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The Single EU Capital Market: progress and challenges

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Good afternoon. It's good to be here and to have the chance to talk to you about the single market; about why I think it's good for the UK and its financial services industry; and why it would be rash to turn our back on it just as we're taking it a step further by building a single market for capital in Europe.

Over the past thirty years, there's been one voice in Europe which has consistently made the case for the single market: Britain's. We've pushed to get rid of trade barriers to make it easier for European companies to grow and sell into bigger markets and compete effectively with rivals in America, China or Japan. We've championed competition and free trade inside Europe, and with the rest of the world, as a force for good: a force for growth, for jobs, and for better products and services at lower prices.

So my work to deepen the single market in the area of financial services is part of a long-established British tradition in Europe. If you look back at the arguments made by Mrs Thatcher in her Bruges speech, it is striking just how successful Britain has been in making its case. In bringing the arguments against protectionism into the mainstream, and shaping the European single market as we now know it.

Working with our European partners, Britain has helped create the biggest market in the world, a market of 500 million consumers in which European companies can trade freely by right - without tariffs, customs checks or regulatory barriers. It's a market that's growing - not as fast as we'd like - but after difficult times the EU and the euro area are on a steady upwards trajectory. And over the last fifteen years EU members trading activity has seen the largest increase among developed countries, while NAFTA members' trade has remained largely unchanged.

The Single Market stands to benefit all members of the EU, but the UK is particularly well placed. We're business friendly; we're an open economy with a skilled work force; we're comfortable with diversity; we're ready to welcome talent from abroad; and we speak English. These strengths make us the obvious launch pad for international investors looking to break into the single market – three quarters of foreign investors cite access to the EU's single market as a key reason for their investment in Britain. It makes us a great export base. Everyone benefits. Car manufacturers, farmers, architects, broadcasters, advertising executives. They're all successfully selling into the EU and attracting investment from it. Today, nearly 50% of our exports go to the EU and 50% of our foreign direct investment comes from other EU countries.

It's difficult to think of a part of the British economy where membership of the single market has brought more benefits than financial services. The UK is the EU's largest financial centre. A global financial hub, it offers a breadth of services attracting business from all over Europe. Companies based here advise on the deals, arrange the financing, draw up the contracts and provide the insurance. A quarter of the financial services income in the EU is generated here in the UK.

Ambitious European companies come to Britain looking for funding and advice in a financial sector that can give them what they need. Nearly half of the equity raised on capital markets in the EU is raised here. 40% of the EU's listed SMEs are listed on UK exchanges. Nearly 40% of European assets under management are managed here. We're home to around 40% of the world's foreign exchange trading and 50% of derivatives trading.

Last year, London was once again rated by the Global Financial Centres Index as the world's most competitive financial centre – hardly a sign, by the way, of a City drowned or strangled in red tape as is sometimes claimed. The benefits go well beyond London. There are over a million jobs in the financial services sector in the UK of which two thirds are outside London. 85,000 in Scotland, 100,000 in the North West of England. 8% of our national income comes from the industry and it contributes around 13% of all corporation tax receipts.

Of course, that success owes much to the UK's intrinsic strengths. I am not arguing for one moment that it is down solely to the single market. But it's the single market that connects the UK as a financial centre to the rest of the European economy, and it's a crucial link that underpins the UK as a global financial services hub.

How does the single market create that link in practice? One crucial aspect is that British companies benefit from the passport system that means they can do business wherever they choose in Europe. From a UK base, they can offer services in 27 other EU countries. Regulators have to be kept informed, but no separate authorisation is needed.

For British banks, that means they can lend freely into the single market, and they do. Last year, they lent over 1 trillion euros and took over 1 trillion euros in deposits across the EU.

For banks from elsewhere in Europe, the single market makes it easy to set up subsidiaries and branches on this side of the channel, supporting investment and creating jobs here in Britain. 20% of banks operating in the UK are headquartered elsewhere in Europe.

For international banks and financial services from outside Europe – in particular the US – the single market means they can use London as their European HQ, without having to set up subsidiaries elsewhere in Europe. Half the world's financial firms have chosen to base their European headquarters in the UK - in part for that very reason.

The single market allows all these players to manage their business on a European scale. It gives them the flexibility to respond rapidly to opportunities in other parts of the single market. It means they can build a hub in Britain, and from here respond to growing financing needs elsewhere, like those of German manufacturers exporting to China for example.

