



# **Business in Europe: Researching Reforms for Sustainable Growth**

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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

# Chapter 1

## Introduction

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 13<sup>th</sup> 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 structure is based on the PESTEL model, distinguishing between Political, Economic, Socio-cultural, Technological, Environmental, and Legal themes with one chapter describing each theme (see Figure 1). 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 next level of analysis identifies the drivers of the macro themes, most of which are the principles or stances adopted by states, institutions, or businesses. For example, philosophical positions on the EU as an economic union or the EU as a political union as well as geo-political events and global competition, drive many of the themes set out here. Attitudes such as Euro-scepticism and national protectionism are also important drivers. The impact of the drivers is manifest in sub-trends, that is, current or recent events such as state aid cases, austerity, changes in EU procurement rules, and the like.

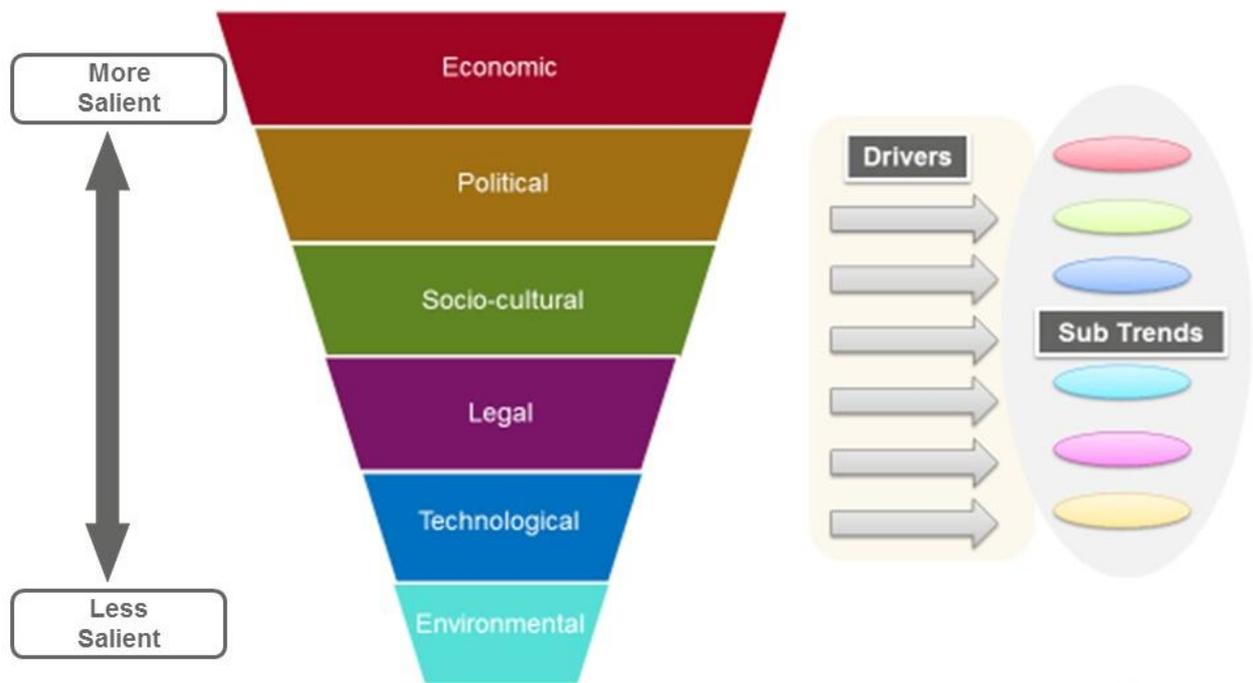


Figure 1: Report structure

For some themes, there is an obvious recommendation for reform, and these are set out in the final chapter. In some areas, it is only possible to identify sources of tension and disagreement, at which point it is not for this report to take a stance on what are largely political issues.

## Research Objectives

The primary research objective was:

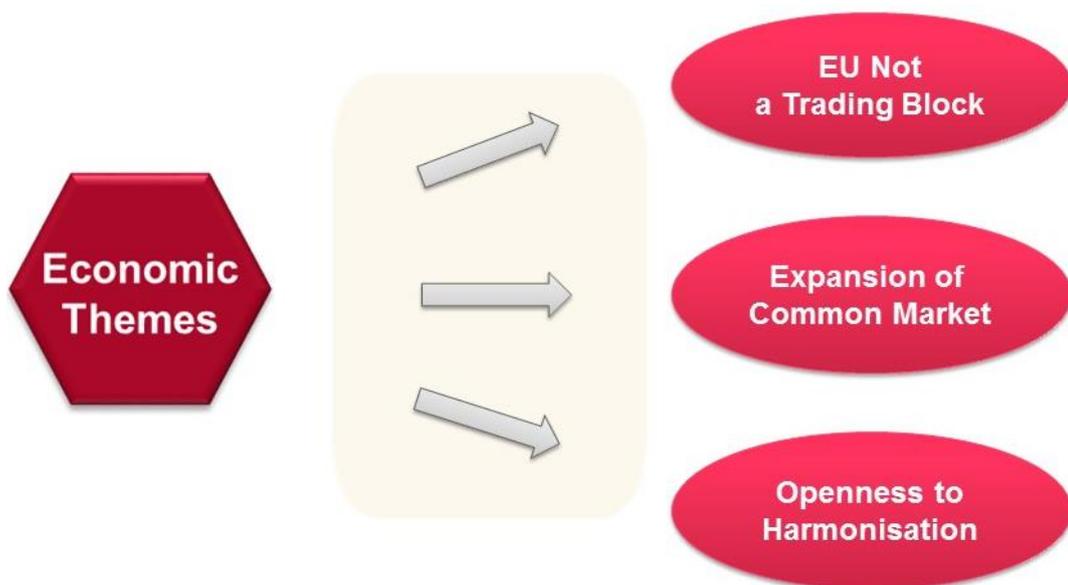
“To explore the views of senior influencers in the UK and Ireland on EU reforms for efficiency and competitiveness.”

More specific objectives include:

- Understanding the EU as a **context for doing business**.
- Identifying ways in which the EU **facilitates business** at present.
- Identifying **barriers to entry** and how influencers overcame them.
- Examining the influence of **EU employment law** on recruitment and human resource management.
- Exploring the role of **EU data protection directives** in business.
- Considering the potential **impact of the Trans-Atlantic Trade and Investment Partnership (TTIP)** on the business environment.
- Identifying levels of **support for the Common Consolidated Corporate Tax Base (CCCTB)**.
- Exploring **sectoral reforms**.

