Europe – a time for change

Alisdair McIntosh is director of Business for New Europe, an independent coalition of business leaders advocating a positive case for reform in Europe

Taking stock

The Brussels air is thick with the scent of regime change. The current European Commission, under José Manuel Barroso, is coming to the end of its term. Legislative work on issues, from financial reform to competition policy, has slowed to a shuffle. Politicians across the continent look anxiously ahead to the European Parliament elections in May.

These will be followed by a flurry of summitry and horse-trading. By the autumn, there will be new Presidents for the Parliament and Commission, a new foreign-policy chief, and a new team of Commissioners. The EU will move into action once more.

So now is a good time to draw breath, glance back at the record of the past five years, and look forward to the challenges and opportunities ahead.

Weathering the storm

The period since 2009, when the current Commission and Parliament were given their mandate, has arguably been the most difficult in the history of the European Union. But it has also shown that the EU has resilience, and that reform is possible. In the face of the worst economic and financial crisis in a generation, the EU has after several false starts stabilised the ship. Tough domestic policy action by the worst-hit countries, stronger economic governance at European level, and a massive injection of resources have allowed the eurozone to weather the storm and make some headway back towards a path of growth.

Meanwhile, the Commission has sought to breathe new life into the Single Market, through a package of targeted measures to promote growth, employment and competitiveness; and it has begun the mammoth and long-overdue task of lifting the burden of regulation on the smallest businesses. And the EU has not been entirely inward-looking. It has opened new trade talks with many of its global trading partners, and concluded a number of major agreements, including with South Korea, Singapore and Canada.

But much more to do

But even its most ardent supporters recognise that the EU has to do much better if it is to tackle the strategic challenges of the coming years – fragile growth, weak peripheral economies, high youth unemployment, increasing competition from emerging economies, a potential energy squeeze. And these are testing political times across Europe. Anti-EU movements are gaining ground in some countries, and there is widespread dissatisfaction with the EU institutions and malaise with the political process. In the UK, there is the possibility of a referendum on leaving the EU; in Scotland, there will soon be a referendum on leaving the UK.

The EU needs to show that it 'gets it': that it recognises the need for change. It has not always seemed to hear the message – sometimes too slow to act, sometimes too quick to legislate. And it has not always struck the right balance between action that is best taken at European level and action best left to individual member countries.

A Europe that works

There are a number of practical things that the EU could do that would show it 'gets it', and that would be of immediate benefit to all member states. Some of these are set out in the *Manifesto for Reform* published last summer by Business for New Europe and signed by over 250 UK business leaders including a third of the FTSE 100 companies.

It can complete the current negotiation of a comprehensive free trade agreement with the United States. Between them, the EU and US account for half of world GDP and a third of bilateral trade flows. An ambitious deal could yield €120 billion a year in gains to the EU economy - £10 billion a year for the UK alone.

It can deepen and strengthen the Single Market, especially in services. Services account for over 70 per cent of EU output but only 22 per cent of internal trade. Greater liberalisation of services covered by the existing Services Directive (such as construction and professional services) alone could increase EU GDP by up to 2.3 per cent. The creation of a genuine digital single market by 2020 could increase it by a further 4.1 per cent.

It can speed up its work to reduce the regulatory burden on businesses. The UK Government has taken a lead on this, through a business-led taskforce set up by David Cameron; other European governments have expressed support for this work; and the Commission has followed suit, with its own programme to reduce EU red tape by 25 per cent. This work needs to go further, faster.

It can enhance the position of the City of London, not just as Europe's financial centre, but the world's financial centre in Europe. The City is a huge asset to Europe, as well as a huge beneficiary. Part of the long-term solution to the eurozone financial crisis is less reliance on banking, and more on capital markets – this is a massive opportunity for UK financial services.

And it can streamline itself – focusing on what it does best, cutting its costs, making the institutions more accountable to the public.

Not (just) a British question

Business for New Europe puts these proposals forward from a UK perspective. The UK gains massively from its membership of the EU. UK income dependent on EU exports is over £200 billion a year, or 15 per cent of GDP. Well over 3 million UK jobs depend on our membership. And the more successful the Single Market is, and the more the EU is able to open up world markets through trade deals, the more we will benefit.

But the UK's relationship with the EU over recent years has not been a comfortable one, and public opinion is sharply divided, never more so than at the moment. And with the possibility of a referendum in the coming years, business is waking up to the need to point out the importance of UK membership, and UK engagement. A trickle of commentary has now become a more insistent flow, with interventions

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from Airbus, Diageo, DHL, Nestle, Goldman Sachs, Unilever, Hyundai, Ford, Nissan, BMW, Hitachi, EasyJet, the Scotch Whisky Association and others, not to mention the publication of the CBI's substantial report *'Our Global Future'*. A recent survey found that 80 per cent of British businesses would vote to stay in the EU if there were a vote tomorrow; and that three quarters of them were concerned that UK exit would lead to a reduction in foreign investment.

It is important, though, that we don't fall into the trap of thinking that we are alone. Many member states, in Northern Europe and elsewhere, agree that there is a pressing need for reform. Chancellor Merkel said as much when she visited London on 27 February; so too did the Dutch Prime Minister Rutte, in an earlier visit. Other governments are very clear that they value the UK as a key player in the EU, even if they do not always appreciate the language some of our politicians use from time to time. They want us to stay, and play our part fully. So if the UK Government can get its tone and tactics right, by building coalitions with like-minded allies and negotiating from the centre, rather than shouting from the sidelines or threatening vetoes, change is possible.

It is all to play for. Game on. ■