally by the euro members and indeed the whole access to liquidity issue was highlighted by the Bank of France. So we need to make sure, coming back to your question, that we - we being the UK and by implication the city of London - are not penalised by actions subsequently taken by the banking union or by the members of the euro.

Over and above that, renegotiation is a whole remit of different things. Nadia touched on something earlier. But when you sit here in the UK, it has often been said that there are three key aspects of the European domain, two of which the UK has supported. One has been the expansion of the whole euro area and the UK and by implication London is incredibly open and benefits from that. Second has been the single market and it still has to be said it is not clear the single market works properly in a whole host of areas. Third is the euro membership which clearly we are not going to join. So I think the key thing is to make sure we are not penalised any further and that we are very much at the key table in terms of making decisions in terms of the financial sector.

Andrew Dismore (Chair): Who is next? Over here.

Torsten Steiner (Research Analyst, Jones Lang LaSalle): Hello. I am Torsten Steiner from Jones Lang LaSalle. My question is because the debate has been very focused on the financials and we as a corporate, for us London is important as a headquarter for the Europe, Middle East and Africa (EMEA) region. I would like to know your opinions, if the UK would leave the Eurozone, how that would be affecting the position of London as a headquarter location for Europe.

Gerard Lyons (The Mayor's Chief Economic Advisor): I think we do not need to worry, in essence, but I am glad that you have raised the question about the non-financial sector. Finance is a vibrant part of the city. But what is amazing is how much is going on in London outside of finance. The creative industries and culture are huge. The science base is very strong. You can tick many different boxes. Tech has become a big area. Indeed, part of the delegation that the Mayor led to the Gulf last week was to highlight the strength of London and by implication the UK in a whole host of areas. Finance was just one of the many different areas highlighted to the Gulf. So I think you are right and thanks for asking the question.

Why would people leave? Let us put it this way. If you thought the EU was going to become a prison, then we would want to be outside it because it would be putting up barriers, it would be locking things down. If you think it was going to be a great castle, a beacon of strength, then naturally we will be in it. That is how I think the debate will come out here in the UK. If the EU area becomes inward-looking, insular and does not accept what is happening globally, then the UK may well decide to be outside. In that respect, London would still be an incredibly attractive place to be based because what you would be buying into is the stability, the legal framework, the rules, laws and regulations that have been here for hundreds of years and we are not going to be changing. We play it with a straight bat, to use a cricket analogy.

If the EU suddenly becomes a castle, a fantastic place, then it is undoubtedly the case that we will be voting to stay in it. Again, therefore, London really becomes an attractive place still to base your regional operations. If you look at the strong economy on the Continent, it is Germany. So maybe do you want to base yourself in Germany versus London? But London is a global city and it is not just about the price in terms of the cheapness or the competitiveness in price terms of being here. It is all the non-price factors that are being raised in this panel.

So I think you have pre-empted the outcome of referenda. But again, coming back to the point I said to the professor over here, I think the outcome of the referendum will very much be dependent on what goes on from now to then and I think it is important that at the end of the day you can only control what you can control. London and the UK need to be doing the right thing to make London and the UK incredibly attractive globally, not just in Europe. What the Continent does we can influence but we cannot fully determine.

Andrew Dismore (Chair): We are going to be looking at the high-tech and creative issues in the next session, so we will explore that in more detail then. OK. James?

James Perrott (Solicitor, Global Immigration, PWC Legal): Just commenting about the UK being a headquarter location from an immigration standpoint, the UK has traditionally had up until at least four or five years ago a very flexible immigration system which actually encouraged companies to locate their headquarters here and to move people into the UK. I remember I had a number of conversations with people when they were looking at where they were looking to base people if they had immigration issues in other countries. The first answer was, "Let us place them in the UK while we sort those out because they are so welcoming from that standpoint".

As times have changed and certainly from 2008 onward, that outlook has changed. We are very much seen in the UK as not being open for business from an immigration standpoint. I believe that when [Prime Minister] David Cameron went out to India, he was given that message very forcibly. Although he was being told by the civil servants he works with that we do have an immigration system which is fit for purpose, when he actually went out and was speaking to people on the ground they were all saying, "No, this is not the case. We are struggling to get visas for the UK and this is harming your reputation globally as a country where we want to go and invest and where we want to go and do business".

So I think what we have to do as a country in order to maintain our attractiveness for companies to locate their headquarters here, either global or regional headquarters, is to make sure that we bring back that flexible immigration system so that companies can feel confident that they can bring the people they need into the UK, those high-performing people who they need to have at their headquarters, and they are able to keep them in the UK as well.

Andrew Dismore (Chair): Who is next?

Nadia Calvino (Deputy Director-General, DG MARKT): While Gerard was speaking, just two things came to my mind. The first is that the global economy is very important. It is very important that the UK is open to the rest of the world. But 50% of the city or 50% of exports and imports are to the EU, so the EU will normally in three years' time remain the main economic partner of the UK, unless you have a total revolution and suddenly become - I do not know - China. But we keep talking a lot about China and India and Russia and Brazil and they are very important but 50% is going to continue to be Europe, so that is something that I think is a touch of reality we have to bear in mind.

Gerard Lyons (The Mayor's Chief Economic Advisor): Can I ask a question? Would therefore you be advocating for putting barriers up to stop the city of London if we democratically decided to vote to leave the EU?

Nadia Calvino (Deputy Director-General, DG MARKT): No, of course not. I did not say that. It is just that you were saying that what we need to do is not to depend on Europe but rather to think that we need to be independent and important globally. I was just putting the numbers on the table about 50%. Of course not, no.

Then the second idea I would think is that - and this chimes in with what I was saying or suggesting but maybe I was too subtle before - throughout history when something has gone right, the UK has been very smart to jump on that train and I think that is very good. So, if we do succeed in strengthening the internal market in Europe, if we do succeed in making the banking union something that works, I think the UK will have all the reasons to stay and not only to stay but maybe to get even more deeply into the EU.

From this perspective, I do not 100% subscribe to the importance given to this renegotiation. This is a personal comment, so it is not a Commission position of any sort. But to me, given the strength of the UK and the very strong contribution to all that happens in Europe, why be defensive? Why think we need to repatriate powers and we need to go back to having our own independence? Is it not better to say we want to have a stronger influence on what goes on in Europe? It is such an important economy for us.

So to me the decision will probably be based much more on the economic reality of citizens who will see, "Am I living better? Are my chances better if I stay in or out?" rather than this competence debate about who decides and who has the power, which sounds defensive as to what the UK should be or could be, I think, doing going forward.

