

Doing Business Across Europe: A new Engagement



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Foreword



As the UK emerges from the financial crisis we face a choice as a country between being an open or closed economy: a country that champions free trade, is open to other cultures and that works closely with its neighbours or a country that turns inwards, looks backwards, erects trade barriers and rejects hundreds of years of shared history. Crucial to this debate is the UK's membership of the European Union.

Michael Moore's report underlines that countless businesses up and down the country, which are the backbone of our prosperity, want Britain to remain an open economy. The vast majority are unequivocal about the European Union and back the UK's membership which makes doing business easier, trading less bureaucratic and competing across the continent fairer.

However, businesses are clearly arguing that not only should we remain a member of the European Union, but that we must lead reform to deliver jobs and growth in the UK and beyond. Businesses want the European Union to become more agile, less bureaucratic, and more competitive. We must also show confidence because history demonstrates that the UK can – if it takes up the challenge – lead reform in Europe.

That's what makes the message of this report so important. In a globalised world we can't do without Europe and in a time when boosting competitiveness is so urgent to restore growth to the Eurozone, Europe can't do without the UK.

I am grateful for the countless businesses, whose leaders have set out their priorities for the UK Government's approach to our membership, and for the work Michael has done in giving them a voice. Michael has sent an important message for the Government to consider.

A handwritten signature in black ink that reads "Nick Clegg". The signature is written in a cursive style with a long horizontal stroke at the end.

Rt Hon Nick Clegg MP
Deputy Prime Minister



Introduction

Being part of the European Union is vital to the British economy. The livelihoods of millions of people depend on the jobs and wealth that our membership creates and sustains.

Businesses in the UK have responded to the competitive pressures within the EU and thrived accordingly. And they have been highly successful in using their strength in the EU to secure strong positions globally. Of course, the reality is that the growing pace of globalisation is being felt by all businesses in the UK, regardless of size, location or sector. The impact of rapid globalisation will continue to grow – nobody can opt out.

In this fast changing world, businesses are clear that the UK needs to continue to be part of the European Union, but that of itself is not sufficient for our future prosperity: the EU needs to be reformed urgently to give priority to competitiveness and economic growth.

The business community has made this case very strongly in a series of recent reports, each underscoring the economic importance of our membership of the EU, whilst arguing that it urgently needs a re-focussed agenda:

- **To secure growth through enhanced trade,** businesses seek the completion of the single market, ensuring it is fit for the digital age; and urgent progress on sealing EU trading agreements with key partners such as the USA.
- **To secure growth through improved competitiveness,** focussing on smarter regulation (particularly for smaller businesses), reducing input costs like energy and access to finance through better single markets for both, and supporting skills and innovation.

As the new Commission is formed and the new Members of the European Parliament consider their priorities, we need to make this agenda clear: it is vital for businesses in the UK and across the EU. British

businesses are looking to the British Government to show leadership on their behalf, and to work with others across the EU, to create momentum for a programme focussed on growth and competitiveness, built by Government and business working together in an effective partnership.

This is very important in the short term. But as part of the broader national debate about Europe taking place in the UK, there is a separate discussion underway about how we engage in Brussels in the longer term.

We do, of course, have a strong track record which we must not overlook, most recently in budget negotiations, CAP reform and pan-EU initiatives such as the 'like-minded' group led by BIS and the 'green-growth' group led by DECC. The Coalition's thorough look at the UK's relationship with Europe in the 'Balance of Competences' review has in my view made clear that our membership of the EU is positive for the country. And business after business rightly pays tribute to the professionalism and dedication of the diplomats and civil servants who work on our behalf in the EU all year round.

Nevertheless, this report is clear that the need for reform is pressing and there also needs to be a step change in how we as a country engage at an EU level. There is in fact a high level of agreement on what we want Europe to do differently and the priority areas for reform. The missing ingredient is how we, as businesses and Government engage with Brussels in order to achieve those objectives for the sake of jobs and growth.

In terms of reform, it is understandable that most of the attention is paid to the need for change at the EU level – aside from the policy priorities, there must be improvements to the way its institutions work. From impact assessments and fit for purpose regulation, to the structure of the Commission and co-operation between institutions, there is much to do.

This reform will not happen by itself. The history of reform in the EU shows that it is the engagement of its members that has brought it about – and quite often, this has been led by the UK, such as enlarging the EU and driving the single market. Once again the UK needs to lead the reform debate.

However, securing reform in Europe is not simply about shouting more loudly: we need a new engagement starting here, in the UK, with reform of the way the British government and businesses approach Europe too.

Since the beginning of the year, I have been engaging with business leaders and organisations, to understand how business wants the UK to work in Europe to promote new priorities on growth and competitiveness and reform within the EU institutions, on the one hand, and to change the way we support business on the European agenda here at home, on the other.

The messages have been clear and inform my judgement that to promote our competitiveness agenda and our business interests in Europe we need to refresh the UK's approach:

- We need to start with a clear premise: *Europe matters* and the UK must be in and at the heart of the European Union;
- We need a clear *agenda for reform*, starting with the right priorities for growth and competitiveness alongside appropriate proposals for institutional change;

- We need to adopt a *different mind-set*: reform is vital, but we must also look to create new opportunities, not simply to block and to oppose in a reactive fashion. We should always be making the case that what is good for Britain is good for our partners in Europe, too;
- To succeed we need a *new approach to our engagement* in Europe: systematic, long term alliance building by government, hand in hand with (and mirrored by) business;
- To underpin this new engagement we need a *new commitment*: scaling up our investment in Brussels, putting people where they matter in the institutions and making Whitehall fit for this purpose.

We have an upbeat message: Britain matters to the EU and it matters to us. We can lead, and by leading secure what is good for us. We need to be a lot less defensive and more self-confident in ourselves and in the ability of our businesses to compete with the best.

Making the argument like this is one thing – making change happen is something very different. Practical measures are required to make a reality of this 'new engagement'.

And so, set out in this report are some recommendations that aim to do that, learning from the UK's track record of successful engagement and influence in Europe.



Rt Hon Michael Moore MP
European Business Advisor to the
Deputy Prime Minister



Recommendations

Growth and competitiveness

Recommendation 1 – The UK government should urgently set out a **UK – EU Business Agenda**, addressed to the new Commissioners and MEPs, explaining our priorities for growth, jobs and competitiveness.

Recommendation 2 – The UK's Agenda should prioritise boosting trade within and outside the EU.

