House of Commons

Committee on Exiting the European Union

Oral evidence: The UK's negotiating objectives for its withdrawal from the EU, HC 1072

Tuesday 14 March 2017

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Watch the meeting

Members present: Hilary Benn (Chair); Alistair Burt; Mark Durkan; Jonathan Edwards; Michael Gove; Peter Grant; Jeremy Lefroy; Mr Peter Lilley; Karl McCartney; Mr Pat McFadden; Craig Mackinlay; Seema Malhotra; Emma Reynolds; Stephen Timms; Mr John Whittingdale; Sammy Wilson.

Questions 1315 - 1370

Witness

I: Rt Hon Sadiq Khan, Mayor of London.

Examination of witness

Witness: Rt Hon Sadiq Khan.

Q1315 **Chair:** Good morning. It gives me great pleasure to welcome Sadiq Khan, the Mayor of London, to give evidence to us today. We are very grateful to you as a Committee for giving up your time to appear before us. We have a lot of ground to cover in the time that we and you have available, so short questions and reasonably succinct answers would be much appreciated. I would like to begin by asking you this.

The Foreign Secretary said on Sunday that leaving the European Union with no deal would be "perfectly okay". In your response to the Government's White Paper, you referred to the risk of "colossal damage". Would you like to tell the Committee why you think it would not be perfectly okay?

***Sadiq Khan*:** Thank you, Hilary. Thank you for inviting me along to give evidence to this very important Select Committee. Can I begin by saying I campaigned to remain in the EU? London was the one region that voted to remain in the EU, but I accept the result. The British public, my fellow citizens, have voted to leave the EU, to leave the structures and leave the legal institutions. My job as the Mayor is to work with the Government to make sure we get the best deal possible to ensure London remains the greatest city in the world. We are a global financial centre. We are the university capital of the world. We are the tech centre of Europe and are about to overtake New York and are catching up with Silicon Valley. My job is to work with the Government to get a good deal in relation to the deal with the EU.

I speak on a daily basis with chief executives, business leaders and business representatives about what they want to see from a deal with the EU. They are all pragmatic. They get it. The referendum has happened. They have to make do with the decision and stuff. They are very optimistic, by the way, as you would expect them to be. Let us assume for a second that our Government are successful in reaching a deal with the EU in less than two years. That is fantastic. It is hunky-dory. Everyone is very happy. One of the key concerns they have is there is a possibility, you have to accept, that we may not reach a deal in two years. The experts say it is going to be very difficult. One of our most senior diplomats says it is "impossible".

The point that businesses say to me is: why not err on the side of caution and have an interim deal, should it be the case that in two years we have not reached a deal with the EU? In two years and one day, rather than falling off the cliff edge—by the way, a phrase used in the White Paper, going to WTO terms—we can have an interim deal that looks after us between two years and a deal being done, should that not happen. If it does happen, fine, you can ignore the interim deal. That is the big concern they have expressed. The CBI has also articulated this.

Q1316 **Chair:** Indeed. My question specifically, however, was about the consequences of no deal and the fact that you had expressed concern about colossal damage. I just wanted to understand from you how you perceive that damage.

***Sadiq Khan*:** No deal means relying upon WTO terms, Hilary, and so when the Prime Minister talked about no deal being better than a bad deal, of course there are circumstances where that is the case. If, for example, a bad deal were us paying a massive cheque and all the rest of it without the right benefits to us, that is a bad deal and no deal would be better. In most circumstances, no deal means WTO terms, which means tariffs for goods, non-tariff barriers in relation to regulation and legal frameworks for services, bearing in mind we have a service surplus. When you speak to the service sector in particular, no deal equating to WTO terms equals catastrophe as far as they are concerned.

Q1317 **Chair:** You made reference to London's position as a global financial centre and we will come on to explore that in more detail, but the question I wanted to ask you is what is your perception of the impact of the referendum result on what financial services companies are doing now in the absence of certainty about what the nature of any deal will be, what will happen to passporting and so on? We will come on to explore how we try to secure that, but what are you seeing now as the Mayor of London.

***Sadiq Khan*:** The good news is what people feared before 23 June should the vote go "the wrong way" has not happened. The bad news, already in the public domain, are some of the decisions taken by financial institutions, whether it is UBS talking about 1,000 of their 5,000 employees leaving London or whether it is JP Morgan. JP Morgan employs 16,000 staff in the UK. It has talked about moving 4,000 out of the country. HSBC is a massive employer in the country. Its biggest presence is in the UK and Hong Kong. It has said publicly it worries about 20% of revenue being affected and it could move to Paris. Those are people who have gone public.

I have had conversations in private with some in the financial sector who are worried. They think that if there was an interim deal that would provide them with the certainty they need. They have to plan for the possibility—let me be generous to the Government—of a deal not being done within two years. Those who have a presence in other cities in Europe think it takes them between a year and 18 months to get up and go. Those without a presence in a European city could take up to two years. The point I make to my colleagues across Europe is do not assume so-called "hard Brexit" benefits you because if there is so-called hard Brexit some of these banks and financial institutions will not go to Paris, Madrid, Brussels or Frankfurt, love them as we do. They will go to

New York, Hong Kong, Singapore or Dubai. So-called hard Brexit does not benefit you, our European friends, or, I would say, London or the UK.

Chair: You have already made very clear that in your view transitional arrangements, in the absence of a deal being signed up in 18 months, are essential for London.

***Sadiq Khan*:** I do not see a downside to having an interim deal there. Be prudent. It could well be we reach a deal within two years, which is fantastic, but an interim deal gives the certainty and clarity businesses so desperately need.

Q1318 **Karl McCartney:** You have said you are going to press for London's interests in the negotiation process. Are you going to use the Scottish model or do you think you are going to be a little bit more professional than that?

***Sadiq Khan*:** Karl, I made the point in my introduction. I was a remainer, but I accept the results of the democratic referendum. The British public have voted to leave the EU structure and institutions. I am not going to threaten the Government with a veto. I am going to work constructively with the Government—I will talk later on, if I am asked the question, about the good relations we have with the Government—to make sure we get a good deal for London and the UK.

My simple point is this, Karl. When London does well the country benefits. If London does not do well the country will suffer. It is not being anti the rest of the country. We have a really good relationship with the rest of the country, and so it is in everyone's interests for the deal we as a country do with the EU to take on board some of the challenges, concerns and aspirations we as a city have.

Karl McCartney: I am pleased to hear that answer and in some of your opening remarks you mentioned that lots of the businesses and organisations you are talking to have a positive outlook.

***Sadiq Khan*:** Can just say this? It is a short point, but hopefully it will articulate the spirit of London. We, for 1,000 years, have been open to trade, people and ideas. One of the reasons why we began the campaign shortly after 23 June, London Is Open, was to deal with the perception that may be out there that as a consequence of Brexit we are somehow going to become insular, inward-looking and not open to business. You have to be positive, not naively positive, but positive for a reason because of the underlying strengths we have as a city. Talent and the infrastructure is still going to be here and we have to make sure we get the right deal with the EU.

Q1319 **Karl McCartney:** Who do you see as your key stakeholders that you represent when you are representing London in the process of exiting the EU? Is it going to be your constituents—eight million plus of them—or is it going to be businesses? Is it going to be City based businesses like the financial sector?

***Sadiq Khan*:** Good question. When it comes to the meetings I have with the Secretary of State, David Davis, we have agreed at the moment to have sector-by-sector meetings on a monthly basis. Businesses are very important. Higher education is very important for obvious reasons. Public services are very important. London doing well is not simply benefitting London. We import £402 billion from across the UK. 20% of the jobs in the UK are from companies with a headquarters in London. There are more people employed in London than Scotland, Wales and Northern Ireland added together.

The key stakeholder clearly, Karl, for obvious reasons is my electorate, but the wealth created benefits the entire country. I have met with the First Minister of Scotland, the First Minister of Wales and the Finance Minister of Northern Ireland because, the way I see it, London's ecosystem is very diverse and complex, but we are part of a complex UK ecosystem as well.