Alastair Mackay (Programme Director, London First): I am Alastair Mackay from London First. I was just interested, Gerard, in particular, if I understood correctly, you seemed to be implying that any decision around a referendum on to remain in or out will be taken on quite rational grounds. I just wondered to what extent everyone on the panel felt quite confident that a decision would be taken rationally on what is in the best interests of the UK or not. Certainly some of our members at one extreme have been concerned that if you suddenly have a case of some plane spotters being arrested in Greece or something a week or two before a referendum it could lead to a very emotional decision that people might regret with time.

Alex Conway (European Programmes Director, GLA): Alex Conway, European Programmes Director at the GLA. I just could not resist. I was at my beloved Barnet FC on Saturday as they played their last ever game at Underhill and every ten minutes an announcement came over the tannoy saying, "You are just reminded that invading the pitch at the end is a criminal offence. The police are here. They will arrest you. Please do not invade the pitch". Every time this announcement came over, the crowd just sang on. At the end, the crowd did invade the pitch, it was extremely good-natured, the police intervened and it all went off very well. But it is just that point that, as you say, the British have this antiauthoritarian streak which the tabloids and others feed all the time. I just wonder on what grounds a referendum would be framed. I just add that point.

Andrew Dismore (Chair): Do you want to say something?

Gerard Lyons (The Mayor's Chief Economic Advisor): I thought I should say something about this as well. I have been to Underhill a few times, thankfully to watch Fulham beat Barnet, but actually I do not think the analogy you use is the right one because I think it is quite rational if it your last game at your ground to actually go onto the pitch at the end of the game.

But coming back to the question, look, democracies are democracies, so people vote on whatever they want to vote on. So, coming back to your question, will there be some emotion in it? Yes. It comes back to Nadia's previous point. The general perception amongst some people in the UK is that we play it straight. We implement EU regulation. Not everyone else does. The feeling is that the way the laws are constructed, English law is very different to Continental law. The law here tells you what you cannot do. The laws on the Continent are implemented in different ways. If everyone approached it in an economic term, it would probably be quite dull. It has to be more than economics. This is about everyday life.

However we approach it, I think it is quite clear what we need to be doing. I do not think it is a case of the world versus Europe, coming back to Nadia's point. I think we have to position ourselves globally and that means with Europe as well as with the rest of the world. Go to Greece, go to Spain, go to Portugal. There are lots of people who enthusiastically endorsed EU membership who are thinking twice about it. They would seriously feel they have been let down, whether by their domestic politicians or by the politicians at the centre.

What we need here - and we had it before with [former Prime Minister] Gordon Brown when he took the test, with [former Prime Minister] Tony Blair, but now we have [Prime Minister] David Cameron here and Boris Johnson [Mayor of London] - is we need politicians really to be batting on your behalf and getting the best deal. Then we put it to the public. I will have no disappointment if we decide to leave because I think we will make the right decision. But I do think that we should be voting to stay and I think that being a member of the EU and outside the euro will be the right thing. But who knows what will happen in the next four years. That is my feeling.

Andrew Dismore (Chair): Yes. As the Assembly Member who represents Barnet, we will shortly see them depart from Barnet to the neighbouring constituency of Harrow, represented by my colleague Navin Shah. I understand where you are coming from on that issue.

But I think the key for me when this debate really starts is whether it is going to be an informed debate or not. I remember going right back to the 1975 referendum. It was a more informed debate then but the issues were different, too. At the moment it is being conducted at a very tabloid sort of level: "We do not want the Germans telling us what to do". The Germans do not particularly want us telling them what to do, either, I suppose. But that is never mentioned, the whole idea of pooling decision-making and so on. I just hope that we do have a properly informed debate and the risk is that that does not happen and that it is decided on gut instincts, which are not necessarily the right way forward.

I think personally it is a good idea to have a referendum one way or the other, even though that may not be my party's own policy. In fact, I was a bit of a rebel on that when we last had a vote on it when I was still in Parliament. This debate needs to be settled one way or the other, irrespective of whether there is a renegotiation or not. We have to make a decision as a country: are we in the EU or not? I agree with Gerard that the position should be out of the euro and in the EU.

As far as the comment about southern Europe is concerned, though, I think that the real issue there is that people do not necessarily want to be out of the EU. It is the euro and the Eurozone that is their problem and that is what they focus on, rather than EU membership. In Cyprus, a country I know well, the issue is not so much Europe which they see as an important part of their efforts to solve their own wider problems on the island, but they are very concerned about the Eurozone. Similarly in Greece and Spain. So let us again see that distinction which I think is reflected in our own debate.

I do not know if anybody wants to say anything about that.

Christian Sewing (Deputy Chief of Risk Management, Deutsche Bank Group): I completely agree. So, first of all, it must be a well-informed decision. I can potentially say from a German point of view, if you have seen the various polls whether the euro makes sense or not, you have quite a high scepticism to the euro while Germany in itself is actually benefiting from it. We just heard it. Again, what I said before about Italy and the people on the street, I think we have to do a far better job in informing the people what actually is also the strength of the euro, why it is the right decision to keep it, to hang on.

I am also sometimes a bit perplexed. When I started back in the UK, just as an example, five years ago before the crisis in 2007, the pound in the UK was 66p to one euro, i.e. you had to pay one euro and you got 66p. Now everybody knows it is 85p. So I also sometimes wonder what is really the stronger economy and who should vote to be in the Eurozone and not.

Andrew Dismore (Chair): Anyone want to add to that? Yes.

James Perrott (Solicitor, Global Immigration, PWC Legal): I think there is always a big danger of, as you said, any vote on whether we stay in Europe becoming a difficult thing. Everyone can only look at when [former Prime Minister] Gordon Brown had his kind of Rochdale moment before the last election and obviously I am very aware of that as it was an immigration issue but it then turned immigration into being almost the deciding issue on the election. At all three leaders' debates it was an issue and there were arguments about the fact that the Liberal Democrats did not do as well as we thought they were going to do because their immigration policy was around having an immigration amnesty for illegal migrants. So I think that there is very much a danger of any vote on Europe going that way as well and I think it is very important that we have a sensible debate on the issues and that those who are decision-makers are able to give a well-informed debate and make the public aware of the real issues so that any decision which is made is made on the basis of its merits rather than any other issues.

Andrew Dismore (Chair): Anybody else?

Iain Smith (Public Affairs Manager, London Chamber of Commerce): Iain Smith from the London Chamber of Commerce. The EU sets up a number of free trade agreements, most notably the EU-US free trade agreement that is going to be negotiated. How easily will the UK be able to tap into global growth outside of the EU? It would not be a part of these kinds of agreements in the future if it was to come out of the EU.