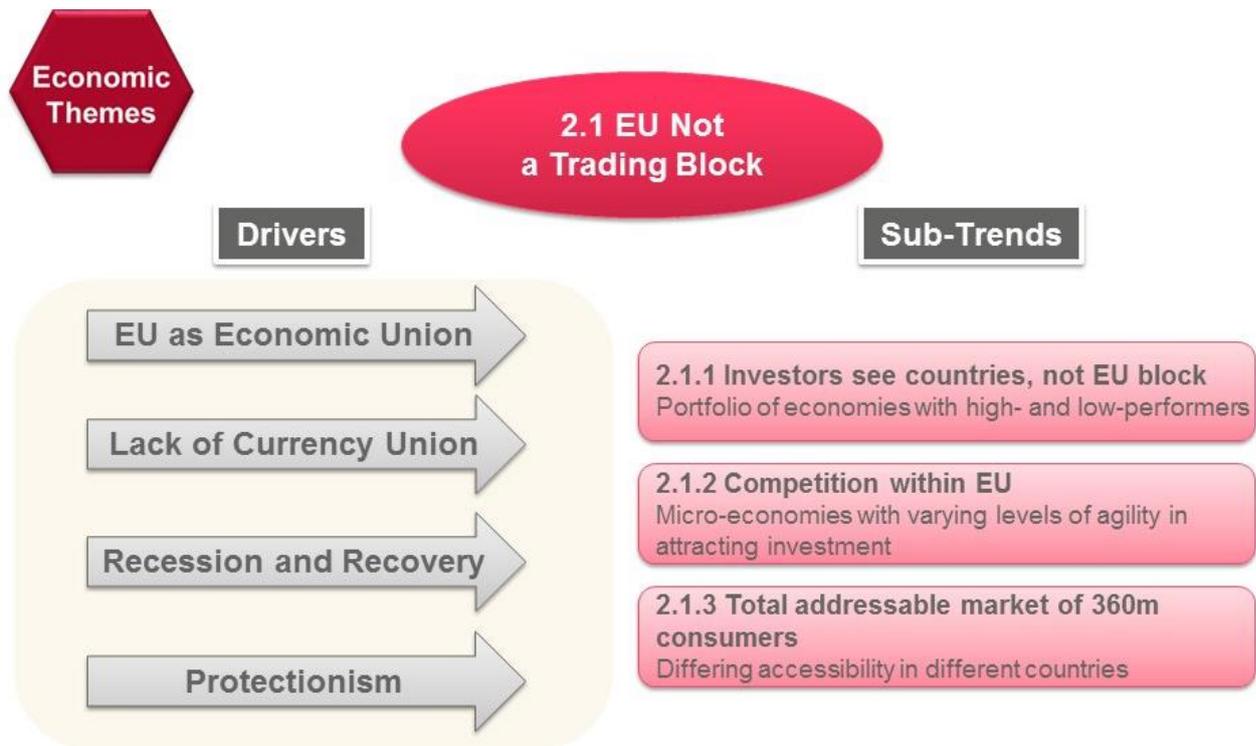
## Chapter 2

### Economic themes



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.

## 2.1 EU not a trading block



### 2.1.1 Investors see countries, not an EU block – Little consideration of EU as a single economy

Most of the key influencers, do not think of a single European economy and were much more likely to talk about distinctions between national economies. For example, the German economy was recognised as the strongest, and there were a number of candidates for the weakest.

*'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.'*

For businesses looking to make investment decisions in Europe, they see 28 distinct economies, each with strengths and weakness, and each offering different levels of opportunity. Notwithstanding all the harmonisation that has taken place, there are still differences between countries that require distinct investment strategies.

*'I don't think you can have a conversation about Europe and apply the adjectives or conclusions to all of Europe. I think Europe is a portfolio of economies, some of who[m] are top notch and doing particularly well and some of whom are basket cases who are less fit than they were in 1990s.'*

## **2.1.2 Competition with the EU –**

### ***Micro-economies with varying levels of agility in attracting investment***

For larger companies, labour is a major concern and is one on which countries compete within the EU. Beyond a certain scale, companies exhaust the skills in the local workforce and either have to train local people or bring in workers from other regions or countries. There are examples of companies investing in educational institutions in their local areas to ensure a future workforce by providing apprenticeships and training schemes directly related to their field. Similarly but more indirectly, many companies have research and development partnerships with universities.

For smaller companies, the location or nationality of their customers is largely irrelevant and the ease of doing business depends on the individuals with whom they work directly. Where personal relationships with clients are built on trust and reputation, regulation, currency, and taxation regimes make little difference.

*'If you look at the low cost carriers in Europe, the likes of Ryanair and easyJet they are probably far ahead of other low cost airlines in any other part of the world. Just in the scale and volume of what they've won the market place, and it is extensive so that must mean that the European market is competitive.'*

Given the present weakness of the euro, the cost base in Europe is relatively low. However, growth is occurring unevenly and the current environment appears to favour German industry while Greece and Portugal in particular, and even France, are continuing to struggle.

In the face of the banking crisis and global recession, there was a sense that national governments wanted to *'build a brick wall around the country to protect the economy'*, to protect supply chains and to stabilise their own markets. Similarly, the ECB sought to protect its own position.

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. You could take cities like Milan and Athens that may have a similar output [to that of] Frankfurt.'*

## **2.1.3 Gross addressable market of 360 million consumers –**

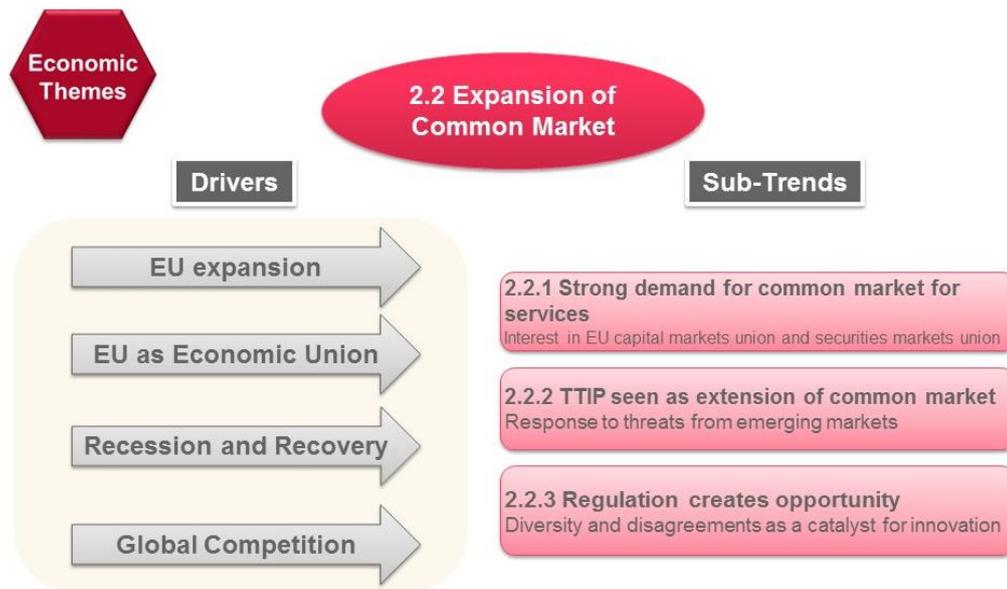
### ***Differing accessibility in different countries***

On the other hand, some contend that what attracts companies to set up in Europe is the size of the consumer market. Having a single set of regulations means that new entrants get the benefit of the access to the entire EU market from a single office, as well as the ability to expand their operations and their workforce into other countries. In this regard, it is easier to do business in Europe than in other regions.

