# OUR GLOBAL FUTURE

THE BUSINESS VISION FOR A REFORMED EU

## ACKNOWLEDGEMENTS

*The CBI would like to thank everyone who participated in our research discussions, whether through meetings, consultation events, or the membership survey.*

Over 450 CBI member companies and trade associations – including 39 firms from the FTSE 100 – attended consultation events, many at CEO level. The views expressed in the report, however, are solely those of the CBI.

Particular thanks go to the members of the project steering group, drawn from a range of CBI members from SMEs to FTSE 100s and based in different regions and with a balanced mix of UK and foreign-owned companies.

**Task & Finish Group Members**

**Ms Estelle Brachlianoff**, Chief Executive, Veolia Environnement UK Ltd

**Mr Samir Brikho**, Chief Executive, AMEC plc

**Mr Robert Brown**, Chief Executive Officer, EMEA, Aon Ltd

**Mr Ian Cheshire**, Chief Executive, Kingfisher plc

**Mr Keith Cochrane**, Chief Executive Officer, Weir Group plc

**Mr Philip Dilley**, Chairman, Arup Group

**Mr Douglas Flint**, Group Chairman, HSBC Holdings plc

**Mr David Gallimore**, Chief Executive, AVF Group Ltd

**Mr Richard Gnodde**, Co-Chief Executive, Goldman Sachs International

**Mr Mike Kapur**, Director, Signum Corporate Communications Ltd & Chair, CBI Enterprise Forum

**Mr Matthew Kirk**, Group External Affairs Director, Vodafone Group plc

**Mr Tony Shepherd**, Executive Chairman, Alderley plc

**Mr Kevin Sneader**, Managing Partner – UK and Ireland, McKinsey & Company

**The Hon. Rupert Soames OBE**, Chief Executive, Aggreko plc

**Mr Robin Southwell**, Chief Executive Officer, EADS UK

**Mr Mark Spelman**, Global Director, Growth & Strategy, Accenture

Analysis provided by McKinsey & Company underpins our research. We thank McKinsey for their support with gathering data and structuring our analysis.

We would also like to thank EY for hosting a series of high-level engagement events where we invited Chief Executive/Chair level members to attend round-table meetings. Events were also held in every region of the UK.

Thanks are due to the CBI sectoral committees who offered insight into specific aspects of the report, for example our financial services, construction and HR members. Our SME members and trade association members ensured we captured the issues most important to them.

The project team visited Norway, interviewing Norwegian politicians and businesses to examine how Norway's relationship with the European Union (EU) works for business. Our thanks go to the Confederation of Norwegian Enterprise (NHO) for their help with this element of the research. The CBI project team also met with Swiss stakeholders in Brussels and we are grateful to those who gave up their time to share their views.

We also arranged international events with our member representatives in Washington, Beijing, Shanghai, Delhi and Mumbai, and would particularly like to thank the Confederation of Indian Industry for helping arrange a business breakfast with their members. Similarly, thanks are due to a number of the CBI's sister business federations in the EU who attended a consultation event in Brussels.

We would also like to thank Policy Network, who carried out a series of background interviews with high-level European decision-makers on behalf of the CBI, providing us with an overview of our European partners' attitudes to the current state of play on economic and institutional reform in Europe, paying particular attention to the future prospects for the European Single Market in the aftermath of the 2008 financial crisis.

*Finally, we invited a group of leading academics and think tank directors to form a panel to challenge our findings, and we would like to thank them for their constructive criticism.*

**Challenge Panel**

**Mr Charles Grant**, Director, Centre for European Reform

**Dr Robin Niblett**, Director, Chatham House

**Prof. Anand Menon**, Professor of European Politics and Foreign Affairs, King's College London

**Prof. Andrew Scott**, Professor of Economics, London Business School

**Mr Maurice Fraser**, Professor of Practice in European Politics, London School of Economics (LSE)

**Mr Mats Persson**, Director, Open Europe

FOREWORD

# John Cridland

*An embrace of 'openness' – to trade and people, to investment and ideas from abroad – has been the foundation of Britain's success. Coupled with investment in the UK's economic infrastructure and in our education and skills system to prepare the UK for the competition that comes with openness, this global outlook has served Britain well and increased our prosperity as a nation.*

However, this is the year when the world's emerging markets – from the Eastern tigers to the growing powerhouses of Latin America – are set to take over from the developed world as the majority shareholder in the global economy. Opportunities for Britain to strengthen its role as a trading nation lie in all corners of the globe. At the same time, the UK's closest trading partner, the European Union, is going through a period of extensive structural change – with an unknown end point – driven by the need to restore stability to the single currency. Britain must now adapt its open, global approach to reflect the realities of the 21st century.

For business, the nature and characteristics of the complex global economy are the starting point for taking such long-term strategic decisions. Being successful in today's global world is rarely achieved through independent and unilateral action: economies and businesses from across the globe are increasingly inter-connected, as goods, services, finance and people – not to mention knowledge and ideas – cross borders ever more rapidly.

For the last 40 years, the UK's relationship with the European Union has been the cornerstone of our engagement with this increasingly integrated world. When the UK joined, Europe was resurgent. Recovered from the Second World War, it seemed clear that the main opportunities for UK trade and growth were with our nearest neighbours. The current circumstances have thrown that conclusion into doubt to the point that some in the UK are questioning the value of our membership of the EU, and some are even advocating withdrawal.

For British business, large and small, the response to this is unequivocal: we should remain in a reformed EU. Membership of the EU's single market remains fundamental to our economic future. In this report, the CBI has comprehensively and objectively analysed the advantages and disadvantages of EU membership and concludes that the EU brings considerable benefits to the UK in terms of supporting jobs and growth. The EU Single Market is the biggest in the world, opening up a 500 million-strong consumer market to UK businesses, allowing capital and investment – as well as people and ideas – to flow into the UK and be deployed productively across the continent. This has directly boosted the living standards of UK citizens.