Gerard Lyons (The Mayor's Chief Economic Advisor): Coming back to Iain's question, the problem at the moment on global trade is that everyone tends to switch off when you mention the Doha Round but the Doha Round and multilateral trade deals are the best way forward. Once we start accepting anything other than that as the norm, then it incurs higher costs for businesses. So now we have a multitude of regional and bilateral trade deals across the globe and that means they have not always set exactly the same criteria and I think that is the first point. We do need to have a multilateral approach to free trade and we need to get back to that.

So that leads onto your question. Yes, naturally, if the UK is a part of a bigger bloc and I think Germany even itself has found this, you are in a better position to do trade deals if you are part of the EU. Obviously if you start to do it separately, then it makes it more complicated and not the best case. It does not mean that you cannot do them. Across the globe we see lots of countries much smaller in size than Britain who are doing lots of trade deals and benefiting from it. But I think the ideal situation is a multilateral process.

Second to that, yes, the UK would be better served by being in a big regional block, particularly in terms of dealing with the United States, it has to be said. But, as we can see globally, because of what has happened it is very possible for countries to have lots of success with bilateral trade deals but you do have to probably spend a lot more time and effort and put a lot more resources into it. Given that the UK is a big trading nation, you would think that we would continue to do well from more openness in global trade.

Nadia Calvino (Deputy Director-General, DG MARKT): If I may make two comments, one is a more general remark. Globalisation and the raising of the new economic powers and all the BRICs (Brazil, Russia, India and China) I was mentioning before makes it even more obvious. I think that not one of us can actually succeed alone. Not even Germany can play an important role in the future of the world alone, so in trade negotiations it is quite obvious that, yes, multilateral negotiations would be ideal. In the last years we have not been very successful in bilateral negotiations. It is obvious that it is much better to have a market of 500 million than having 60 million.

The second comment I would make is that indeed, when it comes to the euro, I did not want to react when you said the euro was flawed but let me make two remarks. The first is that, yes, we have seen that the creation of the euro had a number of shortcomings that we did not anticipate at the time or we did not put the right architecture around the euro, so we have a monetary union but we lack the economic part of the Economic and Monetary Union. We are building it and establishing this fiscal integration and deeper economic integration. It is a process that is not going to be done in one day but we are on that track. So I would think that the solution is not to get rid of the euro but rather to ensure that it is properly framed and is going to have the right tools to play the role it should.

My side remark would be that I do not think that being outside the euro is a panacea as shown by … I do not need to mention what country but actually it does not have the euro and it is also suffering a recession. So having a monetary union is not the only problem that we have in the Eurozone. Not having the right architecture I think is the main problem and we need to address it to the benefit of all of us.

Andrew Dismore (Chair): We have come to the end of this session, so I thank our speakers: Gerard, Nadia, James and Christian. We will have a short break while we switch the panel around, so thank you to all the speakers for coming.

-- are ultimately extremely interested in our second session on the high-tech and creative industries in London, which I think are a really important part of London's growing economy. We have a very interesting panel here who, again, will speak for about ten minutes each and then plenty of time then for discussion afterwards.

I think we will start with Eric, who is the former CEO at Tech City Investment Organisation and who is responsible for getting the cluster going in east London. He is now entrepreneur in residence with the UK Government, which sounds a very exciting job, previously Chief Advisor to the UK Trade Ministry Directorate for Investment and now head of the Level 3 Technology Accelerator.

Eric Van Der Kleij (Former CEO, Tech City Investment Organisation): I wish it was Level 3. It is Level 39.

Andrew Dismore (Chair): Level 39? Sorry.

Eric Van Der Kleij (Former CEO, Tech City Investment Organisation): Thanks very much, yes. So the topic of today's discussion is the work that we do in London and my view of it in relation to the tech industry and start-ups and how and what we should do in our engagement with Europe, how we should engage and what we should do. I was asked to explore a little bit about Tech City and the work that we did there, how that came about, what we did to try to accelerate it and really what its role is in contributing, say, to the economy and then trying to expand that view out to think about how that might be relevant for continental Europe.

So the Tech City work is really largely focusing on helping to amplify a cluster that was already starting to grow within east London of creative digital technology companies. The reason that this cluster was growing by itself was because it was cheap. It was cost-effective to be very, very close to the heart of London in places that you were able to rent for a few pounds per square foot just five years ago right in the heart of Shoreditch. It is almost unthinkable now when you think about what has happened.

What the UK Government did was to take this organic growth and decided to shine a light on it and really that was the main role that they asked me to undertake, which was to find a way to amplify and to shine a light on what was already taking place in the cluster internationally in a very big and a very fast way. Of course, when you do something like that, there are some casualties that happen along the way because it is not a natural European thing to boast. We were all taught as kids to not show off and all that kind of thing, whereas of course our cousins in the United States are taught from the start to learn how to present themselves. They have to do the show-and-tell almost every week in school, so we are more naturally reserved. Our press was not always understanding that it was important to shine a light on that growth, especially at the pace at which we did it within Tech City.

But the results are astonishing. Actually, what I want to do is share with you some of the effect of the work of the UK Government's strategy. Just very, very quickly, there is a report out today which shows that firms that sell their products or services mostly online in the UK have seen their revenues grow on average by 11.4% in the last three years. Let me just put that in perspective. That is over 50% the gross domestic product (GDP) average growth of 0.2%. So that is people who sell their products and services online. If you have ever any doubts about the relevance and importance of the tech sector, let us just get over and get on with it. This is double-digit growth when you think about it in very challenging economic times. So I think the one recommendation that has come out of the work in Tech City is to focus our attention in continental Europe on the tech sector and the online sector. I think it is a very important thing to acknowledge that it is an important thing to do because there we can find some growth.

The second thing is what we should do about it. What can we do in continental Europe? Actually, the interesting thing that we do not do at the moment that well - and I would suggest to this group perhaps for discussion that we could consider doing - is market ourselves as a single market. Of course, we are a single market. But when you think about growth, growth can only be achieved by the combination of a lot of things but two things. One is organic, indigenous company growth. That is one thing. But we all know that is very slow and very difficult, especially across parts of Europe. The only other thing that can augment it is foreign direct investment (FDI). But at the moment FDI in Europe is done by competition. Each nation state competes. Having worked with UK Trade & Investment, I can say we compete quite strongly with others.

But actually, is that the right thing? What we could potentially do is present ourselves internationally to foreign direct investors as a complete and very accessible single market in the way that we do not really at the moment because of the regional competition. I am absolutely the last person on the planet to propose another European department, I promise you. However, what I would suggest, though, is that you could consider a European trade and investment organisation which represented and presented the economy of Europe in a very powerful, cohesive way to international investors from all around the world, thus augmenting and becoming a funnel point for inquiries. Of course, it raises more questions than answers but that was just one suggestion that we could do. After all, it is a market of 500 million reasonably affluent, fairly well educated people.