*'If you're a start up from an industrial point of view, would you necessarily invest in Europe, again it would depend on which sector you're in. If you're in services or consumer products then absolutely you would, there are 365 million souls you could market it to.'*

There is a gap, then, between observations on distinct economies and the conceptualisation of Europe as a single market. The overall preference was for expansion of the common market.

## 2.2 Expansion of Common Market



### 2.2.1 Strong demand for a common market for services – Opportunities for services companies

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.

### 2.2.2 TTIP seen as an extension of the common market – Some concerns, including NHS privatisation

The Trans-Atlantic Trade and Investment Partnership (TTIP) is viewed as an extension of the principles of the common market. It represents an opportunity to reduce barriers to trade with North American economies, increase competition with potential benefits for consumers, and will facilitate venture capital investment.

*'So ... you'll develop more and more direct connections with Mexico and Canada, the more they'll see the benefits of a better partnership with that group of countries, today we see it with the US only and the other stuff is just an add on.'*

However, it is seen as an American design to agree processes for trade, not just to set tariffs. In the negotiations, the EU has the bigger economy but the US seems to have '*negotiated better*'. In general, any measure that promotes trade, reduces barriers to entry, and simplifies tax and labour laws would be welcome. Based on concerns in areas such as competition in the NHS, there is a good case for exclusions and special treatment in some areas.

An issue in the TTIP that has attracted much attention and commentary is the Investor-State Dispute Settlement instrument (ISDS). It has been adopted from other American trade agreements and provides for international arbitration in cases between companies and states, often on issues of regulation. The concern is that it represents a supra-national court and sub-ordinates the sovereignty of states.

As an illustration of the EU's competitiveness in the global market, there was a suggestion that the increased co-operation between the EU and North American countries may have been hastened by the Trans-Pacific Partnership (TTP). The success of the TTP negotiations focused attention on international trade and on the value of trade agreement.

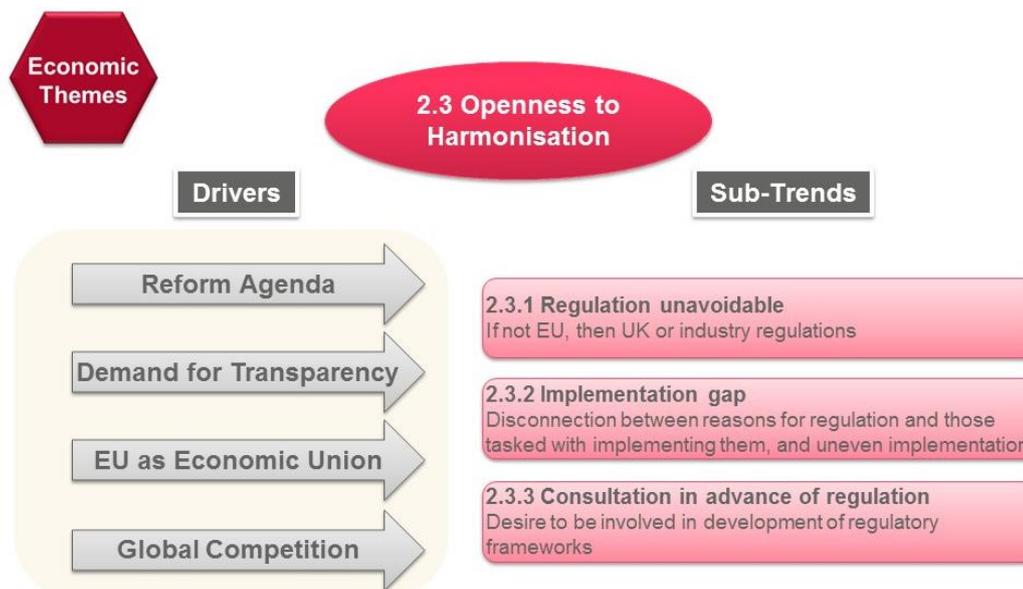
### **2.2.3 Regulation Creates Opportunity – Diversity and disagreement can be a catalyst for innovation**

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, distributed it to everybody, and we got on with it. It's not a thing we whinge about.'*

There were several clear examples of how regulation created opportunities, even if there was some initial resistance. Open Skies, the policy of EU-wide regulation of the aviation industry, has been hailed as a major success for the EU. It fostered competition by ending state monopolies, facilitated the free movement of people, and ultimately drove economic growth. Policies on livestock traceability were necessary following the BSE and foot-and-mouth crises which had severe impacts on the agriculture industry. Since then, traceability has become a competitive advantage and a major selling point for EU companies in global agri-food markets.

## 2.3 Openness to Harmonisation



### 2.3.1 Regulation unavoidable – If not EU, then UK or industry regulations

Most were realistic about the prospects of efficient business in a fragmented EU market. Just as there have been advantages to 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.

Standardisation has served business well and the EU even indirectly supports business by providing certificated and quality assurance through regulation. Based on experience of doing business in Europe over several decades, there was a strong sense that bureaucracy had become easier to navigate through EU-wide harmonisation.

Some proposals concerning regulation were to further unify systems, especially in tax reporting and in some aspects of law.

*‘So let’s say a French company wants to set up a subsidiary in the UK we’d need to open a bank account and the process of opening up a bank account in the UK is a logistical nightmare. So if there was a recognisable international letter that could be sent from a French bank over to the UK with all the checks being done, then that would be so helpful.’*

### **2.3.2 Implementation gap – Disconnection between reasons for regulation and those tasked with implementing them**

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.’*

EU directives have been beneficial by introducing a measure of conformity. However, because national amendments are part of the directives, companies still require separate legal consultation in each country where they operate. While there are valid socio-political reasons for retaining national powers, the practice undermines the unification agenda.

Several were disgruntled at what they perceive as varying standards of compliance with EU rules. Crediting the UK and UK-based companies with being law-abiding, there was a sense that *‘others don’t follow the rules as we do in the UK’*.

