



Business in Europe: Researching Reforms for Sustainable Growth

Summary Report

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Foreword

The European Union and the United Kingdom's place within it has been a point of debate since 1973, when the UK became a full member of the European Economic Community.

Over the last year or so debate has grown intensely, with the UK's place in the EU becoming a major issue in the 2015 General Election and the term 'Brexit' now a household term. The UK European Union membership referendum is scheduled to take place before the end of 2017.

Like it or not, the EU is a major influence on modern life in the UK. Some see it as a valuable common market which enables free trade and encourages export. Some see it as an overeager regulator. Others see it as a reckless and profligate spender of its members' money.

It is an emotive issue, and we can only expect the arguments to get more emotive as we move closer to a referendum.

The aim of CCAB is not to campaign for either the UK's continued membership or for withdrawal from the EU. Instead, CCAB and its member bodies in the UK are determined to work to inform the debate, adopting an evidence-based approach which outlines the benefits and downsides of the UK's membership of the EU.

I believe that this report successfully outlines these issues, but we also aim to explore the views of key influencers in the UK and Ireland on potential EU reforms for efficiency and effectiveness. Are there steps which could adjust the UK's relationship with the EU, maximising the benefits and diminishing the drawbacks?

This report, developed through interviews with key influencers, discusses the key political, economic, socio-cultural, technological, environmental and legal themes affecting the effectiveness of the UK and EU relationship.

I would like to thank all of those who took part in the research and drafting of this report. I believe that it is a significant contribution to the EU debate.

Discussion of our relationship with the EU is often full of contradiction, rhetoric and supposition. CCAB's Business in Europe seeks to stick to the facts and examine the evidence of Europe's effectiveness, as well as making some clear recommendations on how reform could be used to transform the EU relationship and set a new foundation for collaboration with our European neighbours.

I fully commend this report, I hope that our members, the business community and general public will find it useful in considering the Brexit debates to come.



Tony Nicholl, President

CCAB

Summary Report

CONTEXT

The European economy is a moving target and events in Syria, Paris, and Paris again form the current backdrop of any analysis of European affairs. As migrants leave the Middle East and spread throughout the EU, several EU countries have joined a coalition of forces to intervene in Syria. The attacks in Paris on the 13th of November are seen as part of the same conflict in Syria, and France has called for solidarity from its fellow EU members. On a longer timeframe, Paris was also the setting for negotiations on climate change and carbon emissions that will have direct economic impacts both on EU countries and on their partners and competitors around the world. These recent events also cause ripples in two other major negotiations in which the EU is currently involved: Turkish accession and the UK EU referendum.

With these shifting priorities and concerns, different versions of the European Union emerge. It is at times a common market utopia, and at others a spiteful regulator imposing pointless rules. The EU can be a valued source of investment or a drain on a productive economy. EU institutions are criticised both for being too powerful and not powerful enough. This report seeks to reflect all of the flux and contradiction, but to find common themes and clear recommendations for reform.

The primary research objective is:

“To explore the views of senior influencers in the UK and Ireland on EU reforms for efficiency and competitiveness.”

The structure is based on the PESTEL model, distinguishing between **Political, Economic, Socio-cultural, Technological, Environmental, and Legal** themes with one chapter describing each theme. Each theme is a recurring macro-level topic of concern to the key influencers consulted for this report. For example, the themes of centralisation of power, expansion of the common market, and the migrant crisis generated considerable discussion. The themes are reported in order of importance, beginning with the **Economic**.

ECONOMIC THEMES

The EU is not a trading block

Business leaders prefer to think of the EU as a **portfolio of economies** rather than as a single block. The portfolio contains high- and low-performers, as well as high levels of competition between member states. There is an under-lying tension, then, between national governments seeking to protect and advance national interests on the one hand and EU-level co-operation and harmonisation on the other.

'I think it's very difficult to take the Europe market as a block. I'm sure the EU would prefer the world to view it as that but I believe you have to look at individual countries within the European block and form an opinion of the competitiveness on an international stage.'

