LONDON CHAMBER of COMMERCE AND INDUSTRY

Written evidence submitted by London Chamber of Commerce and Industry

London Chamber Of Commerce & Industry Response to: Call for Evidence on the Government's Review of the Balance of Competences between the United Kingdom and the European Union: EU Enlargement

30th June 2014

Executive Summary

1. European Union (EU) enlargement increases the size of the EU single market, giving UK businesses access to a much larger consumer market. The EU is the UK's main trading partner and, as a free trade area of geographical proximity, the single market is an attractive exporting destination, particularly to smaller companies new to exporting. New member states in Eastern Europe are developing economies, with growth potential that businesses in established member states can exploit. Further enlargement, in particular Turkey, can increase this potential.

2. EU enlargement also increases the size of the labour pool available to UK businesses. More than half of London businesses employ migrant workers because of a shortage of domestic candidates with the required skills and experience. London businesses however found the different schemes for Bulgarian and Romanian nationals during the transitional controls period confusing, adding to an already complicated immigration system. LCCI is concerned that the Government's pledge to introduce transitional controls on workers from all new member states in future will impact on businesses' ability to fill any skills gaps in their workforce.

3. Another potential area of concern for future EU enlargement is new member states' ability to implement and enforce EU single market regulations. Variable enforcement of EU rules distorts the level playing field across member states and prevents the full functioning of the single market. This should be effectively overseen by the European Commission and Parliament.

4. With the growing use of qualified majority voting in EU decision-making, an increasing number of member states may impact on the UK's ability to build sufficiently large alliances to defend its policy positions. It would also make European institutions increasingly inefficient, particularly the European Commission, which includes one Directorate General and Commissioner per member state. Reforming EU institutions would not only allow them to focus on areas that support economic growth but also send a strong signal to businesses communities and electorates across Europe that the EU is able to align itself to their concerns.

Introduction

5. London Chamber of Commerce & Industry (LCCI) is the capital's largest and most representative business organisation with over 2,500 member companies from across Greater London. LCCI membership ranges from small and medium enterprises through to multi-national corporates. LCCI member companies operate within a mix of sectors, across the 33 London boroughs, genuinely reflecting the broad London business spectrum.

6. As the voice of London business we seek to promote and enhance the interests of the London business community, through representations to the Mayor of London and the Greater London Authority, central Government, Parliament and the media as well as relevant international audiences. We regularly commission member surveys and detailed research to inform and shape the debate on key business issues.

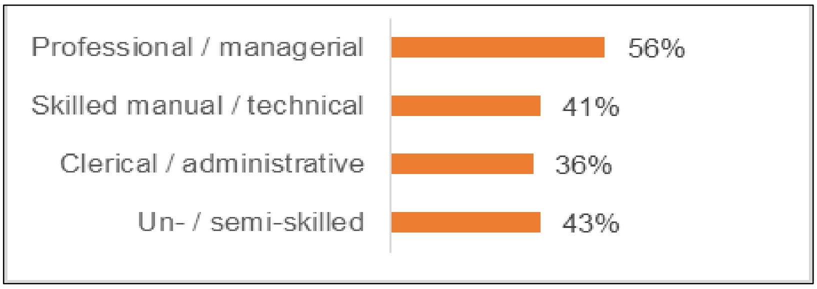
Impact on the national interest

Q1. What has been the impact of EU enlargement on UK interests? How has the UK influenced the enlargement process?

7. EU membership and enlargement benefits UK businesses in a number of ways. At the core of the EU is the European single market that secures the free movement of goods, services, capital and labour across all member states. As a customs union and free trade area, with no customs duties or quotas on goods travelling within the EU, it is effectively an extension of the domestic market that gives UK companies access to a much larger consumer market. The 2004 and 2007 enlargements increased the size of the EU by over 100 million people, making the EU the world's largest consumer market comprised of over 500 million consumers.

8. The single market also gives UK businesses access to a much larger pool of labour. Of the 4.55 million non-UK born workers in the UK, 1.74 million were from the EU; and of those, more than half (943,000) were from EU member states that have joined since 2004.[1] According to an LCCI survey, 52% of London businesses employed migrant workers, approximately two-thirds of whom were from the EU. While for one in ten businesses migrant workers composed over 60% of their workforce; for 23% it was under a fifth of their workforce. In addition, a greater proportion of London businesses (56%) employ EU workers in professional and managerial positions than at other occupational levels (see Figure 1).[2]

Figure 1: Proportion of businesses employing EU workers at different occupational levels



Q2. What effect has EU enlargement had on UK interests in specific policy areas? What advantages and disadvantages has the UK experienced as a result? Please give examples.