The benefits of the single market passport system go well beyond the banking sector. A UK investment manager can be appointed to run investments for continental institutions. Continental corporations can make use of UK market infrastructure to access global markets. It is the British fund management industry that looks after a major chunk of the 8 trillion euros invested in UCITS – Europe’s globally successful investment product.

In the insurance sector, British companies can provide their services without having to undergo any sort of equivalence assessment. The same goes for reinsurance, for which London is the world’s leading market. In 2014, the UK exported 22 billion pounds worth of financial and insurance services to the EU.

Over the past decade, the surplus from Britain’s trade in financial services has more than doubled - from 23 billion pounds in 2004 to 58 billion in 2014.

This, ladies and gentlemen, is a success story of which we should be proud, and which we should be keen to keep.

In my job as European Commissioner for financial services, I am working to strengthen and deepen that single market. That's why I've launched a Call for Evidence to review Europe's regulatory framework for the financial sector, and to check it's as growth friendly as possible. That's why I'm looking at financial services from the point of view of the consumer to see whether we can improve competition and choice – and lower costs and improve the quality of the services we use every day. And that's why I'm working to build a Capital Markets Union – a Single Market for capital - to help money flow throughout the EU.

The goal of the Capital Markets Union is to connect savings more effectively to growth, to channel investment to projects in need of financing, to give companies a greater choice of funding, and to increase the options for people saving for the long term. Why do we need to do it? Well, the EU's economy is about the same size as America's, but our capital markets are about half their size. If we could grow our equity markets across the EU to bring the smaller ones up to the European average, 25 billion euros of additional capital could be raised each year.

The difference we can make is real. Let me give a few examples of what we're doing. To make it easier for companies to raise money on public markets, we've made a proposal to overhaul the existing process and make it simpler, easier and cheaper for everyone. To make it easier for companies to borrow, we've made a proposal to restart securitisation markets and free up bank lending to the wider economy. To make it easier for companies to invest, we'll bring forward proposals to reduce legal differences that complicate cross border investment. And to inject more savings into capital markets, we're considering proposals for a European market for simple personal pensions.

All 28 Member States stand to gain, but Britain is obviously well placed to make the most of the opportunities that deeper capital markets would create. The UK is already running a surplus in exporting financial services to the rest of the EU. If capital markets were to grow across the single market, British services would be more in demand, and our financial service companies would have more new investment opportunities to tap.

If the single market is working well for British financial services, now, if it can be made to work better still, what would the implications be for the sector if we voted to leave the EU? What would the alternatives be? How would they work?

To be honest, it's quite hard to keep up because the answer keeps changing, as one plan after another has been abandoned when it's turned out to offer a worse deal than the one Britain has now.

First, we were going to be like Norway, until it was pointed out that Norway has to obey most EU rules without having any say over them, and pay into the EU budget as well. Then we were going to be like Switzerland, until it was pointed out that Switzerland has to follow EU rules where it does have market access, but doesn't have direct access to EU markets in services, which is, of course, the most important part of Britain's economy and the one where we have the biggest surplus.

Then there was going to be a trade deal like Canada's, but that trade deal, while great for trade between European countries and Canada, is limited in services, doesn't include the passporting that is so important for Britain's financial services industry, and still includes some taxes on trade and quotas on beef, all of which would be deeply damaging for Britain's trade with Europe. And so it has gone on until we were told we could model ourselves on Albania.

If any student here were to submit an essay making a series of such internally contradictory arguments, I suspect they'd be told to rip it up and start again. And it isn't as though providing a credible economic plan for an alternative to EU membership is a new question. Many of those wanting us to leave the EU have been campaigning for it for decades. That after all that time, there is still no coherent economic plan for what Britain should do if it leaves the EU suggests perhaps that we should be a little sceptical about what they claim.

We have also been told that we should look to the Commonwealth and Britain's special relationship with the US instead of Europe. But when the leaders of Australia, India, Canada and the United States, amongst others, say that they think it's in Britain's interests to remain in the EU, we're told not to listen to bunch of meddling foreigners.

Perhaps we should listen to the head of the Federation of Indian Chambers of Commerce and Industry, who warn that 'Britain is considered an entry point and a gateway for the European Union by many Indian companies… we firmly believe that leaving the EU, would create considerable uncertainty for Indian businesses engaged with the UK'.