The UK should push the Commission in:

- Developing a timetable and work-plan for the **extension of the single market for services**, starting with networked industries and digital commerce;
- Advancing **external trade talks**, in particular with the USA, which could be worth £10 billion each year to the UK¹;

Recommendation 3 – The UK's Agenda should also prioritise competitiveness, targeting specific measures including:

- **enhanced impact assessments** for regulatory proposals (to ensure they are evidence based, updated throughout the legislative process, and able to support genuine consultation with businesses);
- permanently embedding the Commission's agenda for **tackling the burdens of unnecessary regulation**;
- introducing a **'one in, one out' approach to regulation** affecting business;
- incorporating into impact assessments for proposals affecting business a **'Single Market Test'** to ensure all proposals include a presumption to extend or deepen the common market;
- improving the implementation of the **Small Business Test** to ensure proposals and regulation are necessary and appropriate – tailoring them for small businesses where applicable; and

- **focussing the EU's budget and activities on boosting competitiveness, making full use of European expenditure** which boosts competitiveness and jobs, like innovation and infrastructure investment schemes; and prioritising any new resources under Commission President Juncker's proposed €300 billion investment programme.

Europe Business Minister and White Paper

Recommendation 4 – To put support for business in Europe at the heart of the government's activities there should be a **Europe Business Minister**, based within both the Department for Business, Innovation and Skills and the Cabinet Office, and attending Cabinet at the Prime Minister and Deputy Prime Minister's request

Recommendation 5 – To guide the Europe Business Minister and provide the position with the necessary authority, the Prime Minister and Deputy Prime Minister should work with the existing **Business Advisory Group** (of senior UK business leaders) to set the Government's European business objectives.

Recommendation 6 – The Prime Minister and Deputy Prime Minister should also require the Europe Business Minister to take forward the work of the Prime Minister's **Business Task-force** on European regulation.

Recommendation 7 – To provide a clear public statement of priorities, the Europe Business Minister should publish an annual **European Business White Paper**, under the guidance of the Business Advisory Group, setting out the UK's agenda for the EU to extend the Single Market, to promote external trade and to secure regulatory reform.

1. Centre for Economic Policy Research: Estimating the Economic Impact on the UK of a Transatlantic Trade and Investment Partnership (TTIP) Agreement between the European Union and the United States; London 2013 <https://www.gov.uk/government/publications/trade-and-investment-agreement-between-eu-and-usa-estimated-impact-on-uk> Accessed August 2014.

Recommendation 8 – The European Business White Paper must be consistent with wider UK Government Economic Policy. The White Paper should reflect each of the five elements of the UK's Industrial Strategy (skills, finance, technologies, procurement, and sector partnerships); and each sector partnership should agree a **European Chapter** setting out objectives for EU engagement. All Departments, particularly the Treasury, DECC, DEFRA and DCMS should ensure that firms from their key economic sectors are engaged and supported.

Recommendation 9 – To support the work of the Europe Business Minister and Advisory Group, a **European Business Unit** should be established in BIS, comprising senior secondees from UK businesses and senior civil servants. It should deliver the White Paper's priorities and provide ongoing advice to Ministers on priorities for European reform, using the networks that businesses have built across Europe.

Recommendation 10 – To facilitate informed debate and promote UK interests, the UK government should, through UKREP, develop a **European Parliamentary Business Programme** to engage MEPs, MPs and other elected representatives on the delivery of the White Paper's priorities.

Business support for the strategy

Recommendation 11 – To scale up UK business engagement in the EU, the Government should host an annual **European Business Conference** to engage the Commission, the European Parliament and relevant pan-EU business groups on the key elements of the White Paper in Brussels, promoting political and commercial alliances to advance the UK's European Business priorities. UKTI should organise regular '**Business Influence Missions**' to engage with the European institutions.

Recommendation 12 – To strengthen UK business links within the EU, best practice should be incentivised by requiring any UK business representative organisations wishing to engage with the European Business Minister to be appropriately engaged members of their EU partner organisations and to have strategy for engagement or a presence in Brussels, appropriate to their scale and resources.

Government and Civil Service support for the strategy

Recommendation 13 – To extend UK influence within the EU, there should be a renewed UK government commitment to energise a **UK-EU Human Resources Programme** to create career structures which encourage UK nationals to take positions in the EU institutions. The UK Government has taken some steps, setting up a dedicated Whitehall staffing unit. But this work is not determined enough.

Recommendation 14 – To provide leadership within Whitehall, Government Ministers and departmental Permanent Secretaries should be required to build and demonstrate involvement in **UK-EU high level networks** with counterparts from other member states and the European institutions. It is only by UK officials forming partnerships with their colleagues in the European institutions that the regulatory environment can be honed for growth.

1

"Stay In"



The UK is better off in Europe

Businesses are clear that the UK's economy is better off as part of the European Union and that continued membership is crucial to future growth, competitiveness and job creation². UK Membership gives British businesses several advantages that would be undermined by the UK leaving the EU.

The world's largest single market

The single market is the greatest advantage of EU membership. British companies have unfettered access to import, export and invest across the EU's market of 500 million people – eight times more than the UK alone. British companies can buy and sell their products elsewhere in Europe without having to pay import tariffs which would make them uncompetitive in important sectors like agriculture, cars and chemicals.

Successive rounds of international trade negotiations have lowered tariff barriers across the globe (and the EU's free trade area agreements have eliminated many altogether). But what is unique about the single market is the harmonisation and mutual recognition of standards across Europe so that British companies no longer need to comply with twenty seven or more sets of rules when exporting into the EU. The single market significantly reduces the extensive accounting, compliance and legal work in

exporting, that smaller exporters cannot afford. This is particularly important when considering that the Federation of Small Businesses report that of their small business members that export, 87% of them sell to the rest of Europe³.

EU membership also allows UK firms to integrate into European-wide supply chains – to the benefit of both small and large businesses. Whilst many smaller businesses may not export themselves, the single market allows them to source supplies from anywhere in the EU without burdensome costs, and they can sell products and services to companies that do export. This argument was made persuasively by the Society of Motor Manufacturers and Traders (SMMT) which argued that "access to the single market is fundamental for securing investment into UK vehicle and engine manufacturing and across a highly integrated supply chain"⁴.

Foreign Direct Investment

The single market has also been a hugely important factor in the UK becoming a leading destination for Foreign Direct Investment (FDI), with global firms using British headquarters or plants as their springboard into the rest of Europe. Nissan is a particularly striking example of the advantages to the UK of EU membership – its European manufacturing plant is located in Sunderland, and manufactures highly innovative vehicles such as the Nissan Leaf

2 A sample of some recent business group surveys is as follows:

Business Group	Membership/Sample	Pro/against membership*
CBI	400 businesses	78% versus 10%
Business for Britain Survey	Survey of 1,024	49% versus 39%
TheCityUK	Members	84% versus 5%
Engineering Employers' Federation	EEF members	85% versus 7%
SMMT	SMMT members	92% versus 3%

* This includes businesses which would be in favour of membership under re-negotiated terms

3. FSB: Small Business Exporting, 2012 <http://www.fsb.org.uk/119/assets/exporting%20one%20page%20brief%202012%2003.pdf>

4. KPMG, for SMMT: The UK Automotive Industry and the EU, 2014 <http://www.smmt.co.uk/wp-content/uploads/sites/2/SMMT-KPMG-EU-Report.pdf>

for the entire European market. Its success directly supports 7,000 jobs in the UK and tens of thousands more in the supply chain in the North-East of England. FDI has been crucial in the renaissance of the British motor industry with other leading employers such as Honda, Ford and BMW investing across the UK, supporting thousands of jobs.