The European Union also supports UK business in realising its global ambitions by providing significant influence over the rules, policies and priorities that allow British based firms to seize opportunities across the globe. It anchors UK trade around the world through the signing of high-quality, ambitious Free Trade Agreements and the creation of globally recognised standards that open markets. And in a world of competing ideas and ideals – where international action is increasingly the avenue for addressing problems across the globe – UK membership of the EU amplifies Britain's voice internationally.

However, the EU is far from perfect. Business has frequently criticised many aspects of the regulations that the UK negotiates in Brussels. While being part of club of 28 countries inevitably means compromise, there is particular annoyance at the sense of a creeping extension of EU authority – regulating on trivial issues, sometimes counter to the wishes of the UK and its citizens, rather than focusing on the big picture issues like growth, trade and the Single Market.

> *"We must set our sights on realising our global future."*

The wider changes in the global economy means the EU must seize the opportunity to reform and renew its priorities and purpose in order to keep pace in an increasingly competitive international context. Business wants a permanent shift in the focus of the EU towards those issues that will underpin our prosperity in the future. The EU must be more outward-looking to facilitate new trade opportunities for business. It must be open and competitive, updating the Single Market for the 21st century and changing its regulatory approach to drive European competitiveness on the global stage.

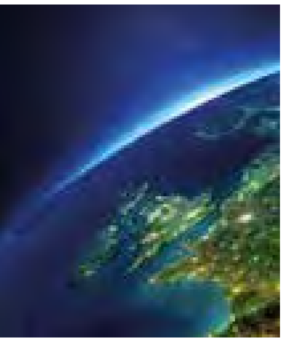
The current crisis means that the Eurozone must integrate further but, sitting outside these moves towards integration, the UK will not be part of this. Safeguarding the Single Market and protecting the voting rights of those outside the Eurozone is critical. There is also a historic opportunity to both allow those states that wish to go further to do so but at the same time set the limits of what is best done in Brussels and what should be left to the member states themselves.

This reform agenda is achievable. British business is convinced that, by staying in a reformed EU, the UK can get the best of both worlds – access to markets in Europe and beyond that build on our innate strengths – our language, time zone, respected legal system and flexible labour market. And by working with its European partners, the UK can help put the EU on a path to sustainable growth and global competitiveness – maintaining EU membership as the cornerstone of the UK's open posture.

Indeed, at the root of the decision about whether to retain EU membership or not lies a fundamental choice about this 'openness'. We should not judge our membership of the EU on how it measures up against our past, nor by looking at the immediate economic prospects for the Eurozone, but on what we want our future to look like: open or closed; influential or uncertain. Deciding our future path is a choice we face imminently, and must make decisively. Nothing will be given to us for free in the 21st Century. We must set our sights on realising our global future.

EXECUTIVE SUMMARY

# Our Global Future



*Britain has looked outwards to the wider world for many centuries, but its patterns of trade and investment have constantly evolved. An open economy, combined with robust domestic industries, has long been a crucial part of the British success story.*

However, the nature of economic openness is changing. The complex modern economy requires a new form of openness – one that is promoted by securing market access to trade at every stage of the value chain; having a regulatory climate that is both competitive and enabling to trade; increasing access to labour and investment through migration and capital flows; and improving the business climate for foreign direct investment. This is underpinned by a competitive economy, with investment in infrastructure and successful industries, as well as a long-term skills strategy.

Whereas in the 19th century Britain pursued openness through industrial dominance and naval power, in the second half of the 20th century membership of the European Union became the centrepiece of Britain's global trade policy, as it looked to secure openness through multilateralism, regionalism and the setting of international rules. Britain now needs to adapt its global trading role for the 21st century and respond to the rise of new economic superpowers in Asia and South America.

British business is clear that the best way to be outward facing and globally competitive in the modern era is to continue to use and influence the EU as a base from which to build trading links and maximise interdependence with economies all over the world, whilst reforming the EU to ensure that it allows the UK to realise this global future. Attempting to reverse the process of increasing interdependence and return to a system of bilateral ad hoc arrangements will not create and keep the jobs the UK needs in order to maintain and improve living standards for all its citizens or enhance its standing as a global leader.

In assessing whether membership of the EU is in the UK's national interest in terms of supporting its global trading ambitions, the CBI has considered the following aspects:

1 The changing dynamics of the global economy and how these affect where the UK needs to focus to maximise its opportunities for growth

2 How best to address the UK's productivity challenge to boost exports around the world

3 The advantages and disadvantages of the UK's membership of the EU and the future opportunities and challenges it may bring

4 UK influence in the EU and how the approach the UK takes directly affects its level of influence

5 Whether the further integration of the Eurozone might threaten the overall benefits of UK membership of the EU and whether the UK can respond to avoid this

6 Whether any alternative types of relationship with the EU offer a better balance of benefits than full membership

7 How to reform the EU to better support the UK's – and Europe's –global future

> *The nature of economic openness is changing. The complex modern economy requires a new form of openness.*

Overall, the CBI believes that the UK can help shape the EU for the 21st century if it engages in the right way. This is one reason why 8 out of 10 CBI members – including 77% of SMEs – said that they would vote for the UK to remain a member of the EU in a referendum if held tomorrow.

8/10

CBI members – including 77% of SMEs – said they would vote for the UK to remain a member of the EU in a referendum if held tomorrow.

## 1. The UK needs to strengthen links to emerging and developed markets to reflect the changing world

As global economic weight shifts towards emerging and developing economies, the UK must adapt to take advantage of new trading and investment opportunities. But the UK's trading relationship with the European Union will remain of great importance regardless of the nature of formal relations. The UK therefore does not face an 'either-or' choice between the emerging world and its current principal trading partners in Europe and the United States – it must build links with new markets and maintain and strengthen its current trading relationships.