Q1320 **Karl McCartney:** I have just a couple more questions. You very kindly forwarded us a copy of this. I just wondered, your name has been put onto this document. Are the people who wrote it all from one side? Do they, like you, seem to get the fact that we are going to be leaving and that Brexit is going to happen or are there still some people who are perhaps glass half-empty types, who we have seen an awful lot of at this Committee?

***Sadiq Khan*:** The drafting was done by staff in City Hall and in the economics and business team—my views, Deputy Mayor's views, City Hall staff views. What I also did, Karl, early doors in late autumn, approaching December, I asked my team to try to identify experts in various fields that affect the ecosystem. It could be construction, trade, finance or tech. We set up a Brexit expert advisory panel. We did not ask them how they voted. What we wanted was expertise in area. One or two are clearly "outed" as remainers, for obvious reasons, but they were there for their expertise. On a daily basis I speak to people in public services and business leaders, and my key point that I make when I meet these people across London is I accept the results of the referendum. I may not like it, but those are the rules and we have to make sure we make the best of the vote on 23 June.

Q1321 **Karl McCartney:** You guessed where I was going with my last question because I was going to ask you about the Brexit advisory panel. You obviously did not get where you are because you are stupid. I used to work in the City. I know a large number of the people who are on the Brexit advisory panel. My question to you was going to be is it an equal split of people who campaigned or voted to remain or leave or does it all come from one side of that fence, shall we say?

***Sadiq Khan*:** I could not answer your question because we did not ask them how they voted. We did not. We know how one or two voted because they were campaigning openly, but some of them probably would not tell me, for very obvious reasons, because of the work they do.

Q1322 **Karl McCartney:** Have the organisations they represent though been on one side of the fence?

***Sadiq Khan*:** Some have quite clearly, but all of them are pragmatic, whether they are in construction, whether they are in tech, whether they are trade experts, whether they are financial, immigration or legal experts. They are all experts in their field. They are there for their expertise. They are there to advise me what the best deal for London is.

I will give you one example, Karl. At the last meeting I had with David Davis we looked at the creative industries. I took along with me, to that meeting with David Davis, Sir John Sorrell, who co-founded the Creative Industries Federation. By the way, the fastest growing sector in our economy is the creative and cultural sector, which is one out of six jobs in London. That is why he is there—for his expertise, not because of how he may have voted last June. I could not tell you how John voted last June. I will say 96% of those in the Creative Industries Federation, when surveyed, were going to vote to remain, so I can guess which way he was going to vote, but they are pragmatic. They want to make sure we get a good deal from the EU.

Q1323 **Mr John Whittingdale:** You said it is important to be positive, but your version of positive appears to be that London is a great city and will do well despite Brexit and your paper is full of uncertainties and risks. Can you tell us what positive opportunities and benefits do you see for London from leaving the European Union?

***Sadiq Khan*:** The key thing is to make sure that we get an interim deal for two years and one day. That is the first thing in relation to the stability. There are two issues. One is keep what we have. To your question, how we use the opportunity of leaving the European Union for our city, the short answer that will be answered best by the talent and innovation in London. I am not an innovator. I am a politician. What I can do is to create the environment where these businesses prosper. What they are telling me is, "We will carry on prospering if the underlying strengths carry on". Access to talent is very important. There is the diversity of London. Why has fintech taken off in London? It is the proximity of the financial services in London and the tech expertise and venture capital. Compare and contrast Silicon Valley. They have the tech expertise, but not finance. The opportunities are that we have everything close together in London.

Q1324 **Mr John Whittingdale:** You are still giving me reasons why the fintech sector or whatever is going to do well despite Brexit. What I am saying is you produced a document that is full of risks, uncertainties and negatives. Is your office not doing some work to identify real opportunities that have not existed before but will now be available once we leave the European Union?

Sadiq Khan: Sorry, I did not answer your question. London & Partners is an organisation that we work with, co-founded by the previous Mayor, which looks at trade opportunities around the world. We have an International Business Programme that is looking for opportunities around the world, including trade missions all around the world. You will appreciate that what we can do is business-to-business links with businesses around the world. We are not just reliant upon those in the EU, but all round the world. There are opportunities there in relation to talented people in London who want to go around the world to get trade links.

One of the opportunities is in relation to scale-ups and how they can scale up by forming mergers and partnerships and tapping into venture capital from other parts of the world. We should not be pessimistic about the innovation in London to find opportunities where they exist.

Mr John Whittingdale: I am pleased to hear you say that, but it does not come out very strongly in this document.

Sadiq Khan: There is a very good reason why. My document is a response to the Government's White Paper. The Government's White Paper is a response to how we negotiate with the EU post leaving the European Union.

Q1325 **Mr John Whittingdale:** What your document says is that the Government's negotiating position puts Britain's economic prosperity at risk. You then go on to say that the tariffs and barriers that might come will significantly damage London and the UK's economy. You say that if we do not conclude a deal and revert back to WTO this would be a disaster and our economy would suffer. Surely your job as Mayor of London is to talk up London and tell people that London is going to be an even greater city once we leave the European Union, not that it is at risk and is going to suffer all these dire consequences.

Sadiq Khan: I appreciate the advice on how to be a great mayor, but one of my jobs is to articulate what businesses tell me. This document crystallises some of the comments made to me by businesses and business leaders. I made the point that these are optimistic businesses and business leaders that have chosen to come here and love being here. They are expressing to me their concerns and their frustrations, which I will articulate into the Select Committee and others as well. They are optimistic, John. They would not be here if they were not optimistic. They love being here.

I can be naively optimistic or optimistic with reason. I am optimistic with reason because of our underlying strengths. They are not going to change, but it would be unwise for me not to articulate to you what is being told to me by businesses and business leaders from finance, from creative and culture, from public services and from construction.

Q1326 **Seema Malhotra:** The Prime Minister has effectively put controlling immigration ahead, some argue, of the needs of the economy. There has been concern expressed, indeed also by you, about the end of free movement as we know it and the impact that could have on the London economy. Some groups, including the City of London Corporation, have suggested a regional visa system or some form of regional element of immigration policy. What is your view on having London-specific visas or work permits and how would you see those working successfully?

***Sadiq Khan*:** I accept that some people who voted to leave the EU voted to leave the EU out of concern around immigration. London was the one region in England to vote to remain in the EU, in some boroughs at 78% or 79%. My point is simple. Not only do we need talented people and immigration, but London voted that we want it as well.

Let me give you one example of some of the dangers about the view that reducing immigration to the tens of thousands trumps economic growth. Let us say, for argument's sake, that immigration was down to the tens of thousands. Best case scenario according to that figure is 99,999. Using the current proportions of immigration, as a city we get 38,000 of the 100,000 immigration per year. In the construction sector alone, we employ 300,000 in London. Of those 300,000, 50% are born in the UK. Between 10% and 20% of those 50% are going to retire within five years. I accept we have to do much more to skill up our youngsters to have the jobs for tomorrow. It is really important. In that scenario, even putting aside the tech sector's need for immigration, the cultural sector's need for immigration, the financial sector's need, social care's need and the NHS's need, that level, 38,000, is not enough to look after our construction sector. The evidence from the Chartered Institute of Personnel Development and others is there are some people already leaving the UK to go back to countries of origin.

The short answer to your question is if we cannot continue to attract talent it will have a huge impact on our ability to be a wealth generator for our country. Just to give you an idea of how much wealth we generate for the country, 23% of the economic output of the country comes from London. 21% of the revenues HMRC gets comes from London. One-third of growth comes from London. You do not make our country more equal by making London poorer.

Seema Malhotra: Thank you very much for that answer.

***Sadiq Khan*:** I am sorry. I did not answer your last point in your question about the regional work permit. My point is not to carve out a special deal for London. I am saying we need a flexible immigration system that recognises different parts of the country have different needs. What the London Chamber of Commerce has done and, separately, what London First has done—these are business groups—is undertake work in relation to how a regional work permit system or a regional visa system or a flexible immigration system could work so that London would carry on being able to attract talent, which we need.