For those working in these firms, a very real link exists between the UK's membership and their success. Nissan's Chief Executive Carlos Ghosn has been candid in saying that were Britain's membership of the EU to end, Nissan's investment strategy would need to be reviewed⁵. Such views have been echoed across the automotive industry and beyond: leading figures at companies including Goldman Sachs⁶ and Siemens⁷ have publicly speculated that leaving the EU could affect their decision to invest in the UK.

"In" is a position of influence

The advantages for UK businesses extend beyond access to the single market.

British businesses value the British influence on the rules (which can often become de-facto global standards) formed by the EU. This is because the agreements the EU strikes on product specifications establish standards which businesses must follow if they want to sell into the world's largest single market. Business groups have looked at the experience of countries like Norway and Switzerland, which are required to contribute to the EU budget, follow EU single market rules or have adopted the EU's import tariff regime – but have no influence on how these rules are agreed. If the UK left the EU, British businesses would nevertheless have to comply with

European standards when exporting to the EU or other markets which adopt European standards but the UK Government would have no influence over them. That the UK Government might be able to set its own standards would be of little benefit if they are not consistent with those set in the EU.

Trade Agreements

The EU's free trade agreements across the globe are another important reason why businesses are convinced that EU membership is crucial to maintaining competitiveness. The European Commission estimates that by next year over 90% of global growth will be generated outside the EU⁸ and, in order to remain competitive, British companies need access to these global markets. British exports of goods to South Korea more than doubled following the signing of the EU-South Korea free trade agreement. The prospect of further agreements with established economic powerhouses such as the USA, Japan and Canada, and emerging markets such as Singapore, India and Brazil are huge boons for British industry. The EU has trade agreements with over fifty countries.

Were the UK to leave, it would lose access to these agreements, and would have to negotiate afresh. Some argue the UK would be able to negotiate trade agreements independently. However, the UK would be left negotiating in the wake of the EU, and on far weaker terms – the EU is a market of 500 million people and is collectively the world's largest economy.

The Transatlantic Trade and Investment Partnership (TTIP) negotiations between the EU and USA are a case in point. These negotiations will create a gold

5. BBC: BBC News – Nissan boss warns UK over possible EU exit, November, 2013 <http://www.bbc.co.uk/news/business-24859486>

6. Michael Sherwood, co-chief executive of Goldman Sachs International in an interview said "[In the event of a withdrawal] In all likelihood we would transfer a substantial part of our European business from London to a Eurozone location – the most obvious contenders being Paris and Frankfurt." Source: The Guardian: <http://www.theguardian.com/business/2013/dec/04/goldman-sachs-warns-london-exit-britain-eu> 2013

7. Jürgen Maier – CEO Siemens UK commented that were the UK to leave the EU it would be harder to win investment. Source: Financial Times: <http://www.ft.com/cms/s/b172bf28-fe1a-11e3-b4f1-00144feab7de> 2014

8. European Commission: External Sources of Growth, 2012. http://trade.ec.europa.eu/doclib/docs/2012/july/tradoc_149807.pdf

standard which will become the model for free trade agreements across the globe. This is because the TTIP will encompass 46% of the world's economy⁹ – and in the absence of the TTIP, the Trans-Pacific Partnership, in which the USA is also currently negotiating, will set the standard instead, as it will encompass up to 40% of the world's economy¹⁰. As a leading player in the EU, the UK has a strong voice on this gold standard and is in a position to insist that British businesses interests are central to this process.

The EU plays a vital role opening market access world-wide, with far greater leverage (for example into Asian markets) than could be obtained by nations acting individually.

BT¹¹

The EU's status as one of the world's largest trading blocs has allowed it to play a leading role in global trade discussions as well as sign numerous bilateral Free Trade Agreements (FTAs), helping UK businesses to import and export more profitably to non-EU market

CBI¹²

Freedom to hire staff – and work – across the EU

Free movement of people is an additional benefit of the EU, providing access for British companies to a huge pool of skilled labour and offering British citizens the chance to work abroad and develop their skills and experience. Businesses acknowledge the social challenges that free movement brings. But free movement brings them distinct advantages: being able to send employees across Europe to negotiate sales or visit customers, or to be able to hire staff to fill skills-gaps from other member states without

bureaucracy. A modern, open economy depends on bringing in the best talent from across the globe. British firms are competing directly with companies elsewhere in the EU, or other areas with large labour markets, such as the United States, and access to a large and flexible labour market is vital for continued competitiveness. Public services (the NHS is often remarked upon for the significance of migrants in its labour force) are also able to draw on an EU wide labour market – which in turn attracts investment, as quality public services are a factor in attracting foreign direct investment.

The EU is good for jobs

The voice from business is clear – the UK being in the EU is good for British business. EU membership brings the UK competitiveness, growth and most importantly jobs. Leaving the EU would raise the spectre of tariffs and trade barriers harming our competitiveness, new trade negotiations to settle with our nearest neighbours and reduced clout further afield.

However, as set out in the next chapter, in order to maintain international competitiveness the EU urgently needs to reform. And businesses are looking for the UK Government to lead it.

9. European Commission: The Transatlantic Trade and Investment Partnership – The Economic Analysis Explained, September 2013 http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf

10. BBC: BBC News – Japan seeks to join TPP free trade talks, 2013 <http://www.bbc.co.uk/news/business-21799683>

11. BT, in its submission to the UK Government Balance of Competence Review on Trade and Investment

<https://www.gov.uk/government/consultations/review-of-uk-and-eu-balance-of-competences-call-for-evidence-on-trade-and-investment>

12. CBI Our Global Future, 2013 http://www.cbi.org.uk/media/2451423/our_global_future.pdf

2 Reform for Growth and Jobs



Let's be clear. The EU is good for business but needs more flexibility for the future. UK companies have benefited from the lifting of trade barriers and free movement of goods and services that stem from the creation of the single market.

Mike Cherry, National Policy Chairman, Federation of Small Businesses¹³

Businesses strongly support the UK's continued membership of the EU. But they are equally clear that the EU must reform urgently to maintain its competitiveness, and protect EU jobs from competition in the USA, China and other countries.

Reform is not a new phenomenon to the Union – as demonstrated by changes to everything from voting rights (which helped unlock the single market) to the budget (which has seen the share of spending on CAP fall significantly). The arrival of a new Commission (already indicating changes in direction with a new structure of Commissioners set out by President Jean Claude Juncker) raises the prospect of further opportunities for reform. And with unemployment, particularly amongst the young at record highs in many European countries, there is a sense of urgency behind reforms to improve the business climate. Urgently influencing this reform should be a central goal of the UK Government.

Recommendation 1

The UK government should urgently set out a UK – EU Business Agenda, addressed to the new Commissioners and MEPs, explaining our priorities for growth, jobs and competitiveness.