*‘As I understand it, we’ve always been very compliant with EU rules. In other words, if an EU rules say we have to do X Y Z, we do [abide by] 95% of those rules. I don’t think that’s the case in places like France, they’d do it if it suits them. Most European countries are just cleverer in the way they live within the EU. But because we’re quite a simplistic nation, quite law-abiding, that’s created some difficulty.’*

### **2.3.3 Consultation in advance of regulation – Desire to be involved in development of frameworks**

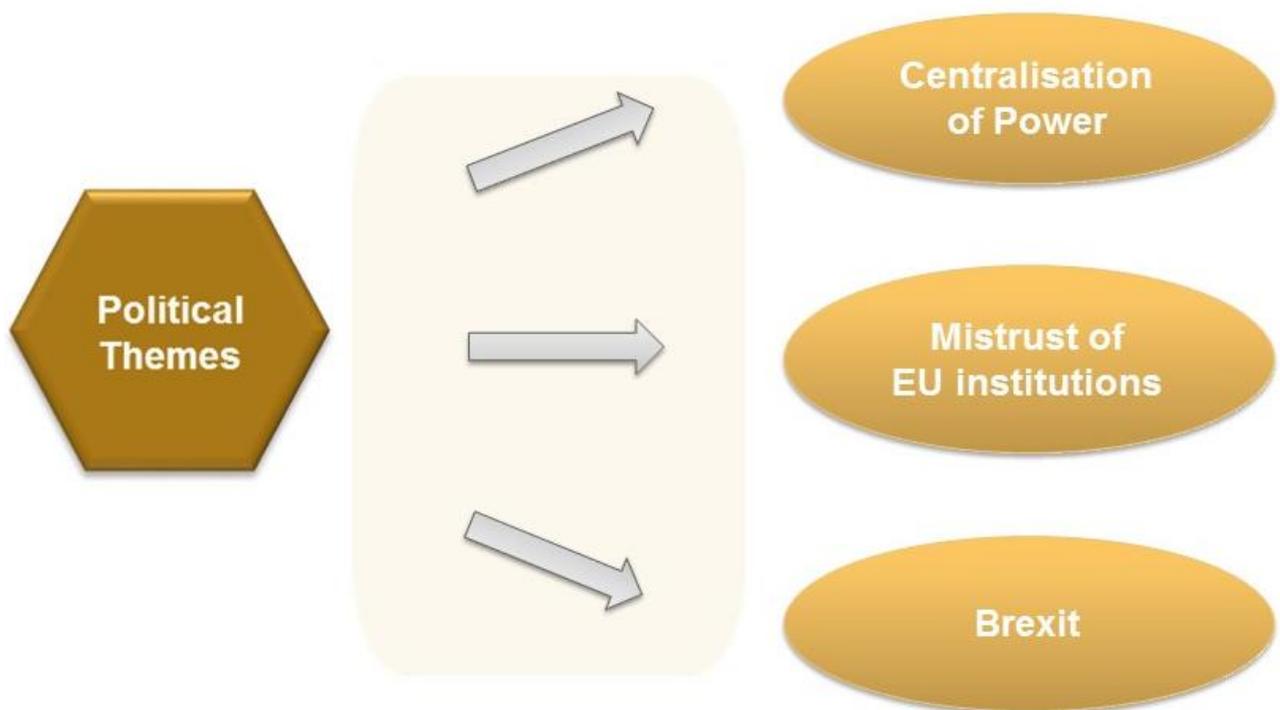
Influencers had a range of experiences of involvement in decision-making. Some have direct contact with national departments and other had been involved in partnerships with other EU countries to work on detailed aspects of regulation and reporting.

*‘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] to make the final decisions but they do ask us for our views on different things.’*

Policies will be easier to implement if practitioners are involved in the formulation in the first place. Contentious policy areas will always be sources of debate and the purpose of these debates is to *‘distil’* why policies are in place and what the under-lying principles are so that everyone can see their worth. Ultimately, not all differences can be resolved but if the overall goal is to reach an agreement it is best to agree as many elements as possible and necessary to insist on others.

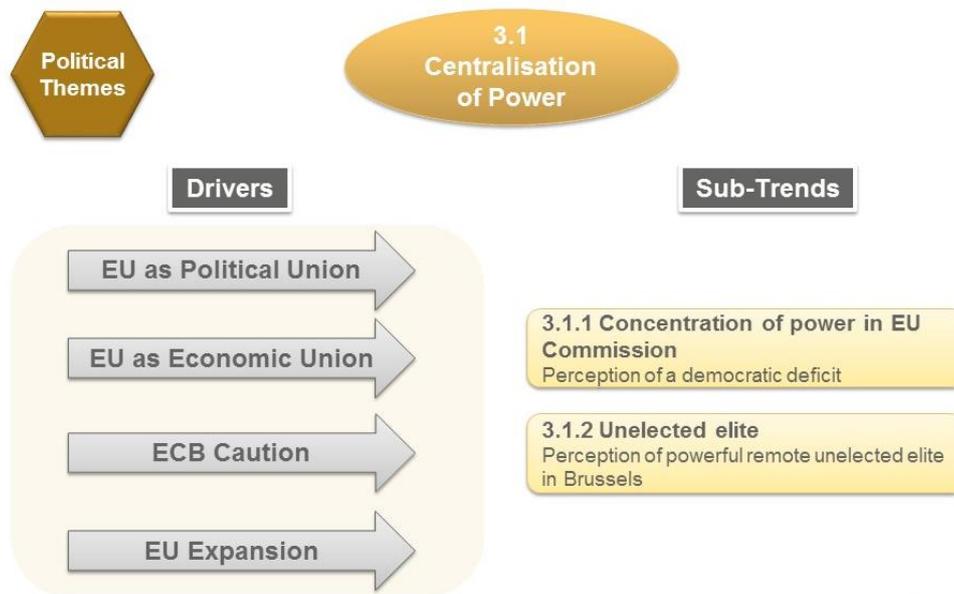
## Chapter 3

### Political Themes



The European Economic Community was ostensibly founded as an economic entity but the political agenda that was implicit in moves towards economic co-operation is now increasingly explicit. These key thought leaders made observations on the centralisation of power, growing mistrust of EU institutions, and the UK referendum on EU membership.

## 3.1 Centralisation of Power



### 3.1.1 Concentration of power in EU Institutions – Perception of a democratic deficit

Criticism of EU institutions focused on the Commission, the nominees of each member state who run what are the EU equivalent of government departments, and on the European Parliament. The functioning of the EU as an economic and political union requires these institutions, and the expansion of the EU has led to further concentration in the appointments of a President of the European Council and a High Representative of the Union for Foreign Affairs and Security Policy. 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.'*

What we see here is a compounded deficit, in that European institutions are perceived to be powerful while citizens are less familiar with their EU representatives than with their national ones.

*'Luckily we've stayed outside the euro but if give or take 70% of our laws are being effectively passed in Brussels and the large influence of unelected functionaries on what goes into UK law-making, that generally doesn't seem like a good thing to me.'*

The ECB has been strengthened by its success in managing the financial crisis, and its influence in the political affairs of countries that underwent Troika programmes remains strong.

*'I think it was clear that the ECB and main European countries were happy to keep Europe intact. I'd have a positive outlook on Europe in the long term. The reality is Greece is 2% of the Eurozone, it just doesn't matter. Whether it stays or goes it doesn't matter. Fundamentally for Europe it's far better that we do stand behind the currency.'*

Others were less concerned about tensions between EU member states, pointing out that regional tensions are part of any functioning democracy.