Q1327 **Seema Malhotra:** Do you have a view about what role your office would play or be part of the decision making about what the needs of London were, particularly in relation to any sector that the economy was dependent on? You have also raised the issue of construction, and whether you would be seeing that as tied in with perhaps the economic development strategy for London.

***Sadiq Khan*:** We will work closely with the Government in relation to a flexible immigration system. I am not saying we have a London borders agency, nor am I suggesting building a wall around the M25. What I am saying is London's needs are different to the rest of the country. A question John alluded to is one of the strengths we have that provides us with opportunities post-Brexit is our workforce and the talent we have here. If we cannot continue to attract talent it affects our ability, whether it is biomedical research, life sciences and the universities' work, whether it is fintech or whether it is culture and creative industries.

We see ourselves growing economically. That means working constructively with the Government. I am not in favour of unilaterally declaring independence. We will work closely with the Government to make sure the country benefits. You mentioned finance. Two-thirds of financial jobs that start off in the City of London Corporation are created outside London, whether it is Birmingham, Leeds or other parts of the country. We recognise that we benefit the country. I am hoping the Government do as well.

Q1328 **Seema Malhotra:** Could I just ask you this question as well? There was a report that came out today. It was ManpowerGroup's employment outlook survey. It is a survey of over 2,000 employers and it suggests that employment optimism in the capital has slipped to 3% below other parts of the country, particularly with some concerns about the financial sector. The spokesperson for the group has said Brexit uncertainty is beginning to bite for London's employers. Is that something you recognise and could give one or two specific examples of what employers may have said to you that is contributing to uncertainty and to a slowdown in hiring?

***Sadiq Khan*:** There definitely is an uncertainty. If you were to ask me what the biggest causes are, the two biggest causes are the lack of an interim deal, so what happens two years plus one day should a deal not be done? Secondly, is the rights of 1 million Londoners, and they are Londoners, who are EU citizens. The uncertainty is causing them problems and, by the way, some of them have children born here, are married to Brits and their families are Brits. That uncertainty about their future feeds into their businesses.

I will give you a couple of evidence-backed examples, aside from the anecdotal stuff I have been told. More than a quarter of the employers the Chartered Institute of Personnel Development surveyed said their employees were considering leaving their firms and leaving the UK as a consequence of the lack of a cast-iron guarantee. The British Chamber of

Commerce did a survey of more than 7,000 businesses in London and they said the uncertainty is meaning businesses are finding it harder to make decisions around investment and recruitment. That is aside from the examples I gave you in relation to UBS, JP Morgan and HSBC in relation to the financial sector.

Businesses are delaying making decisions because they are not sure what is going to happen in two years and one day, but also some of their staff, who work incredibly hard, are thinking of going back. By the way, some of them are going back to their country of origin because they fear there could be large numbers going back to country origin should the guarantees not be given, so they would rather go back to country of origin first and have a head start. That is not good for us because we rely upon these talented people. Like I said, 1 million of the 8.6 million Londoners are Londoners originally from the EU.

Q1329 **Seema Malhotra:** Just following on from that answer, is it your view that there should be some form of preferential immigration system or some flexibility around the rules for EU workers for some parts of the UK labour market? Should that be part of the negotiations between the UK and the EU?

***Sadiq Khan*:** Just to give you an idea, one out of three EU citizens who are in the UK are in London. What I would like the Prime Minister to do when she has served Article 50 at the end of this month is on that date say, "I give a cast iron guarantee to all the EU citizens that are already here" and then to streamline how they get permanent residency". That would show an act of good faith when it comes to negotiating with the EU. This is not clean break divorce. This is a negotiation that will lead to a relationship post us leaving the EU. What a great way to start a negotiation it is saying, "As a gesture of good will we are giving a cast-iron guarantee to the EU citizens here". That will hopefully lead to an amicable and fruitful negotiation with the EU.

The short point is this. We do not just need the talented the EU Londoners that are here. Some of the low-skilled jobs are done by EU citizens who are Londoners as well. We want them to stay here. That does not mean we do not have a responsibility to train up local people to have the skills for the jobs of tomorrow. We have set up Skills for Londoners and we have plans for a construction academy to make sure that, at the same time as we can attract talent, we train up our youngsters to have the skills for the jobs of tomorrow. It is really important.

Q1330 **Mr Peter Lilley:** I welcome your positive and pragmatic approach. As John said, I hope you will apply that to the opportunities when we leave. You say that leaving the single market would be a mistake. Sir Ivan Rogers, when he came here, reminded us that in law there is no such thing as the single market, so I wondered what you used the term to mean.

Sadiq Khan: We are leaving the single market.

Mr Peter Lilley: No, I was asking what the single market is, so we know whether we are leaving it.

Sadiq Khan: It is the opportunity to do business with the 27 countries that are left there. The issue is whether we have privileged, unfettered access to the single market. By that I mean in relation to the goods whether we can have tariff-free. On services, we do not want non-tariff barriers in relation to regulatory and legal frameworks, which are crucial to the services industry. But we are leaving the single market.

Q1331 **Mr Peter Lilley:** It does not exist in law. There is the internal market and the European Economic Area. I wonder which you wanted to remain part of. You can only be part of the internal market if you are a member state, so did you mean the European Economic Area?

Sadiq Khan: We can have a debate about what it means. It is the 27. We could talk about the 27 countries and Norway, Iceland, Liechtenstein, and we can talk about Switzerland. My point is very simple, which is we are leaving the single market. We are leaving the EU.

Mr Peter Lilley: We are leaving the EU. It is a mistake to leave the EU, is what you meant.

Sadiq Khan: That ship has sailed, Peter. The point is we have voted to leave the EU structures and legal institutions, but businesses are telling me, "We would like unfettered access".

Q1332 **Mr Peter Lilley:** Absolutely. That leads me on to the main gist of my questions about this transitional arrangement, which puzzles me. Either we succeed in negotiating a deal, which largely continues the status quo—tariff-free and no unnecessary new barriers—or we have no deal. If we have no deal that is because they do not want a deal because they want to make life difficult for us to discourage other countries from following suit and their voters from voting for Eurosceptic parties. If we have a deal it would be a deal that moves from zero tariffs to zero tariffs and from identical regulations to identical regulations. The only new thing we need to do as far as no tariff barriers is concerned is have a mechanism for dealing with divergence. Why should it take any time and why do we need a transition from zero tariffs to zero tariffs and from identical regulations to identical regulations?

Sadiq Khan: I want to be more generous than you and not question the motives of our EU partners.

Mr Peter Lilley: I think it is perfectly reasonable.

Sadiq Khan: Let us assume that you are right and a deal is done in less than two years, in which case what was the downside of having an interim deal already should that not happen? What is the downside of erring on the side of caution?

Q1333 **Mr Peter Lilley:** What would an interim deal consist of if the end point of the interim deal is the same as the beginning? I can see you have an interim deal, as we did in 1973, where we had to converge our tariffs with those they would like us to un-tariff and we did it over four years. If you start with zero tariffs and you end with zero tariffs what do you do in the interim?

Sadiq Khan**:** First, I cannot assume, as you have, that the terms of our trade agreement with the EU will be identical to the terms as they are now. Point number two, let us assume for argument's sake no deal is done in two years. I know in your scenario it is not going to happen and there will be a deal done in less than two years. If that is the case, unless the other 27 countries agree, we crash out of the EU. If we leave the EU the terms of the trade all the businesses we are talking about have with the EU and the countries with which the EU has a deal are WTO terms.

My point is this. You ask the question what is the point of an interim deal? The point of an interim deal is this. If it is the case that we cannot do deal in two years—it could take three years; it could take two and a half years; it could take two years and one month; it could take four years—businesses in London have the certainty of knowing there is a plan in place for two years and one day up until a deal is done. It could be two and a half years.

Q1334 **Mr Peter Lilley:** I still cannot see what it can consist of. Sir Ivan Rogers, when I put it to him, how could it take more than 10 minutes to negotiate zero tariffs to zero tariffs said, "Yes, I suppose you are right". How can it take more than a few weeks to negotiate a divergence mechanism, such as exists in most free trade agreements, when you start with convergence?

