

British interests increasingly and systematically likely to be over-ruled

UK must secure EU financial regulation reform or face the choice of joining Euro or leaving EU by 2020, finds new report
"If we cannot protect the collective interests of non-eurozone member states then they will have to choose between joining the euro, which the UK will not do, or leaving the EU" – Chancellor George Osborne, 2014

* New report reveals future end to double majority voting and finds that UK likely to be systematically overruled by Eurozone interests

* Report follows publication of letter organised by BfB of leading City figures calling on politicians to protect ability of Britain to decide financial legislation

A Europe Economics report, commissioned by Business for Britain (BfB), has found that British interests in EU financial regulation are increasingly and systematically likely to be over-ruled in favour of those of the Eurozone. It reveals that specific EU legislation could wipe out the UK's power to prevent it being overruled by the Eurozone as soon as the end of the decade.

The in-depth report details how *"only very considerable reforms"* to the process of setting EU financial regulation will prevent Britain from being forced to choose from either joining the Euro or leaving the EU potentially as soon as 2020. The stark choice, dubbed *"Osborne's fork"*, is the result of the increasing voting power of the Eurozone block and its divergent interests from the UK. The report reveals that EU

financial rules will bring an end to double majority voting, a major concession previously won by Chancellor George Osborne, when the number of non-Eurozone EU countries drops to 4 or fewer – which is expected to happen in less than a decade.

The report acknowledges that Britain may have benefited from having financial services regulation set at an EU level in the past as regulations often mirrored or were influenced by existing British financial rules, but concludes that since the 2008 financial crisis and the Eurozone crisis of 2010, the nature of EU financial regulations have changed significantly and that the UK's influence on EU-level financial services regulation has declined markedly.

Summary:

- * Prior to the Eurozone crisis, the general thrust of EU financial services measures reflected the UK's traditions of liberalisation, competition and the encouragement of trade meaning EU-level financial regulation affected other Member States much more than it affected the UK. EU regulations tended to mirror pre-existing UK rules.

- * Since the financial crisis of 2008 and especially since the Eurozone crisis of 2010 onwards, the UK's influence on EU-level financial services regulation has declined markedly. Since 2008, the UK's legislation has been geared towards increasing the quality of supervision and strengthening market incentives. Yet at EU level the focus has been much more upon extending the scope of regulation, curbing specific behaviours, and protecting the integrity of the Eurozone.

- * This change in the direction and objectives of EU-wide financial regulations has been accompanied by the Eurozone's growing collective power, under QMV, to force through its preferred regulations against any ability of the UK to block new rules and has resulted in considerable loss of UK influence.

* Opportunities for financial services exports outside the EU are growing (and expected for the foreseeable future to grow) whilst the opportunities for rapid growth in financial services within the EU are likely to be limited. The main threats of competition to the UK from regulatory arbitrage are less and less from other European countries and more and more from outside the EU.

* Current proposal for reforms to EU-level setting of financial services regulation such as the extension of “double majority voting” would only work in the very short term (up to around 2018).

* EU rules are in place to end double majority voting where it has been already introduced as the Eurozone expands and the number of non-Eurozone EU countries drops to 4 or fewer. This could occur as soon as 2020 on current plans.

* The report concludes if the UK financial services sectors are to avoid the fate of systematic over-rule by Eurozone interests, without taking either the joining-the-euro or leaving-the-EU prongs of Osborne’s Fork, there will need to be very considerable reform to the process of setting EU regulation. Non-Eurozone members of the EU would need some mechanism, beyond QMV, to block new financial services regulation that was manifestly against their interests.

Matthew Elliott, Chief Executive of Business for Britain, said: ***“EU-wide financial regulation may have opened up markets to the UK in past, but now it looks set to ensure the UK is comprehensively overruled by the Eurozone’s needs – at the expense of our greatest global asset. The UK’s power to influence EU decisions has declined markedly and unless major reforms are secured, Britain will be faced by the stark choice of either joining the Euro or leaving the EU altogether. Politicians at home need to secure Britain a new deal abroad to ensure the city, and business more widely, benefits from its position within Europe, rather than being weighed down by***

it."

Dr. Andrew Lilico, author of the report and Director of Europe Economics, said: ***"Britain's influence upon EU financial regulation has been an important gain of EU membership in the past. But that influence has waned severely since 2008, and as matters stand, with the non-Eurozone EU set to shrink to only between two and five members within a decade, and with the very different interests of the Eurozone dominating new EU financial regulation, the future appears likely to be one of Britain being systematically over-ruled by the Eurozone. Changing that in any sustainable way would require not only new voting rules but also many new long-term non-Eurozone EU members."***

David Buik, BfB Advisory Council member, and Dr Andrew Lilico, reportauthor, are available for broadcast interviews .