Micro-economies within the EU are also competing against each other. Because investment decisions come down to micro-level targets such as a building on a street or warehouse in an industrial estate, key influencers sometimes think at the level of micro-economies rather than national economies. For example, The City in London can be considered as an economic unit in itself and companies want a base in that small area of land rather than anywhere else in the UK or the wider EU.

'Within countries you're going to have pockets that are the same. There's probably, you could take cities like Milan and Athens that may have a similar output that Frankfurt has.'

However, **global competition**, both from developed markets like the USA and from emerging markets is driving the need for closer co-operation. Versions of the common market are now in place in the Trans-Pacific Partnership and the **Trans-Atlantic Trade and Investment Partnership**. There is a keen interest in further developing the EU common market, with the common market for services the highest priority. Further in the future, European capital markets and securities markets unions are likely to be developed.

Strong demand for the expansion of the common market

The next step in expanding the single market is the **single market for services**. Demand for implementation of the services market has been hastened by the expansion of digital services. Several examples from the professions of audit and accountancy were given to illustrate the issues presented by the lack of a common market for services, each of which presents opportunities if and when the market regulations are introduced.

'At the moment the audit and accountancy market is very much a local or national market so firms are established in their own country and you replicate that across the 28 member states. The regulation is making it easier for firms to establish themselves at an E.U. level and I think that is a really important step because Europe needs strong players. They are needed especially outside of the so called "Big Four" – the four largest firms which are all pretty dominant and significant in their own market.'

A step beyond the common market for services is the **EU Capital Markets Union**, which could be followed by a European securities market. These measures would reduce the regulatory burden for investment, and create incentives for venture capital and crowd funding.

For the accountancy profession, the common market for services is an important development. It will build on other moves towards standardisation of reporting and the OECD's **Base Erosion and Profit Shifting** (BEPS) protocols. While there is sometimes initial resistance to further regulations, most leaders recognise the opportunities that arise as a result. The regulation required to underpin expansion of the common market can act as a catalyst for innovation. When policy-makers outline a new policy, they are essentially challenging practitioners to respond.

'If there's a change, think about how you're going to get round it and then get on with it and the attitude here is that legislation changes, it's not personal, we're just given a new structure. The July 2015 budget was massive for the work we did, so we sat back, took a few days off, re-wrote our tax Booklet, distribute it to everybody and we got on with it. It's not a thing we whinge about.'

Openness to harmonisation

Most were realistic about the prospects of efficient business in a fragmented EU market. Just as there have been **advantages of standardisation**, most were also wary of the risk of 'chaos' if countries were to start setting up their own rules again.

'I think the rules that govern the financial market are relevant to us. However, the rules for the financial market are needed and whether the UK is going to be within the EU structure or not, we're still part of Europe geographically, that's not going to change, and Europe will still be a major trading area for the UK. And I don't think banking and regulations are necessarily going to fall away from that structure even if we leave. That's a good thing. The law-making that has happened since 2008 has probably been required in helping putting in disciplines.'

The conclusion was that **regulation is essential and beneficial**, and that EU regulations will still apply to UK companies as long as they trade in the EU.

Although regulation was recognised as important, there were expressions of frustration about regulation being introduced without due consideration of its impact. Those who are charged with implementing regulations could have valuable input to refinement and **streamlining regulations**.

'The biggest challenge is to make things work, to not necessarily add new things or new reforms or new regulations, but to make sure what is there works better. I think probably there is a phase to embark in where Europe will accept effectiveness of a lot of the things that have been done in the last ten years. Refinement ... probably would be my initial reaction.'

Influencers had a range of experiences of **involvement in decision-making**. Some have direct contact with national departments and other had been involved in partnerships with other EU countries to work on detailed aspects of regulation and reporting.

'We do liaise directly with the [government department] in relation to tax policies that are both competitive and appropriate. It's up to the [government department] make the final decisions but they do ask us for our views on different things.'