Sadiq Khan**:** You are making my point for me, Peter. In which case, what have you got to lose? What have you got to lose?

Mr Peter Lilley: I am absolutely puzzled. If you say, "Please can we negotiate something we do not need?" you are going to use up you're your negotiating time.

Sadiq Khan**:** With respect, on the one hand you are saying it takes 10 minutes to do a deal with the EU, in which case you do not need two years.

Q1335 **Mr Peter Lilley:** It is 10 minutes to go from zero tariffs to zero tariffs. There are lots of other things that would take that time. You have not told me what you want to do in the interim between zero tariffs and zero tariffs. Do you want to have a plan for introducing tariffs and removing them again? That takes far longer to negotiate than just keeping zero tariffs.

Sadiq Khan**:** One of the things that the interim could deal with is the issue of arbitration should there be a dispute. One of the issues that the interim deal could deal with is, for example, EFTA has a surveillance authority that looks at monitoring how the directives have been implemented. One of the things the interim deal could look at is who is the monitor who monitors the implementation of relationships.

My point is this, Peter. I have given you two examples in relation to what an interim deal could deal with. The issue is what are businesses asking for. I am not an expert in arbitration or the monitoring. What I do know is from the soundings I have taken from businesses, they are telling me they are worried about what happens in two years and one day should your optimism prove to be not realistic.

My point is simple. You may well say it does not take long to go from zero tariffs to zero tariffs, subject to the other things being done, but the businesses are worried that there is a possibility it might not happen. In which case, let us err on the side of caution and have an interim deal to avoid falling off the cliff edge. By the way, the White Paper recognises the possibility of falling off a cliff edge and the cliff edge is a phrase used in the White Paper.

Q1336 **Mr Peter Lilley:** I should explain. I am not optimistic. I do not think they will agree a free trade deal. Probably not. They may. They ought to let economics prevail, but politics probably will. If they, for political reasons, want to make life difficult for us they are not going to make it easy for us. It is like a headmaster saying, "I am going to beat you, but so that it does not hurt I will put a book down your trousers". If you want to punish people you do not make it less painful. The transitional arrangement, as you envisage, is to make punishment less painful. I do not understand that. There are no circumstances in which they will want to punish us but want to make that punishment painless.

***Sadiq Khan*:** That is the point of view you have. My point of view is different, which is: let us work on the basis that we will reach a deal in two years' time. That is fantastic. Everyone is happy. There is a possibility we will not. If that possibility exists businesses would prefer the certainty of knowing there is an interim deal that will apply from two years and one day up until we bear fruit in relation to a final deal.

There is a separate issue you are talking about: how do you phase the implementation of the final deal when it is done. I am quite clear in relation to what businesses are telling me, as demonstrated by the CBI in the evidence they have given, that an interim deal can provide the certainty not least financial services need in relation to what happens in two years and one day.

Q1337 **Mr Peter Lilley**: You think you can have a transitional deal to a destination you have not decided upon.

***Sadiq Khan*:** That is the question you have to raise with David Davis and the Government surely rather than me in relation to this.

Mr Peter Lilley: It is you that is proposing it. He ruled out transitional deals for anything but a few minor sub-sections last Thursday.

***Sadiq Khan*:** To be fair to the White Paper, there is a recognition that the deal may not be done in two years. My point is very simple. Rather than falling off a cliff edge and lining up on WTO terms, why not have an interim deal that will take us between the period of two years and the final deal being done?

Q1338 **Alistair Burt:** Sadiq, Good to see you. Higher education and research—there are some 40 different higher education institutions in London, 400,000 students and £7 billion of turnover. The Horizon 2020 programme is coming through from the EU with something like €70 billion of funding. London's universities have tended to do well out of these. UCL and Imperial in particular are in the top 10 of those institutions receiving European grants. Following on from Karl and from John, what bit of leaving the EU most excites them in view of the future opportunities?

***Sadiq Khan*:** They have not articulated to me any excitement. Thank you for reciting why we are the world's capital when it comes to universities. People may not realise, but we have more universities in the top 40 global universities than any other city in the world. We have four, and two in the top 10. If you look at some of the work being done in relation to biomedical, it is the synergy of life sciences and the universities. It is amazing stuff. We have more Nobel laureates than any country besides the USA.

I have not had articulated to me from the universities any excitement. They are worried about less collaboration. They are worried about losing some of the research funds. 17% of higher education staff are from the EU. Something like 12% or 13% of undergraduates and 16% of postgraduates are from the EU. There is no excitement, but they want to make sure that we are still the world leader post leaving the EU.

Q1339 **Alistair Burt:** There will be some opportunities and that will be explored in due course. Looking at some of the worries that people have brought to you in particular, at the moment what is the thought about the access to research grants? There is no particular reason why European collaboration should be confined solely to EU countries and most European collaboration goes beyond the EU. Worry has been expressed about that pool of EU research funding.

At present, is there any evidence coming through that collaborative projects are becoming more difficult and that people are worried about associating with UK universities? Is it a bit too early to tell? Is work being done to make sure that new structures are put in place to make sure that as the EU collaborates with universities outside the EU at the moment the UK will form part of that and therefore some of the concerns and worries that people in my view quite understandably have are being reassured?

***Sadiq Khan*:** The Crick Institute opened last year in London around the knowledge quarter in St Pancras. It is an amazing life sciences centre, with people from around the world, not just the EU, so there is optimism there. There is a concern in relation to talent wanting to come here. If you have a young family and you are not sure about your future you may be thinking about going to back to country of origin and there are examples of that happening. We have seen a drop in relation to EU students applying to come here. They are the pipeline of talent going forward.

A survey done recently from Ipsos MORI in relation to G20 countries around the world had a 40% change in negative views of the UK post Brexit. Those sorts of examples are there, but at the moment we get the most European research funds of any country in Europe, way ahead of Germany, which is second. We do really well. The Erasmus stuff is a worry. Erasmus is the scheme by which our students go to the EU and they come here. It is that collaboration that is really important. So far there are no concrete examples of projects being lost or research being lost. To be fair, the Government's reassurance of continuing the funds until at least the end of the negotiations has helped. There is a question of what happens after the end of the process of separation to the funds, if there is a decision taken by those who are donors not to give us funds because we have left the EU.

Q1340 **Alistair Burt:** On the recruitment of talent at senior level, because academics travel worldwide, is there any evidence that the UK will be disadvantaged among those who might be deans or principals, who could go and work in the United States or anywhere, or could come and work in London? At present, is there any suggestion of any threat to that and that they would not come to London because of uncertainty about status? Is it too early to tell? Can people be reassured that this should not be a problem?

***Sadiq Khan*:** I am hoping I am doing justice to the representations made to me. So far no there are big examples of people leaving or not coming here because of the decision taken. There is a concern though when I speak to those who are experts in this area about what could happen in the future. We have already seen it in relation to students from India and China. Instead of coming to this country they are choosing to go to Canada, America and Australia. The concern is around some of the research experts who would come here in the past. By the way, the greater south east conurbation is quite amazing in relation to life sciences and biomedical research. There is a concern over what will happen in the future with people with young children and families and stuff in relation to the lack of certainty or the lack of a cast iron guarantee. At the moment there are no concrete examples I can point to.

Q1341 **Alistair Burt**: What the Government are promising to do to make the status of people a very key part of the early process of the negotiation should be of huge benefit, and you would encourage us to make sure the

Government do as much as it can as early as possible because it should be of huge benefit in London.

***Sadiq Khan*:** Absolutely. I am hoping the Prime Minister decides in the Article 50 notice to say, "Cast iron guarantee to the EU citizens who are here". By the way, do not forget, many of them are married to Brits or have children who are Brits, and so they have to plan for the future.

Q1342 **Alistair Burt:** Just as a last point, I come, as you know, from exactly the same position as you, as a passionate remainer, and now accepting and getting on with something with very different. You are building a new relationship with Europe because, although understandably there are worries at the moment, what we cannot do is harp on those. We have to build the new structures that will make sure this new relationship with Europe will work for universities and for London and try to do something different to what has been there before. If we are going to have the continued strength of the higher education research institutions based in London that is a job that must be done.

