

## London's relationship with the EU

### ***A summary of key points made during a seminar hosted by the London Assembly's Economy Committee***

London provides the principal gateway for international trade and inward investment for the UK economy, it is a major destination for foreign business people, tourists and students. London's financial and business services sector is at the heart of the globally connected economic world. Its creative, media and software sectors are world renowned and attract the best talent from within the UK and from abroad. London thrives on the flow of people, products and ideas.

London has a distinctive relationship with the EU and its vitality is particularly affected by changes to EU directives that affect flows of capital and labour. Given the on-going debate about the UK's position within the EU our seminar examined London's very particular relationship with the EU as an economic block and as a set of institutions. Our focus was on the outlook for two particular sectors one well established, the financial sector, and the other, the creative high tech sector, emerging as an important part of London's economy.

London has effectively become the global finance centre for Europe; it is the European financial centre for the euro. Its attractions to business are well known: the stable political and legal and regulatory environment; the openness to foreign investment, the lack of protectionism; and the quality and creativity of its workforce. All the world is here in London and it has resonance and appeal throughout the world.

London is increasingly unlike much of the rest of the UK. The city is much younger, more diverse, and generally more prosperous 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.

The challenges to London's position are very real. The rise of emerging markets, such as Hong Kong and Singapore, the hunger in New York and the US to get business back lost in the 1980 & 90s, the opportunities available to investors in economies of the east. Policy changes can also undermine London's global position; repeated adjustments to our immigration rules, for example, make it more difficult for businesses to operate with certainty.

The way the UK's relationship with the EU develops is also a challenge to London's global position. The EU has embarked on a very ambitious regulatory reform project. Within the Eurozone there is a move to deeper financial integration; monetary union is to be accompanied by a deeper fiscal and economic union. That means that a new architecture - a banking union with a single supervisor, a single resolution authority and common backstops for the banks inside the Eurozone. This will have an impact on the UK, whether it joins or it stays outside. This harmonisation which is designed to bring stability to the Eurozone will be welcomed by businesses but how London works with the EU on harmonised regulation will be critical for the well-being of the firms here. London must not risk being penalised by actions taken subsequently by the banking union or by members of the euro.

London is also the start-up capital of Europe. The cluster of creative digital technology companies growing in the centre of Shoreditch attracted by cheap rents and a location close to the heart of London's financial district has created a new dynamic economic sector. The philosophy it shares with Silicon Valley is about building new businesses and start-ups, that failure is okay and that the idea is to grow and create brilliant things.

Government policy has helped to shape the growth of this sector by expanding enterprise investment schemes. This “London model” of using government to encourage private investment rather than allocating direct capital to start-ups could be replicated across Europe to support their start-up scene.

The challenge in a global market is to articulate what Europe’s brand is; introverted and bureaucratic or open and creative. London is a model for how Europe could develop and how it could present itself internationally to foreign direct investors.

We are grateful to our distinguished speakers and to all those who attended and contributed to the discussion. The complete transcript of the meeting can be found elsewhere on this page.