CBI response to Treasury Committee Inquiry: The economic and financial costs and benefits of the UK's membership of the EU

The Confederation of British Industry
The CBI is a confederation of 140 trade associations, representing mostly smaller firms, alongside medium-sized and larger businesses who tend to join the CBI directly. Together the 190,000 businesses we represent employ nearly 7 million people, about one third of the private sector-employed workforce.

Our members come from every sector of the economy, including agriculture, automotive, aerospace and defence, construction, creative and communications, financial services, IT and e-business, management consultancy, manufacturing, professional services, retail, transport, tourism and utilities.

The CBI welcomes the opportunity to respond to the Committee's inquiry on the economic and financial costs and benefits of the UK's membership of the EU.

In November 2013, the CBI published its flagship report *Our Global Future: The Business Vision for a Reformed EU*. While there is no uniform view in the business community, the report found that the majority of CBI members believed that, on balance, the benefits of EU membership outweigh the disadvantages and the alternatives to membership of a reformed EU have serious downsides. However, the EU is not perfect and with significant changes in the global economy it must seize the opportunity to reform in order to keep pace in an increasingly globalised world. Business wants an EU that is focused on jobs and growth and the CBI has set out an ambitious but achievable reform agenda to deliver a more competitive EU.

This submission to the Treasury Select Committee inquiry will argue that:

1. The benefits of EU membership for British businesses have significantly outweighed the costs
2. The process of leaving the EU could cause a prolonged period of dislocation and none of the alternatives to EU membership replicate the benefits that the UK currently gets
3. The UK can remain influential in a changing European Union and reform it for the better

1. The benefits of EU membership for British businesses have significantly outweighed the costs

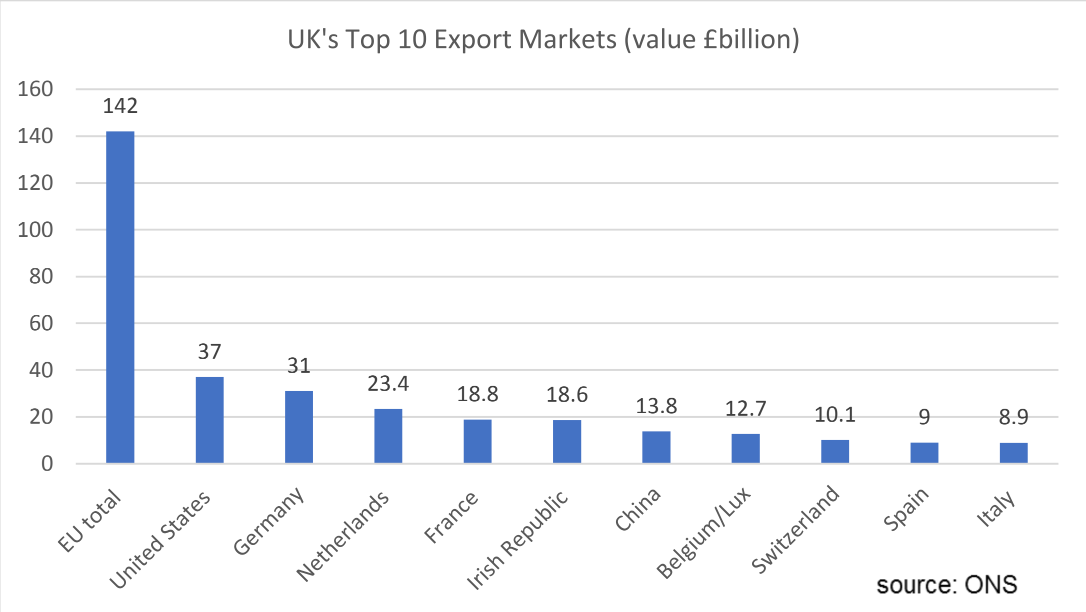
As a complex grouping of 28 countries, the European Union has always had advantages and disadvantages. The biggest positives for British business have been access to the world's biggest single market by value, consisting of 500 million people, common rules and regulations, increased international investment, access to skills and greater clout in trade negotiations.

There are some drawbacks to membership – we don't always get our own way, there is a direct cost through the UK's budgetary contribution and indirect costs from EU regulation. However, for the majority of businesses it is clear that the benefits of EU membership far outweigh these costs.

1.1 The European Union has delivered benefits for British business

The European Union gives Britain a larger home market for its businesses, provides a boost to the economy and magnifies our influence on the global stage. Britain is stronger economically because it stands alongside its neighbours in the single market as part of the European Union.

1.1.1 **Being part of a single market of 500 million customers with trade barriers broken down, has been good for business, supporting substantial trade flows between the UK and the rest of the European Union.** The EU is historically an important market for Britain, with European countries consistently making up the majority of the UK's top trading partners over the last 50 years.[1] Today, contrary to some characterisations, the European Union remains a growing global market and important partner for the UK - 7 of the UK's top trading partners are EU countries and 50% of the UK's overall trade is with the EU[2]. British business will always seek out new opportunities to grow globally and enter new markets. This means that the *share* of Britain's exports to the EU is declining as our exports to high-growth countries outside the EU increase. However, exports *by value* to the European Union continue to grow, rising on average by 3.6% each year since 1999.[3] Business will often look to sell to the EU when exporting for the first time - five of our top ten trading partners are our nearest geographical neighbours and 80% of British businesses that trade overseas do so with the EU.[4] Given this, access to the EU single market remains vital for business. It's not an either/or choice between trade in the single market and trade with the rest of the world.