Are you comfortable at the moment that your relationships with both ExEU and the Department for Education are strong enough so that the people there understand what the concerns are and are going to make sure that your interests are put very high up the agenda?

***Sadiq Khan*:** I mentioned that when I have my regular meetings with David Davis we have now agreed to do sectors. The one before last we discussed life sciences. It is quite clear David Davis is aware of the area. He already had knowledge of the area before I went in to make representations to him. He has already met some of the businesses that are creating jobs in this country that have articulated to him their concerns. That reassures people I go back and speak to because often when I am meeting people in life sciences the good news is they have met civil servants from the department or they have made representations to David Davis.

They key thing for them is to make sure that Government understand what is so special about this and why the ecosystem is fragile, but also the opportunities for us going forward. So far so good, Alistair, but the proof is going to be when it comes to the negotiations. They are optimistic. Their profession dictates that they are optimistic, but it is really important the Government recognise we are world leaders in this. The European Medicines Agency is headquartered in London in Canary Wharf. That is probably going to leave, but how does that impact around collaboration? We can still make it work.

Q1343 **Stephen Timms:** You are absolutely right, Sadiq, to sound the alarm about some of the challenges ahead. I was in Berlin last month and met a minister from the state of Hesse who was telling us about their efforts to persuade particularly American banks to move staff from London to Frankfurt. You have told us already that there have been announcements of some thousands of jobs moving, with other organisations announcing their contingency arrangements over the coming months. What do you think the Government's negotiating aims, specifically for the financial services sector, ought to be?

***Sadiq Khan*:** Putting aside for a second the difference of opinion, one of the key things they want is certainty—what happens in two years and one day? The process matters as much as the substance. The substance of what they want, from a whole host of issues, is unfettered access to the single market, passporting of financial services and the continued ability to attract talent. Those are the substantive points they want that I refer to in some of the submission that I have given in writing. The process matters in relations to what happens in two years and one day.

It depends what business you speak to. HSBC, for example—I am not giving away any secrets—has a big presence in Paris, so the time it will take them to move some of their operation to Paris is shorter than a bank or institution in London without a presence in an EU city. They will need more time. If, for example, in the next few weeks post Article 50 being served they have not got the reassurance that there is going to be an interim deal in two years and one day they all start making plans to move some of their operations. By the way, they do not want to leave. They love being in London because of the legal system in London and the unique system of tech, talent, finance, legal services and our courts. They love that, but they will have no choice but to go is what they are saying to me.

Q1344 **Stephen Timms:** You have mentioned passporting. I know you previously said that losing the passporting rights for the City would be a disaster. Does that remain your view, specifically on passporting?

***Sadiq Khan*:** When you speak to the Chief Executive of the London Stock Exchange he will tell you about the jobs created as a consequence of, for example, the Stock Exchange, clearing. We do not have the euro, but we are Europe's capital for clearing. The knock-on impact on jobs is huge, and so if we were to lose some of that that would huge knock-on impacts in other parts of London's business community, but also other parts of the country. Two-thirds of jobs in finance are not in London. They are in other parts of the country, so we cannot assume that this just affects the City of London or London. It affects the entire country, and so there is a big concern in relation to what happens if we cannot do a deal in relation to that.

By the way, you are absolutely right to talk about missions and Berlin's keenness to pinch some of the business. There are missions on a weekly basis in London from Berlin, Dublin, Paris, Lisbon, Milan and other cities. They are coming to London on a regular basis courting some of these businesses to come to their cities.

Q1345 **Stephen Timms:** Specifically on passporting, it has been reported that TheCityUK has given up on the idea that the UK could keep financial services passporting. Have you given up on that or do you think that passporting, as it is currently enjoyed in the City, could be maintained?

***Sadiq Khan*:** It is up for negotiations. The key thing is we should ask for it and we should try and get it. I am not sure TheCityUK is saying this, but I would not want the Government not to try to get it. We should try to get it. It is all a negotiation clearly and there is a quid pro quo in relation to what they want in return. The good news is, when you speak to banks and financial institutions, there is no one city they all agree on to go to. This bank may say Dublin, another institution may say Paris and somebody else may say Frankfurt. London is the only city where it is the destination for all these banks and institutions. They do not want to go. If we keep financial passporting it is a real boon for us and we and we should be trying to do that.

Q1346 **Stephen Timms:** Have you made an estimate of how many jobs could be lost if we are not able to keep passporting?

***Sadiq Khan*:** What is very important for me as the Mayor of London is to be positive. My body language is very important, so I am not a doom merchant. I am saying we can keep these merchants and I am positive. The underlying strengths we have as a city remain there. I deliberately only referred to the stuff in the public domain, for reasons that you will appreciate. What I say to chief executives, whether they are American, Canadian, Japanese or European banks, is our underlying strengths will remain. We have talented people in London. We have a complex ecosystem. We are in close proximity to other sectors. The language is a real advantage. Where we are in relation to the world's geography matters as well. What I am not doing and I will not do is talk about job losses and stuff. I am trying to persuade bosses and chief executives why they should stay here.

Q1347 **Stephen Timms:** You have highlighted the problems of uncertainty at the moment and there is every chance that uncertainty could last for some time. How long do we have, do you think, for the Government to get a clear arrangement to stop the haemorrhaging of jobs from the UK?

***Sadiq Khan*:** One of the questions I asked—and this is a really important point—is I gave the three examples in relation to announcements already made. One of the reasons why I am so keen for the Government to try to get an interim deal as soon as possible is to avoid, call it what you like, the domino effect or contagion in relation to once one goes the others go.

Banks are telling me what they want is certainty and clarity. Should we get a deal in two years, in 23 months, fantastic. We will not know that until 22, 23 or 20 months down the road. Banks cannot wait that long. They have shareholders to report to. They have a responsibility to their staff. They need to make plans much sooner. Those banks that have a presence in Europe have a shorter timespan to make decisions, but best case scenario is a year, some nearly two years, some 18 months, so sooner rather than later. That is why I said to the Chair that as far as I am concerned the key things are two things. One is the interim deal and two, which is linked, the cast iron guarantee to EU citizens who are in London and this country.

Q1348 **Peter Grant:** I want to talk first about the single market. I am not hung up as to whether the term in those exact words exists in the European treaties. I have a document in front of me that in the space of two pages makes seven mentions of the single market and how important it is for us to stay in because we benefit from it. I do not know if you will be familiar with it. It is called the Conservative Party manifesto 2015, so some people in here will be very familiar with it.

When I hear people talking about the single market I take it that they are talking about a group of nations that continue to preserve their own sovereignty, but have agreed that it is in everybody's interest to establish the principles of free movement of people, free movement of goods, free movement of services, free movement of capital without any hindrance to any of those. Is that what you understand by the phrase "single market" when you refer to it in your evidence today?

***Sadiq Khan*:** That is the way it has been and that is the way it is. I accept, by the way, Peter, that the Government, when they go into negotiating with the EU, will not want to leave with a new deal that includes free movement of labour. I accept that in relation to what the Government's negotiating position is.

My point is very simple. If you start a negotiating position saying that you are leaving the single market and leaving the customs union that causes huge concern to employers and people who create jobs, wealth and prosperity. My point is linked to that. What I have been told is we will not have unfettered access to the single market. That is really important for us, but also we need to continue to have the ability to attract talent. One of the reasons we are successful as a country is our ability to attract talent. You may say that is not different to free movement of labour. I am quite clear in relation to being pragmatic and recognising the Government do not accept free movement of labour.

Q1349 **Peter Grant:** In the statement you made very shortly after the referendum you were very firmly of the view that staying in the single market was the best option. You have clearly accepted that the Government are determined to head off on a different course. If it were possible to set a course other than what the Government have set just now do you still believe that the best option would be for us to remain in the single market?