POLITICAL THEMES

Centralisation of power and unelected elites

The two major political themes were the centralisation of power and the UK EU referendum. There is evidence of mis-information about where responsibility lies at national and EU level, with a range of views among the general public on the proportions of power held by the EU Commission and the EU Parliament. Frustration is generated by the **lack of transparency** and by concern that unelected officials are making decisions that may not be in a country's national interest. One of the main drivers at play in criticisms of centralisation is the **democratic deficit**:

'The interest in the democracy is virtually non-existent and that can't be right. [...] I doubt one percent of people, if you did a survey, could name who their European Member of Parliament is. It's a more powerful parliament than Westminster.'

The other main point about **centralised decision-making** has to do with who is making decisions that affect all EU countries.

'There's quite a lot of opinions that are a long way from ours, why a politician will vote one way or another way for a particular issue usually correlates with their ambitions, their local contingency, and local and economic political needs and if someone from Costa del Sol or Limerick is influencing what laws are passed in the UK, that may or may not result in good law for us.'

At one level, there is a tension between elected national parliaments and **un-elected officials** in Brussels. Even within the un-elected group, a distinction can be drawn between EU officials and *'our own non-elected technocrats'*. However, this debate is complicated by mis-information about the origin of any given regulation, whether in the UK or the EU. Those with a political interest in that confusion contribute to it by incorrectly attributing influence to the EU that it does not always have.

'There are non-elected employees that have a big influence in making EU laws. There may be a similar thing in the UK but they're our own unelected bureaucrats. There are many Spaniards and Greeks and Italians running around Brussels behind closed doors, always getting an increase in their budgets and having an influence on which regions get subsidy [or] which industries.'

Reform proposals focus on a clear **statement of institutional remits** and greater transparency and accountability in the affairs of the EU.

Brexit

The events that led to Prime Minister Cameron's decision to hold a referendum on EU membership were driven by:

- Eurosceptic sentiment;
- Growing perceptions of a democratic deficit in the EU and demand for transparency; and
- Protectionism following the financial crisis and its differing impact on euro and sterling.

An **end to ever closer union** appears a likely central demand of the UK in its negotiations with the EU. The EU has always been considered a foreign influence and there is still a sense that the EU is *'quite a distance'* away, that their *'opinions are a long way from ours'*.

'If you were designing today the UK's membership to the EU, if you go right back to 1975 and say well what we're interested in is a commercial relationship, a trading block that doesn't require us to do anything more than that.'

The UK referendum has rekindled the debate about whether the EU should be an **economic or a political union**, with a strong sense that the UK has historically had more of an economic focus. However, the economic benefits enjoyed by the UK are sometimes taken for granted so clear articulation of these should be a priority for anyone who would prefer the UK to stay in. In generating an informed debate, models of the economic, political, and social consequences will be important. However, there is a strong sense that the UK would continue to be bound by EU regulations as long as UK companies continue to trade with other EU member states, but that the UK would not have any influence on how those regulations are framed.

If Britain were to exit the EU but still intended to trade with EU countries, British firms would **still be expected to reach EU standards**. Rules on financial markets, for example, will still be needed whether the UK is in or out of the EU because the EU will remain a major trading partner.

'If the UK government couldn't change them from the inside, they won't from the outside.'

As far as possible, **quantifying the benefits** of EU membership would help people to understand the positive impact. However, many of the benefits of EU membership are now so well established that they are *'taken for granted'*.

'The ease to which one can now do business is on an unbelievably simpler level. That's a hugely positive development in the market in my professional lifetime.'

The EU *'has a job to do to sell the positives'*.

SOCIO-CULTURAL THEMES

Migrant crisis

Political trends of mistrust and possible exit are running counter to the economic interests of these key influencers. Some of the reasons for these tensions are socio-cultural, with contrasts drawn between Northern and Southern Europe, and between Eastern and Western member states. The socio-cultural profiles for countries differ with respect to demographics and values, and as a consequence the impact of the migrant crisis is **experienced differently** across Europe.

The biggest story in the background to this research was the Syrian migrant crisis and responses to the crisis revealed implicit values. In general, the crisis was seen as a major challenge to the EU's **capacity to co-operate** and to find agreement among members, as well as of its infrastructure.