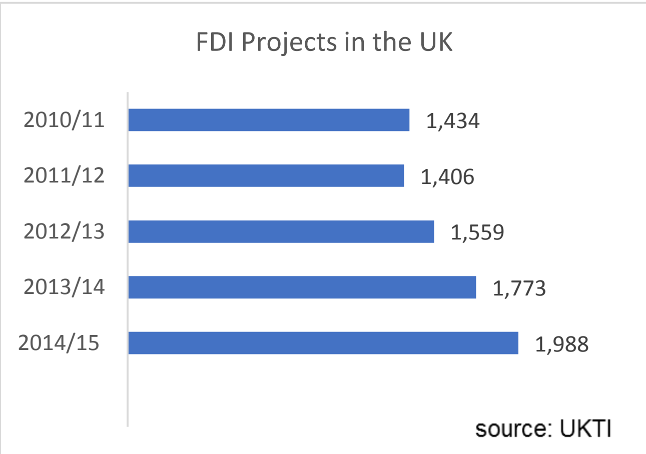
The single market presents an opportunity for small and medium size businesses whether exporting directly or as part of UK and EU supply chains. Being able to easily access a market of 500 million people is good for businesses small and large – 66% of the UK's smallest exporting businesses said the UK's membership of the EU is good for their business.[5]

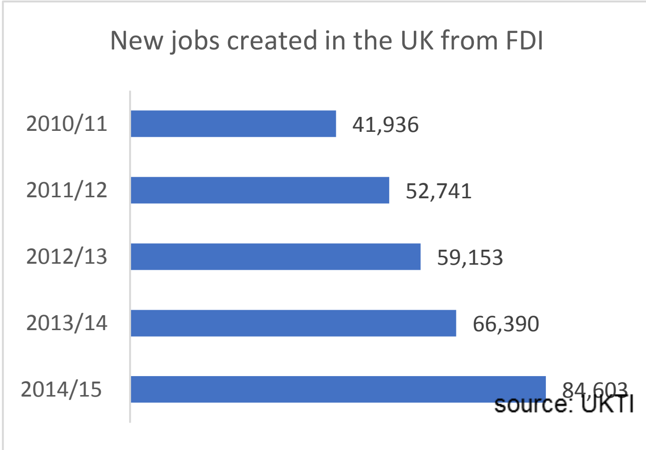
With fewer barriers to export their products and a common set of standards across the EU, small businesses in the UK are also able to easily become part of complex pan-European supply chains. For the many businesses in the UK who currently do not export, there is benefit from being in the supply chains of those who do. For example, the 2,049 businesses in the automotive supply chain benefit from a successful UK automotive sector exporting to the EU.[6]

1.1.2 As part of the single market, the UK is a more attractive destination for international investment. Last year, the UK was the leading destination for investment from EU businesses and the most attractive EU country for global investment[7] with almost 85,000 jobs created as a result. The UK is attracting more international investment every year, reaching a record level in 2014 passing the £1 trillion mark, and boosting jobs year on year. The UK's natural competitive

[1] House of Commons Library, UK trade statistics, 2012
[2] Office for National Statistics, UK Trade, August 2015
[3] City AM, How important is the EU to UK trade, June 2015
[4] UKTI, Trade statistics, 2013
[5] Federation of Small Businesses, A study of FSB members; views on the UK's membership of the European Union, September 2015
[6] CBI, Choosing our Future – Why the European Union is good for business, but how it should be better, October 2015
[7] EY, Attractiveness survey, 2015

conditions, together with access to a market of 500 million people and the ability to influence the rules, encourages business to invest in the UK. With 72% of investors citing the single market as important to the UK's attractiveness as a place to invest, it is clear that the EU is an important factor in investment decisions.[8] These jobs would not disappear overnight but would be at risk if UK access to and influence over the EU single market was reduced.





1.1.3 The EU single market has helped make the UK a world leading financial services centre and continuing this access will make sure we remain the major hub servicing the EU. The EU has helped the UK develop as a global financial centre which employs over 2.1 million people across the UK and contributed £180 billion to the UK economy in 2013[9], with a £19.9 billion trade surplus in financial services with the rest of the EU in the same year.[10] A key driver for this success has been the EU single market, access to which has attracted substantial Foreign Direct Investment (FDI) and opened up markets through common regulations. For example, rules offering firms the ability to use a single 'passport' across all member states to deliver services has allowed companies authorised in the UK to conduct business across the EU. Today, the UK is the chosen location for half of all the European headquarters of non-EU firms looking for a gateway into the single market.[11]

1.1.4 The free movement of labour has helped businesses to grow, but it must operate practically for member states. The UK economy benefits from business being able to hire talented employees from across the EU and plug skills gaps in their workforces. Access to skilled workers is a rising concern for business with 55% of CBI members fearing they will not be able to access enough skilled workers. This is felt particularly strongly by firms in engineering, science and high tech (74%) and manufacturing (69%).[12] One of the basic freedoms of the EU single market – the free movement of people – provides employers with a wider pool to source the skills needed to keep their business running and protect the jobs they create in Britain. For example, Alderley Systems, a small business employing 96 people in Scotland, relies on being able to flexibly recruit engineers with specialised skills from across the EU to meet tight delivery deadlines. This helps to maintain employment locally.[13]

Whilst UK business and the UK economy benefits from the creation of an EU-wide market for talent, business recognises that migration has been especially concentrated in some local areas giving rise to legitimate concerns about the pressure on public services like the health and education systems. The freedom to move must be a freedom to work and not a freedom to access welfare payments. The CBI supports the government in tackling any abuse of that system, which should help to maintain support for the principle of free movement of people. Similarly, employers

[8] Ibid
[9] TheCityUK, Key facts about UK financial and related professional services, March 2015
[10] TheCityUK, Press release: TheCityUK responds to The Queen's Speech, May 2015
[11] TheCityUK, EU reform: Time for change, October 2015
[12] CBI, Inspiring Growth: CBI/Pearson Education and Skills Survey, 2015
[13] CBI, Choosing our Future, October 2015

must work with government to improve skill levels in the UK workforce, and ensure that UK workers have the skills to compete across the EU and take advantage of the opportunity that free movement provides. Currently, approximately 1.8 million UK citizens live and work across the EU.