***Sadiq Khan*:** Yes.

Q1350 **Peter Grant:** You have also referred to the need for flexibility, not only on immigration, but on the permission to work, whether it is by way of visas or work permits and so on. Are you still looking for a system that allows regional or city based work permits in London so that people could come here and would be allowed to undertake essential work in London, but they would not have permission to go and work somewhere else?

***Sadiq Khan*:** That is one way to square the circle. I accept parts of the country—I am being careful with my language—do not want immigration. There is a separate argument about whether they need it, but I accept that. I accept the political conundrum the Prime Minister faces in relation to her party. I accept that. My point is very simple. In London we want it and we need it. By the way, that is not just skilled jobs, but also some of the lower skill jobs as well. My point to the Government is that if we are going to carry on a situation where London is successful in relation to a future immigration policy you have to be flexible in relation to London's needs. We need it.

Peter Grant: Thank you. I prefer to refer to different skilled jobs because there are a number of skilled jobs in the city of London I could do. There are a number of supposedly unskilled jobs that I would not be capable of doing. I do not like referring to unskilled jobs.

***Sadiq Khan*:** I think I said lower skill.

Q1351 **Peter Grant**: Can I come back to the paper that you produced, "London's Global and European Future". There were some questions earlier about how that came into being. It is quite noticeable that almost all that paper is written in the first person from you. I took that to mean that although you had taken views, advice and comments from a very wide range of advisers that the report was yours.

***Sadiq Khan*:** That is fair.

Q1352 **Peter Grant:** Finally, you mentioned in your opening statement that you had been seeking to engage positively with the Government in order to get the best possible deal for London. I would certainly commend that. With regard to, for example, regional work visas for London with regard to possibly having a slightly different setup for London as regards access to markets, can you tell us what movement there has been from the Government back towards you? Have they been making concessions towards you?

***Sadiq Khan*:** In relation to that particular issue they are listening. The White Paper recognises the ability to attract talent is very important. The proof will be in the pudding. At this stage, the fact that I have regular access to the Government is a win. I can make robust representations to the Government in the form of David Davis. He appears to be listening. He appears to be knowledgeable in the areas. He is. My job is to persuade the case is unarguable for there to be recognition that we need a flexible immigration system in this country. That is unarguable that if London is going to carry on being the greatest city in the world we need to continue to attract talent. I will make sure when it comes to the future deal we have that it recognises that.

Just on numbers, if you have tens of thousands, even the top end, 99,999, and our percentage is 38%, it is not enough. It is in nobody's interest for us not to be successful. By the way, Peter, if you are a

Brexiteer, it is in your interest for our country to continue to be prosperous afterwards because you want to be on the right side of the argument. Me as a remainer, I could cross my arms and sulk and say, "I want you to fail". I could say, "I told you so", but I do not want that to happen. I want our city and our country to succeed. My point in relation to how successful I will be in relation to immigration and other areas is it is in the Brexiteers' interest for us to get a good deal because that way we will carry on being successful and prosperous and then they can say, "I told you so".

Q1353 **Peter Grant:** It is in everybody's interest to get a good deal because I would not quite say we are all in it together, but we are all certainly in it one way or the other. The Select Committee, in its report last week, recommended that the Government should formally respond to the submission you have made. I have taken from what you have said that you have not had a formal written response as yet. Have you been given any reason to believe you will get a formal response as opposed to just tea and cakes with the Secretary of State?

***Sadiq Khan*:** I have not asked for a formal response. He has not offered me cake yet, to be fair, but he is listening and he is engaging. He is going on visits and it is really important that he takes on board. To give a simple example in relation to the last meeting in relation to creative industries, it is a good thing the Secretary of State understands how important the creative and cultural sector is to London and the country. One out of six jobs in London are in the cultural and creative sector. He understands that these jobs can leave very easily. They can leave London very easily in a number of different areas.

Some of these people who work in London are self-employed, they are freelancers and they are young, so there is no reason why they could not go elsewhere. Part of the job is to make sure the Government understand the complexity of our flexible workforce, why it is important to our GDP and economic output and then, when it comes to them doing a deal, that they will have that in their mind to make sure they do not do a bad deal because it will affect all these things.

Q1354 **Jeremy Lefroy:** Can I commend your pragmatic optimism? That is absolutely the right way to go. Just very quickly on the EMA, you indicated that it is possibly going to move from London. I would argue we should fight to have at least dual-seat EMA, where it could remain in London and possibly be somewhere else within the European Union. It is too important for our life sciences and pharmaceutical industries and I believe it is too important for the rest of the European Union to lose the London input in that, so I would really urge you to put up a real fight for that and urge the Government to do so.

In terms of talking with colleagues in Europe about London's position as the preeminent financial centre, how much of an indication have you had that they see London, whether in our out of the EU, as a real advantage for the rest of the countries of Europe, whether they are in or out of the

EU?

***Sadiq Khan*:** This is interesting because it depends which country's politician or businessperson you speak to and what time it is in the cycle. There are big elections this year in France, the Netherlands and Germany.

I am going on visits to Berlin, Brussels, Madrid, Paris and Warsaw shortly. One of the key things I will be saying to city leaders, political leaders and business leaders is, "I do not object to you trying to pinch my business and court businesses in London, but do not assume that so-called hard Brexit benefits you because these banks are not leaving to go to your cities. They are going to go to Hong Kong, Singapore and New York, and so so-called hard Brexit does not benefit you. You should be saying to your political leaders why it is important to do a good deal with the UK". I will say it much nicer than that. The point is it is in nobody's interest.

They are starting to recognise that now, that there are not banks and financial institutions leaving London and suddenly going to Paris, Madrid, Frankfurt, Berlin or elsewhere. Parts of them will though and that is already in the public domain. For example, HSBC has announced that they move some of their operation to Paris. JP Morgan has not said where, but parts of Europe, and it is not rocket science to guess where they are going to go because there is already a JP Morgan branch there. We are the only truly global city in Europe. We are the only global financial centre in Europe. They recognise that privately. The issue is, bearing in mind elections and domestic politics, whether they recognise that.

Q1355 **Jeremy Lefroy:** What are you doing as Mayor of London to encourage other companies around the world to relocate or locate some of their business to London, given the opportunities as well as the challenges that will exist?

***Sadiq Khan*:** Good question. One of the reasons why we had the London Is Open campaign was also to say, "We are open to trade. We are open to businesses coming here, starting up and expanding". We have some great banks and others doing accelerated projects for start-ups to accelerate. It is really exciting stuff. We are still healthy in relation to we are a young city. The average age of Londoners is 34. People want to come here. I explained London & Partners and the International Business Programme. When I go on my trip to Europe I am taking 50 scale-up businesses, so there will be different scale-ups in Berlin in relation to night economy and culture, different scale-ups going to Madrid and different scale-ups going to Paris, using our strengths to build relationships with those cities as well.

Q1356 **Jeremy Lefroy:** A couple of weeks ago I and Nigel Evans met, in Dar es Salaam, Tanzanian business leaders. That is country that will fairly rapidly overtake the United Kingdom in population and possibly reach 100 million, the centre of several hundred million, if not the best part of a billion people, growing at 7% a year. That city has huge challenges. It could well benefit from the expertise of London in meeting those with infrastructure, but it also wants to, for instance, grow a creative hub for that part of that world and is looking to grow financial services as well. What sort of relationships are you making in those parts of the world that perhaps would not necessarily be on everybody's radar, but are going to be hugely important in the coming years and decades?

***Sadiq Khan*:** What I did not appreciate until I became the Mayor was the really good city relationships there are that we can build on and people-to-people relationships. I say this with respect to all of you, but cities and mayors are where the action is. It is really important to recognise that, from air quality issues to job creation.

We had a conference last November in City Hall because one of the things we have in London is a big issue around air quality. I invited all the mayors and transport experts in all these cities around the world, from Delhi to Madrid to cities in countries in Africa. I also invited the bus manufacturers to come to City Hall because the challenge is to make buses that are not diesel. We have the world's first double decker hydrogen powered bus, made by a British company, Wrightbus. The idea is coming together as cities and mayors to solve problems we all face. It could be air quality, infrastructure and creative industries. London is the creative capital of the world. We are the number one tourist destination. Four out of five tourists come here because of our culture. We have the fastest economy. We have really good links with other cities. We are going to build on those.