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[1] ONS (2014): *Labour Market Statistics, May 2014*

[2] November 2013 LCCI survey of 144 London businesses. For more information please see LCCI (2013): *Let them come? European migration and London's economy*, at www.londonchamber.co.uk/research/EUmigration

9. One of the areas where EU enlargement has impacted on UK business interests the most is trade. Despite the fast economic growth of emerging markets, the EU remains the UK's main trading partner, comprising around 48% of the UK's total trade in goods and services. In 2013 the UK exported £151 billion worth of goods to the EU and imported £216 billion worth of goods from the EU. Of this, 7% of EU exports (£10.6 billion) and 9.6% of imports (£20.8 billion) were with new member states (NMS) that have joined since 2004.[3]

10. Given the geographical proximity and the existence of a free trade area, the EU's attractiveness as an exports destination is not surprising. LCCI's annual international trade survey found that 74% of London's current exporters trade with Europe, and 88% of those looking to begin exporting are targeting Europe.[4] The European single market is particularly attractive to small and medium-sized companies and those new to exporting, because single market regulations make EU member states easier to penetrate than markets outside the EU.

11. While NMS that joined since 2004 currently compose only around 7% of all UK exports to the EU, these developing markets have greater growth potential than developed markets, so there are more gaps in the market that UK businesses can exploit. According to LCCI survey, 32% of London firms believed expansion of the EU would have a positive impact on their business (while only 18% believed it would have a negative impact). In addition, 8% of London's current exporters listed Poland among the countries they believed would provide their business with the greatest opportunities for growth in the next 5 years, and 7% selected Romania.[5]

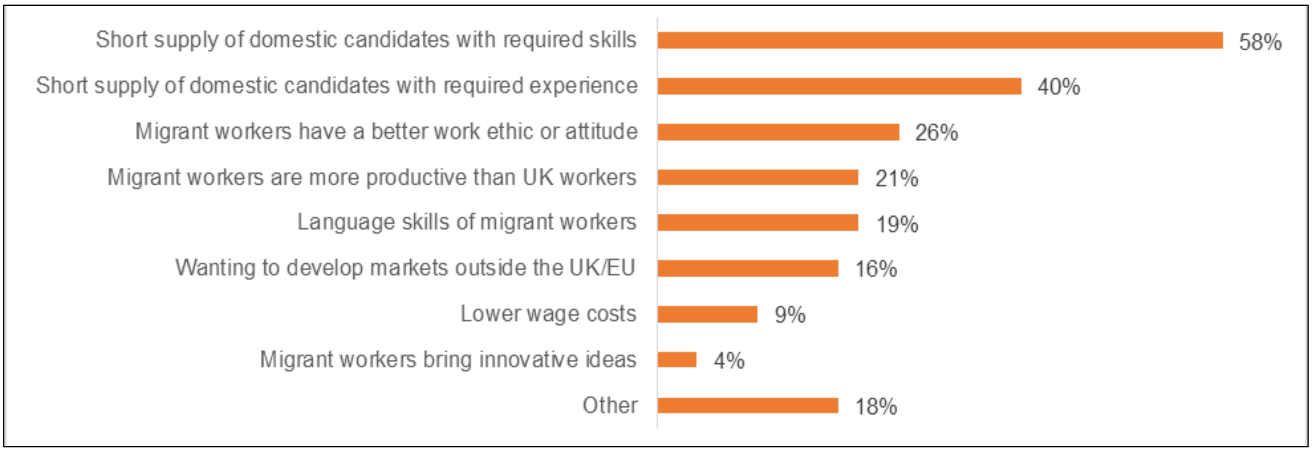
12. Candidate EU member countries also hold potential of UK companies. This is particularly the case for Turkey, given its population size and growth potential. It is the fastest growing economy of Europe and the Organisation for Economic Co-operation and Development and the only country of UK Trade & Investment's top 20 priority export markets with the potential to become an EU member.[6] In addition, 8% of London's current exporters listed Turkey among the countries they believed would provide their business with the greatest opportunities for growth in the next 5 years.

13. The free movement of labour across the EU is another the area where EU enlargement benefits UK businesses. Because of the free movement of labour, London businesses see EU and native British workers as part of the same, enlarged, recruitment pool. This is particularly important for small and medium sized businesses that find the complex immigration regulations a barrier to employing non-EU workers.