**The rise of emerging markets is reshaping the world's economic geography**, both taking global growth to unprecedented highs and shifting the world's centre of economic gravity eastwards. It is forecast that non-OECD countries will account for around 55% of global growth from 2012 to 2025 and by 2050 China, India, Brazil, Russia, Mexico and Indonesia will all have larger economies than any European Union country.

**Growth in the developed world will be constrained for the foreseeable future**. Ageing populations, highly developed economies with fewer 'quick wins' available from technological catch-up, and the overhang from the financial crisis will mean that many developed economies will see sluggish growth of around 2% at best for the next ten years. These global trends suggest that many companies looking for long-term growth rather than just maintaining existing sales will have to look outside the developed world.

**The UK must do more to create trade and investment links to the high-growth markets, but this will take time**. Exports to the emerging world are growing rapidly, but they are doing so from a very low base – only 2.8% of UK exports go to China, and just 6.6% go to the four BRIC countries (Brazil, Russia, India and China) in total. Despite some progress in recent years, Britain's trade links are strongly tilted towards the slower-growing western European Union countries (rather than the faster-growing eastern European members), the United States and other developed economies.

**Britain's large established markets are likely to be important for some time to come**. While the growing spending power of developing economies' middle classes is likely to play to Britain's trading strengths, progress is likely to be slow, and British firms face considerable practical barriers when breaking into emerging markets. Moreover, there are compelling economic fundamentals that make trade between advanced economies, especially those clustered in a region, particularly important.

> Britain does not face an 'either/or' choice – it needs to maximise trade with existing large markets at the same time as building links to new markets.
>
> The focus must be on building and strengthening links to markets all over the world by breaking down barriers between economies, participating in the exchange of people and ideas, and finding the common ground on regulation and global co-operation that can help harness the global trends reshaping the world economy to bring prosperity to the UK and its citizens.

## 2. The UK must maximise openness to the global economy to help tackle the productivity challenge

The UK is less productive than most comparable large developed economies – and this acts as a drag on its trade performance across the board. Openness to global exports, imports, investment and migration combined with the right industrial strategy and policies to boost skills levels can drive a virtuous circle of increased productivity and competitiveness that will support growth and exports, creating jobs and boosting prosperity.

**The key to increasing exports is meeting the productivity challenge**. Long-term sustainable GDP growth is driven by improvements in productivity, especially in developed economies where workforce growth, catch-up capital accumulation and natural resources are limited. But Britain faces a productivity challenge: in 2007, before the financial crisis, UK overall productivity was still 9% below that of Germany and 20% below that of the US, while only just pulling equal with that of France. Success for the UK in the modern global economy will not rest on competing for the lowest labour costs or subsidies for industry; it will instead be driven by boosting productivity through skills, technology and innovation.

**Greater openness helps drive productivity improvements**, by giving domestic firms greater access to markets that allow economies of scale to be exploited; improving the quality of supply chains available; increasing the ability of firms to plug skills shortages and build cross-border workforces; and by boosting access to capital that can be used for investment in jobs and innovation. All of this is helped by having a regulatory climate that is competitive and enabling to trade. Openness – including to overseas competition and immigration –can be challenging and have social impacts but, combined with a coherent industrial strategy, effective skills policy and sensibly managed migration, it can drive a virtuous circle of increased productivity and competitiveness.

**For this reason, the world economy is generally becoming more open.** The rest of the world is globalising and integrating more deeply, with tariff barriers lower than ever before and non-tariff barriers being lowered to help facilitate a boom in supply-chain trade. The process of increasing openness is now being driven by bilateral deals between regional trade blocs rather than through multilateral WTO negotiations, prompted by a shift in global trading patterns through the second half of the 20th century that saw rapid increases in global supply-chain trade.

**Different countries have pursued varying degrees of integration, but for the last 40 years the UK has used membership of the European Union as the vehicle for pursuing openness.** The EU is the most internally open and integrated of any international market, with lower barriers to trade – and therefore greater trade and supply-chain integration – than any other trading bloc in the world.

If the UK is to be successful in adapting its global trading role to the changing world, it must overcome the productivity challenge that acts as a drag on its trade performance across the board.

To do this, the UK must pursue even greater levels of openness to the global economy. The European Union, which still accounts for around half of the UK's trade, is the world's most ambitious trade bloc, where the dismantling of internal non-tariff barriers to trade has gone the furthest.

## 3. The benefits of EU membership to British business have significantly outweighed the costs

Like any international arrangement involving co-operation, UK membership of the EU has always had advantages and disadvantages. But for the UK the benefits have been extensive. They significantly outweigh the costs of membership and have increased the ability of British business to pursue their global ambitions. 71% of CBI member businesses reported that the UK's membership of the EU has had a positive overall impact on their business.

It is not unreasonable to infer from a literature review that the net benefit arising from EU membership is somewhere in the region of 4–5% of UK GDP or between £62bn and £78bn per year – roughly the economies of the North East and Northern Ireland taken together. This suggests that households benefit from EU membership to the tune of nearly £3,000 a year – with every individual in the UK around £1,225 better off.

The benefits of EU membership can be seen more clearly in the way the EU has supported the UK's complex economy across six aspects of openness that underpin the UK's global trading ambitions.

**Access to European markets for goods and services has been the biggest positive for the UK economy,** giving UK businesses access to the biggest single market in the world of over 500 million people. Three-quarters of CBI members of all sizes and sectors pointed to the creation of the Common Market as having a positive impact on their business. The Single Market has enabled UK businesses to exploit the economies of scale that can drive wider competitiveness, as well as bring them into complex pan-European supply chains that allow them to obtain inputs from the most efficient sources possible and boost their own exports by selling into larger European supply chains.