*'Even within Great Britain you have the Home Nations and different views, and even within England you have Yorkshire and London which don't always see eye to eye, just as examples. I'm sure that within Ireland you will have provinces that don't necessarily agree on everything and have different views on particular vital issues.'*

### **3.1.2 Unelected elites – Facilitated by lack of political leadership**

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 the confusion 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.

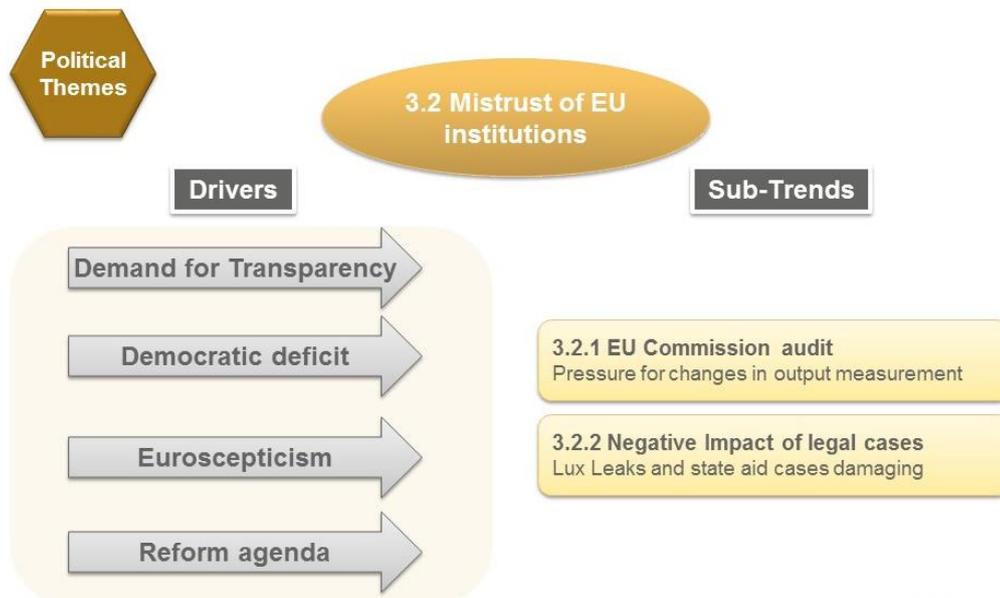
*'There are non-elected employees that have a big influence in making EU laws. There may be a similar thing in the UK but they're our own unelected bureaucrats. There are many Spaniards and Greeks and Italians running around Brussels behind closed doors, always getting an increase in their budgets and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

The expectation is that national politicians might scrutinise the work of EU institutions but the short-term horizons required of politicians constantly seeking re-election is observed to lead to short-term thinking and planning rather than engagement with European issues. The EU as a whole was observed by some to have lost sight of its purpose. Since the post-World War II visionaries who sought to achieve peace in Europe there has been *'nothing to inspire people'*. Indeed, the EU constitution, representing an effort at articulating a vision, was rejected by uninspired voters.

*'They are not capable of taking decisions and acting on them and providing leadership to resolve difficult situations in the economies in which they operate. So I think unless European leadership can demonstrate greater leadership then I think it becomes progressively a more difficult environment for people to invest into.'*

While there is possible exaggeration in the characterisation by some of how EU institutions are run, there is clear frustration. Stories about powerful unelected officials serve neither the EU institutions nor EU citizens well and both sides would benefit from greater transparency.

## 3.2 Mistrust of EU Institutions



### **3.2.1 European Commission audit – Pressure for changes in output measurement**

In the case of supra-national bodies like the Commission, Parliament, and Central Bank, accountability is even more important. Examples cited included risk assessment, regulation, and regular transparent reporting.

*‘People don’t like being governed by unelected officials and that’s absolutely right and that overrides the economic benefits when people see that first. To reduce the bureaucracy and have that link between the electorate and the politicians who are running Europe and to be less bureaucratic.’*

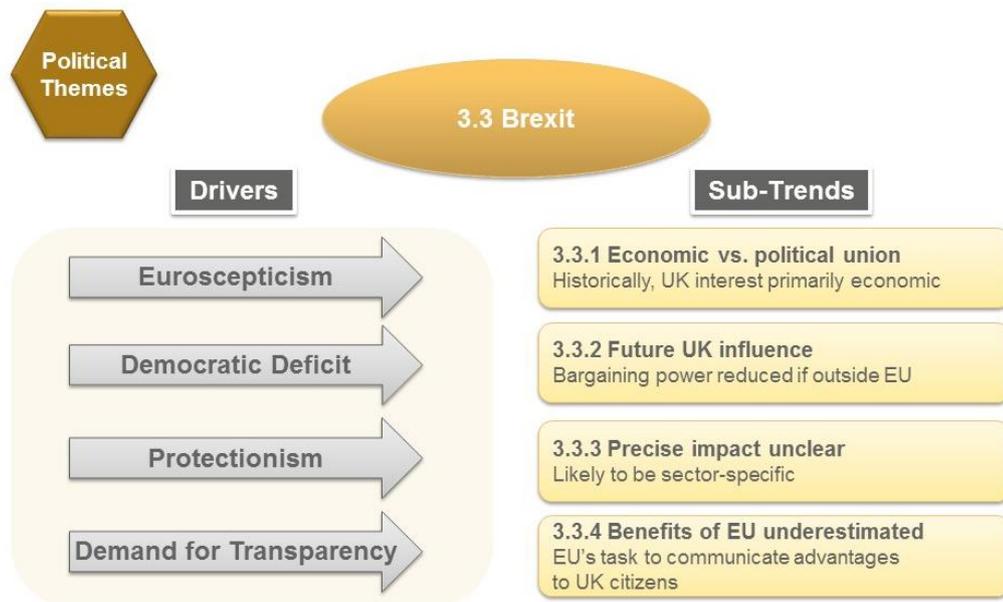
The European Court of Auditors was unable to endorse the European Commission accounts for some years in the 1990s and early 2000s on the basis of inadequate evidence of how money has been spent and a residue of mistrust of the Commission remains. As members of the accountancy profession, many of these influencers held the view that the EU *‘should account as it demands of citizens and companies’*. It should be noted that the Court of Auditors signed off the 2014 accounts, and has since 2007.

A more specific point was that the incentive structure within the Commission is a potential flaw whereby the priority appears to be meeting spending targets in everything from structural funds to business supports to research and development grants. However, the Commission is not considered to be an *‘efficient deployer of funds’*, with the implication that some unwise investment decisions have been made. Alternatively, measuring the outputs of investment might make for greater efficiency, though output measurement is challenging.

