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Cameron's Treaty Opt-Out May Prove Problematic

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U.K. Prime Minister David Cameron's decision to opt out of a new European Union treaty quickly drew support from the British public, but its long-term consequences for the country's important financial-services industry are less clear-cut.

Mr. Cameron refused last week to include the U.K. in a new treaty that would create more EU integration for members using the euro, positioning his stance as a win for the U.K. The British public, and euro-skeptic members of Mr. Cameron's own Conservative Party, backed the move strongly, seeming to give Mr. Cameron an important domestic political win.

But while London's banks and financial lobbyists—the supposed beneficiaries of his actions—were appreciative of the sentiment, Mr. Cameron's move was greeted with more muted enthusiasm, with some saying it could actually backfire over the long run.

Mr. Cameron's commitment to hang onto U.K. sovereignty, for example, could give the U.K. more power over Britain's financial regulation in general –but there is no guarantee that such a move results in lighter regulation for the country's banks. Indeed, the move keeps the door open to regulation by the U.K. that goes above and beyond what Brussels puts in place, such as a proposal to separate bank's retail business from their riskier investment-banking units that has angered the financial sector here.

Just as important, the U.K.'s banks are now worried that the ill-will created by Mr. Cameron's stance means the U.K. "won't even have a seat at the table" the next time financial regulations are negotiated under existing rules, said one lobbyist for the City of London.

Mr. Cameron's stance against the EU could also reverberate for European banks operating in London, which serves not just as the banking center of London, but also all of Europe. The City of London, as it is called, is home to large units of banks like Germany's Deutsche Bank AG, which would be subject to any tough restrictions EU regulators might impose on the U.K. in the future

The stakes are high for the U.K., where 11.2% of tax receipts came from the financial services sector in the fiscal year 2009-2010, according to the City of London Corp. A million people work in the financial-services sector in the U.K., roughly half of them in London, the corporation said.

Mr. Cameron's move also appeared to have damaged relations with his more pro-European Liberal Democrat coalition government partners. Deputy Prime Minister Nick Clegg told the British Broadcasting Corp. that the veto was "bad for Britain" and could leave it "isolated and marginalized." Liberal Democrat lawmakers reported that local activists were angered by Mr. Cameron's move and were putting pressure on them to distance themselves from the government's European policy.

Still, while Mr. Cameron has angered some people across Europe and the City, his own public appear to have reacted well to his actions. According to a survey by pollsters Survation for the Mail on Sunday newspaper, 62% of people agreed with the prime minister's stance, with 19% against.

The prime minister also played to an increasingly fractious part of his party, with public praise showered on Mr. Cameron by lawmakers who days earlier had been criticizing him. The Daily Mail tabloid newspaper said on Saturday that it was "A day for Britain to salute David Cameron" because he "finally said no to the European elite," a sentiment seconded across other tabloids.