**EU membership has given UK businesses access to the finance they need to grow.** It has unlocked global and European direct investment into the UK – to help start up factories, build office space, stimulate R&D or support innovation in creative industries – and also provided new investment avenues for UK companies. Since 1992 and the creation of the Single Market, inward FDI flows to the EU from around the world have doubled, helping to make the UK an attractive global destination for investment with the second largest stock of FDI in the world.

Membership of the EU has also cemented the UK's position as the world's leading financial centre, which in turn helps provide the 'invisible infrastructure' to UK firms and European companies that can finance domestic and overseas expansion.

**Labour mobility in the EU brings benefits for British business, but being open may mean having to be tougher.** As one of the basic freedoms of the EU Single Market, the free movement of people allows UK firms to recruit employees with specialised skill sets easily from across the EU – a factor that is increasingly important given the UK's high-value-added industries – and build pan-European supply chains. It also facilitates service exports where personnel need to be physically present to provide a service, and it has allowed many UK citizens to take up opportunities to work and live abroad. Ultimately, business and government must work to boost the UK's domestic skills base. Nevertheless, 63% of CBI members stated that the free movement of labour within the EU had been beneficial to their businesses.

However, while the UK economy has benefitted from the creation of an EU-wide market for talent, and indeed from immigration more widely, pressures on local services and wider public perceptions threaten to reduce the legitimacy of a vital element of EU membership for business. The principle of free movement of labour is still wholeheartedly supported by the business community, but consideration should be given to ways in which the principle can continue to operate at a practical level for member states in the now enlarged and more economically diverse EU.

**Common rules are needed but the UK's lack of unilateral control over regulations is seen as the biggest downside to EU membership.** Business is clear that any Single Market needs commonly agreed rules, to allow full access to the market on equal terms. Removing non-tariff and regulatory barriers between member states is one of the most important features of the European Single Market, and the UK's ability to influence and improve these rules increases the ability of British firms to compete. Competitive and respected EU rules can also open up new markets to UK firms without having to duplicate standards as other regions often design their own rules around EU benchmarks. Despite frustrations, over half of CBI member companies (52%) say that they have directly benefitted from the introduction of common standards, with only 15% suggesting this had had a negative impact.

However, the impact of poorly thought-out and costly EU legislation is a major issue for businesses: 52% of businesses believe that, were the UK to leave the EU, the overall burden of regulation on their business would fall. Areas where UK firms are frustrated with EU regulation include labour market regulation, highlighted by nearly half of businesses as having had a negative impact – with particular frustrations around the Temporary Agency Workers Directive and Working Time Directive.

The EU needs to make sure that all regulations (new and revised) will support Europe and the UK's growth – working in a global context and for businesses of all sizes – and be adequately assessed and well evaluated to ensure they deliver against their objectives.

**There are direct budgetary costs to EU membership, but the net costs are less extensive than often reported and the price of membership is well worth the overall benefits secured.** There are net direct budgetary costs to EU membership for the UK, as well as complex and bureaucratic funding streams that reduce the transparency and accountability of how EU funds are spent. Once the UK 'rebate' and funding received through the EU's major funding programme has been accounted for, there is a net direct budgetary cost to the UK of €7.3 billion, or 0.4% of 2012 GDP. However, there are benefits of pan-European approaches to funding for the UK, helping UK companies and universities produce innovative technologies by facilitating R&D collaboration across borders, as well as creating stronger markets for UK products in other EU countries through regional and structural funding that supports economic growth. Leaving aside the benefits of funding, the direct net budgetary cost of EU membership is the equivalent of around £116 per person each year. Even allowing for both the costs of membership of the EU club and the regulatory burden, the GDP boost as a result of the benefits of market access, capital and labour mobility dwarfs the UK's membership fee.

**The EU has helped open global markets to UK firms on terms that support its trading ambitions,** through its leading role in global trade negotiations as well as by signing bilateral Free Trade Agreements (FTAs), helping UK businesses to import and export more profitably to non-EU markets. The EU is currently a signatory to 30 FTAs with over 50 partners including high-growth markets such as South Korea, Mexico, Chile and South Africa. Including the EU itself, British firms have therefore gained full access to a $24tn market through EU membership. If FTA negotiations with Canada, Japan and the US are successfully completed and fully implemented, the total market open to UK exports would nearly double to $47tn – and an EU–US deal would help set the benchmark terms for future global trade deals. If the EU were to complete all its current free trade talks tomorrow, the European Commission (Commission) has estimated it could add 2.2%, or €275 billion, to the EU's GDP. However, there is significant complexity and a lack of nimbleness in EU trade negotiations, both in the internal process and in reaching a final agreement. As one of 28 EU states, the UK cannot guarantee that its priorities will always be represented in trade talks and cannot fully dictate which markets are prioritised for FTA negotiation.

Despite these drawbacks, the opportunities provided through collective EU trade negotiations are unmatchable elsewhere. It is difficult to envisage how a country the size of the UK could succeed in breaking down regulatory barriers to trade with a major country to the same extent in unilateral trade negotiations, especially given the recent predominance of non-tariff barriers over tariffs as practical barriers to trade for business. It is also likely that the UK would find itself in line behind the EU as third countries look to pursue FTA negotiations. Indeed, the clear message coming from a number of the UK's major non-EU trading partners, such as Canada, the US and Japan, is that while they value the UK as a trading partner, they would strongly prefer an EU-level trade deal complete with compatible standards, regulations and processes.

**The conclusion that the overall impact of EU membership on the UK economy has been positive is reinforced when analysing the most internationally exposed sectors of the UK economy,** such as the UK's world-leading aerospace, automotive, pharmaceuticals, chemicals, financial services, and technology, media and telecommunications (TMT) industries.

Whether focused on those aspects of EU membership that drive productivity through enhanced openness or on the wider macroeconomic benefits membership has brought, the EU has been a significant positive for British business in pursuing its global ambitions.