14. As mentioned in point 6, London businesses employ EU workers across all occupational levels. The main reason for this is a short supply of domestic candidates with the required skills (58%) or experience (40%) (see Figure 2).[7] EU migrants do play an important role in filling skills gaps in a number of key economic sectors, in particular financial services, professional and business services, hospitality, leisure and tourism, retail, and construction.[8] Another reason for employing EU workers, particularly from the new member states, is their different attitude, as 26% of London businesses believed they had a better work ethic (specifically a willingness to work longer or outside core hours) and 21% found them more productive.

[3] HM Revenue and Customs (2014): *Summary of Import and Export Trade with EU and Non-EU Countries - Annual 2006 – 2013*
[4] February 2014 LCCI international trade survey of 128 London businesses. For more information on exporting, please see LCCI (2013): *Exporting Britain: trading our way back to growth*, at www.londonchamber.co.uk/research/ExportingBritain
[5] Ibid.
[6] These are Brazil, Russia, India, China, Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa, Mexico, Malaysia, Thailand, Singapore, South Korea, Hong Kong, Taiwan, Qatar, Saudi Arabia and the UAE. UKTI (2011): *Britain open for business: Growth through international trade and investment*
[7] November 2013 LCCI survey of 144 London businesses. LCCI (2013): *Let them come? European migration and London's economy*, at www.londonchamber.co.uk/research/EUmigration
[8] ESRC Centre on Migration, Policy and Society (2010): *An Evidence Base of Migration and Integration in London*, University of Oxford, pp. 58-9; CEBR (August 2013), *The Impact of the European Union on the Labour Market,* p. 10

Figure 2: Reasons London businesses employ EU workers



Q3. How do you consider the balance between the roles of member states and of the EU institutions in the process? Might UK interests be served by any changes to the balance of competences in this area?

15. There is an appetite among London business to see certain powers transferred from Brussels to Westminster, including employment law, health and safety, justice and home affairs, and competition.[9] Although EU enlargement is not among those, LCCI believes that the principle of subsidiarity should be exercised more stringently in all areas of EU competence not relating to the functioning of the single market.

Exercise of competence

Q4. How effectively have the member states and the EU institutions run the enlargement process? Have lessons drawn from previous enlargement rounds been applied?

16. One lesson that should be learned from past enlargements relates to immigration. In 2003 the Home Office commissioned a report estimating that net migration from the new member states joining in 2004 would be between 5,000 and 13,000 per year.[10] This estimate was based on the assumption that other EU member states would also open their doors to workers from the NMS. However, the UK was one of only three member states (along with Ireland and Sweden) not to impose transitional arrangements limiting NMS nationals' access to work. As a result, the influx of migrants to the UK was much greater that predicted, with 49,000 NMS nationals coming to the UK in the year of accession alone.[11]

17. As a result, when Bulgaria and Romania joined the EU in 2007, the UK Government imposed the maximum length of transitional controls permissible by EU law. These controls were finally lifted on 1 January 2014. However, their effectiveness has been questioned, as the number of Romanian and Bulgarian nationals working in the UK was 4,000 higher in the three months before the transitional controls were lifted than in the three months immediately after that.[12] LCCI believes the Government should carry out a formal assessment of the effectiveness of the transitional controls on Romanian and Bulgarian workers – taking into account business, economic and social factors – with a view to appraising how the UK should handle future accessions.

[9] LCCI (2014): *London and the EU: Refocusing to support business growth*, at http://www.londonchamber.co.uk/DocImages/12552.pdf
[10] Dustmann, C., et. al. (2003): *The Impact of EU Enlargement on Migration Flows.* Home Office Online Report 25/03
[11] The net total for 2004-2010 was 353,000. See Vargas-Silva, C. (2010): *Migration Flows of A8 and other EU Migrants to and from the UK.* The University of Oxford Migration Observatory
[12] ONS (2014): *Labour Market Statistics, May 2014*

18. London businesses also found the transitional arrangements too complicated and confusing to be practical in their recruitment efforts. To employ Romanian and Bulgarian nationals, employers needed to apply for a work permit before the worker applying for a registration certificate. Once they had been working legally in the UK for 12 months, they obtained the right to work without restrictions. There were also separate arrangements for students and those already in the UK, as well as a number of other sector- and skills-specific schemes. These special categories created for Romanian and Bulgarian workers during the transition controls only added further complication to an already complicated immigration system and their expiry was one less item of red tape for businesses to worry about. As the Government has vowed to impose transitional controls on any new member states joining in the future, however, LCCI is concerned that this will further impact on London businesses' ability to fill the skills gaps in their workforce.

Q5. How do you assess the EU's use of conditionality (eg, the Copenhagen Criteria, the "New Approach" on rule-of-law issues)? Has conditionality been effective in ensuring candidate countries implement reforms necessary for EU membership? Please give examples.

