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City fear over Cameron's EU demands

By Alex Barker in Brussels and George Parker in London

The City of London has raised deep concerns over David Cameron's strategy in Europe, warning that the prime minister's wishlist of "safeguards" in December could actually have damaged its standing as Europe's financial centre.

The differences over Britain's diplomatic priorities, first aired earlier this year, have taken on renewed significance just days ahead of a key European Union summit as Mr Cameron prepares a fresh list of demands for legal protections if a European "banking union" were formed.

Britain rejected a new EU fiscal treaty in December after Mr Cameron failed to win safeguards for the EU single market for financial services – demands France derided as an unacceptable "opt-out" for the City.

But senior representatives of Britain's financial centre later told Treasury ministers that most of the "protocol" on financial services was misguided or unnecessary and liable to backfire, according to an internal City of London Corporation analysis of Mr Cameron's wishlist seen by the Financial Times.

With a European summit in Brussels beginning on Thursday, Mr Cameron is working more closely with the City this time to co-ordinate positions and to ensure that a proposed banking union does not undermine Britain's access to a EU single market.

Herman Van Rompuy, president of the European Council, on Tuesday published a significantly scaled-back version of the highly anticipated plan for the future of the eurozone, which drops proposals to give EU institutions the power to rewrite national budgets and bailout banks directly.

But relatively detailed plans for a banking union of all 27 EU member states are included, without explicit mention of opt-outs for the UK on common supervision or backstops for bailout funds and deposits.

Nick Clegg, deputy prime minister, writes in Wednesday's Financial Times, that "it makes sense for full banking union to be based on the euro" but he says the new arrangement could hold risks for Britain.

"The risk of discrimination is not imaginary," he writes, insisting that Britain would demand that the rules of the European single market were not tilted to the benefit of single currency members. "The protection of the single currency must not translate into protectionism within the single market," he adds.

Mr Clegg insists that Britain has never sought "opt-outs" for the City. "The UK has been arguing for tightening, not loosening regulation," he writes.

Indeed the City of London believes that Britain has sometimes dressed up a defence of the single market as cover for demanding the right to impose more onerous rules on the City, on top of those set by the EU.

"The protocol would not have protected the City and appears rather to be an attempt to protect HMT's view of how the City should be regulated by national authorities with wide discretionary powers, unhindered by EU rules," according to the papers seen by the FT. "If it were to be accepted by other member states it might actually damage the City".

Another concern is that Britain's at times strained relations with the rest of the EU are limiting its influence in shaping a new framework for financial regulation. Angela Knight, chief executive of the British Bankers' Association, said: "The major banks and others are concerned that the UK is fully at the table as the decision-making process starts to shift."

British officials say Mr Cameron will not attempt to revive exactly last December's proposed City safeguards. "This is about defending the single market generally and Britain's interests in it," said one.

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