Worth around £1,225 a year to every individual in the UK, membership of the EU has also brought benefits to businesses of all sizes in varying sectors right across the country.

There will always be costs to membership – both overall and to individual sectors, firms, or individuals – but the positive balance of benefits is clear for an open, complex economy like that of the UK.

## 4. The UK is influential in the EU when it fully engages

From big picture developments to the nuts and bolts of everyday business decisions, UK influence in the EU is an integral element of supporting British business ambitions. The UK has historically exerted influence right across the legislative process to achieve the outcomes it desires, from the genesis of the Single Market in 1986 to recent British-led progress in the EU on climate change.

The nature of the EU means that the UK will not always get its way; being part of a club will inevitably mean that compromise occurs. Business wants to see the UK consistently and proactively engaged – throughout EU institutions and Europe's member state capitals – if it is to continue to shape the EU to support its global future.

**UK influence has helped maximise the openness of the EU.** 72% of British businesses believe that the UK currently has a significant or influence on EU policies that affect their business. Furthermore, the challenges business faces today – and will continue to face in the future – in a global economy are increasingly insurmountable through purely national solutions.

**British influence rests on the successful use of a variety of tools of influence to secure strategic interests.** While the UK's formal structural power has always been important, and underpins effective UK engagement in Europe, the ability to achieve policy outcomes that best realise Britain's aims has often rested on strategic use of informal influence to augment the formal rights that EU membership gives the UK.

**Voting power is the basis of UK influence, but is not enough on its own.** The UK is a large member state and has correspondingly large structural power in the Council of the European Union (Council) and European Parliament (Parliament), as well as having a straight veto in a number of areas. But structural changes that have increased the power of the European Parliament and reduced the veto power of individual members in the Council mean that informal influence is increasingly important in the EU's consensus-based policy process.

**The UK is effective at building alliances and rarely finds itself isolated.** Far from the 'awkward partner' often portrayed, Britain has historically built alliances in the EU to corral support for its position in areas right across the policy spectrum – setting the policy agenda as well as effectively reacting to threats to its interests. The UK has traditionally been successful at building alliances in the Council but needs now to replicate this in other institutions, especially in the increasingly powerful European Parliament.

**The UK needs to do more to ensure that it has personnel in key positions to help frame EU policy debates.** Having national citizens in prominent positions, both political and official, in EU institutions facilitates information flows, gives the UK a platform to set the policy agenda, and allows greater influence over legislation as it is drafted and debated. The UK has had a strong presence in the Commission for many years, but faces a 'generation gap' with declining numbers of British staff and significantly reduced influence as a result.

**The UK's technical expertise gives it significant credibility on a range of issues that allow it to set the agenda.** The EU looks to those with expertise when deciding policy direction, and the UK has used its expertise and credibility, both as a policymaker within institutions and as an external contributor to the policy process, to influence this. This can be seen in the UK's record on shaping financial services legislation – although the financial crisis has reduced the standing of the UK on this issue – and also in areas such as energy and climate change.

**The UK's role in a number of global institutions magnifies the international pressure it can bring to bear in the EU.** With the policy agenda increasingly set at an international level to deliver international responses to global challenges, UK influence in global institutions – as a large economy in its own right but also as a nation perceived as a leader in the EU – can help set the parameters of legislation at a European level in line with UK objectives. The UK's ability to persuade international actors to bring pressure to bear on the EU could be diminished if the international community perceives the UK to be abrogating its leadership role in Europe.

The UK has been, and still is, influential in the EU – with a powerful voting strength and a good track record of building alliances. British personnel occupy senior positions in the staff of the Commission, and British technical expertise informs EU policy development.

The UK must, however, remain proactively engaged, redoubling efforts to win support for its agenda and reversing the decline in numbers of UK staff employed in the Commission.

## 5. The UK can remain influential in a changing European Union

The EU is a constantly evolving entity, and it is currently going through a particularly rapid period of change which has raised fears that the UK may be marginalised by a more integrated Eurozone. This is a legitimate concern, and the UK must be alive to it. However, securing safeguards for the Single Market for non-Eurozone members and restating a Europe-wide political commitment to the continuation of a European Union that works for all its members is achievable in a changing EU.

74%

Percentage of British businesses which believe that the UK will continue to influence EU policies in the future

**The Eurozone crisis is pushing further integration in the EU, spurring fears that the UK could be side-lined.** Eurozone integration in an attempt to fix the underlying weaknesses in the currency union's design could potentially divide the Eurozone members from those outside the currency and fragment the Single Market. The process of integration could even creep towards a fully federal union at EU level of which the UK wants no part.

**The integration measures adopted to date have not fundamentally affected the balance of advantages and disadvantages of membership or the level of UK influence.** Limited financial integration has seen the setting up of a Single Supervisory Mechanism, of which the UK is not a part. Fears that this might lead to Eurozone 'caucusing' against the UK have been reduced through the 'double majority' safeguards put in place. There has been some economic and budgetary integration, but the UK is outside these moves and has been largely unaffected. That said, additional developments need to be closely assessed to ensure that any potential dangers from further integration can be mitigated.

**The degree of further integration ultimately depends on how far the key actors are willing to go – the political will exists to support the Euro but not to pursue full federalism.** European integration is to a large degree controlled by its member states, each with different views on what the EU should look like. Most market observers believe that the Eurozone is unlikely to collapse because the political support exists to do 'what it takes' to support the single currency. It is also not likely that the EU will move towards a federal superstate. A federal Europe would mean a substantial pooling of powers to EU level in all areas, and political support for this in key member states is weak, even in parts of the 'core' EU such as Germany and the Netherlands.