1.1.5 The EU has helped to open up global markets for UK firms through good quality trade deals. As well as opening up a market of 500 million customers on the UK's doorstep the EU facilitates trade further afield. While the UK's ability to negotiate trade deals independently is restricted, as an economy worth £11.8 trillion with a 500 million person market, the EU is able to negotiate more and better trade deals than the UK would be likely to on its own. Through these deals, UK business has preferential access to over 50 countries outside of the EU. This is more than Switzerland, Canada or Australia who have preferential access to 38, 15, and 15 respectively.[14]

The EU's negotiating clout means the UK benefits from trade deals that go further in cutting tariffs and are more comprehensive in scope, making it easier and cheaper for business to trade globally. For example, the EU-South Korea trade deal removes almost 99% of tariffs over just five years, saving EU business selling to South Korea £1.1 billion annually[15]. The year following the deal saw UK exports to South Korea increase by 57% reaching their highest level ever.[16] Conversely, South Korea's deal with Australia (a country broadly comparable to the UK) takes almost 20 years - four times as long – to reach the same level of tariff reduction. Future EU trade deals will add further value to the UK economy. For example, the recently signed but not yet ratified EU-Canada trade deal (CETA) is predicted to inject £1.3 billion into the UK economy and boost exports from the UK to Canada by 29%.[17]

1.1.6 The EU has been beneficial for consumers, increasing choice and lowering prices. The scrapping of tariffs and non-tariff barriers on imported goods from across the EU, has widened choice for consumers with little or no extra cost. This means customers in the UK can buy a wider selection of goods in the shops without paying more. Given that 28% of food available on the supermarket shelf in the UK comes from the EU[18], consumers would undoubtedly be impacted by the return of tariffs on goods from the single market. In addition, the EU has been effective in cutting the costs for travellers around Europe, from reducing mobile phone roaming charges to facilitating cheaper travel - both Ryanair and EasyJet have publicly stated that the EU has enabled the growth of reasonably priced flights.[19]

1.2 There are costs to EU membership, but these are often overstated

As a part of a club of 28 countries, sometimes the immediate interest of the UK will not align with the interests of the majority. This can create the feeling that the EU is not operating in the interests of the UK or that we cannot always get our own way. There has also been a sense of 'mission creep' at the EU level with the EU too quickly reaching for the regulatory lever in an increasing number of policy areas. There is also a direct budgetary costs to EU membership. However, these costs, while real are often overstated and outweighed by the long-term benefits of being a member of the European Union.

1.2.1 Poor and unnecessary regulation can be a source of significant frustration for business. The EU can introduce problematic regulations which are costly for business to implement. The CBI has a long track record of lobbying against specific EU proposals. In particular CBI members are frustrated by attempts to apply a one-size-fits-all approach across the diverse range of labour markets with 49% stating this has had a negative impact.[20]

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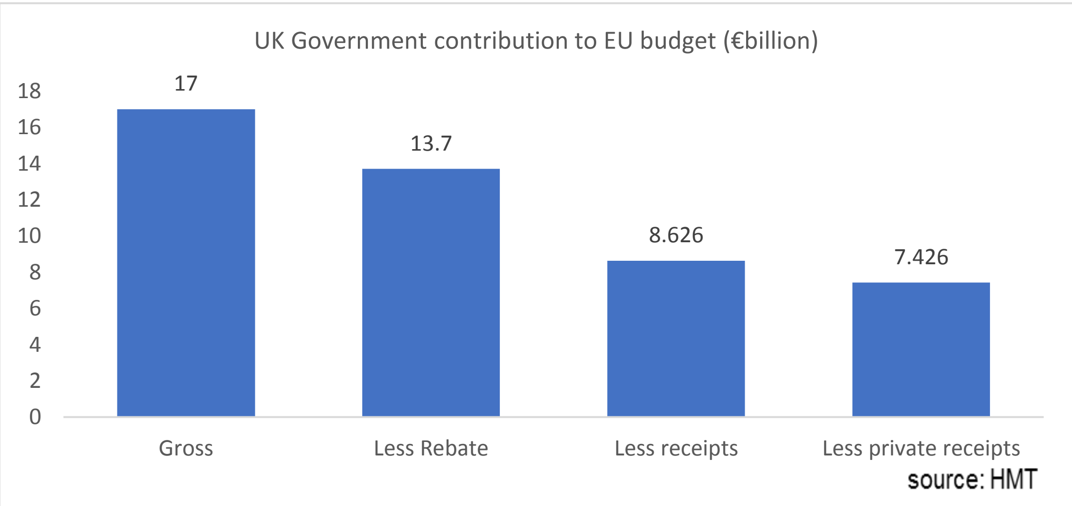
[14] CBI, 10 Facts about EU trade deals, November 2015
[15] European Commission, Memo: EU-South Korea Free Trade Agreement, 2010
[16] British Embassy Seoul, UK-Korea Trade, 2013
[17] UK Government, Government welcomes historic EU-Canada free trade agreement, October 2013
[18] DEFRA, Food Statistics Pocketbook, 2013
[19] Reuters, Ryanair urges Britain to stay in EU, 2015; Mirror, EasyJet chief warns quitting EU would 'not be good at all', 2015
[20] CBI/YouGov, Survey of CBI members' opinion on the impact of the EU on their competitiveness, 2013

There are costs to business from these regulations although the level of the cost is often overstated. Figures on the proportion and cost of EU regulation differ significantly, with BIS predicting the cost of regulation somewhere between £8.6-9.4 billion and Open Europe most recently estimating the cost at £33.3 billion.[21] While, of course, there are costs to some EU regulation, simply adding up the costs taken from impact assessments of EU directives and regulations is a misleading assessment of the overall regulatory impact. The benefit of those regulations, along with the likelihood of comparable domestic regulation being introduced in place of EU rules should be considered in any assessment of the cost of EU regulation. For example, Open Europe names the Working Time Directive as one of the five most costly EU regulations. Whilst it is vital to business that the UK retains an opt out on working hours, many of the worker protections laid down would continue to exist in UK law. For example, the UK would be likely to keep rights to paid holiday and maternity leave, and rules on discrimination and equal pay that currently come from EU legislation.

When designed well, common EU rules make it easier for business to trade, so the UK must continue to shape the agenda. A single market needs a common set of rules to harmonise regulation, standards and processes across the EU. Only through this harmonisation will the access afforded to business be on fair and equal terms. A single set of rules and standards, when designed well, provides huge opportunities for business, large and small, by removing barriers to entry in new markets. A small manufacturer in the UK who wishes to sell to Spain or France does not have to spend time or money adapting their products to comply with alternate regulatory standards in these countries.[22] By being round the table in EU institutions, the UK can help to shape the EU legislative agenda and ensure the Commission regulates only where necessary. To date, the UK has had significant influence in shaping EU rules. For example, the UK, working with Germany, the Netherlands and Ireland, has been influential in shaping European defined benefit pensions regulations to avoid unnecessary regulatory costs.[23] UK business will continue to trade and operate across the EU, and it is important that there is a representative at the table to shape EU rules in the interest of the UK.