That's the same message I've heard from Hong Kong to the United States. It is a cool assessment of how the global economy works. And it comes from the kind of people that the Leave campaign felt should be on their side. If you're betting Britain's whole future on leaving your neighbours and hoping the rest of the world opens up to you, it's normally a good idea to ask the rest of the world what they actually think – and perhaps to listen to what they have to say.

With the collapse of their economic arguments, one by one, the Leave campaign now appears to have moved to Nigel Farage's position. They now say that we shouldn't be part of the Single Market at all.

So, for the moment at least, we have to work on the basis that – for the Leave side - a vote to leave the EU is a vote to leave the single market. After having spent the last three decades making the case for it, shaping its rules to fit our interests and working with our partners to take it further, the UK is advised to abandon it for an unspecified new trade arrangement. Terms and conditions unclear: subject to negotiation. A negotiation with 27 countries who sell 8% of their exports to the UK, but on whom we depend on for nearly half of ours.

What would it mean for the financial services sector? Well, leaving the single market completely would leave our financial services industry without its passport; without that crucial right to provide services anywhere in the EU from just one country. Without a new agreement, our banks, investment firms and insurers could face new restrictions on cross-border business. Trading venues, central counterparties and central securities depositories could also be affected unless these infrastructures were recognised as equivalent.

Let me explain in a little further detail. I've talked about the crucial importance of passporting for Britain's financial services industry. Passporting is only available to countries inside the Single Market.

If you're not in the Single Market you can, in some cases seek equivalence, whereby the EU deems your national standards to be as good as the EU's. Equivalence lets a company provide services into the EU but, unlike passporting, it doesn't let you set yourself up in the European market. To do that, you would have to set up a separate subsidiary with its own capital requirements, subject to EU and any additional national rules. That is neither cheap nor simple.

Now, getting agreement on equivalence isn't easy either. Negotiations take time. A couple of months ago I reached an agreement with the United States on equivalence negotiations on central counterparties – CCPs or clearing houses. That negotiation on that one narrow issue took four years, even though there was good will on both sides and both I and my counterpart wanted to do a deal quickly.

And so: if you don't have passporting; if you haven't yet or aren't able to negotiate equivalence; then you're left subject to “third country” rules. You can only do business with an EU country if its regulator and supervisors agree and you're subject to their rules, and you could have to do that individually for each EU Member State you want to do business in, so no cross border rights. And, of course, you might not enjoy all the protections of EU law against discrimination based on where a business is from.

No wonder the CEO of the London Stock Exchange Group – the other LSE, if you will - Xavier Rolet, has warned that "in the area of clearing, which basically drives the bulk of our flows…the decision to leave the EU would be beyond devastating for the City of London".

What's true for financial services is true for other industries. Let me take an example from manufacturing: the Mini, made in Oxford by BMW, 80 per cent for export. Its second, fourth and fifth largest export markets are Germany, France and Italy. 60 per cent of its parts are imported, mostly from elsewhere in Europe.

What if Britain leaves the Single Market? Let's optimistically assume that Britain and the EU reach a mutually agreed trade deal before the negotiating deadline and so there are no tariffs, which would be 10% on cars under WTO rules.

Even in that best case, which by definition would be outside the Single Market, there would be customs checks. That bureaucratic process, working out which country each part of a product comes from, adds, according to the OECD, between 2 and 24 per cent to the cost of goods. And exports to Europe would still have to follow European rules and regulations, over which we would have no say.

So the Mini becomes more expensive twice over. First, those 60 per cent of the Mini's components that come from outside the UK would face the cost of customs checks; then the same happens when the car's exported, including the paperwork explaining where each part was made. And if European regulation on how cars are made changes, as happens from time to time,

then the Mini's manufacturing process would have to change to comply with the new rules for exports to continue.

The question isn't whether leaving the EU would be bad for Britain's manufacturers; it's just *how* bad it would be. No wonder the head of the Motor Manufacturers' association (SMMT) says that "being in Europe is vital for the future of this industry and to secure jobs, investment and growth".