I think the word I would probably move towards, instead of 'competing', perhaps we should think about 'co-opetition'. I always get told off for making up new words but 'co-opetition' is probably a better way to describe what might be.

The challenge of course for that is what Europe's brand is. Of course, you know that I did the Tech City work and my successor, Joanna [Shields, CEO, Tech City Investment Organisation], has come up with the Tech Country brand. What about Tech Europe? There is the opportunity for us to potentially lead the world in many sectors. So I guess that is what I would like to say to open the discussion based on my thinking and experience.

Andrew Dismore (Chair): Thank you. We will now have Patrick Loughfrey who is going to look at the university sector. He is Warden of Goldsmiths at the University of London where he has been the Warden since April 2010. I am not going to go through all the biographies because they are there and it just takes up the time, but he is a very eminent speaker.

Pat Loughfrey (Warden of Goldsmiths, University of London): Thank you, Andrew. Goldsmiths first and then I came from the broadcasting industry, so I will talk a little about that as well, if I may.

London is utterly central to Goldsmiths' strategic plan. We have four pillars that define what we are and what we aspire to and the first one is called London and the World. London is a young, diverse, cosmopolitan city. All the world is here in London and it has resonance and appeal throughout the whole world. It is appropriate that an Irishman should tell you that. You sometimes get your self-esteem from the outside rather than the inside. It is a hugely valuable asset in Goldsmiths' recruitment of both undergraduate and postgraduate students and applications from the rest of Europe are growing apace, particularly so from Scandinavia. I will just talk about some of our strengths and then the challenges that we face which are, as is often the case, directly related to those strengths.

One of the enormous strengths of London and why it is so dynamic in the creative industries is the standard of our education, primary, secondary and third level. But let us just talk about primary and secondary first of all and state-funded because I believe that it is of a far higher standard than most of the chattering classes admit. There has been a quiet revolution in primary and secondary education based on huge investment by successive governments of different political persuasions and we have come a very long way, especially so in the skills of self-expression, articulation and critical thinking that are utterly essential to nurture the creative industries. It is sad that it is so difficult to get widespread appreciation of the quality of the education available in this city. Perhaps it is because so many opinion-formers are ambivalent because they have gone to the expense of sending their children to privately funded schools and hence they are not the best judges of what is actually happening on the street. I believe in that regard we stand positive in comparison with any European system that I know of.

Creativity is ultimately about confidence and success is also based on confidence. London is a true world city because it is so tolerant and so easy in its diversity. Having lived here through the worst of the Irish Republican Army (IRA) atrocities, I personally know the power of London's tolerance. It is interesting that the makeup of the London Assembly here itself reflects a significant degree of tolerance. There is no European city quite like London in that regard, I believe.

London is of course a world centre for the creative industries. We have - and I would say this, wouldn't I - the world's leading universities, conservatoires and colleges. We have the best public service broadcasting in the world and in the arts, fashion, digital media, publishing, performance and a host of small creative start-ups, London is simply second to none.

Those strengths, as is the way, have as their corollary challenges. At the heart of that is an odd lack of confidence sometimes (a) about ourselves and the wealth of the educational investment that we have made and the dividends that it has brought, but also (b) in the creative industries that are so defining to the nature and the history of this city. The financiers in the city still have great difficulty understanding the risks that are inherent to creative investment and I think their own recruitment strategies play a part in that misunderstanding and that ambivalence. Too few people who are front-door recruits to the great investment houses have any active experience in or knowledge of the creative arts and that is a great pity.

The second challenge for me is that London is increasingly unlike much of the rest of the UK. This city is much younger, much more diverse, much more prosperous and much more tolerant than many parts of the rest of the country. London has a very different attitude to the rest of Europe and hence the rest of the world. That gulf may become more evident and problematic over time.

Then there are the challenges for the creative industries ourselves as reflected at this table. We are much less effective at achieving the kind of cohesion and leverage of the Confederation of British Industry (CBI) or the Institute of Directors. We tend to be too diverse and too anarchic and we lack clear benchmarks for investor appraisal. We have a history of excessive dependence on the public purse and sometimes we feel more like a craft fair than a wide-ranging industry. I have been part of two sectors, broadcasting and now universities, that are making that transition to become more business-like and more investor-friendly and I know that it can happen. I am working with some people in the room today. We are pursuing social entrepreneurship as a device to unlock some of that ambivalence and some of that uncertainty.

A smaller, I think, culturally significant challenge is the fact that the people who find their lives in the creative industries tend to come from a socially lopsided group in society in this country, i.e. the creative industries are increasingly the preserve of the privileged middle class. Recent changes in the funding of higher education may make that even more so. If you are going to go into a potential life-long debt to invest in higher education, will you go for a secure, dependable profession or will you take the risk of the creative path? It would be an enormous cultural and creative deficit if we did not recruit the brightest young talent from every social background into these industries. I think that the big employers need to look hard at their policies around internships because they are much less well organised and much less accessible and much less open than they really should be if we are really determined to capture the best talent. It is of course easy to have a long-standing internship in the creative industries if you are willing to work for nothing. That actively excludes people from less privileged backgrounds and from less privileged postcodes from the experience.

On the theme of postcodes, I so salute the achievements of Tech City in the east of this great capital, but in my time in the BBC I think there were 32 BBC buildings and addresses in London, every one of which had a W as part of its address. Ultimately lopsided. That is why the new industries are so important because they are breaking that stranglehold of geography on the country. But we so need to be careful about the social demographics of recruitment to the industry.

We also need of course in the context of Europe to be much less culturally and linguistically isolated from the rest of the continent and the rest of the world. We are so very good at selling our cultural product. We are much less good at listening. I hope that Borgen and the The Killing are evidence of a new change in television habits and that that is something to be confident of. Classical music and football are certainly role models in this regard but we have a long way to go to be as diverse in our tastes as we should be to be truly a cultural and creative player to the powers that we have within us. Ultimately, back to that simple theme. It is about a sense of self-confidence and possibility.

Andrew Dismore (Chair): Thank you. I think we were talking about diversity of footballers and we need to be careful not to take a bite out of each other after what happened yesterday. Jeff is the Chair of the Coalition for a Digital Economy and co-founder of Seedrs and works to support legislation and government policies that foster a vibrant, innovative and sustainable digital economy. Again, the full biography is in the papers. Jeff Lynn.