Q1357 **Chair:** Incidentally, since you just mentioned air quality, where do you think the responsibility, which currently rests with the Commission and ultimately the Court of Justice for making sure European limits are met, should rest here in the UK when we leave? Do you have a view?

***Sadiq Khan*:** Environment is one area where there has been huge progress made as a consequence of us being members of the European Union, not just the Directives, but improvements around enforcement, regulation and compliance have led to huge improvements from household goods to vehicles and appliances. There has been huge progress made on energy efficiency, rivers being cleaner and air quality. My concern the Secretary of State for DEFRA, Andrea Leadsom, said two-thirds of the EU's environment laws an easily be transposed into domestic law. That leaves one-third missing. The Government need to make sure there are plans in place to make sure that we do not have less protection post leaving the EU than we currently have. We should have and some.

Part of the powers and resources should go to the devolved administrations. London is an intermediate body in relation to a number of moneys that we receive. We should be a body that gets money directly from the Government to spend some of this money. The Government are going to continue to fund us for some of these things until 2019. What happens afterwards in relation to a number of these areas? Who enforces the rules that we have? Who makes sure that cities are compliant? What happens if there is our version of infraction proceedings? All that needs to be thought of because what we cannot afford to happen is have less environmental protection after we have left the EU than we currently have. It is really important that there is a new Environment Act that the Government draw up. The Environment Act should have in it what the EU already provides and some.

Q1358 **Michael Gove:** We were talking earlier about potential opportunities as well as challenges that you have outlined in your document. With respect to financial services, there is a directive, CRD IV, which covers the capital requirements of banks. CRD IV implements the Basel rules and the Basel rules are international rules. They are not EU rules. CRD IV implements them more tightly than is required by Basel. In particular, it specifies tier one and two tier capital with a greater degree of specificity and it also has specific requirements in relation to remuneration, which are unnecessary according to Basel. Do you think that the City would benefit by having a more relaxed regime than that which currently applies under CRD IV?

***Sadiq Khan*:** I am not an expert in that area, Michael, but I am sure you could get an expert to answer that question.

Q1359 **Michael Gove:** With respect again to deregulation, it is the case that the alternative investment market financial directive and MiFID have been criticised in the past for being unnecessarily regulatory and inhibiting both consumer choice and market dynamism. Do you see an opportunity if we are outside the EU for changing those or other regulations in order to have a more dynamic banking sector?

***Sadiq Khan*:** Again, I am not an expert in that particular area. What I would say is this. Do not forget there are opportunities everywhere. Do not forget, part of the terms upon which we do business with those businesses in the EU and countries in the EU is having a minimum standard of regulation. Subject to us not losing with our left hand what we are gaining with our right hand, I see in principle no objection to trying to use every opportunity given to us.

Q1360 **Michael Gove:** Given how important financial services are and given, I acknowledge, neither of us are financial services experts, do you think it would be appropriate for you to appoint or to ask your advisory panel to look now at the deregulatory opportunities that would be available to the City of London and to financial services as a result of leaving because, quite rightly, you have drawn attention to some of the challenges. Would you like to look at some of the opportunities?

***Sadiq Khan*:** The good news is we are working closely with the Government. The experts I have meet separately with the Treasury and meet separately with the Department for Exiting the EU. I do not have a monopoly on the expertise and they regularly meet the Treasury to see opportunities and it is really important we try to grasp any that we can.

Q1361 **Michael Gove:** I just wanted to ask briefly about air quality as well. Over the last few years there has been more than a 200% increase in the number of roadworks on London's roads. At the same time, we have bike lanes on our principal highways, which are administered by TfL, rather than the subsidiary roads, which are the province of the individual boroughs. Looking at these issues overall, do you think that we might more easily be able to meet the very welcome rules on air quality if we were to revisit exactly how the provision of bike lanes had been implemented and revisit the regime that allows so many roadworks to operate in London at the moment?

***Sadiq Khan*:** I am an expert on this. Let me say where we are, Michael, and thank you for your interest in this. It is the case that half of the poor quality air in London comes from roads and transport. The other half, by the way, comes from the River Thames, construction and housing. The key issue in this area is the lack of powers that I have in relation to a number of things.

First, look at the number of minicabs in London. There are more than 105,000. It has doubled in the last eight years. I have no power to cap the number of minicabs. By the way, there are 23,000 black cabs. These minicabs drive around and around London waiting for the next call on their app. So the power to cap that would be welcome. The local authorities, to give them dues, do not have the power in relation to ensuring that utility companies act responsibly, paying a fee, fines, and all the rest of it. The good news is that Philip Hammond has agreed a package of more powers to local authorities around roadworks.

You raise a separate issue in relation to segregated cycle superhighways. Less than 2% of our roads are segregated cycle lanes. There is an issue though. When these lanes were constructed, they were constructed in a way that caused huge upheaval and chaos in some of our streets in London. When you look at successful segregated cycle superhighways around the world, they are not permanent structures. They start off as temporary structures which cause less chaos during the "construction phase", but the beautiful thing is that if they are temporary then you can suck it and see. You can move them with minimal disruption if they are causing, what experts call pinch points. We can learn lessons from the way the previous superhighways were done. I hope he is better at Foreign Office diplomacy than he was in the construction of segregated superhighways, but you are right that there are lessons to be learned.

I will say this as well. We are a city with a rising population, going from 8.6 million to 9 million in 2020, and 10 million in 2030. However, people's patterns of behaviour are changing. 20% of road usage is light goods vehicles taking things you have ordered on the internet. 12% is minicabs. Those are the two key things to alleviate congestion and you are right that less congestion will lead to better quality air.

By the way, part of that is moving people away from diesel. 10-15 years ago we, politicians and experts, told people to move from petrol to diesel because petrol causes 35% more greenhouse emissions than diesel. Those poor families, those small businesses and those charities are now churning out this diesel which produces particulate matter and nitrogen dioxide that is killing us—children have underdeveloped lungs—and it is a big problem, so we need to encourage them. If you could persuade the Chancellor to have a national diesel scrappage fund, that would help people to move to diesel and cleaner forms of transport.

Michael Gove: I am grateful for that response.

Q1362 **Chair:** Thank you. I cannot help but observe during that exchange that it was good to hear that there is occasionally a need for experts in order to advise.

***Sadiq Khan*:** Touché.

Alistair Burt: I wonder if you would advise Michael to run as executive mayor of Bagshot or Camberley—which should he go for?

***Sadiq Khan*:** Well listen, can I just say, Michael—

Michael Gove: It is a combined authority.

Alistair Burt: Oh, very good. There you are.

Chair: There will be more colleagues leaving this meeting thinking, "I would like to be a mayor too" after what we have been hearing. We have three other colleagues who would like to ask very quick questions and I would like to bring them all in in the time.

Q1363 **Mr Pat McFadden:** Good morning, Sadiq and thank you for your evidence. I want to return to this question that Seema raised with you about immigration because this is at the heart of this. Immigration, and the national priority now to reduce EU immigration, is driving everything else. It has driven the position on the Single Market and the shape of the Brexit that the Government want to see.

However, you have come along today, and said in the past, that immigration is an asset to London; it is essential to London's success as a global city. How do you square these things? Can you tell us more about how you think a regional immigration policy would work whereby somebody would come to take up a job in London, but presumably under that system, would not then be allowed to take another job in Birmingham, Manchester or somewhere a year or two later. With the numbers that you have talked about, how do you possibly square your ambition for that with the Government's desire to reduce immigration to one-third of its current net level, which would mean no immigrants at all from Europe and cutting immigration from outside of Europe by one-third?

***Sadiq Khan*:** I have been very careful, Pat, not to prescribe a solution to the Government because, A, they would ignore me, and B, it is far better for us to be collegiate and understand the concerns around the country in relation to this area. As I explained, the City of London Corporation and, separately, London First have done two models. There are other models as well. One member of my advisory panel is one of the world's leading experts on immigration and how we go forward in relation to a future model. I recognise that in some parts of the country immigration is an issue. I accept that London was an anomaly in being the only region to vote to remain—by decisive vote, by the way.