'I think everyone really likes and respects different cultures and I would hate to think in three or four generations that those cultures are not self-evidently different and so I think caution is not just a protective caution for one's own society I think it's also from a business perspective, caution to make sure a simple, open door policy across all of Europe is probably not wise, until all of the challenges that that approach creates are really understood.'

Some influencers preferred to focus on the **future economic benefits of migration**, recognising the need for young workers to support an aging European population.

'I think if you look at the UK as one example, the migrant population in the rounds have been enormously positive in the UK economy and this has been true in most of the post war years where it was a Jamaican immigration situation and then the Pakistani immigration situation or the Eastern European situation is that those migrants certainly over time created stress as they integrated. But when they did integrate they became an important part of both the culture and economy of the UK in terms of taking on roles that others in the UK might not have been enthusiastic about taking up.'

Pressure on EU values

In the context of harmonisation and co-operation, there remains a strong sense that the EU benefits from the diversity of peoples, cultures, and histories among its citizens. Indeed, the friction created by **cultural differences** is identified as a driver of innovation in its own right.

'I wouldn't make too much of the fact that there are differences in Europe. I think it is probably the differences which make Europe richer. It is a confrontation of these many different cultures I think that creates buzz and opportunities to be more relevant on the international scene. I think monolithic cultures often are less innovative, less dynamic than diverse cultures.'

Looking to the future, a major threat to the solidarity as well as the competitiveness of the EU is demographic change. The vast majority of European societies are aging and this will put pressure on a shrinking workforce to support **increasing health and pension costs**.

'One of the big areas ... is pensions, both how we account for pensions [and] how they are managed and provided, and trying to dispense knowledge on proper planning for longer term careers and older age and the financing of that.'

The trend in almost all EU countries shows decreasing birth rates and longer life expectancy. In combination with the impact of the financial crisis on pension funds and investments, these trends point to **future deficits** in pension provision.

LEGAL THEMES

Need to harmonise labour laws and social benefits

Employment law and regulation was discussed both from the perspective of employers and employees. For employers, there is a strong interest in de-regulation and harmonisation to continue to **support the free movement of labour**. For employees, who might be vulnerable to some of the consequences of de-regulation, legal protections are as important as ever in a changing working environment.

'I respect the French nation's right to impose those rights on businesses but it does create a very inflexible environment which to my mind discourages long term investment and growth. So in contrast we set up operations in Poland a few months ago and it was a remarkably straight forward process, same thing happened in the UK. It's somewhat more regulated in the UK and maybe just the comfort of being British, we look at things through a certain lens because that's the environment that we're used to.'

From an employer's perspective, freedom of movement has been a major success, and has generated enormous opportunities to attract talent and grow their business. It has also demonstrated the level of co-operation and compromise required to improve the **efficiency of labour movement** over time.

While movement of labour has been a success, there are still changes needed to improve the free of movement of labour benefits. As noted earlier, **portability of pensions**, healthcare, and other **social benefits** needs to match free movement of labour.

Need to harmonise taxation

Specifically in the area of financial regulation, there was agreement that post-financial crisis regulation went too far and is impeding normal operation of the banking sector. Furthermore, the frequent additions to regulation are **creating uncertainty for investors** and may be undermining the EU as an attractive place to invest.

A number of key influencers had been closely involved in the development of EU regulations in the field of audit and accountancy. A consistent observation from working closely with colleagues in other EU countries was *'how different we all are'*. Each country was at a different stage of progress towards implementing international standards, but in doing so they were being **sensitive to their own national cultural and historical influences**. Importantly, they had a shared aim and co-operating countries had agreed minimum reporting standards that could be reached even if the frameworks were different.