**The EU is likely to develop pragmatically in a way that will not fundamentally change the balance of advantages and disadvantages for the UK, especially as the UK is not compelled to sign up for further integration.** Europe will take further steps towards a Banking Union, most likely based on co-ordination rather than full financial integration involving joint liabilities. Safeguards for those not taking part in Banking Union have been agreed, offering protection for the foreseeable future for the UK. European member states are likely to commit to limited structural support – conditional on reform – to enhance economic co-ordination but stop short of permanent fiscal transfers. Moves towards federal institutions and political union will be met with resistance by member states, especially given the need for Treaty change – and consequent referendums – to see them enacted.

**This 'multi-sphere' Europe that emerges is not likely to leave the UK sidelined.** Taken as a whole, none of the likely measures of further integration in themselves undermine the benefits of UK membership of the EU. Although there is a danger that the Eurozone will be able to outvote the UK and other countries outside the currency – especially given the Eurozone's 'inbuilt majority' in the Council of Ministers after November 2014 – the diverse interests of EU member states mean that the UK will still have allies.

**The Eurozone itself is not a club of uniformly like-minded countries.** Despite a common currency, their interests in other areas still diverge, and they themselves recognise the need for safeguards for non-Eurozone members, having already shown willingness to provide these. More broadly, the agenda-setting body of the EU, the European Council, is driven by consensus and rarely enacts legislation in the face of strong national reservations, especially from large member states. Forcing change through the Eurozone's 'inbuilt majority' is therefore unlikely in reality. However, were Eurozone members to attempt to further their own interests at the expense of the whole EU, there are already significant legal safeguards in place from previous Treaties to protect access to the Single Market for all EU members.

**Finally, the nature of EU member-state interactions over the past 40 years suggests that the EU that emerges from the crisis will still be able to encompass the interests of all its member states.** Members of the EU have long been integrating in a number of separate areas with different dividing lines, creating a Europe of flexible cooperation – a 'multi-sphere' Europe – rather than the 'two-tier' structure of Eurozone members versus the rest that is often assumed.

> The changing EU is not likely to fundamentally alter the balance of pros and cons of EU membership or the UK's ability to influence. This does not mean that it does not have the potential to do so – the UK and other non-Eurozone states must be alive to the dangers that present themselves as the EU's institutions and member-state relationships evolve.
>
> However, the varying spheres of integration in the EU allow the member states some flexibility over where to co-operate with other member states in pursuit of common interests.
>
> If the UK continues to build alliances across Europe to protect the Single Market, as it has done in the past, further integration is compatible with, and indeed can support, the UK's global future.

*“The diverse interests of EU member states mean that the UK will still have allies.”*

> *While the UK could certainly survive outside the EU, none of the alternatives suggested offers a clear path to an improved balance of advantages and disadvantages or greater influence.*

## 6. Alternatives to EU membership do not offer greater advantages or influence for the UK

No alternative option to full EU membership can combine all the benefits of EU membership with none of the costs; such solutions are simply unrealistic. While the UK could certainly survive outside the EU, none of the alternatives suggested offers a clear path to an improved balance of advantages and disadvantages or greater influence over the terms of UK interaction with its nearest neighbours.

**'Going-it-alone' through the WTO would reduce market access through increased tariffs on UK goods and services.** Refraining from entering any formal relationship with the EU and simply relying on WTO rules is not a model that would assist Britain in achieving the global trading role to which it aspires. Access to European markets on WTO terms would hit British exporters and importers – as well as those in their supply chains – with tariffs and logistical delays, and this restricted market access would see investment into the UK fall over time. The 'WTO option' would give the UK power to pursue trade negotiations with any country of choice, but this freedom is offset by the risk of a period of dislocation while new deals are being drawn up and, more crucially, the likelihood that the UK would sign significantly fewer comprehensive bilateral deals than the EU can achieve.

**'One step removed' – the 'Norway option' of leaving the EU but remaining in the European Economic Area (EEA) – would reduce the UK to a 'standards taker' on the fringes of influence.** Leaving the EU and opting for the Norway model of membership of the EEA would not solve many of the challenges some see with the UK's current relationship with the EU. Businesses would still have to follow EU rules – thereby leaving the regulatory burden in place – but the UK's ability to influence those rules would be removed by relinquishing the UK's seat at the table in Brussels. Freedom of movement would be unaffected. The UK would likely still pay a membership fee to be part of the club (albeit reduced) and UK firms could face customs controls and practical obstacles to trade that would impede UK goods exports.

**'Pick and choose' – the 'Swiss option' of bilateral agreements – would provide greater flexibility but reduce market access and influence.** The time it would take for the UK to renegotiate an agreement similar to the Swiss would mean a significant period of dislocation and uncertainty as negotiation takes place. More importantly, however, there is no guarantee that the UK would achieve agreements on all its prioritised areas – such as financial services – and, where it did, it would be likely to have to accept a package of EU-designed rules related to the Single Market in order to get market access. The agreement would require the UK to update its domestic rules to reflect any subsequent changes in EU law – changes designed without the UK at the table – if it wished to retain market access. Freedom of movement would essentially remain unaffected, although the Swiss have a limited ability to regulate migration flows. Moreover, the Swiss option would mean the UK negotiating global trade deals without the clout of the EU behind it.

**'A customs union' – the 'Turkey option' – would be the worst of the 'half-way' alternatives, leaving the UK with very limited EU market access and zero influence over trade deals.** Retaining membership only of the customs union would be an inappropriate economic stance for the UK in the modern global economy. With non-tariff barriers often replacing tariffs as the major obstacle to trade, a customs union would not be sufficient to support Britain's trading ambitions in the modern global economy with its complex supply chains and it could limit UK access to EU markets in areas such as services. Moreover, opting for the customs union option would not free the UK from having to comply with EU regulation. Most importantly, it would not be in the UK's interest to be a silent partner in the EU's trade policy – as is the case with Turkey – allowing other member states to set the tone for Europe's openness to the world and negotiate the technical details of its trade deals.