The reforms British businesses want to see are in two areas. Firstly, while the EU's single market and international free trade agenda have been huge successes, they are yet to reach their full potential. There are many barriers to trade which remain,

especially in key economic sectors, and there are still major international trading partners with which the EU does not have free trade agreements. Secondly, in creating the single market, the EU's directives and regulations have often been drafted in an unduly burdensome fashion, or failed to accommodate the specific characteristics of smaller companies, those companies that do not trade, or fast-moving, innovative sectors such as tech and digital firms. The Commission and Parliament need urgently to have a greater focus on the competitiveness of the Union and how it is affected by new policies.

Boosting trade

The Single Market

British businesses support the EU single market – but it is far from complete and barriers to trade remain, particularly in services, energy and e-commerce. Services make up 70% of the EU's output and employment, and the EU is the dominant market for UK trade in services, but citizens of the EU's fifteen core members buy 94% of their services from firms based at home, because of restrictions member states place on foreign firms. This is major concern for the UK given the competitiveness of the British service industry and potential for growing our exports and investment.

Barriers to trade in the digital economy are also holding the EU back. Trade in goods and services is becoming increasingly digital, and the lack of a coherent, modern set of digital rules across the EU is a persistent problem. For example, Spotify, a Swedish start-up providing music streaming services is (as of mid 2014) not available in all 28 member states of the EU. With the development of urban tech clusters in Britain, there are huge opportunities for British companies – if a single digital market can be created.

13. Quotation taken from <http://www.ft.com/cms/s/0/46e37e52-926f-11e3-9e43-00144feab7de.html#axzz2vf9GyErv>

There would also be substantial benefits for consumer choice: some companies trading online are still using tools to track where their customers are browsing from, and charging UK citizens different prices to those from other countries¹⁴.

Under the broad banner of the single market, businesses make a series of requests of the EU, such as:

- Revising existing legislation so that it is fit for purpose in the digital age, where it has been designed around the non-digital world and updates are necessary,
- Focussing on enforcement and implementation, and curtailing individual countries from introducing new technical standards which act as de-facto barriers to trade,
- Enforcing greater mutual recognition of professional standards, to allow construction and professional business services firms to trade more freely across the EU, and
- More ambition on the implementation and scope of the Services Directive.

International Trade

The EU already has a good track record in supporting international trade. It has agreements with over fifty countries, and is an open market: the EU is the top trading partner for 80 countries (by comparison the US is the top trading partner for just over 20 countries¹⁵). The EU has recently ratified agreements with South Korea, Colombia and Peru and the EU now imports more from developing countries than the USA, Canada, Japan and China put together¹⁶.

Business is increasingly global, as faster travel and the internet have shortened the distances between

economies. The EU needs to be more outward looking, embracing trade and investment opportunities with other countries around the globe, and assessing its own competitiveness against emerging economies. Trade with many major trade partners is still governed by basic World Trade Organisation (WTO) rules. Whilst multilateral trade deals have made great strides, the WTO's Doha negotiating round has got bogged down, and basic deals are far more restrictive than bilateral free trade agreements in areas like tariffs, public procurement and intellectual property rights.

Successfully pursuing an ambitious free trade agenda should be a priority for the new Commission: this means pursuing trade deals with large, developed economies such as the USA, Japan and Canada, and emerging growth markets such as India, Brazil, Vietnam and Thailand.

It also means assessing the burdens caused by proposals for new EU regulation against burdens in other markets.

Making the EU more competitive

The key factors affecting whether UK businesses are able to compete globally are input costs, particularly skilled labour and energy costs; and costs on doing business stemming from regulation. The role of the EU in each of these areas is vital: harmonising regulation levels the playing field across Europe; EU wide investment underpins quality skills; and cooperation can help cut energy costs – whilst maintaining our quality of life and environment.

Smart Regulation

A common (and long-standing) complaint from businesses is the burden of EU regulation. In some

14. See for example <http://services.amazon.co.uk/faq-for-the-amazon-europe-marketplaces-account.html>. The European Commission has already moved to try and tackle this issue by writing to firms warning against such discriminatory practices, see "Commission presses car rental companies to stop discriminatory practices against consumers" at http://europa.eu/rapid/press-release_IP-14-917_en.htm

15. European Commission: European Position in World Trade, accessed 2014 <http://ec.europa.eu/trade/policy/eu-position-in-world-trade/>

16. Excluding fuels. Data taken from <http://ec.europa.eu/trade/policy/eu-position-in-world-trade/>

cases, rules have not kept pace with the development of digital markets, in others they have evolved into unexpected burdens, or fail to accommodate the specific characteristics of smaller companies. This is not to say that businesses do not recognise regulation is a vital part of healthy markets: EU regulation clearly plays an indispensable role in protecting consumers and our environment. Rather, businesses argue that regulation needs to be smart: carefully tailored to meet the specific objectives at hand; proportionate; simple enough to implement across the EU (which in some cases may demand adaptation for certain firms such as smaller firms, or help in implementing such as worked examples); and periodically updated to keep pace with social and technological developments. Throughout this process, genuine consultation is vital, to ensure that regulation does not have unforeseen consequences.

Businesses are also concerned that rules are made at the right level and the EU should act only where there is a clear added value and rationale. Sometimes EU legislation is driven by concerns felt in other European countries but not in the UK, and might better be dealt with at the national level, or is designed with international trade in mind when the majority of businesses only operate domestically. When this happens a rule designed to support commerce between member states may inadvertently stifle commerce within member states.

The Coalition can be proud of progress in this regard. The recent UK Business Taskforce¹⁷ identified several areas where EU rules have been disproportionate to their purpose. Critically, the Taskforce did not object to any of the social, economic or environmental motivations behind the regulations – but identified

how the cumulative burden of regulation was causing problems for EU businesses trying to adhere to them. These ranged from health and safety rules that unduly burdened low risk firms, waste rules that imposed the same requirements on large and small firms, and a lack of flexibility in enacting working time regulations. A similar exercise, though not exclusively from the business perspective, was done by the Dutch and reached similar conclusions¹⁸: it was the level of detail, or the quality of the legislation's drafting or implementation – and not its objective that was problematic.

One EU regulation that attracts a huge degree of criticism is the REACH regulation¹⁹ which is seen by many businesses to be excessively broad in scope, unnecessarily complex and burdensome for smaller firms to understand and comply with. A simple measure that would have made this regulation less burdensome for businesses would have been better advice and help for businesses on how to adhere with it – for example, a worked example of a chemical portfolio, or clarity on when small amounts of benign chemicals (like silica sachets used to keep products dry) do not require assessments.

In response to these examples, the Business Taskforce called for EU regulation to be considered against the 'COMPETE' principles. The British government should prioritise advocating the adoption of these principles by the European Commission, the European Parliament and the Council.