Jeff Lynn (Chief Executive Officer, Seedrs Limited): Thanks very much, Andrew. So I wear a few hats. I am Chairman of the Coalition for a Digital Economy (Coadec), as Andrew mentioned. I am also a Director of Companies House. My main role and what keeps me going 16 hours a day generally is I run a business called Seedrs. We are an online platform for investing in start-ups. We sit at a very, very interesting nexus of several different issues and opportunities. One is we are a start-up ourselves. I am here as a real-life entrepreneur in addition to a policy advocate and I am an entrepreneur working in a tech space.

We sit in what is known as crowd funding. It has become a fairly new and trendy and faddy sort of subject within the internet economy. We believe it actually has a much more long-term substantive importance than all that, but there you go. But also the nature of what I do is to fund start-ups. Our job is to provide a platform where we do not actually fund them ourselves but we get investors in the door and they can invest in start-ups of all sorts ranging from £10 to £150,000 per investment. When I say "start-ups", one of the interesting things about panels like this and dichotomies of a finance panel and a high-tech creative panel is our start-ups range the gamut and in many ways the lines blur. A start-up 15 years ago you thought of the classic techie, two guys in a garage coding away at some obscure product. Increasingly what we are seeing and the types of businesses we work with are businesses that cross the lines. They are in the creative industries, they are in the technology industries and they are e-commerce players all at once. But the one unifying theme across them, whether they look more like pure tech players, whether they look more like creative players or whether they look like old-fashioned business just done in a new way is that these are usually young, fast-moving, agile businesses that we believe have the potential to create enormous amounts of value for their investors and for society at large.

It was with that observation that my co-founder and I about four years ago set up Seedrs. We felt that there was a tremendous opportunity to provide exposure to start-ups as an asset class to a wider group of investors than has previously had it. Traditionally investing in start-ups was limited to a very, very, very narrow set due to transaction costs and a number of other reasons. Our idea was that there is a huge amount of value to be created across a portfolio of start-ups and that this value should be shared as widely as possible.

When we started thinking about this, we were sitting up in Oxford doing our Masters in Business Administration (MBA) but we had a host of geographies at which to look. I am American, as you can probably tell. My co-founder is Portuguese. We have ties in India. We have ties in Brazil. We looked around the world and said, "We think that the hypothesis of the value of creating potential start-ups applies to more or less an extent everywhere or at least in every developed and emerging economy. Where is going to be the most interesting for us to do this? Purely as a business proposition, where can we get the most start-ups funded and the greatest returns to investors?" Our answer was we wanted to build a European platform with London at the centre of it, which hopefully makes my presence here today somewhat relevant because we really had felt from the day we set Seedrs up to now that there is a hugely important nexus of the start-up activity and creative excitement that is happening in London with the broader European economy.

I want to just take a few minutes to say a few words about how we see that working and where we think it can go in the next few years. One of the common conversations in tech blogs and other kind of parlour room chats in Europe is where is the Silicon Valley of Europe? One day it is London. The next day it is Berlin. Then somebody comes in and says, "No, Tallinn is the next one". It is a very silly question. It is one of those things that people get very sick of very quickly and it is silly because there are two problems with it. One is that Silicon Valley is not a place; it is a philosophy. Primarily, it is a philosophy. It is about approaching new business and start-ups in a high growth, high risk fashion with a view that failure is OK, that pivoting is necessary and that the idea is to grow and create brilliant things. That is more than anything the essence of what Silicon Valley has done. It is a philosophy that can be adopted anywhere in the world.

One of the very exciting things to me - I have lived in Britain 7 years now and I have had ties and lived back and forth for about 15 years - is that more than anywhere else in Europe, Britain and particularly London and particularly the London economic scene I have seen transition into a much more Silicon Valley philosophy in recent years. You see this particularly as you talk to people in their 20s just out of university, in the workforce for a few years, smart, educated. The notion of a conservative, steady job for 40 years, which is the killer of start-ups, basically. If it is appealing to you to work for a large corporation for 40 years that is a potential entrepreneur loss. That is appealing to fewer and fewer people. More and more people, in and around London, particularly younger people, are getting this idea that they need to go out and start something, create something, build value for themselves. If they fail the first time it is okay, they will pick themselves up and do the next thing and the next thing. That is fantastic. We are seeing it a bit elsewhere in Europe, and it is emerging elsewhere and there are pockets of it elsewhere. It is a very, very exciting fact of London, particularly, that that mentality is starting to prevail.

The other reason why the "Where is the Silicon Valley of Europe?" question gets a bit silly, is that, to the extent that Silicon Valley is a place - and I suppose technically it is - there does not just have to be one. One of the things we even see in the United States right now is that start-up communities are emerging more and more, particularly as start-ups start to move away from traditional hardware and high intensity, high labour businesses, and we are seeing many pockets. Likewise, what we should expect to see in Europe is a number of different hubs of greater or lesser importance. London is a fantastic hub, and I think it is fair to say it is probably number one. There are exciting things happening in Berlin. There are exciting things happening in a number of the major capitals, and there are some exciting things happening in some very peculiar places. There is an accelerator outside of Turin in Italy that is doing some fantastic things at the moment.

The notion that there has to be one is wrong, but the notion that individual geographic pockets matter is still a very important one. It becomes very easy to perhaps assume that with technology, and with the advances in communications, you can be located absolutely anywhere. The truth is, particularly when you are a one man band or just a few people working together, being in close proximity to others, who can provide you support, who can provide you with advice, who can provide you with reassurance, who you can complain to at the pub about all the things that you are struggling with, actually is really relevant. The reason that little pockets emerge, even within cities like Shoreditch in East London here, like certain parts of Mitte in Berlin and elsewhere, is because entrepreneurs like to congregate together. What London represents, from a geographical perspective, is not a unified, "This is Silicon Valley" but it is one of the most important of what will be a number of key hubs around Europe, geographic hubs.

It was those two elements - the philosophical shift, as well as the geographic importance - that led us to say (1) Europe is on the right trend line, in terms of embrace of start-ups and welcoming a business model like ours and, within Europe, London was the most exciting place to be.

I will just wrap up quickly with a couple of observations on moving forward and how what I think is a very good dynamic can be made even better. One is a message that many on the Continent do not necessarily want to hear, and this is a Britain versus Europe thing to a degree. British corporate law is the most advanced in the world, parts, maybe alongside Delaware, and one of the most important things to see increasing growth in start-ups throughout Europe is that they be able to take investment from around the world. Eric talked about foreign direct investment. This is everything from individual angels, from wherever in the world, being able to buy shares in new businesses, to venture capital funds and others wanting to start up here. It is absolutely impractical to expect them to do so under 27 different regimes of corporate law, and so the trend that is beginning to happen is start-ups around Europe are incorporating in the UK. That needs to be fostered and encouraged. It is frustrating, I am sure, for those other countries that feel that they have or would like to compete on the basis of their corporate legal systems, but I think that it is a reality that Britain's is the most well established and it is something that should be embraced.