The OECD is behind the protocols on Base Erosion and Profit Shifting (BEPS), which aim to **address tax avoidance** through transfer pricing. In parallel, the UK government introduced diverted profits tax and at present there is considerable duplication between the OECD and UK reporting structures. Accountants work in tax planning, analysis, investigation, and interpretation are the ones to implement these regulations while it is up to law-makers to legislate and to enforce the law. However, accountants could contribute to drafting legislation and to international trade agreements and treaties. For example, if BEPS was adopted more widely it would improve efficiency for companies and revenue agencies.

'You pay taxes in that country where you generated the goods and services. You don't engage in aggressive tax planning or tax avoidance and that again reflects the value you provide the community in which you generate revenue and profits.'

The idea of a Common Consolidated Corporate Tax Base (CCCTB) has *'been around for a long time'* but was considered no closer to being implemented. One reason is that it may not be of enormous value to businesses: At present, they are able to cope with different regimes in different countries and there is no expectation of financial benefits from making one central tax return. There was some concern that national revenue authorities may resist consolidation in an effort to protect their own revenues. Overall, the logic of the CCCTB was considered *'quite helpful'* in facilitating countries to set their own tax rates in a common framework. It can **remove overlaps in reporting** for companies that operate in different jurisdictions while enhancing the level of consistency.

'The logic of having a common set of corporate tax rules, having a common framework has obviously the potential to remove any overlap and opportunities may arise but I think the consistency is knowing what that landscape looks like across Europe is a good thing.'

REFORMS

There were simultaneous calls for both more and less Europe. People want the EU to have less power but want the UK to be more involved in those decisions. They want national sovereignty but supra-national legal and administrative systems.

It was also striking that many of the proposed reforms are actually already in place. The implication is that the deficiency lies in how the operation of EU structures is communicated to businesses and to citizens.

In any debate about reforms, the importance of evidence-based argument was repeatedly emphasised and these proposals are under-pinned by close analysis of the reflections of key influencers on business in Europe. The five key reforms, in order of priority are:

1. Statement of EU and national responsibilities

In political debates, there has been some mis-information about the respective remits of national governments and EU institutions. Broadly speaking, there are four versions of responsibility:

1. National only with no EU involvement
2. National ratified by EU
3. EU with national options
4. EU only with no option.

In the context of the UK's negotiation of reforms, there were calls for a charter, operating model, or single document setting out certain basic principles of the EU, as well as where responsibilities are shared by EU members or retained by national administrations.

2. Greater accountability and transparency at EU level

Transparency at EU level was a major concern for these key influencers, particularly perceptions of the power of unelected officials and of the growing democratic deficit in Europe. The accountancy profession prides itself on integrity and commitment to ethical and independent conduct. The levels of accountability demanded were:

- European Commission audit
- European Commission performance measurement
- Rationale for regulations.

Furthermore, these key influencers called for greater consultation with industry representative bodies in the development and implementation of new regulations.

3. Closer harmonisation of reporting regimes including taxation reporting regimes

Expansion of the common market is a high priority for business leaders, with strong demand for common markets for services and for capital. To facilitate these developments, closer harmonisation of taxation reporting regimes and other reporting regimes is required, and the OECD's BEPS protocols could be transposed to EU legislation.

4. *Portability of earned labour benefits*

A number of issues in the operation of the free movement of people were identified that limit certain freedoms. The concerns centre on recognition across borders of a number of aspects of professional life:

- Qualifications
- Pension contributions
- Health insurance
- Other social benefits.

In the context of the on-going influx of migrants, efforts to facilitate their transition to countries where their skills can contribute to economic activity are important.

5. *Vision for business in the EU*

Despite some concerns about regulatory burden, the overall sentiment was supportive of further harmonisation of EU economic structures. In order to drive the necessary changes, a clear vision for doing business in Europe is required. The following principles apply:

- A company can be registered by any citizen in any EU member state and can operate in any EU member state.
- Companies submit all tax returns to an EU clearing house that then distributes them proportionally to the states in which the income was earned.
- Companies apply standard reporting procedures.
- EU-wide industry minimum standards are applied.