17. Business Taskforce: Cut EU Red Tape, 2014 <https://www.gov.uk/government/publications/cut-eu-red-tape-report-from-the-business-taskforce>

18. Government of the Netherlands: European where necessary, national where possible/ Testing European legislation for subsidiarity and proportionality – Dutch list of points for action, 2013 <http://www.government.nl/news/2013/06/21/european-where-necessary-national-where-possible.html>

19. REACH is the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals. It entered into force on 1st June 2007 and is designed to ensure a high level of protection of human health and the environment from the risks that can be posed by chemicals. REACH makes industry responsible for assessing and managing the risks posed by chemicals and providing appropriate safety information to their users. For more information see http://ec.europa.eu/enterprise/sectors/chemicals/reach/index_en.htm

The COMPETE principles for regulation

Competitiveness test – proposals must demonstrably protect or enhance EU competitiveness

One-in, one-out – any new regulatory burden should be offset by reductions elsewhere

Measure impacts – the Commission's proposals should be measured both before being adopted, through robust Impact Assessments, and afterwards, so citizens can see the cumulative burden created (or reduced) by the Commission over each year

Proportionate – rules should be proportionate in their inception and in their implementation: clearly proportionate to a stated objective, with guidance to support businesses adopt the change the rules are intended to deliver

Exemptions and lighter regimes – where a regulation may be proportionate for a small large firm but not a small one it could and should be applied as such.

Target for burden reduction

Evaluate and Enforce – the assumption that existing legislation or policy is insufficient should be tested before additional rules are proposed.

Crucial to introducing smarter regulation is overhauling the impact assessment process. While the current impact assessments perform an important role in the legislative drafting process, they suffer from a lack of independence, their findings are often ignored and are rarely used by the Council and European Parliament when making substantial and far reaching amendments to legislation. A clear, evidence-based approach is crucial to making regulation fit for purpose for smaller companies. The European Parliament has made progress, establishing its own impact assessment unit. But this work is still in its infancy. The following changes should be a minimum for reform:

- An independent and impartial body of experts, with business representatives, should provide MEPs, the Council and the Commission with an independent verification of the Commission's impact assessments to make sure they accurately reflect the potential impact on individual businesses and on the EU economy.
- Upon adoption, the Commission should issue guidance on how proposed regulation might be implemented, giving examples of the practical changes that the legislation is intended to deliver.
- Where there is a negative opinion on the impact assessment, the Commission should ensure that the legislative proposal is suspended until it addresses the impact assessment board's concerns.
- Impact assessments should be updated to reflect amendments by the Parliament and the Council. Impact assessments are not just the Commission's responsibility.

Focussing on Innovation and Growth

Whilst the regulatory burden is an important factor for businesses, it is not the only one. A most fundamental element of remaining competitive is keeping input costs low; which are typically the costs of hiring, training and retaining workers, and energy and raw material costs. It will not always be possible to beat other countries on these input costs – for example the EU does not have the same access to abundant gas reserves that Norway enjoys. So maintaining a competitive edge requires investment in innovation, high-level skills and infrastructure, and coordinating resources effectively.

Clearly, the EU has a role to play in these areas. The EU already provides significant resources for infrastructure, such as the European Investment Bank's Project Bond Initiative. This has already resulted in advantage for the UK; the Greater Gabbard offshore transmission link project issued £305m of bonds backed by a £50m guarantee from the European Investment Bank (EIB).

Under the Horizon2020 programme, the EU also backs innovation – which benefits UK universities greatly. UK businesses can – and should – do more to benefit from what is already available under these funding streams. But the UK must also remain actively involved in the EU to make the case that a growing share of the EU’s budget is allocated to this kind of activity which boosts UK and EU competitiveness in future funding rounds.

Recommendation 2

The UK’s Agenda should prioritise boosting trade within and outside the EU.

The UK should push the Commission in:

- developing a timetable and work-plan for the **extension of the single market for services**, starting with networked industries and digital commerce; and
- advancing **external trade talks**, in particular with the USA, which could be worth £10 billion each year to the UK.

Recommendation 3

The UK’s Agenda should also prioritise competitiveness, targeting specific measures including:

- **enhanced impact assessments** for regulatory proposals (to ensure they are evidence based, updated throughout the legislative process, and able to support genuine consultation with businesses);
- permanently embedding the Commission’s agenda for **tackling the burdens of unnecessary regulation**;
- introducing a **‘one in, one out’ approach to regulation** affecting business;
- incorporating into impact assessments for proposals affecting business a **‘Single Market Test’** to ensure all proposals include a presumption to extend or deepen the common market; and improving the implementation of the **Small Business Test** to ensure proposals and regulation are necessary and appropriate – tailoring them for small businesses where applicable;
- **focussing the EU’s budget and activities on boosting competitiveness**, making full use of European expenditure which boosts competitiveness and jobs, like innovation and infrastructure investment schemes; and prioritising any new resources under Commission President Juncker’s proposed €300 billion investment programme.

In summary, British businesses are seriously concerned about the quality and detail of the EU’s policy and regulation. British businesses see EU activities through the lens of a global marketplace, where to stay competitive the EU together needs to focus relentlessly on competitiveness and trade. It is not just about regulatory burdens – it’s also about the energy, transport, and working practice policies that affect competitiveness. And they need the UK Government to take their specific concerns to the other governments at the Brussels negotiating table.

3 The UK's Leadership role in Reforming Europe



British businesses are clear that the EU needs to become more competitive and the UK government must take the lead in advocating reform.

Achieving reform in the European Union requires a clear and coordinated commitment and engagement from the British government. However, the UK has a mixed record. Where it has engaged, the UK has a strong record of influencing the EU's development, and has demonstrated leadership in the EU's greatest successes such as the single market and enlargement. However, there is a perception from other European countries and British businesses that the UK Government too often blocks at the end rather than builds from the start.

The UK Government must address this perception and ensure that its EU engagement moves beyond blocking or amending unwelcome regulation. There needs to be a new mind-set: a strategic, proactive and coordinated approach which sets the policy agenda and does not simply react to it.

In order for this to be effective, it needs:

- A clear agenda – prioritising growth and competitiveness in the EU, as set out in more detail above.
- Clear leadership within Government
- Clear accountability – to UK businesses and the UK Parliament
- A coordinated approach – across Government Departments, British businesses and the UK's MEPs

Lessons from the UK's Track Record

As part of this review, policymakers in Brussels were consulted to understand better how businesses across the EU have engaged in the EU policy making process and how effective the UK has been in influencing the EU policy agenda. Whilst more needs to be done, there were encouraging examples of effective engagement by British businesses and government and best practice to draw upon.

Delivering Smarter Regulation: EU reform driven by real business need

The UK government has been successful in advocating smarter regulation and reduced regulatory burdens. The UK has practised effective engagement with institutions and building alliances in Brussels led from the most senior ranks in the UK Government, coordinated with active involvement from parts of the business community.

In November 2012, following sustained engagement by UK officials, Ministers of thirteen countries signed a "10 Point Plan for EU Smart Regulation" led by Business Secretary Vince Cable. Far from the UK being a lone voice on the sidelines, this plan supported bold action by the Commission to tackle existing regulation which is not fit for purpose.