**An advanced UK–EU Free Trade Agreement, while addressing some of the costs of EU membership, would fail to secure vital benefits for business.** Although it is likely that, on exit, the UK could secure some form of bespoke trade deal with the EU, given the relative interdependence of the two economies, there is a large degree of uncertainty around the willingness of the EU to offer favourable terms to the UK that would fully support British business in its global ambitions. The EU's clout – offering a market of 445 million people to the UK's 63 million with an economy around six times the size – gives it a stronger negotiating hand than the UK. Moreover, the UK is more dependent on the EU for its trade than the EU is on the UK – around half of the UK's total trade is with the EU while just 8% of EU trade is with the UK. The fact that Britain happens to run a deficit in exports with the rest of the EU is of little relevance compared to its overall dependence, in absolute and relative terms, on access to the European market. There are a number of further political considerations that could limit the potential deal available to the UK, including political fallout from UK exit and an unwillingness on the part of EU leaders to be seen to 'reward' exit.

The UK would not, therefore, be able to sign a UK–EU FTA that brings all the benefits with none of the costs. Even in a 'best-case' scenario – taking the best feasible elements of each of the previous alternative options together – the likely deal would still offer less support for British business in pursuing its global ambitions than full membership of the EU and access to the Single Market.

Securing tariff-free access to the EU markets for UK goods would not be straightforward and an agreement securing the same market access in services and public procurement that the UK enjoys today is unlikely. Removing non-tariff barriers would require compliance with EU regulation imposed from Brussels without Britain playing a role in its formulation. A particular worry for business would be the impact this would have on the UK's financial services sector, potentially threatening the City's position as the world's leading financial centre. Investment in a number of industries is likely to be hit over time, as other locations within the Single Market become relatively more attractive for marginal investment decisions. Finally, despite greater notional flexibility, the UK's ability to pursue an effective trade policy that supports business' global ambitions would be reduced if negotiating unilaterally.

EU membership has its costs, but the assessment of five potential alternatives to full UK membership has shown that none of them is able to improve the overall balance of advantages and disadvantages to EU membership.

All alternatives mean a significant period of dislocation while the UK renegotiates with not only the EU but every existing trade partner in an Free Trade Agreement. All options other than joining the EEA offer unsatisfactory access to European markets. All would involve one or more barriers to trade – such as higher tariffs, burdensome rules of origin, border controls or other regulatory barriers – which would hit UK goods trade with the EU for both exporters and importers, and undermine the UK's services sector's ability to continue its increasingly important contribution to UK export performance.

This reduction in market access would not necessarily offer a substantial reduction in the rules that the UK would have to apply. Most crucially, the UK would also lose its influence over the creation of these rules and over the global standards that the EU helps shape, standards that affect UK business' ability to take advantage of its strengths on the world stage.

Full membership of the EU is the best vehicle for harnessing the global trends reshaping the world economy.

6:1

The EU economy is almost seven times the size of the UK's

## Conclusion - a reform agenda that supports the UK's global trading future

Business wants the UK to remain in the European Union – it is better than any realistic alternative as a means to achieve British growth ambitions through increased openness. But the EU has to change. Business wants an EU that is outward-looking, open and competitive; one that is rooted in the priorities of its member and respects the boundaries of power granted to it. The CBI believes that the right approach is to champion reform for the whole of the EU, not on the basis of negotiating a special deal for the UK. This reform agenda has support from a number of member states in the EU and, if approached correctly, the UK and other EU member states can together secure a global future for the Europe emerging from the crisis.

**The EU must be outward-looking, opening up new trade opportunities for business.** To capitalise on new global growth opportunities, the EU must increasingly look outward to open up global markets through continuing to make the case for trade liberalisation commitments at WTO level, aggressively pursuing bilateral trade deals with important established markets and further breaking down barriers to trade with emerging markets.

**Signs of progress could include:**

1. The EU should successfully conclude a high-quality Free Trade Agreement with Japan, and sign the Transatlantic Trade and Investment Partnership (TTIP) agreement with the US.
2. The EU should push forward a more dynamic trade agenda with key emerging markets to support member-state trading ambitions.

**The EU must be open and competitive, and must update the Single Market for the 21st century.** The EU must continue to exploit its main strength, its consumer market of 500 million people. Making further progress on unlocking the Single Market for Services is a high priority – either at EU level or through use of enhanced co-operation – by ensuring full implementation of the Services Directive and deregulating professional qualifications that can block pan-EU service delivery. Business also wants to see a sensible progression of the Digital Single Market, by identifying barriers to the Single Market where these legitimately exist while keeping competences at national level where possible.

**A competitive EU is also one which ensures that its regulatory environment is globally competitive and not unduly burdensome.** Although a Single Market needs commonly agreed rules, the EU must continue its work to reduce the overall burden of regulation – particularly strengthening the Commission's work to make rules appropriate for SMEs and microbusinesses – and improve the processes for impact assessment and regulatory evaluation. The EU should also introduce a 'Think Global First' test to make sure that proposals support the EU's global competitiveness and do not diverge detrimentally from global trends. Finally, and perhaps most importantly, a change of culture is needed in all institutions to make sure that rules adhere to the principles of proportionality and subsidiarity, so that decisions should always be taken at the lowest level of governance possible, with the EU legislating only where absolutely necessary.

**Signs of progress could include:**

3. The EU member-state leaders should organise a high-level symposium on the Single Market by the end of 2015 to give political impetus to the completion of the Single Market.
4. The new Commission should set a target for the reduction of the regulatory burden to be achieved within its five year term.
5. The new Commission's work plan should include clear commitments to improve the way in which the impact of proposals is assessed.

