

TheCityUK's response to the Department of Business and Trade's call for input on potential powers to protect the UK from adverse economic pressure

About TheCityUK

1. TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes over 11% of the UK's total economic output and employs almost 2.5 million people – with two thirds of these jobs outside London across the country's regions and nations. It is a major contributor to government tax revenue and the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

Overview

2. This response has been prepared in consultation with TheCityUK's membership, reflecting views across the financial and related professional services ecosystem.
3. The UK's financial and related professional services industry is a strategic national asset. The strength of the industry is underpinned by its international reach and openness to international firms and global talent. The UK has developed a unique cluster of complementary, globally competitive capabilities and, as a result, it is the largest net exporter of financial services in the world.
4. We recognise that the UK is operating in a changing global trade landscape. The global nature of the financial and related professional services industry brings exposure to changing geopolitical dynamics, protectionist trends, and regulatory fragmentation. However, in this global environment, it is more important than ever for the UK to retain a clear narrative that for international firms it is a location of choice, and its success rests on its predictable and reliable policy, regulatory and legal frameworks. This underpins international firms' and investors' confidence to do business in the UK. In a world where protectionism and politicised state interventionism is on the rise, the UK must not only uphold its reputation for legal and regulatory predictability. It should also burnish these credentials as foundational to the UK's comparative economic advantage.
5. Legislating for what would be broad new powers to impose restrictive measures on cross-border trade in services, investment, intellectual property and procurement would impose a chilling effect on international firms' and investors' perceptions of the UK. Therefore, the bar for taking new powers should be a high one. We do not believe that the call for input sets out a sufficiently robust evidential or theoretical case for taking wide ranging new powers across these areas.

6. Industry is mindful of the growing risks and potential for adverse economic pressure that the UK and individual businesses face. In this context, the industry agrees it is important for government and the private sector, including the financial and related professional services industry, to work together to identify the dependencies, vulnerabilities, and assets that are crucial to increasing the UK's preparedness and resilience. However, this work must be informed by thorough analysis and a clear-eyed assessment of the UK's economic structure and its interconnected place in the global economy.

Questions on Chapter 2

Question 1: In your view, would it be useful for the government to take powers to respond to acts of adverse economic pressure against the UK? Indicate the level to which you agree or disagree and the rationale for your view.

7. We do not believe the evidential or theoretical case for taking these powers has been made. There are several risks and concerns with the rationale and approach set out in the call for input that we would highlight:
 - a. **The chilling effect of wide-ranging new powers:** Notwithstanding the potential checks and balances outlined, any primary legislation to provide powers to impose measures across the areas set out would be necessarily wide-ranging and, to some extent, discretionary. For example, the call for input suggests any powers would be exercised “on a case-by-case basis”, could be used where adverse economic pressure “is causing, or could cause, severe harm,” and “could be deployed in the same or in a different area of the economy to that being targeted by an act of adverse economic pressure.” Such wide-ranging powers, exercisable at discretion and without a clear necessity test, would undermine the UK's reputation for regulatory and legal predictability, therefore increasing the risk premium that international firms place on investing in or doing cross-border business in the UK.
 - b. **The range of existing legislative powers at government's disposal:** The call for input notes the range of legislative tools already at the government's disposal relating to trade, investment, and national and economic security. In addition, the UK regularly, either independently or with like-minded partners, has successfully used commercial diplomacy to resolve or avoid trade disputes. We do not believe that an evidential case has been made that these existing tools are insufficient to protect the UK's economic interests. And, with regard to the potential chilling effect described above, it is important that the government makes a clear-eyed assessment of the cumulative impact of layering additional powers to the substantial range of powers already provided in existing legislation and outlined in the call for input.
 - c. **Would new powers be an effective tool for leverage?** The call for input suggests the value of any potential new powers would be to “act as a deterrent” or to “incentivise” other parties to negotiate a settlement in the event of a dispute. Given the high level of trade intensity of the UK economy and its international exposure, enacting restrictions on cross-border activity is likely to impose a high degree of self-harm. Offending states would recognise this constraint. As the call for input recognises, there is also a risk that any imposition of measures by the UK would result in retaliation from the offending state. Given the UK is a relatively small domestic market, particularly compared with the

“economic superpowers” identified in the government’s Trade Strategy, its capacity to withstand any escalation of a trade war is likely to be limited. Ultimately, in a lose-lose scenario of tit-for-tat protectionism, the UK is likely to lose more than most.