1.2.2 **There is a direct budgetary cost to EU membership but this is not as high as often stated.** In 2013, the UK government's gross contributions were €17billion. After the UK rebate of €3.3billion and other public sector receipts, the UK government's net contribution to the EU was €8.6billion.[24] The EU also provides funding to support research, innovation and growth in the private sector totalling approximately €1.2billion in 2013; taking the UK's net direct cost to €7.4 billion a year.[25] This is equivalent to €116 or £83 per year for every person in the UK.



[21] Open Europe, Top 100 Costliest EU regulations, October 2013
[22] For example see CBI, Choosing our Future, 2015
[23] CBI Mercer, Pensions Survey, October 2015
[24] HM Treasury, European Union Finances 2013, November 2013
[25] Ibid

The benefit of EU programmes for research and innovation comes both from the direct funding and the cross-border partnership opportunities. The UK, and particularly UK universities, do well out of EU programmes, receiving €4.9 billion between 2007 and 2013 under the principal instrument of EU support for R&D – the 7th Framework Programme (FP7) – the second highest in the EU. However, the benefits derived from this programme go beyond the direct funding. EU programmes facilitate collaboration and economies of scale.

1.3 On balance, the benefits of EU membership outweigh the costs

As has been outlined, the UK's membership of the EU provides a number of benefits to British business but there are also costs. Trade with the EU is a substantial proportion of the UK's overall trade and, by value, is still growing; the single market encourages investment in the UK and provides access to skills; and EU trade deals open up global markets. However, the UK does pay a substantial membership fee and there is some cost from EU regulation.

There have been many studies attempting to quantify the overall economic impact, for the UK, of EU membership – taking into account a variety of factors such as trade benefit, FDI flows, and regulatory cost. Estimating the overall net benefit of EU membership is extremely challenging. Although various advantages and disadvantages of membership can be identified, some are difficult or impossible to quantify. Generally, analysts focus on the more tangible 'static' benefits such as the creation of trade or lower prices, at the expense of 'dynamic' benefits such as investment and innovation. On costs, the 'static' negative impact of unwarranted legislation is easier to identify than some of the benefits. However, these studies tend to be non-overlapping focusing on different aspects of membership and using different methodologies and counterfactual assumptions. The CBI conducted a comprehensive literature review of these analyses to give a cumulative estimate, removing overlaps. As a conservative estimate, we calculated that the net benefit of EU membership is in the region of 4-5% of UK GDP. This suggests that households benefit in the region of £2,400 - £3,000 a year – with every individual in the UK around £1,225 better off.[26]

[26] For further details on the calculation of this figure see CBI, Our Global Future: the business vision for a reformed EU, 2013 pp.79 - 80

2. The process of leaving the EU could cause a prolonged period of dislocation and none of the alternatives to EU membership replicate the benefits that the UK currently gets

The process of departing the EU is complex and it would take a long time to negotiate an alternative relationship between the EU and the UK. The dislocation created following a vote to leave would be harmful to UK business and to the UK economy. While each of the potential alternative relationships have some upsides, ultimately none provide the same overall level of net benefits that the UK currently gets from EU membership. Moreover, each option will bring a number of new challenges for the UK and have the potential to make us worse off impacting on business, investment and jobs in the UK.

2.1 Following a referendum, the UK would most likely face a period of economic disruption during withdrawal

There is no certainty about what happens in the days, weeks and months following a 'leave' vote but the UK would face a period of messy separation. After more than 40 years of UK membership of the European Union, leaving would not be clean, easy or quick. Civil servants[27], Gregor Irwin (former chief economist at the Foreign Office)[28] and even those campaigning for the UK to leave the EU have all said the process would take 10-15 years.[29]

To withdraw from the EU, the UK would most likely follow the process set out in Article 50 of the Lisbon Treaty following a 'leave' vote. Negotiating an alternative relationship to retain access to the single market, could but does not necessarily have to, form part of this process. Therefore, failure to reach an agreement under Article 50 could see the UK leaving the EU before a new arrangement was put in place meaning UK-EU trade would fall under WTO rules in the interim. This would leave business facing the return of tariffs. Whether an alternative relationship is negotiated before, during or after the withdrawal process, the UK faces a significant period of dislocation.

2.1.1 The UK could use Article 50 of the Lisbon Treaty to trigger formal negotiations. Use of Article 50 is unprecedented and there would be no turning back. Following a vote to 'leave' the European Union, the UK would notify the European Council which would draw up guidelines for the negotiation and then offer an agreement to the UK – the 'departing' state. The UK does not need permission from the other member states to withdraw and can leave two years after notifying the European Council. However, in what would be a period of significant turmoil for the UK, the process in Article 50 – whilst not providing certainty on the UK's future – would provide an orderly framework for negotiating that departure.

This does not mean getting a withdrawal agreement that was good for the UK and securing an alternative relationship in this process would be easy. We would have a weak negotiating hand, with no seat at the table and no vote on the agreement, only the ability to accept or reject the offer. Given that the European Parliament votes on a continuation deal or future trade deal, the UK's future relationship with the EU is very much in the hands of MEPs and the 27 other member states.

2.1.2 If no agreement is reached, UK-EU trade would fall under World Trade Organization (WTO) rules which would be costly for business, with reduced market access and the return of tariffs on trade. If**,** after two years from the point of negotiation, no arrangement has been agreed the UK would withdraw from EU arrangements and likely fall under WTO rules in order to continue trading with the European Union. The WTO option would mean the return of tariffs on trade with the EU. While the average of the EU Most Favoured Nation (MFN) tariffs has fallen over time from 3.6% in 1988 to 1% in 2008[30], certain sectors would be hit hard. Around 90% of UK exports to the EU by value would face tariffs.[31] In particular, key UK export sectors would be 'particularly vulnerable to initial disruption' facing high tariffs and reduced access – UK automotive exports

[27] Financial Times, Out campaigners draft in recruits ready for EU battle, 2015
[28] Global Counsel, Brexit: the impact on the UK and the EU, June 2015
[29] Financial Times, Out campaigners draft in recruits ready for EU battle, 2015
[30] House of Commons, The economic impact of EU membership the UK, September 2013
[31] Ibid

would be subject to a 10% tariff whilst food, drink and tobacco would face an average export tariff of 20%.[32]

If the UK were to continue to trade with the EU under WTO rules, British businesses wouldn't be the only ones facing higher costs; consumers would also face higher prices due to tariffs on imports unless the UK decided to unilaterally reduce tariffs. For example, a 32% tariff would be levied on imports of wine from the EU.[33]

2.1.3 The period of dislocation whilst any alternative arrangement was negotiated might take considerable time. Article 50 provides that the arrangements for withdrawal will take 'account of the framework for the departing state's [the UK in this instance] future relationship with the Union'. This suggests that the negotiation of an alternative trade arrangement will happen separately from the withdrawal agreement. Regardless of the type of agreement the UK seeks in order to continue access to the EU single market, we would face a period of dislocation in which our trading arrangements would be uncertain.