### **3.2.2 *Negative impact of legal cases – Lux Leaks and state cases risk damaging trust***

Tax treatment was prominent in the news while interviews were being conducted and the rulings on state aid were viewed as a step towards more transparency by raising levels of trust that tax rules are being applied fairly. Some made a case in defence of one of the companies found to be in breach of state aid rules: Starbucks argued that it was moving income rather than capital. Tax competition among states was considered unfair, but any restriction on national powers to set tax rates is unlikely to be accepted. The outcome of these rulings is that some companies may re-evaluate the location of their EU operations

### 3.3 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.

#### **3.3.1 Economic or political union – Historically, UK interest primarily economic**

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.'*

There are a range of perspectives on the potential scale of the negotiations and reforms. For some, the reforms could be viewed as an opportunity to re-design UK membership of the EU. One suggestion was to re-frame the EU as a commercial union and trading block and no more. The example of the trading agreements between Canada, Mexico, and the USA was cited. As for what the UK could gain from the negotiation process. Firstly, some hope that the UK will gain more bargaining power and will be more involved in EU decisions. Secondly, the hope is that the autonomy of the UK will not be diminished further.

One potentially valuable suggestion is that the negotiations could include a statement of the EU's operating model that sets out the roles of Brussels, national governments, and regional authorities. The possibility of reviving the EU constitution was even hinted at and some key influencers talked

about a 'charter' or a 'single document'. There are wider implications of any country leaving the EU, primarily that it would be 'contrary to the purpose of the EU'.

### **3.3.2 Future UK influence – Bargaining power reduced if outside EU**

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.'*

The importance of the UK's bargaining power has different implications for competitiveness in the global market. The UK is in a stronger position to negotiate international trade deals as a member of the EU than as a separate entity.

*'From a political perspective, I think you need to have the cultures of Europe and show off the diversity of Europe. The economic reality is that we are far better with them rather than being isolated.'*

### **3.3.3 Precise impact unclear – Likely to be sector-specific**

The EU is not a controlled experiment. There is no way of knowing what Europe might look like today if the EU had not been established. Similarly, the consequences of a potential UK exit cannot be predicted precisely, though there is a consensus that there would be negative effects on both sides.

A number of consequences are considered likely: There would be a negative reaction throughout the EU, and possibly within the UK. Scotland's move towards a second independence referendum would be accelerated and some of the progress made in Northern Ireland since the mid-1990s could be undone by the re-introduction of border controls.

Some key influencers have already observed the impact of the referendum debate: It is already causing uncertainty for investors who are delaying decisions at best, and deciding to invest elsewhere at worst, while the future of UK membership is uncertain.

### **3.3.4 Existing benefits of EU underestimated – EU's task to communicate advantages to UK citizens**

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'. For example, shipping goods around the entire EU is now just as easy as shipping around the UK; this is the 'real success of the free common market'.

*'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'. Those positive features include:

- Higher standards of living;
- Security;

- Protection of cultural values;
- Economic growth;
- Job creation;
- Travel opportunities.

Other EU leaders will be expected to show that they actually do want the UK to stay in the EU, without giving the impression that it is only for the financial contributions made by the UK. Furthermore, EU leaders need to engage early in the debate as entering the debate too late may appear disingenuous. There is also a risk that other countries may start to see potential benefits to them of a UK exit.

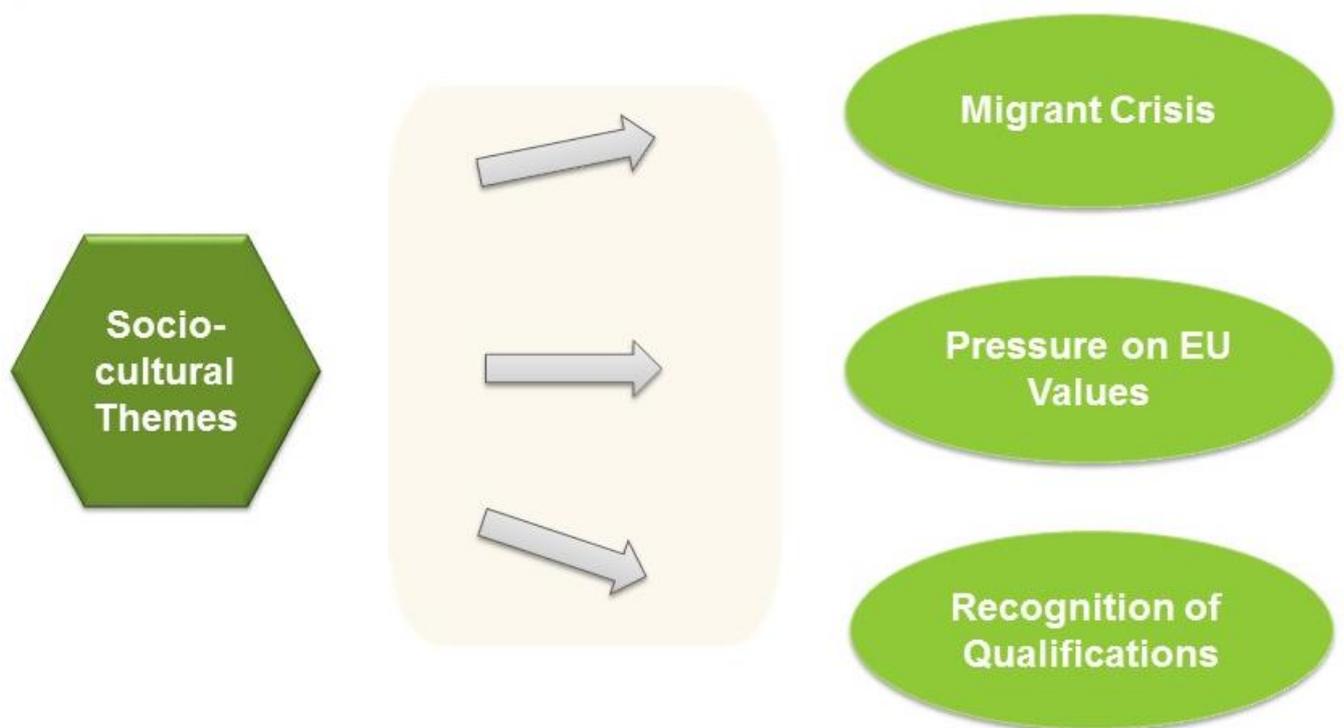
*'Whether Britain stays in Europe or not is hugely relevant for [Ireland]; they're our biggest trading partner by a mile. Some people are saying it will be bad for Ireland- what will we do if the Brits aren't in Europe-alternatively people are saying if the Brits aren't there we'll be the only English-speaking country in the EU. We'd have first dibs on everything coming out of America or the East. They'd be huge positives from it.'*

Overall, the expectation is that the debate will fail to reach a level at which the benefits of the EU will be properly interrogated.