The second point to observe is around what government can do or can't do to encourage start-up growth throughout Europe. Again, I think this is an example of where Britain - particularly around London and the tech city initiative, but this is nationwide - has taken the lead. Traditionally the European venture capital model has been one that involved a lot of direct state investment into new businesses. It was one where the European Commission or individual member state governments took money, handed it to appointed venture capitalists and they then made investments. The man in Whitehall makes a terrible venture capitalist usually. That is just as true as the man in the café, say, or wherever else. The best way to fund start-ups is to get private people and private investors making the decision to allocate increasing portions of their capital to this as an asset class. One of the brilliant things that this government has done over the last few years was to expand the enterprise investment scheme and to introduce the seed enterprise investment scheme. The seed enterprise investment scheme is the most generous set of private tax reliefs anywhere in the world for investing in start-ups.

That is a model that I would love to see replicated throughout Europe. I am conscious that tax, as tax, is not harmonised and that this is a country-by-country decision to some degree, but the more that we can do Europe-wide to replicate what is becoming this London model of using government to encourage private investment, rather than allocating direct capital to start-ups, the better that the European start-up scene will be. With that I am probably out of time, so I am going to wrap up. Thank you very much.

Andrew Dismore (Chair): Our final speaker is Gareth, who is Director of Innovation and Strategy, Cisco, UK and in Ireland. As we can tell from his name, I guess. He has also worked on the initial setup and development of the National Virtual Incubator, and is now working with the local government engagement programme. He is just trying to look at joint development with local authorities on regeneration and economic development.

Gareth Macneachdainn (Director, UK Public Sector team, Cisco): Indeed. Thank you. Just so I can put some things in context here. Cisco itself set out to do something called the British Innovation Gateway. It was announced in January 2011, and we set out to spend £500 million over the next five years in inward investment in innovation in the UK. We were a little worried about what we were going to find. Is there enough to keep us interested? Well, the good news is, less than three years into we have spent over £5 billion in the UK. Our strategy was billed 'buying partner': we partner with people. That leads you to do good business, and sometimes you like them that much you buy them, and sometimes we build it ourselves. At this point in time, we now have 1,600 researchers and engineers in Britain. That was not the case three years ago. We now have four times as many people doing research and engineering than we have in our UK sales team. That is a huge change for our company. We did not know it was going to work out this way. The best laid plans, and sometimes the better things come along. We are talking from the point of a company that is investing and we have opened up an innovation site, just in North Greenwich, right over there, right next to the 02, top floor, great view, looks across to level 39. We are also opening one in Shoreditch with UCL, so we are actually doing some of the work.

I am going to share some points here. I want to establish two things: first, policy does have a real impact. It does. When this government came in I happened to work in the Cabinet Office in regulation of the regulators. When the government came in and made an announcement on digital Britain in the future, they allocated money, they decided the policy direction. To tell you the truth, most of that money has not left the Treasury yet, but what have we seen in the last three years? Tripling of the broadband speed for the average citizen. That was all that was needed. A kick up the backside for the industry and to be told what was to be done, and guess what happens? Policy does have an impact. The patent laws have an impact; the legislative regime has an impact. That is the first principle: policy has a serious impact.

The second is I am pro-European to the core. Some of the things that were said today made me chuckle. Some of the same people have certain opinions on the Union. If we look at our own countries and our Union discussion, I am actually Scottish-Gaelic, so the same people are saying different things about the different unions, and the same argument. Very funny to watch.

I am loyal dissent. That is what we are going to discuss now, loyal dissent. We love the European Union. We love what it has, but we have to accept there is a problem with their ICT strategy, and we have to address that problem. By standing back and pretending it is not there it does not help. For the benefit of London, the European Union - I will give you a quick background - there is a framework programme which is for innovation. That framework programme was originally built around core research, aeronautics, railways, advanced materials, things that take five, six, seven years. Medical science, you do not just turn round and whip out a new drug. The problem is that as ICT became more important they took an existing framework and structure and applied it to IT. That inherent tension just does not work. We have a lifecycle of about 18 months.

Let us just look at the results of that. I used to work for the European Commission, by the way, so I used to manage research projects, make the calls and give out 90 million. My time there helped formulate some of these ideas. Firstly, IT is disruptive, it challenges vested interests. You have a programme and structure which gives money to large well-known companies in Europe. That is the first model. We need small companies to be able to have access to that money. One of the problems we have is the entry barriers are so high. The timelines are so long. From writing an application, which is about 120 pages, to be told that you can start a project can be a year to a year and a half. The whole project is dead in IT terms. It does not matter anymore. Then the processes are not necessarily UK friendly. What is the UK good at? We talked about finance earlier. We are great at that. We talked about digital media, the BBC. We are fabulous. iPlayer, world class. We are great at public sector innovation. Regardless of what you might think being in the UK, compared to the rest of Europe we are fabulous at it.

Now no money is allocated sufficiently to those sectors within the framework programme. One of the reasons we see there is, first of all, finance is core to their survival. They are not going to be involved in a four year lengthy project. They are going to adapt, and that has been where we have seen lots of the security come. Also we see the money that does come to the UK is disproportionately academic. We are paying for PhDs. It is great that we have top level academics that the rest of Europe wants to use to bolster their projects, but it is not balanced. Small companies are not getting the money and even larger companies are not.

Importantly, even the structure success is penalised. If you are in a European project and you decide to take something you invent something wonderful. There is only one that I actually saw that really changed it. It was to do with power lines and sending data over power lines. They were so good at what they were doing we had to close the project because you are not allowed to commercialise. If you are good then we will penalise you and you will pay back that money. When we talk about this we have to actually understand we cannot have that. Small companies are being asked for three years of audit certificates to participate; three years. Our companies, half the guys we are funding they have just given up their job and they are looking for somewhere to sleep on the floor. They can’t do that. The financial guarantees, I have known people on the phone who were desperate technologists crying because they put their house up, and they have taken a second loan on that. That is the type of thing as a manager of a research project you do not want to hear.

The process is the objective sometimes in Europe, and I do not think that is the case in Britain. The TSB, for all its faults, tends to want you to succeed. It wants business. The process can't be objective, and what it does leads to is a very poor outcome, a very poor outcome. Try and change your statement of work two years into your project. It does not really happy. You are not relevant.

I think when we talk about what Europe is doing for ICT, I think we need to talk about how Britain and London can help the UK represent itself better, lobby better for a change of structure. We will always lose money. Many people have said the public sector have certain rules to guard the public purse. I will tell you right now there is so much mismanagement, changing the rules for some projects are not going to matter.