In October 2013, the same month that the UK Business Taskforce on EU Regulation's report was published, the European Commission launched its Regulatory Fitness and Performance (REFIT) programme. REFIT systematically reviews EU legislation to search out regulatory burdens, gaps and inefficiencies; and finds opportunities to simplify rules. In short, it enables legislation to be repealed or revised where appropriate. And as of June 2014, the Commission has withdrawn 53 pending proposals. The Commission also decided not to present a number of proposals for new regulation, for example in the areas of occupational safety and health for hairdressers, tobacco smoke and carcinogens, and is preparing repeals of existing EU legislation. Work has also started on evaluations and fitness-for-purpose checks on regulation in areas such as waste, occupational safety and health and the General Food Law.

This shows that the UK can – and does – take its place in the vanguard of EU reform. The Taskforce's work continues to shape EU reform: in February the Taskforce reported progress across a range of areas²⁰. And it succeeds in doing this when led from the top, informed by business need. The UK Business Taskforce on EU Regulation benefitted from support from the highest levels of Government: it was

20. For details of the Business Taskforce, see <https://www.gov.uk/government/publications/cut-eu-red-tape-report-from-the-business-taskforce>

appointed by the Prime Minister and was initially chaired by Business Minister Michael Fallon. And this Government leadership was coupled to an agenda defined by business. The Government charged the Business Taskforce's six business leaders with defining priorities for reforming regulation, and they took input from hundreds of businesses. What the Taskforce showed was the power of bringing businesses in to the regulatory process, to identify the reform priorities to be most urgently pursued.

"EasyJet is a product of the EU's deregulation of Europe's aviation market. Without deregulation we would not exist"

EasyJet²¹

The single market also acts as a de-regulating force for any business trading across borders. And playing a strong role in building the single market has been a success of UK engagement.

Recommendation 4

To put support for business in Europe at the heart of the Government's activities there should be a Europe Business Minister, based within both the Department for Business, Innovation and Skills and the Cabinet Office; and attending Cabinet at the Prime Minister and Deputy Prime Minister's request.

Whilst there is a dedicated Europe Minister portfolio within the Foreign Office, the proportion of European legislation and policy whose impact falls particularly on businesses (and the proportion of all legislation affecting businesses originating in Brussels) demands leadership from a dedicated minister with a specific portfolio.

A Ministerial portfolio dedicated to Europe business issues would give businesses a clear, single point of contact. He or she would be based jointly within the Department for Business, Innovation and Skills and the Cabinet Office, and would have an explicit remit to cover European business issues across Whitehall, to ensure coherent strategy setting.

Recommendation 5

To guide the Europe Business Minister and provide the position with the necessary authority, the Prime Minister and Deputy Prime Minister should work with the existing Business Advisory Group (of senior UK business leaders) to set the Government's European business objectives.

Recommendation 6

The Prime Minister and Deputy Prime Minister should also require the Europe Business Minister to take forward the work of the Prime Minister's Business Taskforce on European regulation.

It is vital that the Government's strategy is firmly rooted in businesses' priorities; and that the Europe Business Minister is able to speak authoritatively in Whitehall and Brussels on their behalf. To ensure this, the Minister's work should be defined by, and be held accountable to, the Prime Minister and Deputy Prime Minister's Business Advisory Group; and with respect to regulatory issues, the Business Taskforce.

21. EasyJet comment as part of its contribution to the Transport Balance of Competence call for evidence.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/278733/consultation-response-balance-competences-uk-eu.pdf

Using Influence Strategically

Being part of a club means that you do not always get your own way. This can make it hard to plan for what the UK should seek from engaging in Europe. But feedback both from businesses and other member states is that the UK must be strategic in its EU engagement. This requires a clear sense of priorities and marshalling resources around the goals which have the most benefit for the UK. This needs to be more nuanced than simply

seeking to limit EU involvement – it requires interrogating the emerging EU agenda to find opportunities for the UK.

Domestically, the Department for Business, Innovation and Skills has been bold in setting out an Industrial Strategy which identifies key areas where the UK can develop strategic advantage. Whilst it is not possible to translate all of the UK priorities on to the European stage, there are clear examples where domestic priorities can shape EU engagement.

Table 1: Correlation between domestic priorities in the UK's Industrial Strategy and EU activity

Industrial Strategy Strand	Industrial Strategy Description	EU Relevance
Skills	Working in partnership with business to deliver the skills that employers need	The EU's free movement rules give UK citizens access to employment across the EU – and effective use of EU programmes such as Erasmus can enhance UK citizens' skills. Engaging in Europe can shape these programmes and cooperation on youth employment to reflect UK priorities.
Technologies	Investing in eight great technologies where the UK has the potential to become a world leader	Significant EU resources are available to researchers and businesses looking to innovate, through programmes like Horizon2020. By engaging in Europe we can ensure research funding is allocated to the UK's excellent research base, and cooperation between UK universities and business could help unlock more resource for UK firms.
Access to finance	Helping smaller businesses grow by investing in people and equipment.	EU competition rules govern how Governments can support businesses. UK engagement has already significantly shaped state aid rules. The EU is exploring innovative approaches like project bonds and SME debt securitisation. Engagement could unlock additional finance for UK firms.
Government procurement	Helping businesses prepare for and access Government procurement opportunities	The UK Government has significant buying power – but so do other member states. Single market rules and UKTI assistance can help UK firms win businesses from Government procurement across the EU.
Sector partnerships	Developing strategic partnerships between Government and business sectors to identify how Government can support sectors where the UK has competitive advantage.	These relationships provide a ready-made platform for identifying business priorities for Europe. Many of the priorities depend crucially on EU standards: for example EU wide rules on GM affecting agricultural technology, or single market rules enabling online trading

These are brief examples of how EU engagement can support and bolster domestic objectives – Europe cannot and must not be seen by Ministers (or Parliament) as an isolated territory with a disconnected set of priorities.

Recommendation 7

To provide a clear public statement of priorities, the Europe Business Minister should publish an annual European Business White Paper, under the guidance of the Business Advisory Group, setting out the UK's agenda for the EU to extend the Single Market, to promote external trade and to secure regulatory reform.

At least once a year, the European Business Minister should actively bring together each UK Department's priorities where these depend on EU collaboration – or where the greatest opportunities are through international collaboration – and ensure that these are in both Departmental business plans and the European Business White Paper. This should clearly demonstrate where key UK priorities are dependent on the EU, and how the Government intends to engage in the EU in order to deliver for UK citizens and businesses.

Recommendation 8

The European Business White Paper must be consistent with wider UK Government Economic Policy. The White Paper should reflect each of the five elements of the UK's Industrial Strategy (skills, finance, technologies, procurement, and sector partnerships); and each sector partnership should agree a European Chapter setting out objectives for EU engagement. All Departments, particularly the Treasury, DECC, DEFRA and DCMS should ensure that firms from their key economic sectors are engaged and supported.