19. The EU's use of conditionality criteria for aspiring member states has ensured that they reach a certain level of economic and social development before they are allowed to become EU members. This leads to the NMS economies being developed to a sufficient level to increase trade with established member states.

20. One potential area of concern is NMS' capacity to implement and enforce EU single market regulations. Many LCCI members have expressed concern that fellow EU member states do not take a consistent approach to implementing and enforcing EU rules. This skews the level playing field for businesses across the EU and puts UK businesses at a distinct disadvantage compared to foreign rivals.

21. An LCCI member company in the telecommunications sector highlighted that national regulators in some other member states, such as the southern and eastern countries (but also older member states including Germany and Belgium), unduly use flexibility in the EU measures to obfuscate and delay the open competition process. This means that UK-based operators doing business across the EU are placed at a comparative disadvantage to other European operators, who gain fair access in the UK but there is no reciprocal access in their home markets. Greater convergence of regulatory systems for media and telecommunications services is needed to drive greater efficiency and ensure a level playing field. This should also be extended internationally through ongoing trade negotiations, including the Transatlantic Trade and Investment Partnership.

22. Public procurement is another area of uneven implementation, as the UK government tends to apply EU regulations stringently, whereas other member states are able to limit the impacts for domestic companies. As a result, a third (33%) of London firms wanted powers over public procurement legislation to be transferred back to Westminster.[13]

23. The lack of a level playing field in some areas creates unnecessary costs, particularly for SMEs, which may be deterred from trading across borders. As a result, many smaller businesses still do not feel the full benefits of the single market. There is a need for greater analysis of the impact the incorrect and incomplete implementation of EU Directives on member states, in terms of jobs, contracts, and potential revenue lost. A stronger stance must be taken against those Member States that continue to enforce unfair levels of protectionism and greater penalties must be applied to those Members that do not adhere to EU regulation once the transposition period has expired. To counter any inconsistency, the European Parliament should investigate the European Commission's enforcement of EU directives to ensure a level playing field across all member states.

[13] LCCI (2014): *London and the EU: Refocusing to support business growth*

Q6. How effective has EU financial and technical assistance been in helping candidate countries prepare for EU membership? Please give examples.

24. No comment.

Future options and challenges

Q7. What challenges / opportunities might EU enlargement face in future?

25. One of the possible challenges that may arise from further EU enlargement relates to the growing use of qualified majority voting (QMV) in EU-level decision making. An increased number of member states makes it more difficult for the UK to protect its interests within EU institutions, and a greater effort is needed to create large alliances to support a position. For example, the UK was unable to prevent the financial transaction tax (FTT) being approved under enhanced cooperation rules by only 11 Eurozone states (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain).[14] Despite the UK not being part of the arrangement, the FTT would apply if any party to the transaction in euros is based in a participating member state, regardless of where the transaction takes place. This would affect London disproportionally as a major hub for euro trading.

26. An opportunity relating to EU enlargement is the potential accession of Turkey, which is a contentious issue with many EU member states but the UK Government has expressed support for. Because Turkey is already part of a customs union with the EU, some UK businesses may not be sufficiently aware of what additional economic benefits Turkey's accession would bring. In addition, there is likely to be a public disapproval of Turkish membership because of immigration concerns. For the UK Government to gain a widespread public support for Turkey's accession, the specific economic, social and geopolitical benefits accosted with it would need to be clearly outlined.

Q8. How might the EU's approach to enlargement be improved in future?

27. No comment

Q9. What future impact might EU enlargement have on UK interests? How might any positive impacts be enhanced or disadvantageous impacts be addressed?

28. To minimise the disadvantage of QMV with an increased number of member states, reform of EU institutions may be needed. The current system of one European Commissioner and Directorate General per member state will become increasingly cumbersome and inefficient as more countries join. Already there are Commissioners with portfolios that some may question whether they should be EU competences or that may be better integrated within other portfolios. Reforming EU institutions with a strong focus on economic growth will send a signal to the business community and electorates across the EU that it is able to align itself with their concerns.

General

Q10. Are there any further points you wish to make which are not captured above?

29. To increase business confidence, the UK Government and EU institutions should initiate and sustain a dialogue with London business to align policy on EU enlargement with British business commercial agendas. This would enable identification of the areas that both believe need to be reviewed and reduce policy uncertainty that can have a chilling effect on business and commercial confidence.

[14] European Commission: *Taxation of the financial sector*, at http://ec.europa.eu/taxation_customs/taxation/other_taxes/financial_sector/index_en.htm