*'I think the debate will be on the wrong topics, the UK is renowned for the power of its tabloid press and to be honest I'm quite sure the political debates are not always at the level they should be at really. You can anticipate that a lot of the discussions will be around migrants and the cost of Europe.'*

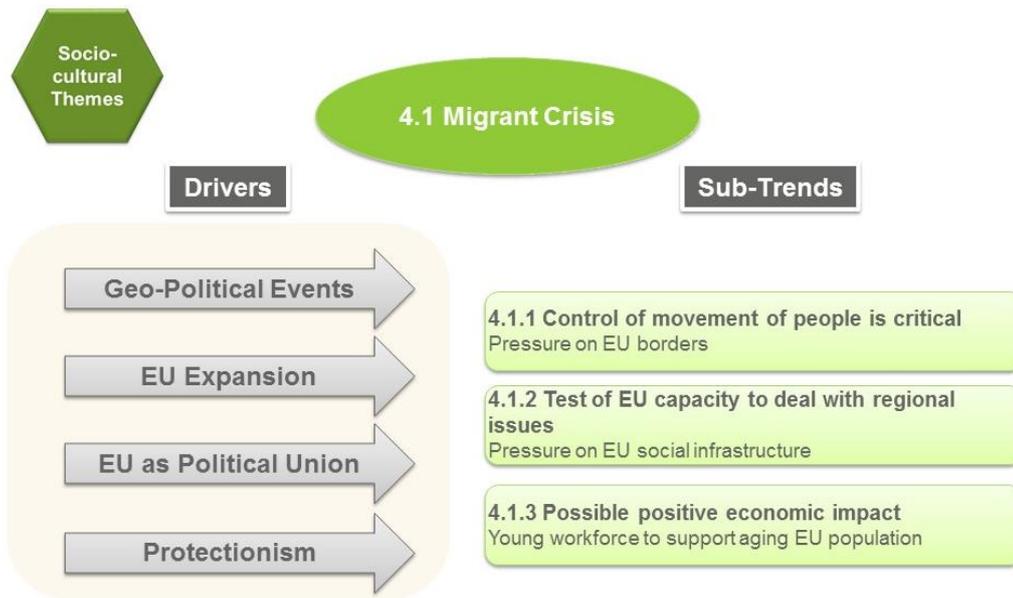
## Chapter 4

### Socio-cultural Themes



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 differently experienced across Europe.

## 4.1 Migrant crisis



### 4.1.1 Control of movement of people is critical – Pressure on EU borders

The principle of the freedom of movement is coming under pressure in the face of the migration crisis. As some countries begin to close and defend their borders, the UK may be declared 'full' and, after a long history of welcoming migrants for both economic and humanitarian reasons, may no longer be willing to accept migrants.

*'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.'*

### 4.1.2 Test of EU capacity to deal with regional issues – Pressure on EU social infrastructure

The likelihood of a vote to leave the EU is currently being increased by the handling of the migrant crisis, which has been criticised as a 'policy failure'. Accepting large numbers of migrants may be unpopular in Britain and it may also be necessary to contribute financially to the solution.

The migrant crisis will also test the social infrastructure of the EU. Decisions are being made centrally about the numbers of immigrants to accept but these decisions will have to be implemented by municipal and local government, and the money allocated centrally will be spent locally. It will be important to have a coherent chain of procedures so that the commitments made at EU level can be met at local level. Central to the coherence of the system is the speed of response.

*'I think the situation with migrants over the past few years is very damaging for Europe. I'm not saying it's damaging to have migrants coming into Europe at all. I'm*

*saying that the way Europe is handling the situation is damaging and is creating social unrest. Ultimately this is not conducive to business success. You could probably argue that Europe should focus less on business and more on creating the right conditions for the European communities to be in the right place, so that business can be successful.'*

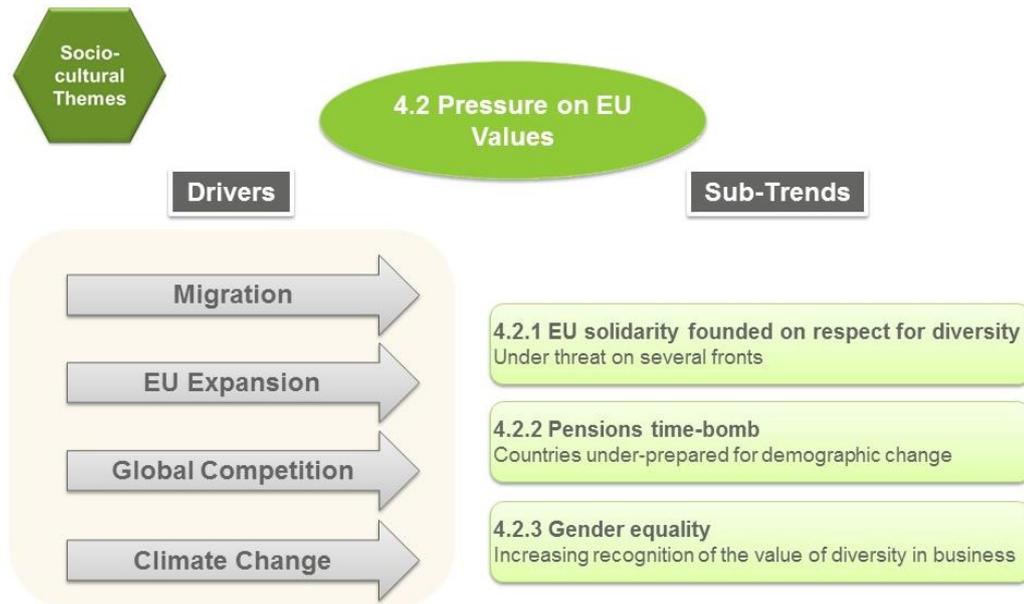
#### **4.1.3 Possible positive economic impact – Young workforce to support aging EU population**

Reversing the dominant narrative of migration, some key influencers wondered whether there would be pressure for UK citizens living in other EU countries to return home following a decision to exit the EU, creating the prospect of one million migrants returning.

*'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.'*

The inclination of these business leaders is to see opportunity in any change of circumstances, and they took a positive view of the future contribution of migrants.

## 4.2 Pressure on EU Values



### 4.2.1 EU solidarity founded on respect for diversity – Under threat on several fronts

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.'*

Many of the debates on the future of the EU come down to political philosophy. Representing one end of the spectrum on the issue of social welfare is the view that "well-being comes from being at work in successful companies", which is closer to a USA-style, neo-liberal position.

*'In Europe it would be very difficult and long to go to a US model, which is still very much based on a frontier type approach where the winner takes all and the fittest survive. There's no great spirit of looking after the weaker in our community, so you wouldn't necessarily want to go there.'*

### 4.2.2 Pensions time-bomb – Countries under-prepared for demographic change

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.

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.