Joining the European Economic Area (EEA) along with Norway, Iceland and Lichtenstein seems like the simplest and quickest option for the UK to retain comprehensive access to the single market. However, Norway has in place 74 agreements with the EU – which the UK would have to consider – to cover the four freedoms and numerous other areas such as Common Agricultural Policy, Justice and Home Affairs, regional development and defence.[34] There is also a false presumption that the UK could easily join the EEA if it wished. In fact, all current members would have to agree for the UK to join; Norway may have concerns that, as a country that has just voted to leave the EU, the UK would become an obstructive member of the EEA, holding up agreement of EU rules.[35] As the current biggest member, Norway may also be resistant to a big country like the UK, who may dominate, joining the EEA.

This period of dislocation would be intensified in a Switzerland-style arrangement with the UK as a member of the European Free Trade Association (EFTA) but not the EEA. To gain limited access to the EU single market, Switzerland has 17 treaties in place and over 120 bilateral agreements. Just the first tranche of these took 9 years to negotiate and implement.[36] These are constantly being amended and updated. If the UK were to emulate the Swiss relationship and negotiate a bespoke UK-EU Free Trade Agreement, British business could be facing 10 years of uncertainty on the UK's relationship with the EU. Free Trade Agreements are complex and lengthy to negotiate and following this route could leave the UK 'dangling' with no guarantees on the relationship we would have with the EU.

Regardless of the final form of the new arrangement the UK agreed with the EU there would be a significant period of uncertainty and dislocation for the UK. When businesses were considering where to make new investments, the UK, with an uncertain future, would be a less attractive destination.

2.2 Outside of the EU, the UK would not be able to replicate the benefits it currently has

Given the continued importance of the European Union as both a market and a partner for the UK, the UK would most likely agree some form of arrangement for preferential access to the single market, but at the expense of influence and market access. However, the time taken to negotiate the arrangement, as well as the quality of the content of it would mean sacrificing some of the benefits the UK has as a full member of the European Union. The biggest impact and change would come in the level of market access and influence the UK has over the rules, which would impact on business, investment and jobs.

[32] Open Europe, The impact of Brexit on the UK's key export sectors, 2015
[33] House of Commons Library, Leaving the EU research paper, July 2013
[34] Policy Network, What would 'out' look like?, November 2015
[35] Ibid
[36] CBI, Our Global Future, 2013

2.2.1 Any alternative arrangement would reduce market access and influence over the rules but could still cost. The level of access the UK retains to the single market will vary depending on the arrangement that is negotiated, however, in all scenarios influence will be sacrificed. Joining Norway in the EEA would allow the UK to retain comprehensive access to the single market covering goods, services and capital as well as free movement of people. However, this would mean implementing the majority of EU rules with no say over their development through the European Parliament, Commission or Council – the UK would move from being a rule maker to a rule taker. Norway has implemented 75% of EU law without any participation in the formation of it.[37] This would also come at a cost; Norway has paid almost €1.8 billion in the period from 2009-2014 making it the 10th highest per capita contributor to the EU.[38]

The UK could retain flexibility over which rules it had to implement through the Swiss route or a bespoke Free Trade Agreement (FTA), but this would mean accepting reduced access to the single market. Under the Swiss model the UK would retain access where it chooses to comply with EU rules, again with no say over their development in the European Parliament, Commission or Council. Swiss businesses can access the single market in areas covered by bilateral agreement – meaning Switzerland has implemented the relevant EU rules. Where new rules have been introduced after the bilateral agreement, Switzerland must adjust its rules accordingly or lose access.[39] Preferential access to trade in goods is likely to be retained but the services sector – a key part of the UK economy – could be severely restricted. In particular, as under the Swiss arrangement, the UK financial services sector would face new barriers to trading across the EU. Just as American financial services firms are required to, UK based firms may need to relocate to do business in the EU.[40] Gaining comprehensive access to the single market under a bespoke UK-EU FTA would depend on the quality of the deal. Any rights of access granted by the EU would come with the requirement to comply with the rules. Again, giving the UK flexibility but sacrificing market access where it chose not to comply.

The flexibility provided by an alternative arrangement must not be confused with influence. The UK will have the ability to sacrifice market access in order to not comply with EU rules but in all scenarios we give up our seat at the EU table. Some advocating that the UK should leave the EU do so on the basis that the EU works more in favour of the Eurozone, leaving the UK side-lined. It is difficult to see how leaving would improve that circumstance. By being round the table in Brussels and participating in the legislative process the UK maximises the representation of its interests.

2.2.2 Retaining free movement of persons would be likely to form part of any new arrangement between the EU and the UK. EU migration has been controversial issue in the UK and 'gaining control of our borders' has been used as justification for leaving the EU. Business has benefitted from free movement of persons and would like to see this principle continue whilst recognising public concerns. For those advocating 'leave' on the basis of free movement, it should be noted that both Norway and Switzerland have implemented free movement of persons as part of the agreement to retain access to the single market.