I am going to mention one or two here. I am not anti-European; I am not. I am pro-European. The Athens Airport, they charged us twice for the whole amount and then refused to give the books to find out who had got the money, and we were not allowed to penalise them. We know that the programmes do not work. The cadastral system, the land registry system, in one country they were supposed to implement it because we pay money based on the land agriculture. When I was working for another large company - an IT provider who won the contract - they would not sign. We found there was an election coming up, so every piece of land in that country was being claimed by multiple households, and the people in power said, "If we implement that now, the middle class will be penalised in our cities and we will not win. However, it is corruption. This is corruption. This is what it is. What we see is mismanagement, a badly structured process for SME innovation and we are subsidising nonsense.

We work with some of our SMEs that we incubate on our site and we tell them not to bother, "Don't bother. The process, just stay away. Try your hands with these guys. If your idea is going to fly it will fly" and what we are seeing in London it is working, it really is. We are grateful to the TSB for the help they have been to us. We have been able to do a model where Cisco takes the liability, and that has been wonderful. We select the SMEs but we are liable, and the SMEs can be new starts. We actually have to sit with them on their first or second day, incorporate them and introduce them to the lawyers, and these are your marketing people. It is fun. It is a fun environment. I think we have a lot to help Europe with, and I would encourage strong and repetitive lobbying of these people to change the programme so we do not quite have the same framework structure that we have right now. That is it.

Andrew Dismore (Chair): Thank you. We have about quarter of an hour or so for comments and questions, so would anyone like to start. We will start over here.

Alex Conway (European Programmes Director, Greater London Authority): Yes, it is probably good for me to start because what I was going to say feeds on from Gareth's points.

Andrew Dismore (Chair): Would you like to say who you are and where you are from?

Alex Conway (European Programmes Director, Greater London Authority): I am Alex Conway. I am the European Programmes Director at the Greater London Authority, so I am responsible for London's European structural fund programmes. For those of you who are not aware, the biggest single part of the EU budget, in fact not the Common Agricultural Policy or aid or MEP salaries, it is European structural funds, the bulk of which the money goes to your Polands and Romanias but the UK also has a share. Of course the UK is a net contributor to these funds but you do get some money back, so it is all the more important we make the best use of it. In the case of London, it is just over £500 million over seven years. You double that with match funding, so we talk about having a £1 billion programme in London, which is basically about getting 50,000 people into work, up-skilling 40,000 people, helping 20,000 small businesses, in one way or another, and safeguarding or creating 6,000 SME jobs.

Gareth was talking about the framework programmes which are managed directly from Brussels, where you sort of bid in, and which do have these onerous processes and audit rules. I wish I could say that in London we have the scope to get away from some of that, but we are bound by the same EU rules to some extent.

The point I want to bring to the seminar's attention today is that we have a good track record in London for delivering the EU targets or programmes, spend their money. The way the EU works they test you on it. If you do not spend the money quickly enough you have to hand it back. They do not actually check what you are delivering with it, but the good news is we are both spending the money and delivering the outputs expected.

A new challenge is emerging for the next round of programmes. These programmes are on seven year cycles, and the 2014 - 2020 cycle is under consideration now. The government has announced some proposals for how it proposes to manage these programmes going forward through LEPs, the Local Enterprise Partnerships, and of course London has its own version of that. We are in a dialogue with government now to try to really maintain London's separate status. At the moment we manage these programmes as an intermediate body on behalf of government, which means to some extent we are straitjacketed, not only by the EC's audit rules but also by the government's rules, which I have to say in some cases do rather gold plate matters. Our ask of government is that we become a managing authority ourselves, and the Mayor and the London Assembly have written in support of this. We are waiting to hear what government has to say. I think our hope, therefore, is that we can create a slightly more agile programme for 2014 - 2020 that can address some of the needs people have talked about today that can help. ERDF and once it has gone into the small businesses being supported by tech city and the like, the debate clearly is whether --

Gareth Macneachdainn (Director, UK Public Sector team, Cisco): I would think this is tinkering. We need BIS and the Ministry and the Prime Minister, to go and say, "IT does not work on the model of a framework. You added something to a long-term infrastructure investment research programme. That is the problem. Then it does not serve Britain's interest. We will agree financing. We will agree digital media. You did this and you need to take it out of the programme and stop trying to stick it together". That is not happening right now. It is not happening.

Eric Van Der Kleij (Former CEO, Tech City Investment Organisation): I completely support there what Gareth is saying about it is not accessible, but we are talking about stimulating economies using grants, which of course are essential, with the goal of creating self-sufficient economic environments, of course, so I always think about that. I just want to share what has happened recently with the UK Government, an idea that they are piloting. They have appointed a chap called Liam Maxwell as the government's first Chief Technology Officer. He has the right to sign off any government IT procurement over £5 million. It sounds like a lot but it is not, but it means that he is the gateway for ensuring that at every time somebody asks for a big IT programme to be signed off he is responsible for saying, "Can some of that be procured from SMEs using the government's powerful procurement capacity to drive the economy?" but it is not easy.

What he did recently he brought to a special room that we have in level 39. We have called it 'Eastminster', just a little bit cheekily. Just because I think that sometimes the problem with thinking out of the box is that it does not really happen at Westminster. It is the box that is part of the problem. He brought the Ministry of Justice to the Eastminster room, and he brought a judge with him. He put the department on trial to say, "Why are you not buying from SMEs?"

They had to come up with a solution of something they could buy from an SME just to start the thinking and not have to have three years of accounts, etc. That is one pioneering thing that the government is trying to do, and it is saving a lot of money and it is definitely worth copying, if possible, across Europe or at least looking at in great detail to see if that can be used perhaps in conjunction with framework to drive the economy.

Andrew Dismore (Chair): Can we move on to the next contributor.

Mark d'Inverno (Professor of Computer Science, Goldsmiths): My name is Mark d'Inverno. I am a Professor of Computer Science at Goldsmiths, where we have been pioneering courses which are aimed specifically at the creative industries. I have several research projects as well which are linked strongly to the creative industries. Last Friday I was at a meeting run by the Arts Council. It is the cultural and creative organisations that were there at the RSA. One of the things that emerged from that discussion was a very strong need to communicate the significance of the creative industries, as a whole, to funders, to the general public and to government.

How do we go about finding a language for that? Eric, I am looking mostly towards you, because you are looking at new investment, in particular, to describe and articulate the territory of the creative industries, in such a way that everyone gets what is new, what is exciting and happening in funding. Do we need such a language?

Eric Van Der Kleij (Former CEO, Tech City Investment Organisation): We sure do.