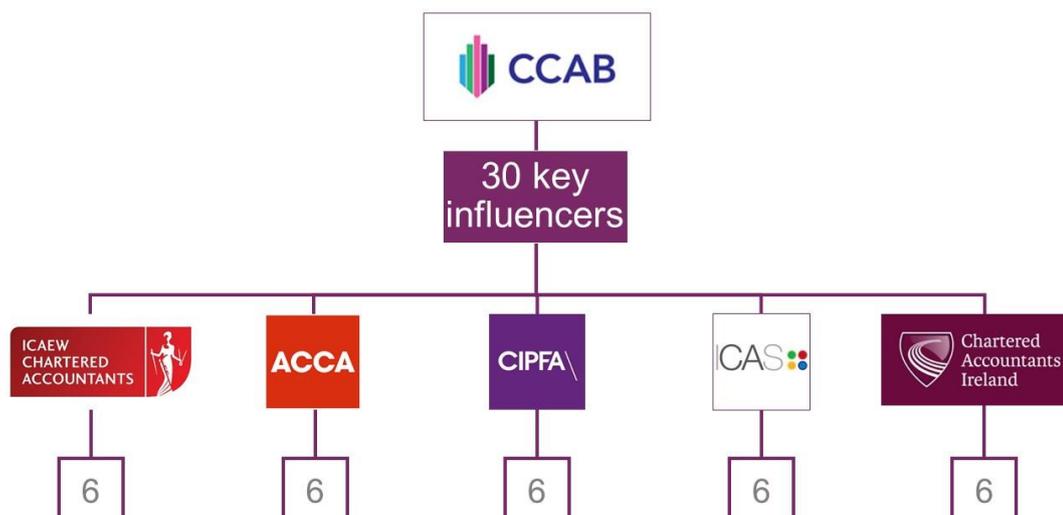
KEY INFLUENCERS

The researchers interviewed 30 key influencers, including:

Caroline Al-Beyerty	Financial Services Director, City of London
Michael Cawley	Former Deputy Chief Executive Officer, Ryanair
David Chitty	International Accounting and Audit Director, Crowe Horwath International
Andrew Courts	Director, Lescott Courts Ltd
Allan Dowie	Chief Financial Officer, Clyde Blowers Capital
Paul Dransfield	Deputy Chief Executive, Birmingham City Council
Peter Gillman	Founder and Consultant, Peter Gillman Consultancy
Laila Giwa	Head of Finance, Skullcandy International GmbH
David Herbinet	Partner and Global Head of Audit, Mazars LLP
John Herlihy	Vice-President and Managing Director, EMEA, LinkedIn
Sally Jones	Director, Deloitte
Mike McKeon	Non-Executive Director, National Express
Conall O'Halloran	Partner, KPMG
Sally O'Neill	Chief Operating Officer, Royal Opera House
Lindsay Page	Chief Operating Officer, Ted Baker plc
Stephen Prenter	Business Director and Advisor
Joel Steinhart	Director, Granite Management
Alan Thomson	Chairman, Hays plc

RESEARCH METHODOLOGY

In-depth telephone interviews were conducted with 30 key influencers in large multinational companies, in accountancy practice, and in the public sector based in the UK and the Republic of Ireland.



ABOUT COYNE RESEARCH

Coyne Research is a multi-award winning market research agency established in January 2012. Since then, Coyne Research has developed a strong reputation for high quality research using bespoke and innovative designs. We offer a fresh research perspective – providing innovative methodologies and research techniques to deliver strategic insights for our clients. For further information, see www.coyneresearch.com.



ABOUT CCAB

The combined membership of the five CCAB bodies – ICAEW, ACCA, ICAS, CIPFA and Chartered Accountants Ireland – amounts to 245,000 professional accountants in the UK and the Republic of Ireland (354,000 worldwide).

CCAB provides a forum for the bodies to work together collectively in the public interest on matters affecting the profession and the wider economy.

CCAB's credibility stems from its insight into all areas of finance and accounting, from finance director and audit partner to management accountants, professional advisers, public sector finance leaders and entrepreneurs. CCAB's members work through the financial value chain in all sectors as key decision makers and business leaders within the UK and around the world.

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