Britain needs to push for EU reform from within

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MPs have come back from their summer breaks to find an awful lot on their plates. Not least of their challenges is Europe. With Germany going to the polls this month and Angela Merkel looking at a third term of office, the UK may be presented with an opportunity to push a case for European reform sooner than many thought. The business community needs Britain to seize that opportunity, because in the current economic climate, every half-knot of speed to be gained from tightening rules, and making Europe more competitive is crucial.

David Cameron put the question of Britain's place in Europe at the top of the agenda when he made his famous speech in January promising a renegotiation, followed by an in/out referendum in 2017. Business leaders are wary of a high-risk strategy of making demands; they know that demands should only ever be made if backed by something, and that something in the European debate is to threaten to leave if we do not get what we want.

The government seems to have realised such a strategy paints the UK into a corner and that demanding a special deal for Britain will be rejected. Rather, we need to push to make the European Union more competitive for all its members – and build the alliances that will make that happen.

We need to focus on being able to trade freely with the rest of Europe. It is a £10 trillion economy that takes half our exports and is home to half a billion consumers. Only the United States and China receive more foreign direct investment, and according to the majority of firms surveyed by TheCityUK, access to the common market is a core reason for investing here.

Our world leading automotive industry is producing more cars than at any point in the last forty years, 50 per cent of our exports. This resurgence is in no small part due to foreign investments made by automotive firms that are looking for access to the EU through the UK.

The Japanese government recently made it clear to our own government: more than 1,300 Japanese companies have invested in the UK, as part of the single market of the EU, and have created 130,000 jobs, more than anywhere else in Europe.

Europe is far from perfect however, and there are reforms that need to be made to make it work better for business. Business for New Europe's manifesto, signed by over 240 business leaders and entrepreneurs, including close to a third of the FTSE 100, contains five major priorities for reform.

First, whilst the single market is probably the EU's greatest achievement – it is estimated to add up to £92 billion per year to UK income – it is incomplete. We need to make further progress in services, which account for over 70 per cent of EU GDP, but just one fifth of trade. Consumers need to be able to buy online from the cheapest source, to be taken to work by train operators fighting to be the best in Europe, and to choose from a much wider range of energy providers. Opening up the single market in services, where Britain has strong companies, is a prize worth staying for. Full completion could boost British GDP by 7 per cent in a decade, equivalent to £10 billion per year, according to the government.

Secondly, we need to focus on free trade. At the moment, talks on the establishment of a trans-Atlantic, EU/USA free trade area are taking place in Washington and Brussels. It has extraordinary potential. The government estimates that it could create two million new jobs in Britain alone, and boost the economy by £8.3 billion per year, while the European Commission estimates that an agreement with Japan would be worth £13.3 billion. The EU is a £10 trillion economy, capable of negotiating with Washington, and for that matter Beijing, Tokyo and Delhi, as an equal. We are kidding ourselves if we think Britain could achieve the same alone, with its 60 million consumers.

Thirdly, the EU offers small and medium sized enterprises many advantages but we need to do better for them – after all they account for over 99 per cent of private sector businesses and close to 60 per cent of turnover. Small businesses suffer most from poorly-targeted or excessive regulation, paying €10 per employee to comply, compared to just €1 for large businesses, according to the Commission. All EU regulation should be subject to an SME test, and the EU should aim to raise venture capital's share of SME finance, currently just 2%, by creating a true pan-European venture capital market.

Fourthly, the City of London is the natural financial capital not just of Britain, but also of Europe; according to the City advocacy group TheCityUK, 40 per cent of global trade in euros is conducted in London, and the shift in power from traditional banks to asset and capital markets should be a prime opportunity for UK financial services. Given the importance of Europe to the City, upholding its position and the single market in financial services from the likes of the Financial Transactions Tax will be much easier within the EU that without.

Finally, the EU must do what it does best and stay clear of areas where it does not add value. This requires an uncompromising commitment to the principle of subsidiarity; if decisions can be made at national (or even local) level, rather than in Brussels, they must be. Money could easily be saved by simplifying regulations, shifting the Common Agricultural Policy away from subsiding agribusiness, and giving the European Parliament a single seat in Brussels.

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For these reasons, the UK needs to stay fully engaged in negotiations and not go down the blind alley of making UK-specific demands that will not be met. We know that we can do this effectively, with recent wins on reducing the UK budget, giving powers back to member states on fisheries and securing a double majority system in bank regulation that protects the UK and other euro outs. We clearly have the skill to negotiate good outcomes; we need to stay focused on them. ■