Mark d'Inverno (Professor of Computer Science, Goldsmiths): If we think of ourselves as a whole, how do we develop that?

Eric Van Der Kleij (Former CEO, Tech City Investment Organisation): See, I love this question because really you are saying what is the creative industries brand? It kind is the creative industries, but I like a question about what is the value of the creative industries, especially when applied across the whole of the tech industry. If there is a way of understanding, quantifying, articulating and explaining that, that would be terrific.

Let me give you one example. How do you explain the value that in Shoreditch there is a very cool company that is full of wonderful designers, some of the most amazing designers? What they are doing is building new dealing desk systems for trading in shares using optimising what they know about UI, user interface, so that the financial services sector has a global advantage, right? How do you describe that terrific overlap and value? I think that that is why I say that the work to be done to share the strengths of Europe, which when everybody travels to continental Europe or Europe as a whole, including the UK, they say, "It is so culturally rich". This is one of our strongest assets, but yet it is barely acknowledged in terms of creating the value in the economy in the tech industry. Maybe what we should first do is think about how to brand it so that we can communicate it.

Mark d'Inverno (Professor of Computer Science, Goldsmiths): They talked about the creative industries industrial sector, but then people in the creative industries culture kind of object to thinking about the industrial strategy.

Gareth Macneachdainn (Director, UK Public Sector team, Cisco): The rest of the UK does not really have an industrial strategy either, so let us not point fingers at yourself. Everyone has that problem.

Silviya Barrett (London Chamber of Commerce): Silviya Barrett from the London Chamber of Commerce. I just want to ask about the EU. Are there any aspects of the EU membership that actually impede the creative industries? Like regulation, for example, is there anything specific there? On the other hand, is it more about lack of support and if that is the case is that the UK or the EU that should be doing something about that.

Eric Van Der Kleij (Former CEO, Tech City Investment Organisation): That is probably one for Gareth.

Gareth Macneachdainn (Director, UK Public Sector team, Cisco): I will say I met so many really bright clever people, who were stuck in boring jobs they hated, on research projects, in Spain, in Greece, in Portugal, in Italy, that if they had just been set free and said, "There's no money" they would go and do something wonderful. A lot of them are in London now. There are a few here and a few that have gone to Sweden. If anything, the EU's inability to harness those people's knowledge is a huge waste, on a research programme which turns out reports. London has benefited enormously from this, 500,000 French people have moved here. We have 500,000 French people. There is a long history of Britain welcoming people who are willing to work. In my family we have Latvians, Polish, Lithuanians, Ukrainians and we are very happy. We are loving it. That continues, and that welcoming. If you work you are welcome.

Eric Van Der Kleij (Former CEO, Tech City Investment Organisation): Can I just come in quickly? I feel guilty about this because I used to work for a UK trade and investment, whose job it was to shine a light on this amazing country to make sure that all of the entrepreneurs of the world wanted to come here, but recently I have decided that a better thing to do is to work with our continental European partners to create a successful Europe as well. Why? Because if it is not successful we are not attractive enough as a single market for some of the biggest international investors. We need Europe to be successful for us to do business with, and also so that outside the UK people see us as an incredibly strong thriving market they want to participate in.

I am now actually thinking more about how do we shine a light on the successful parts of Europe, or maybe show some of the value that can be created in other countries. Of course there is this issue of policy. We can do so much to encourage the right kind of policy. Can I just directly address the question of what do we think about Europe and policy changes? Just to give you a comparison, this particular UK Government decided to really listen to the entrepreneurs in the tech industry, really listen. They have implemented - what - five major policy changes in the last two years that hare directly sought to (1) not get in the way of and (2) accelerate the tech and creative industries. I still think it is not right. They have to do more. Yet, on the other hand, I am not sure what the kind of consultation is that takes place in continental Europe, when you are implementing things like the cookie law, the privacy issues. The only way to ensure that you do not end up getting in the way with well intentioned policies, which are designed to create this level playing field, is to make sure that your consultation really is with the people that are directly affected by it. That does not necessarily mean consultations with more bureaucrats, it means actually going out and reaching into the entrepreneurial communities in each major city and saying, "What if we did this, what would happen? How would your website that you're going to sell be affected by that?"

Gareth Macneachdainn (Director, UK Public Sector team, Cisco): It is about policy I think, and it is about influencing that policy. I guess the fear that has circulated this morning is that, as we become ever more anxious to decide again democratically on our future within Europe, that we turn introverted and we do not explore the model that is definitely working in the City, and we do not challenge it with Europe and challenge Europe with it.

My second point: we are so good at importing extraordinary talent from all over the world. Our great universities are sustained by wonderful students from every corner of the world. We are much less good at exporting our very best students. The number of our very high end students who actually enhance their qualifications by studying abroad is embarrassingly small, so there is that danger that, such is the power and confidence of this City that it gets myopic and that it closes its mind to the wider prospect, your point about the market. That statistical analysis there speaks of the closed curtains of some of our cultural life. That is a potential problem, Mark, from your point of view as well.

Andrew Dismore (Chair): This will have to be the last question, I am afraid, because we are out of time.

Sian Prime (Goldsmiths): Sian Prime, also from Goldsmiths. I guess there are two things that I am struck by, and it follows on partly from the RSA and the Arts Council debate, but certainly from things today that Gareth was saying. It is not about pleading a special case for creative technology start-ups or growth building, but it is about acknowledging difference in terms of growth patterns. I guess it feels to me that the really key point you made about transferring from one industry to another, a framework that works, and it is the same for the investment community. I wonder whether there is some work that can be done to articulate the different needs of investment, the different times and the different risks for creative technology that needs to be done because I think we are so good at start-up, we are not so great at growth, and it feels to me that the UK is terrible at distribution. We are great at content production and we are great at selling that to distributors in other countries, and it feels to me that perhaps there is a gap there in terms of our development needs.

Gareth Macneachdainn (Director, UK Public Sector team, Cisco): I would just say one thing, in the last four years 500,000 people now make their money and their living making applications just for Apple, 500,000 people. Whether you actually value some of the applications or not as a contribution to the good of humanity I do not know, but none of that, I do not think, would have been able to pass muster for European funding but we still talk about creating jobs and innovation. They are talking it. They are not doing it, and then they are asking the same people who have administered it for the last 20 years to come up with new ideas. If anything, I think it is time for Britain to go and bang the table a bit. Oh Mrs Thatcheresque almost.

Andrew Dismore (Chair): That is a good place to wind up, reflections on Mrs Thatcher's relationship with Europe. Can I thank our speakers: Eric, Patrick, Jeff and Gareth? Thank you all for coming. We will be circulating a note of the discussions in due courses. Thank you.