My argument is this. Not only do we need it in London, we want it in London. You raise a good question about how you ensure the people you get in London stay in London, for argument's sake. Is it done by geography or sector, bearing in mind that some of these companies have businesses elsewhere in the country. 20% of jobs around the country are with companies with headquarters in London. That is why we are going to have a discussion with the Government.

The starting point is this. Do the Government accept that London is the engine for the country? Do the Government accept that for London to continue to prosper, thrive and succeed, we need to continue to attract talent? If that be the case, how do we square the circle of parts of the country not wanting immigration, but London needing and wanting it? That is why we need a flexible immigration system. I accept that it will not be easy. Canada is one example where they have regional visas and work permits. That is very different to our model.

As a country we cannot run away from the fact that London needs people from construction, social services, the NHS, finance, tech, culture and creative. In all of these areas we need talent. That does not mean that I should be let off the hook in relation to skilling up our youngsters to have the skills of the jobs of tomorrow. We have to do both. My point is that we can do both and one of the things I am looking to David Davis, Amber Rudd and the Government for is how we have a system that recognises our needs and also what Londoners want.

Q1364 **Sammy Wilson:** Just two questions. First of all, you have indicated that many businesses would be nervous about staying in London if there was not an interim deal. That was crucial for them. When do you see this interim deal being done? Would it be the first thing the Government negotiate and therefore in place early on? Should it be after we have the divorce arrangements in place or only after we have been seen not to be able to get a final deal?

***Sadiq Khan*:** My view is early doors. By the way, if we can get an interim deal early doors, that will show that it is possible to get a final deal within two years and is a good way of testing, to follow up on Peter's point, how accommodating our European friends are in relation to a deal.

Let me tell you why I say early doors. Unless we get an interim deal early doors businesses will have no choice but to err on the side of caution and make what they would say are contingency plans in relation to perhaps the trading arm or another part of their business going overseas. It mainly affects the financial services, but we know what a big part of our economy the financial services are.

Q1365 **Sammy Wilson:** How do we get an interim deal if we do not know what is being refused in the final deal?

Sadiq Khan**:** The interim deal and the final deal are two separate things. Let me give you an example. The arbitration that we agreed for the final deal could well be the EFTA Court, for argument's sake, or the surveillance authority that is used by the European Free Trade Agreements, the three countries there. The interim deal may say, for argument's sake, because the interim deal is for a short period of time and is hypothetical, a different form of arbitration or monitoring and implementation.

They are two separate things. One is what happens two years plus one day because we know the consequence of there not being a deal is on tariff for goods, but also the non-tariff barriers relating to regulation and legal framework. What happens in two years and one day if there is no final deal?

Q1366 **Sammy Wilson:** So if we have a tariff deal quickly there will be no need for the final deal. I am not going to pursue that one any longer. You mentioned that as you go around capitals, you have been indicating that hard Brexit may not necessarily benefit the EU because banks could go to Hong Kong, New York or other places. Why would they move from London to New York or Hong Kong since it would have the same access difficulties from those places as they would from London? Why not stay where they have the staff, infrastructure and everything else?

Sadiq Khan**:** That is because they are leading global financial centres. There is no other leading global financial centre in Europe. By the way, these people are not going to leave London and go to New York, Singapore and Hong Kong because they are dying to go there. It is because they have no alternative. Given the choice of London outside the EU, no privileged access to a single market, they would rather be in areas where there are in global financial centres with all of the benefits that that brings to it.

Q1367 **Sammy Wilson:** They will still have the same access difficulties to the EU from those places as they would from London, so why not stay in the global centre where they are at present?

Sadiq Khan**:** It is consolidation of some of the bank operations they have, whether it is clearing or whether it is other operations they have. The reality is no one city in the EU provides the benefits that London does. If they have to move some of their operations outside of London, they are not going to go to France, Berlin, Paris or a European city; they will go to another city. My job, by the way, between now and then, thinking about that, is to persuade them of your point, "Well, you may as well just stay in London" because all of the benefits that there would be in the other places could well be in London. I am just relaying to you what is being told to me privately by some of these banks and institutions.

Q1368 **Sammy Wilson:** I have one final question. You have talked about the contact you have with the Government at present leading up to negotiations. This is important or Northern Ireland as well. What arrangements would you like to see in place for the likes of London, Northern Ireland or other places during the negotiations in terms of contact?

***Sadiq Khan*:** I asked originally in June/July/August/September to be in the JMC meetings that the Government regularly has with the devolved nations. The Government not unfairly said, "You are not a devolved nation" and so that request was declined by the Government. To be fair to the Government, they have said, "We could offer you an alternative, which is regular meetings with senior members of the Government to discuss your concerns, needs and aspirations".

That is happening, but at the same time I have met with the Finance Minister of Northern Ireland, the First Minister of Scotland, the First Minister of Wales. My teams are in regular contact with Northern Ireland, Scotland and Wales because all of us want to make sure that the Government understand what our needs are. By the way, I suspect that there are different parts of England who are lobbying the Government to make sure their needs are understood by the Government as well.

The first stage is to make sure the Government understand what our needs are so that when it comes to the second stage and negotiating with the EU, they have that that at the fore of their mind when it comes to that. There are lots of similarities between Northern Ireland, Scotland, Wales and us in relation to making sure we understand that the Government get our needs.

Q1369 **Sammy Wilson:** Do you have an expectation to be kept informed of what is happening with negotiations?

***Sadiq Khan*:** I think so. We have direct relations with the various devolved administrations who keep us abreast of progress or lack of in relation to JMC meetings.

Q1370 **Craig Mackinlay:** I am glad you are going out to the world with a positive face on about what can be achieved and what could be good for London and the country. I know you floated these ideas of regional visas and perhaps preferential access to EU citizens who remain in the UK, and access to London. Good blue sky thinking, but when you get to the technicalities it is probably unworkable. Do you not think as a country and perhaps as London, we need to not be thinking of the EU as a limitless pool of labour because they have their own difficulties as well. My wife is a Hungarian passport holder, not a UK citizen. She does not seem to be quite as fearful as we have heard from many people. However, in Hungary they have in the villages very few doctors left. They have gone to Germany, Austria, Britain and Sweden. There is some building work my father-in-law wants to have done. The good builders have gone; they are in London or Germany.

To think that we have this limitless pool is being unfair to those countries. Is it not time that we thought about skilling up ourselves? You have areas of very high unemployment within London and we have areas of high unemployment within this country. Is it time we did more about upskilling and getting people who we have not currently in work, in work, and perhaps looking at the fact that there is a greater pool of labour around the world as well that we can access?

Sadiq Khan**:** As I said in answer to your previous question, the need for us to continue to attract talent does not mean that we do not have a duty to train up our youngsters to have the skills for the jobs of tomorrow. They go hand in hand.

Let me ask it back to you this way. We know that lots of jobs are in London. We know that we need talent. If it is the case that your concern is us being responsible for a brain drain from these EU countries, do not be surprised to have young people in your constituency and constituencies of all other MPs here choosing to come to London where there is construction, social services, tech and finance. You, not unreasonably, will be complaining about the brain drain from your patch. My point is simple; we should do both: skill up our youngsters to have the skills for the jobs of tomorrow, but also continue to attract talent. We have been doing that for one thousand years.

You make a fair point about not limiting the talent from the EU. I went to a graduation last week at the University of London. Graduates were from more than 90 countries. One in seven world leaders studied here. We are the top in relation to soft power. When you speak to people around the world, one of the reasons why they do business with us is because they trust us more because of cultural links, studying here, and other links they have. I accept your challenge, which is to attract talented people from all across the world, not simply the EU.

Chair: Okay, thank you very much.

Sadiq Khan**:** Thank you very much, Hilary. Thank you.

Chair: We are very grateful to you for your evidence. Thank you for coming today.