It is unrealistic that a UK-EU FTA would provide the UK with comprehensive market access but not also include free movement of persons, a fundamental pillar of the single market. In fact, recent circumstance in Switzerland have reaffirmed the view that free movement is integral to any agreement to gain access to the internal market. The Swiss agreement includes a 'guillotine' clause meaning if Switzerland ceases to apply one element of its agreement with the EU, the entire agreement will be suspended.[41] Due to this clause, the vote to restrict immigration in the recent Swiss referendum may result in the suspension of Swiss access to the EU market. The Council of

[37] British Influence, Press Release: The Norway option is the lose-lose option for Britain, November 2014
[38] CBI, Our Global Future, 2013
[39] Ibid
[40] Policy Network, What would 'out' look like?, November 2015
[41] Ibid

the EU stated that 'it considers that free movement of persons is a fundamental pillar of EU policy and its four freedoms are indivisible'.[42]

2.2.3 **The consequence of not preserving a common regulatory agenda with the EU could have a harmful long-term impact.** If the UK negotiated an arrangement with the EU in which common regulatory standards are not preserved, business could face non-tariff barriers that would harm trade with the EU. The risk of having two sets of rules to comply with is most present under a variation of the Swiss arrangement or a bespoke UK-EU FTA. Over time, with no common institutions monitoring implementation of rules in the UK and the EU, regulation would start to diverge and UK business could find itself operating under two regulatory regimes to trade across the EU. Under the Norway arrangement, there is an additional risk of time lags in the implementation of EU law acting as a barrier for business. The current lag between EEA adoption of EU law and slowest member state is 6 – 24 months which means other countries adapt to new rules and standards quicker than Norway, providing Norwegian businesses with a competitive disadvantage.[43]

2.2.4 **The UK would also lose preferential access to global markets gained through EU trade deals.** In withdrawing from EU arrangements the UK would not only lose preferential access to EU markets – if no agreement is reached – but would also face additional tariffs and barriers to trade with the 50 plus countries the EU has trade deals with. If the EU completes all trade deals currently under negotiation, 88% of UK trade would be covered.[44] This would drop to zero as the UK would have to start renegotiating these arrangements from scratch. As deals with the US and Japan come to fruition – political agreement is expected in 2016 - the UK could be on the verge of turning its back on the future benefits these could bring.

It is true that leaving the EU would give the UK the ability to sign its own bespoke global trade deals. However, trade deals are complex and require significant time and resource from both parties. Aside from questions about whether the UK has the civil service resource to negotiate these deals, having not done so for over 40 years, good will from other countries cannot be counted on. As the United States government made clear, signing a Free Trade Agreement with the UK would not be a priority; countries are 'not particularly in the market for FTAs with individual countries', instead the resource is better focused on partnerships with trading blocs.[45]

[42] Council of the European Union, "Council Conclusions on a homogeneous extended single market and EU relations with Non-EU Western European Countries, December 2014
[43] Policy Network, What would 'out' look like?, November 2015
[44] Open Europe, Trade set to be key battleground in EU referendum, October 2015
[45] The Guardian, US warns Britain: If you leave you face barriers to trading with America, October 2015

3. The UK can remain influential in a changing European Union and reform it for the better

The EU must and will continue to evolve to respond to big challenges such as the global financial crisis and subsequent currency crisis in the Eurozone. This may require further integration of Eurozone countries, but must not undermine the single market or the place of non-Eurozone countries within it as the Prime Minister and Chancellor have made clear.[46] However, these challenges also provide an historic opportunity for the EU to reform for the better. An EU which is more open, outward looking and competitive will deliver more benefits for the UK, and the rest of Europe. The UK must use its influence to help deliver this agenda.

3.1 The Eurozone countries will need to integrate further, but this does not mean the UK will be isolated

The global financial crisis exposed underlying weaknesses in the design of the Eurozone. This highlighted the need for further integration of Eurozone countries, but has understandably spurred fears that the UK could be side-lined as Eurozone countries take decisions without the UK in policy areas not directly linked to the single currency. While there is limited evidence of this so far, the CBI believes that there must be safeguards put in place to ensure the EU continues to work in the interest of all member states and the single market remains at the core of EU decision-making.

3.1.1 It will be necessary for Eurozone countries to integrate further and this is in the UK's interest. After 2008, the EU economy suffered a double dip recession, but has now been growing consistently since mid-2013, and the economy is now larger than it was at the pre-crisis peak at the start of 2008.[47]The causes of the Eurozone crisis are complex. However, the overarching themes were a lack of central oversight and functions (that exacerbated pre-existing imbalances between Eurozone members) and inadequate tools to fight the crisis. Further integration is seen as the foundation of recovery for the Eurozone. A number of steps have been taken such as Banking Union but the recently published 'Five Presidents' Report' identifies future steps to be taken to ensure resilience in the single currency area.[48]

A stable and growing Eurozone is in Britain's interest. The Euro area is the UK's largest trading partner – accounting for around two-fifths of the UK's exports – and the UK's financial services sector is reliant on the stability of the monetary union. It is therefore positive for the UK if Eurozone countries take the steps needed to strengthen the Eurozone.

3.1.2 Some are concerned this could affect our place in the EU – although there is limited evidence so far. As the Eurozone countries continue to work more closely together, there is a fear that the UK may become side-lined in decision making and that the single market will be adversely affected. However, there is little evidence of this thus far – Eurozone countries are not a homogenous bloc and do not vote as such. Moreover, the EU has sought to protect the interests of non-Eurozone countries. For example, when the EU created a new Banking Union, which is primarily focused on Eurozone countries, the UK worked with Eurozone countries to make sure the single market was protected by requiring a majority of non-Eurozone countries to agree to any new rules, through qualified majority voting.[49] Furthermore, the 2015 judgment of the EU General Court, annulling the European Central Bank's policy that clearing houses must be based in the single currency area, set the boundaries of what the ECB can do to support the Eurozone and protected the interests of the UK's financial services industry.[50]

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[46] Prime Minister's Speech on Europe, November 2015
[47] Eurostat, 2015
[48] European Commission, Press release, Five Presidents' Report sets out plan for strengthening Europe's Economic and Monetary Union, July 2015
[49] CBI, Our Global Future, 2013
[50] General Court of the European Union, Judgment in Case T-496/11 United Kingdom v European Central Bank, March 2015

3.1.3 **Even so, there must be safeguards put in place to ensure the EU continues to work for all countries.** Whilst the evidence suggests that the EU will work in the interests of countries inside and outside of the Euro, there must be clarifications to safeguard the place of the UK and other non-Eurozone countries in the wider single market. This would set the UK's membership of a multi-sphere Europe on a sure-footing for years to come. The CBI has said that it would like to see procedural and legal safeguards enshrined in any new treaty, but recognises that this is unlikely to happen before the UK's referendum on EU membership.