The UK's reform priorities must be developed in collaboration with businesses, and clearly reflect their priorities.

Supporting the UK – EU Reform Agenda

Business and Government working together: the UK led "Green Growth Group"

Another example of strong UK engagement in the EU is the "Green Growth Group" formed by Edward Davey, the Secretary of State for Energy and Climate Change. The group is a like-minded coalition of energy ministers from across Europe, including Germany, France, Italy, Spain and the Netherlands.

By forming this group, the UK has been able to identify partners with similar objectives, provide thought leadership and achieve consensus around UK objectives. This has set the debate for discussion at meetings of the Council of the European Union and has helped establish the platform for securing key UK objectives.

Finnish Prime Minister Alexander Stubb recognised the importance of UK involvement: "[Britain has] taken a much stronger role than it used to and that is good news. The UK will be needed for brokering a deal on burden-sharing... We need all the big muscles we can get to solve this and the UK brokering a deal would be warmly welcomed".

Of course, the alternative approach would have been to "go it alone". But this would risk UK businesses being disadvantaged by facing more stringent climate commitments in the UK, or European rules mandating rigid approaches favoured by other member states but not suitable for the UK. Commenting on Ed Davey's engagement, the Danish climate and energy minister, Rasmus Helveg Petersen commented "Ed Davey is taking a leadership role on setting ambitious targets and it is very much to his credit that we've made so much progress."

Achieving this considerable influence has relied on Ministers making engagement in Europe a priority. Modest Civil Service resource was deployed to identify and establish relationships with like-minded member states. This was coupled with Ministerial commitment enabling us to build alliances in advance of, and in the

margins of, Council meetings. Member states can – and do – provide substitutes for Ministers at Council meetings, but the clout officials are able to bring – especially if Ministers have not previously directly engaged with counterparts – is far smaller than Ministers.

At the same time, the Prince of Wales' Corporate Leaders Group (CLG) was launched in Brussels. Managed by Cambridge University's Institute for Sustainability Leadership, this group consists of business leaders from firms like Tesco and Unilever, Shell and Philips. They represent businesses' voice with credibility, and bring access to significant analytical resource. This is crucial for supporting member states, particularly those whose own domestic response to climate change is still developing, to engage with the priorities, as it enables them to assess the impact of the proposals and have confidence that they balance climate ambition and business feasibility.

This example shows the value of coordinating with businesses to bring as much evidence as possible into policy development.

Recommendation 9

To support the work of the Europe Business Minister and Advisory Group, a European Business Unit should be established in BIS, comprising senior secondees from UK businesses and senior Civil Servants, to deliver the White Paper's priorities and to provide ongoing advice to Ministers on priorities for European reform, using the networks that businesses have built across Europe.

UK influence in Brussels cannot be left to Government networks alone – business networks are also vital. British businesses have valuable networks and influence as part of wider supply chains or business umbrella organisations. The European Business Unit would provide strong coordination between the Europe Business Minister's work and real-time business needs; and provide access to commercial networks to strengthen the UK's influence.

Government, MEP and Civil Service support for the strategy

Engaging with officials, Ministers and MEPs, and genuinely developing those networks, is crucial to influencing the EU policy making process.

MEPs now play a hugely significant role in shaping legislation. Regardless of their political affiliation, MEPs often represent UK interests in the parliament on the likely impact of legislation on the UK and UK businesses and consumers. The European Parliament's influence amongst the EU institutions has risen, including gaining equal rights to the Council in amending and blocking most EU legislation including on key financial services, budgetary and single market rules. This importance needs to be recognised by the Government and engagement with the European Parliament should be a priority of any reform strategy. While the Government should naturally prioritise providing UK MEPs of all backgrounds with as much advice and briefing as possible on proposed legislation, the political realities of the European Parliament mean that senior ministers must also work to develop much closer relationships with senior MEPs from different European countries, particularly political group leaders and chairs of influential committees.

Recommendation 10

To facilitate informed debate and promote UK interests, the UK government should, through UKREP, develop a European Parliamentary Business Programme to engage MEPs, MPs and other elected representatives on the delivery of the White Paper's priorities.

The UK should also consider what more it can do to help raise awareness of British business concerns amongst policy makers working on areas of business interest in each of the European Institutions. The UK Government should consider offering the Business Outreach model used in BIS (which sees all policy officials spend at least a day each year with a small business) to UK citizens in the institutions and UK MEPs.

It should not be underestimated how powerful the voice of business can be with the Commission and parliamentarians. UK business groups need to be represented in Brussels, particularly through EU-wide business associations, so as to take an active role in influencing emerging policy. Whilst the Government has primary responsibility to represent business interests, UK businesses also have to make sure their voices are heard.

Surprisingly, given the importance of the EU to British businesses, many British business representative organisations are not well represented in Brussels.

UK business groups have significant expertise to offer their EU counterpart groups. The EU acknowledges the need to consult on policy by explicitly recognising “social partners” which are employer and employee organisations. These are key organisations for influencing policy. Representing the SME sector is UEAPME – the employers’ organisation representing

the interests of European crafts, trades and SMEs at EU level. It has 80 member organisations from 34 countries – but none of them from the UK. Similarly, Eurochambres, another recognised social partner, does not have UK representation. (Although more positively, the UK’s Federation of Small Business has been instrumental in establishing the European Small Business Alliance (ESBA).)

There are often good reasons for UK groups not subscribing to European umbrella bodies – not least the difference between the legal basis of Chambers of Commerce in the UK and elsewhere in Europe. But this should not detract from the importance of businesses and their lobby groups playing the fullest possible role in the European democratic process.

Government and the Trade Associations Forum should work together in a concerted way to make sure that UK interests are represented at this level.



Figure 1: Map of full UEAPME members – darker colours show represented countries



Figure 2: Map of EUROCHAMBRES members – darker colours show represented countries

Recommendation 11

To scale up UK business engagement in the EU, the Government should host an annual European Business Conference to engage the Commission, the European Parliament and relevant pan-EU business groups on the key elements of the White Paper in Brussels, promoting political and commercial alliances to advance the UK's European Business priorities. UKTI should organise regular 'Business Influence Missions' to engage with the European institutions.

Recommendation 12

To strengthen UK business links within the EU, best practice should be incentivised by requiring any UK business representative organisations wishing to engage with the European Business Minister to be appropriately engaged members of their EU partner organisations and to have strategy for engagement or a presence in Brussels, appropriate to their scale and resources.

Whilst it may not be practical to require any business representative organisation wishing to engage with the European Business Minister to be members of EU umbrella bodies, it should be a presumption that all business representative organisations are represented in some way in Brussels. This may be most appropriate through membership of an umbrella body, or through opening a regional office, or other approaches, but businesses cannot rely on Ministers' seats at the European Council and Council of the European Union to be their only voice in Brussels.