**The EU needs to continue to work for all its members.** With an increasingly integrated Eurozone 'core', procedural and legal safeguards around Single Market access for non-Eurozone members should be a priority. These safeguards are not only about 'protecting the UK', but about ensuring that the benefits of the EU remain available to all its members. Safeguards achieved in Banking Union negotiations and financial services legislation should be replicated in other areas and the principles should be enshrined in any future Treaty change.

**The EU needs to better respect the boundaries set by member states.** The EU has moved too far from 'adding value' to 'adding functions', resulting in 'mission creep' in several areas. The recent Dutch declaration that "the time of an 'ever closer union' in every possible policy area is behind us" offers a positive indication that other member states are also looking at how to refocus the EU. Member state leaders and governments must work to restore the principle of subsidiarity in EU policymaking by signalling to the Commission that it must refocus its activities based on a more limited interpretation of its remit to ensure that "Europe where necessary, national where possible" is the default position. The EU should step back from pushing further legislation in the areas of social and employment law and 'lifestyle' regulation, leaving more to the discretion of member states as to how they achieve the ends agreed at European level, especially in the areas of health & safety and welfare legislation.

**The functioning of the EU must be improved, prioritising measures to support growth and competitiveness.** The Commission's 27 different portfolios – each with a separate Commissioner with a legislative agenda – are hindering prioritisation and horizontal coordination. Tightening the organisation of the Commission by pairing 'junior' and 'senior' Commissioners on single portfolios should be considered, with a refocusing of Commissioners towards key portfolios, such as external trade and the Single Market. Similarly, Commission staff should be refocused on key priorities; the current situation where 1,174 staff work on development but only 533 work on trade is the wrong balance. The EU must also allocate its resources in a way that reflects the economic realities of its member states, and establishing a single seat for the European Parliament is an important contribution to this process. Furthermore, funding priorities in the EU need to continue to move towards supporting a dynamic and competitive economy through an increased focus on research and development and the digital economy, and further use of the European Investment Bank to help incentivise private investment.

**Signs of progress could include:**

6. EU leaders should adopt a declaration that explicitly calls for steps to be taken to ensure that further Eurozone integration does not undermine the Single Market and protects non-members from discrimination. This should then be formalised in any new Treaty.
7. Procedural safeguards should be introduced to maintain the integrity of the Single Market for all members, and legal safeguards should be enshrined in any new Treaty.
8. Member state leaders must work to restore the principle of subsidiarity. Until this is fully restored, there should be a moratorium on any new regulation where adequate legislation already exists or there is a strong argument for national decision-making, including in the area of social and employment law. The opt-out from provisions of the Working Time Directive should be made permanent.
9. The Commission should reduce the number of portfolios in order to increase the number of Commissioners and staff in key priority areas for the EU.
10. The EU must keep its budget in check, rationalise its bureaucracy, and focus funding on supporting a dynamic and competitive economy.

**The UK needs to be fully engaged to help create a better EU.** Securing a reformed EU will require the UK to build alliances both in Brussels and with other member states.

**The UK must reform how it engages with EU institutions.** The UK should step up its ministerial engagement in Europe, building links with other member state capitals and increasing the number of ministerial visits to Brussels at key points in the policy process. The UK government should draw up comprehensive plans for engaging with the European Parliament, and UK political parties should endeavour to raise the level of accountability of UK MEPs at home for the output from the legislative process, as well as better supporting UK MEPs to build alliances with MEPs from other member states. The UK must also substantially increase the levels of British nationals on the staff of the major EU institutions, including by ensuring that the undertaking of secondments into EU institutions by UK civil servants is encouraged and formally recognised in terms of career development and progression.

**The UK must improve engagement with EU issues at home to underpin influence abroad.** The UK should increase interaction with EU issues, policy and politics at home to allow for better engagement in Europe and a better relationship with the EU overall. This should be spearheaded by an increased role for the UK's national parliament. The UK should look to best practice from other European parliaments to increase debate around EU issues in the UK parliament, either before minsters attend Council meetings or on the specifics of EU legislation, for example. The UK should also attempt to build links with other parliaments to improve co-operation and ensure that the 'Yellow Card' Procedure is an effective tool to uphold the principle of subsidiarity. Finally, with nearly half of UK businesses perceiving UK 'gold plating' to be the main challenge with EU regulation, the government must use the flexibility given at EU level when transposing legislation and ensure that it does not put the British economy and businesses at a disadvantage.

**Signs of progress could include:**

11. The UK government must set out a detailed EU engagement strategy. This should include an ambitious target for UK presence in EU institutions in the medium term - slowing the negative trend of a six-year long decline of UK nationals in the staff of the European Commission by the end of 2015, and beginning to reverse this decline by 2017 – as well as comprehensive plans for how government intends to engage with the increasingly powerful European Parliament to best support UK interests.
12. The UK Parliament should strengthen informal ties with like-minded national parliaments and seek to use the Yellow Card Procedure more frequently. It should take the initiative by creating an informal network of like-minded national parliaments to improve coordination on the Yellow Card Procedure.

*This is an achievable reform agenda. If the UK engages in the right way, it can help shape the EU for the 21st century. Proactive, positive and permanent UK engagement will secure the outcomes that can support Britain's global future.*

Britain's Global Role

CBI

THE VOICE OF BUSINESS

For further information contact:

Andy Bagnall
Project Leader – Britain's Global Role
T: +44 (0)20 7395 8100
E: andy.bagnall@cbi.org.uk

Core project team:
Marte Borhaug
Andrew Forth
Jenny House
Daniel Lee
James Leviseur
Tom Sallis

INVESTORS IN PEOPLE



RECYCLED
Paper made from recycled material
FSC® C007570
FSC
www.fsc.org

Printed by Duncanprint on Revive 100 pure white silk, containing 100% recovered fibre certified by the FSC®. Duncanprint is certified to ISO 14001 and registered to EMAS environmental management systems NEZ052.

Product code: 10179

cbi.org.uk/global-future