3.2 The Prime Minister's renegotiation offers the opportunity to deliver more benefits for British business by making the EU more competitive

As well as protecting the interests of countries not in the Euro, the EU must look to maximise the benefits for business by developing the single market and going further to break down barriers to trade in services and digital trade. If UK business is to remain globally competitive, the focus on better regulation must continue and the EU should do more to boost trade beyond Europe's borders. There have been signs of progress on these reforms – and the UK has been influential in securing these – but now is the time to seize the opportunity to ensure that the EU delivers greater benefits for British business.

3.2.1 **Continuing to develop the single market for the 21st century remains a priority for business with further action needed in digital and services amongst other areas.** The EU single market has provided huge benefits for business and consumers making it easier and cheaper to sell goods across Europe. However, it must continue to develop – a true Digital Single Market and Single Market in Services could add 7% to UK GDP[51]. Some 70% of the EU's value-added is generated from services, yet only 20% of intra-EU trade is in services.[52] As a services led economy – accounting for 77% of the UK economy[53] – the UK has much to gain from progress in breaking down barriers to EU trade in services.

The single market must also be updated for the digital age. In the UK, 85% of internet users bought items online in 2014 but only 20% used the internet to shop online cross-border[54]. Setting the right conditions to increase digital services and content will allow businesses to sell more easily to a market of 500 million people and provide consumers with the confidence to shop safely online.[55] The Digital Single Market Strategy published in May and Single Market Strategy published in October are a step forward. However, if the UK is to reap the benefits of developing the single market for services and digital, we must continue to make these areas a priority and push for further progress to turn the proposals into reality.

The single market can go further, providing the opportunity for growth in other areas such as energy and capital markets. Analysis from the Cebr shows that giving British firms greater access to EU markets in energy, transport and digital services – along with trade deals – could add £58 billion a year to the UK economy.[56] The Energy Union is the most effective way to tackle our shared energy and climate change challenges and will be vital in enabling a more efficient and cost-effective energy market.[57] The Capital Markets Union will play an important role in connecting growing businesses with the finance needed to invest, scale-up and export.

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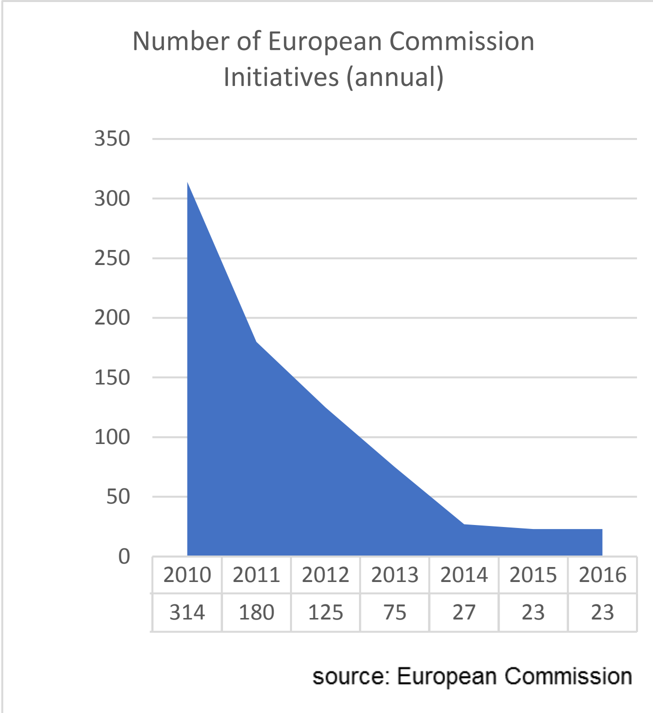
[51] British Embassy Copenhagen, Need to strengthen the single market, April 2014
[52] Department for Business, Innovation & Skills, UK non-paper: Deepening the single market in goods and services, July 2015
[53] Department of Business, Innovation & Skills, BIS Growth Dashboard, 2015
[54] European Commission, Digital Single Market – UK country sheet, 2015
[55] CBI, The business vision for a digital single market in Europe, 2015
[56] Cebr, Britain Stronger in Europe, 2015
[57] CBI, An Energy Union that creates growth and prosperity for all, 2015

3.2.2 The EU must make it easier to do business by reducing and simplifying regulation. As outlined already, business views overly-burdensome regulation as one of the biggest costs of EU membership. Whilst business understands and supports the need for common rules to underpin a common market, there is a tendency for the EU to regulate in areas where it does not add value and for some regulations to be overly-prescriptive. The recent focus from the European Commission on better regulation has resulted in the number of new initiatives falling from 314 in 2010 to 23 in 2015.[58] The new Commission work plan demonstrates a commitment to keeping new regulation to a minimum with just 23 initiatives proposed for 2016.[59] Alongside this, the European Union must continue to look at previous legislation and assess its value. The UK government has pushed this agenda forward. The Prime Minister's business taskforce on cutting EU regulation presented recommendations to the European Council on barriers to growth and have seen the Commission taking action to minimise the regulatory burden on business, changing 10 pieces of legislation, and making progress on 10 others.[60] There is of course still some way to go and businesses will be looking for these signs of progress to translate into a genuine change in approach.



3.2.3 The EU should commit more resources to opening up global markets, in particular prioritising the deals with the US and Japan. The EU has been effective in opening up global markets for UK business but it must go further. Pushing forward the negotiations with the US and Japan would give UK business access to two thirds of the world's markets by value. The EU-US trade deal (Transatlantic Trade and Investment Partnership) alone would add £10bn to the UK economy.[61] The EU has stepped up the pace of negotiations; signing four trade deals in the last year with Vietnam, Canada, Singapore and Ecuador[62]; is aiming for political agreement on the US and Japan negotiations in 2016; and is initiating talks with Australia and New Zealand.[63] As stated earlier, continuing this momentum and completing all EU trade deals currently under negotiation would cover 88% of the UK's trade.[64]

3.3 To maximise the openness of the EU and progress with the reform agenda, the UK must continue to engage

To deliver more benefits for British business and maximise the openness of the EU, the UK must proactively engage and use its influence not only to secure change right now but in the years to come. The UK has significant formal and informal influence which has been an integral element of supporting British business ambitions in Europe. We must use this influence and all the tools at our disposal to positively contribute to securing a future for the EU in which British business – and those right across Europe – can prosper.