With a seat at the Council of Ministers and European Council and nearly 10% of seats in the European Parliament, and as a large and important member state with the same number of votes as France Germany and Italy in qualified majority voting legislation, the UK has considerable influence and will always be listened to. But it remains just one of 28 member states and to secure its interests it needs to have allies often obtained through informal influence, contacts and arrangements.

Within the EU, it is most often only the European Commission that has the right of initiative for legislation. In proposing regulation, the Commission responds to the views of member states, MEPs, emerging evidence from wider society and the economy, and the views of its Commissioners. The more the UK is part of the debate and providing the evidence on priorities at an early stage, the greater influence it can have on what regulation is first introduced.

Having UK nationals working within the Commission is a critical part of making sure UK interests are reflected because, whilst they are professionally bound not be biased towards the UK, they provide an understanding of UK interests to the Commission that others might not have.

Unfortunately, the UK is sorely under-represented in the European institutions. As set out in a recent report by the House of Commons Foreign Affairs Committee²²:

However, the Government's efforts are not so far reversing the decline in the UK presence. In relation to its share of the EU's population (12.5%), the UK remains significantly under-represented among the staff of the major EU institutions, and its presence continues to shrink. We were seriously concerned to learn that the number of UK nationals on the staff of the European Commission has fallen by 24% in

22. House of Commons: The UK staff presence in the EU institutions, 2013. <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmaff/219/219.pdf>

seven years, and now stands at 4.6% of the total. This compares to 9.7% for France, which has almost the same share of the EU's population. In the increasingly-powerful European Parliament, the UK's share of administrator-grade staff has fallen from 6.2% to 5.8% since 2010 (while France's has risen from 7.5% to 8.6%); and in the General Secretariat of the Council of the EU the UK's share of administrator-grade staff fell from 4.8% to 4.3% over the same period (while France's fell from 7.7% to 6.9%).

Whitehall has been making some efforts to address this problem, targeting particular positions where the UK can provide Seconded National Experts, and re-introducing a European focussed fast-stream graduate programme. But the challenge is too great: current UK nationals in the institutions are skewed towards those of retirement age, and the Commission recruits exclusively at junior grades, promoting from within. This will inevitably mean the balance of representation position will worsen, demanding radical change.

A renewed and sustained commitment from leaders across the political spectrum and from the Civil Service's leadership is needed to promote UK citizens' entry to the European civil service, but the scale of the issue also demands a fresh look by the institutions themselves at a recruitment system which is producing a drastically imbalanced workforce.

Recommendation 13

To extend UK influence within the EU, there should be renewed UK government commitment to energise an effective UK-EU Human Resources Programme to create career structures which encourage UK nationals, to take positions in the EU institutions, and reflect the value of their skills and experience upon their return. The UK Government has taken some steps, setting up a dedicated Whitehall staffing unit. But this work is not determined enough.

The UK Civil Service needs to create career structures which encourage UK nationals to take positions in the EU institutions, backed by permanent dedicated funding for officials who are seconded to the Commission which is separate from Department's other resources.

The UK should also form alliances with other member states and the Commission to explore how the current Institution staff selection and promotion processes can be improved to ensure that the Commission remains representative of all its members, at all ranks.

The importance of alliance-building: bearing down on the EU's budget

A notable success in the UK's EU strategy has been successful reform of the EU budget. Over several decades, British engagement has helped shift the EU budget towards spending which improves our competitiveness, and away from other areas, like the Common Agricultural Policy (CAP). For example, spending on CAP has fallen from a share of 73% to 41% of the EU budget since 1985. In the EU's research and development programme Horizon2020 and its predecessors, UK engagement ensured that this funding continues to be allocated according to the excellence of researchers, resulting in the UK's strong universities receiving significant returns – such as

Kings College London which was granted £10.2 million for crucial research into HIV prevention. The UK receives a quarter of all such funding allocated to universities – but only a tenth of what is allocated to businesses. The UK must build on this success and ensure that UK businesses get access to the business share of EU funding.

More recently, the UK led the drive which secured an historic three per cent cut in the EU's budget, the first time the EU's multi-year budget has gone down. The Prime Minister reported to Parliament, "by working with like-minded allies, we delivered a real terms cut in what Brussels can spend for the first time in history." Not only was the overall budget reduced, spending was reallocated to UK priorities, CAP spending was cut by 13%, and funding for competitiveness for growth and jobs was increased by 37%.

The success in European budget negotiations demonstrated what can be achieved by the UK Government with a coordinated approach and, with strong political direction from the Prime Minister and other senior ministers, we can form effective alliances in Europe.

But effective engagement also relies on early engagement by Ministers, proactively building alliances with other EU governments and creating a like-minded network. We should be working with the Members of the European Parliament and officials in the Commission to help build a consensus for the things we want to achieve; thinking ahead to the 2019 Commission and next multiannual financial framework.

Michael Heseltine, in his report, No Stone Unturned for Growth, recommended that:

The Government must continue to promote the British interest in Europe and all secretaries of state with EU business affecting their department should make bi-annual trips

to Brussels to influence decision making throughout the EU policy making process. All departmental ministers with EU business should consider every proactive step possible to put Britain on the front foot at the negotiating table

These relationships should be built strategically. Ministers and officials should have regular engagement to influence the agenda and build consensus around UK interests, before focussing on the detail of specific proposals. Arriving at the eleventh hour to block inappropriate regulation is a wasted opportunity, and relationships should be developed early to help prevent this happening.

The UK should routinely form like-minded groups of a similar form to the Green Growth Group. The nature of these groups (and their members) will vary according to the policy areas – what is important is creating alliances and not allowing the UK to become isolated.

Recommendation 14

Government Ministers and departmental Permanent Secretaries should be required to build and demonstrate involvement in UK-EU high level networks with counterparts from other member states and the European institutions. It is only by UK officials forming partnerships with their colleagues in the European institutions that the regulatory environment can be honed for growth.

Policy in many areas is shared between the UK and Europe, yet Ministers and Civil Servants are only charged with considering a domestic agenda. Instead, it should be explicit in the job objectives for UK Ministers, Permanent Secretaries and officials that they build relationships with Brussels based colleagues necessary for developing and delivering policy in tandem.

4 Conclusion – New Engagement



In summary;

UK businesses value the UK's membership of the EU. Its single market, trade deals, regulatory certainty and consistency make being part of the world's largest trading bloc a considerable boon. But making the UK's membership matter depends on the UK being fully engaged in helping further reform the EU: adopting a mind-set that is about creating opportunities for the UK and the wider EU, and committing to representing liberal values in Europe.

The benefits that come with the European Union necessarily involve compromise: in any multi-national effort it will not always be possible for the UK to dictate the agenda. Businesses recognise that engaging in Europe is not always straightforward. But as the above recommendations show, the UK can exert very significant influence, and when it has been engaged and committed, it has been successful and decisive.

Reform is not new to the Union. And, in 2014 the Council and Commission have made clear that reform will continue. Britain has an opportunity – and to its businesses an obligation – to work with allies in successfully influencing this.

The Government must be determined in playing a full and committed role in Europe on behalf of British business.