Or take the Single Market in air travel, which has opened up competition and choice, lets new British airlines compete on a level playing field across Europe and gives customers more rights wherever they fly in the EU. As a result, since the 1990s, the cost of air travel has fallen on average by 40 per cent. As the Chief Executive of EasyJet, Dame Carolyn McCall, has said: "as a result of Britain’s membership, the costs of flights have plummeted while the range of destinations has soared".

Trying to avoid those restrictions, fighting to keep that precious access to the single market: Britain's negotiators would have to face up to a new reality. The reality of negotiating from outside; of trying to persuade trading partners who have every reason to defend their own turf. And even once a deal is finally done, the reality of having to accept that new rules would and could be set with the UK outside the room, without its interests represented at the table, simply informed of the results and any new requirements.

There is absolutely no reason to believe that discussions would be quick or easy. Greenland's negotiation with the EU simply as an overseas territory – the closest precedent - took three years even though there was really only one subject to talk about, fish.

Britain's European partners want Britain to stay. They've just agreed a hard fought settlement in response to the British Government's case for change. They clearly think that if Britain leaves it would be damaging for the European Union and their own national interests at a time when Europe faces serious challenges.

So from what I hear working in Brussels, listening to the national governments of the countries of Europe, I believe there would be a deep sense of rejection felt by Britain's European partners – particularly given that some of the Leave campaigners have spent many years accusing them of incompetence, corruption and comparing them recently to the darkest figures in European history: you name it, they've said it. They would certainly want to keep the European Union together and their voters would expect their elected leaders to stand up for their national interests. If Britain chooses to become a competitor rather than a partner, why wouldn't they seek a competitive advantage in the new relationship? To build up their financial services sector. To roll out the red carpet to our bankers, insurers and asset managers.

And might I gently suggest that the best way to warm up the people with whom Britain would in future be negotiating in these vitally important talks isn't to compare their ambitions with those of the Third Reich?

When I hear the bold claims made by the Leave campaign - the assertions about what will happen, unsupported by evidence, the demands for radical change without any clear idea what that change means in practice, the lack of interest in what the great majority of businesses or practitioners in any field actually have to say - it strikes me that something strange has happened in the British European debate.

Thirty years ago, when I first started working for the Conservative Party, it was the pro-Europeans who were the utopians. The people who thought the practicalities were less important than the pursuit of the European ideal.

To ask tough questions about how ideas like joining the Euro would actually work out – and I was one of those who campaigned against the UK joining the Euro – defined you as a sceptic.

Today it strikes me that it is the Leave campaign who are the utopians, and the Remainers who have become more sceptical. It's those who are campaigning to Leave who say that we shouldn't worry about these tedious, pernickety questions about the future of our trade with Europe or the rest of the world, or indeed what it might mean for Britain's ability to get its way in the world, because well, we'll be completely independent and anyway it's clear that all those foreigners need us more than we need them, and if we bang the table a bit harder they're bound to do what we want. And if you do ask a perfectly reasonable question about what would happen after June 24th you are told that you are scaremongering.

Scepticism is a core part of the great British tradition of empiricism. It means mistrusting *grands projets* and fine visions. It means questioning, doubting, wanting firm evidence before we believe something. It means listening to the little voice in our heads which says "are you sure that's a good idea"?

I am the last person to claim that the EU is perfect. Like any human institution it never will be. The question is whether the huge disruption of leaving would produce something better.

Britain, in or out of the EU, has great strengths and attractions. So we should ask not whether would Britain survive outside, but rather whether it would flourish, whether it would do as well as it has done in the last forty years.

The benefits of membership of the EU and the Single Market have been significant for British business and the British economy. In the EU, Britain's biggest export earner, financial services, are flourishing and if Britain remains there should be more and better to come.

But if Britain leaves it is certain that there will be barriers to trade and that will damage the British economy, jobs and growth. That is the view of the great majority of British businesses I meet, of the international investors into Europe I've seen, of the majority of members of every business organisation in Britain for businesses large or small, of the financial sector, of the manufacturing sector, of the great majority of serious economists, of every international economic institution, of the Bank of England.

That economic cost is just one reason why all Britain's friends in the world want Britain to stay.

So before turning our backs on our neighbours, before striking out into the unknown, before taking a step that would mean a profound change in the United Kingdom's economic and strategic relations with the rest of the world, I hope that voters, in the long tradition of British scepticism, will weigh the evidence, listen to the arguments, and think long and hard about how best to secure greater prosperity and Britain's place in the world.

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