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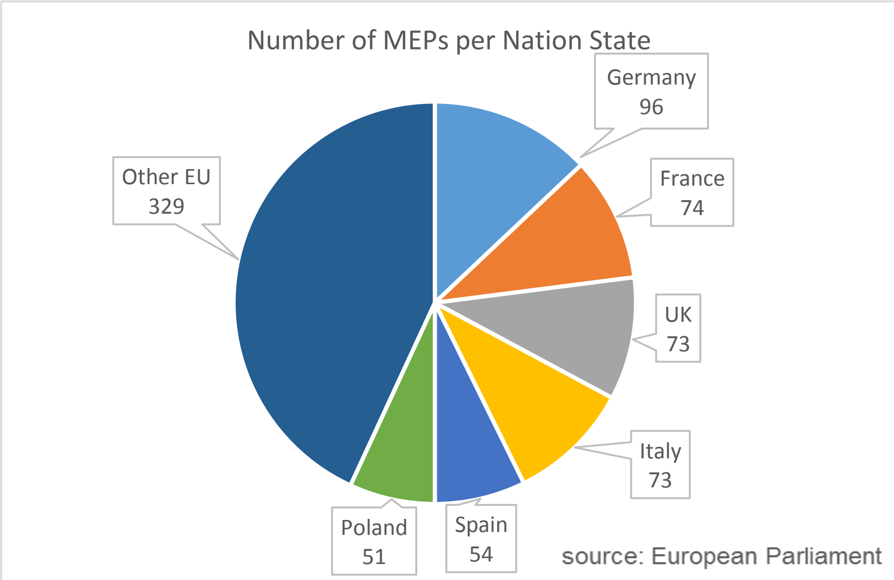
[58] European Commission, work plan, 2014
[59] European Commission, work plan, 2015
[60] UK government, Cut EU red tape, One Year On, November 2014
[61] CBI, A new era for transatlantic trade – five top reasons to support TTIP, 2014
[62] CBI, 10 facts about EU trade deals, 2015
[63] European Commission, Trade for All: European Commission presents new trade and investment strategy, 2015
[64] Open Europe, Trade set to be key battleground in EU referendum, October 2015

3.3.1 **The UK has had significant influence in shaping the rules of the European Union.** Engaging in EU policy-making is time consuming and complex and as part of a club of 28 countries the UK won't always get its own way. However, the UK has been effective in exerting influence. It has significant formal influence in the form of voting power at the European Council and European Parliament with 10% of the MEPs in the European Parliament (the 3rd highest after Germany and France) and 12% of votes of the Council of Ministers (joint highest with France, Italy and Germany).[65] The UK also has notable informal influence in the EU legislative process and has, for example, leveraged it's ability to build alliances and use British expertise to help shape the agenda. Whether securing opt-outs from EU legislation, such as Shengen, the Euro itself or the Working Time Directive, or amending legislation such as pension rules, there is no doubt the British voice is an infleuntial one.



3.3.2 **We must continue to improve the EU by engaging in Brussels beyond the renegotiation.** The UK has a long history of engaging in Europe to influence the rules that shape our future. But, we have the power to do much more to boost our influence within the EU. The potential for influence in the European Parliament is considerable when considering the power Committee chairs and rapporteurs have over the text of legislation. British MEPs must step up engagement in the law-making process and represent the interests of British business. To boost UK informal influence in the EU, the UK must do more to ensure it has personnel in key positions to help frame the debate. The UK has 10% of senior management and top cabinet positions in the European Commission (the second highest), but is underrepresented in staffing across the European Parliament and European Commission generally.[66] Despite making up 12.5% of the EU population, in 2013 UK nationals represented only 4.6% of EU Commission staff, 5.8% of staff in the EU parliament and 4.3% in the Council of the EU.[67] Given that there is a gap between the number of senior UK nationals and junior UK nationals working in the EU institutions, UK representation at the highest levels is likely to continue to fall as senior officials move on and there is no pipeline of UK staff to replace them.

[65] CBI, Our Global Future
[66] CBI, Our Global Future, 2013
[67] Foreign Affairs Committee, The UK staff presence in the EU institutions, June 2013

4. Conclusion

Business is resilient and, in the face of change, it adapts. If the UK voted to leave the EU, business would survive, but the question is whether it would thrive. The CBI exists to support its members, and regardless of the outcome of the referendum will continue to work to ensure the best possible conditions for business to prosper in the UK. The benefits that business gets from EU membership outweigh the costs however, we must continue to push for reform and make the EU a more competitive place for business, while safeguarding the place of non-Eurozone members as the Eurozone integrates. It is not a uniform view but the majority of CBI members believe that the evidence points to remaining in a reformed EU as offering the best future for UK business.

5. CBI publications

Our Global Future: the business vision for a reformed EU, 2013
http://www.cbi.org.uk/media/2451423/our_global_future.pdf

Choosing our Future: why the European Union is good for business but how it should be better, 2015
http://news.cbi.org.uk/news/cbi-makes-case-for-being-in-a-reformed-eu/choosing-our-future/

10 facts about EU trade deals, 2015
http://news.cbi.org.uk/news/10-facts-about-eu-trade-deals/

A new era for transatlantic trade: five top reasons to support TTIP, 2014
http://news.cbi.org.uk/reports/ttip/a-new-era-for-transatlantic-trade/

Connecting capital: the business vision for a Capital Markets Union in Europe, 2015
http://news.cbi.org.uk/news/capital-markets-can-unlock-msb-growth/connecting-capital/

Policy briefing: an Energy Union that creates growth and prosperity for all, 2015
http://news.cbi.org.uk/cbi-prod/assets/File/CBI%20Policy%20Briefing_An%20Energy%20Union%20that%20creates%20growth%20and%20prosperity%20for%20all_FINAL.pdf

The business vision for a digital single market in Europe, 2015
http://www.cbi.org.uk/digital-single-market/assets/business-vision-for-digital-single-market.pdf