8. The call for input notes the EU’s adoption of the Anti-Coercion Instrument (ACI) as an example of other states or bodies developing a new generation of trade defence tools. We do not believe that the EU’s ACI provides a useful analogy for the UK’s circumstances. In this context, the UK may have more in common with other globally connected medium-sized economies, where international cooperation and commercial diplomacy in concert with partners is likely to be a more significant source of leverage:
 - a. Larger economies are less trade intensive than smaller ones and therefore less economically dependent on cross-border trade. In 2024, total trade in goods and services accounted for around 63% of UK GDP. For the EU-27, extra-EU trade accounted for just around 21% of GDP.¹
 - b. In order to enact new EU-wide trade defence measures, the EU must generally marshal 27 individual nation states, which have different legal regimes and may have differing political interests. This means activation of new powers is likely to be much more difficult to achieve in the EU than in the UK which does not face the same constitutional hurdles.
9. The Brexit process provided a recent illustration and practical example of the UK’s international and open outlook to cross-border trade in financial services. With the EU signalling during Brexit negotiations that it was unlikely to grant reciprocal market access analogous to the pre-Brexit passporting regime, the UK, with the industry’s support, established the Temporary Permissions Regime to allow relevant European Economic Area firms and investment funds who were previously using the passporting regime to transition to the UK full regulatory regime following the UK’s departure from the EU.² The effect of this open market approach, and the UK’s management of its regulatory framework since Brexit, has been to render the UK more open to EU-based firms operating in the UK market than vice versa. This openness is an important source of the UK’s economic strength.

Question 2: As illustrated in Box A, adverse economic pressure can disrupt normal operations across the UK’s economy, organisations, and sectors. In your view, if you or your organisation were affected by adverse economic pressure, what measures should the UK government have at its disposal to respond? Consider the broad areas listed in paragraphs 16 and 17 in your answer.

10. Please see the response to Question 1.

Question 3: Are there any factors the UK government should consider when using these powers, if the decision were taken to introduce them?

11. In addition to the fundamental concerns outlined in the response to Question 1, there are additional factors to consider if such powers were to be used to impose measures on trade in financial and related professional services. These sectors are heavily regulated. It follows that the design and implementation of any measures would need to be closely coordinated

¹ Eurostat and World Bank (World Development Indicators).

² <https://www.fca.org.uk/firms/temporary-permissions-regime>

with regulators. For example, any measures would need to be considered against the Bank of England's and Prudential Regulation Authority's responsibilities to uphold the stability of the UK financial system and to guard against systemic risk.

12. There are other issues to take into account when considering the practicality of seeking to apply targeted restrictive measures to services trade, and financial services in particular. Policymakers can more easily target goods flows with established tools such as tariffs or quotas, because goods flows are easily measurable by source and destination and can be broken down by tariff lines. There is no equivalent, precise firm-by-firm measurement of cross-border financial services or investment flows. Given the interconnectedness of the UK and global financial system, and the potential for escalatory retaliatory measures from the other party, there is also broad scope for potentially harmful unintended consequences. These issues call into question the ability to design proportionate and workable measures targeting services trade.

Questions on Chapter 3

Question 4: In what scenarios do you think an act or threat of adverse economic pressure (such as the examples in Box A) would be severe enough to justify the government using these proposed powers, should they be introduced? When responding, refer to paragraph 20 and explain your reasoning, including any examples or factors you think are important.

13. Please see the response to Question 1.

Question 5: In your view, are there any additional principles to those set out in paragraph 20 that should guide how the powers are used, should they be introduced? Please explain your reasoning.

14. Please see the response to Question 1.

Question 6: The checks and balances in paragraph 21 are designed to provide scrutiny before any powers could be used by the UK government. In your view, would these checks and balances contribute to providing sufficient scrutiny ahead of any new powers being used?

15. It is difficult to envision any primary legislation being designed in a way that reconciles the call for input's stated objective to retain flexibility to implement proportionate, time-limited measures, while retaining meaningful principles and constraints to guide the use of these powers. For example, the call for input notes that the form of any measure imposed under new powers would be decided on a case-by-case basis but does not provide a specific example of what a meaningful threshold or necessity test would be. While the commitment to consult on the potential impact of proposed specific measures is welcome, it is not as reassuring as it might be, since the call for input also indicates that the government intends to ensure that it can act without consultation where it considers it necessary or desirable to do so.

16. The call for input also notes that in determining what measures to take under these powers, the UK "would act in accordance with its international legal obligations, including

the WTO agreement.” In many cases, the countermeasures of the kind envisaged in the call for input (e.g. to restrict trade in services by firms from the offending state) would contravene the UK’s international obligations, for example, because they would discriminate against suppliers from the offending state in ways that contravene the UK’s most-favoured-nation (MFN) obligations under the WTO agreements (or comparable obligations under bilateral free trade or investment agreements). In addition, the WTO understanding on dispute settlement (DSU) requires Members to follow the WTO dispute settlement rules and procedures when seeking redress for a breach of WTO obligations. Given the current blockage to the operation of the Appellate Body, it may, in practice, not be possible to obtain a binding award if the offending state chooses to exercise its right to appeal under the DSU. There must therefore be a fundamental question as to whether the UK could adopt countermeasures under the proposed powers without contravening its international obligations. The call for input offers no answer to this question.

Questions on Chapter 4

Question 7: In your view, if these powers were implemented, are there any specific considerations the UK government should take into account when assessing application to:

- England, Scotland, Wales, and Northern Ireland
- crown dependencies
- British overseas territories

17. Not in addition to the considerations outlined above.

Question 8: Are there any other issues not covered in this document that you think the UK government should consider before deciding whether to develop these powers? Please explain your reasoning.

18. Not in addition to the considerations outlined above.

TheCityUK
June 2025