*'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.'*

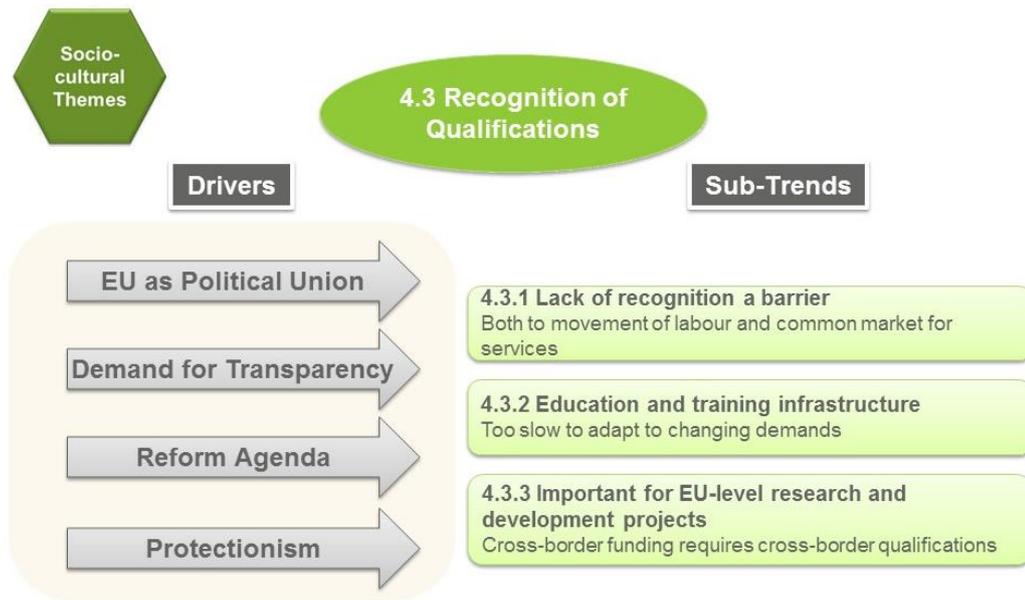
*'Lack of portability of pensions. If you really want to have a free market and freedom of movement you should be in a position to be able to take your pension with you or pay into a common European pension. That's a real inhibitor. The 401k works in all 50 states, why can't we have something that works in all 28.'*

### **4.2.3 Gender equality – Increasing recognition of the value of diversity in business**

Some were also conscious of the movement towards greater diversity in business, and on gender balance in particular.

*'The board of a company which embraces diversity in terms of gender, age, race etc. is expected to be more successful than a board with a monolithic sort of a 'male, pale, and stale' approach!'*

## 4.3 Recognition of Qualifications



### **4.3.1 Lack of recognition a barrier – Both to movement of labour and common market for services**

The theme of harmonisation was extended to recognition of university, professional, and vocational qualifications across the EU. The Bologna Process is the EU project aimed at the harmonisation of higher education qualifications. Its ultimate aim is the creation of the European Higher Education Area, which will include EU member states, other European countries including Norway and Switzerland. Based on the model of the recognition of higher education qualifications, there is also demand for standardisation and mutual recognition of professional qualifications, including in the accountancy profession, but implementation to date has been uneven.

Reform of the skills agenda was suggested both by those working in the public sector who are closer to the education and training systems and by those in the private sector with large labour forces. There are two main issues: improving training for local workers and continuing to promote free movement of labour.

### **4.2.3 Education and training infrastructure – Too slow to adapt to changing demands**

Some key influencers observed a decline in standards in the UK education system, which represents a threat to medium-term competitiveness. This is especially so in the context of increasing demand for highly skilled labour.

*'First and foremost, economies in society rise and fall in the quality of the education system and how that allows people to dig themselves out of poverty over generations frankly. It is absolutely fundamental and then the other factor is just good infrastructure and again I think that becomes a national debate as opposed to a European debate because some countries have a great education system, a great infrastructure and or did and are deteriorating into which the UK clearly falls.'*

#### **4.3.4 Important for EU-level research and development – Cross-border funding requires cross-border qualifications**

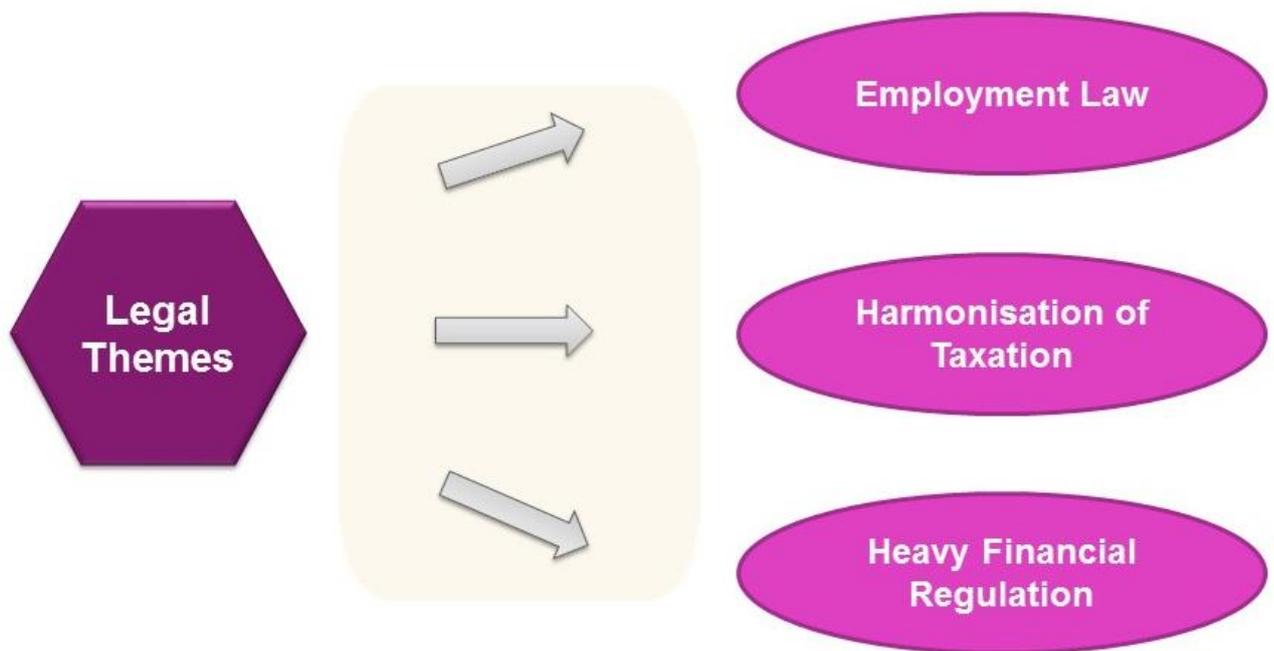
Few support schemes were mentioned explicitly and most believed that this should be an area of national responsibility on the basis of competition between countries.

*'It's a national government responsibility in terms of export, trade, finance and the likes, that tends to be done at a country level rather than a European level, which is probably right. So I think there are reasonable support mechanisms for promotion of trade, promotion of investment tends to be a national, when you think of national responsibility you think of UKIP and the sort of campaigns they've run and every other country or region in Europe does the same thing.'*

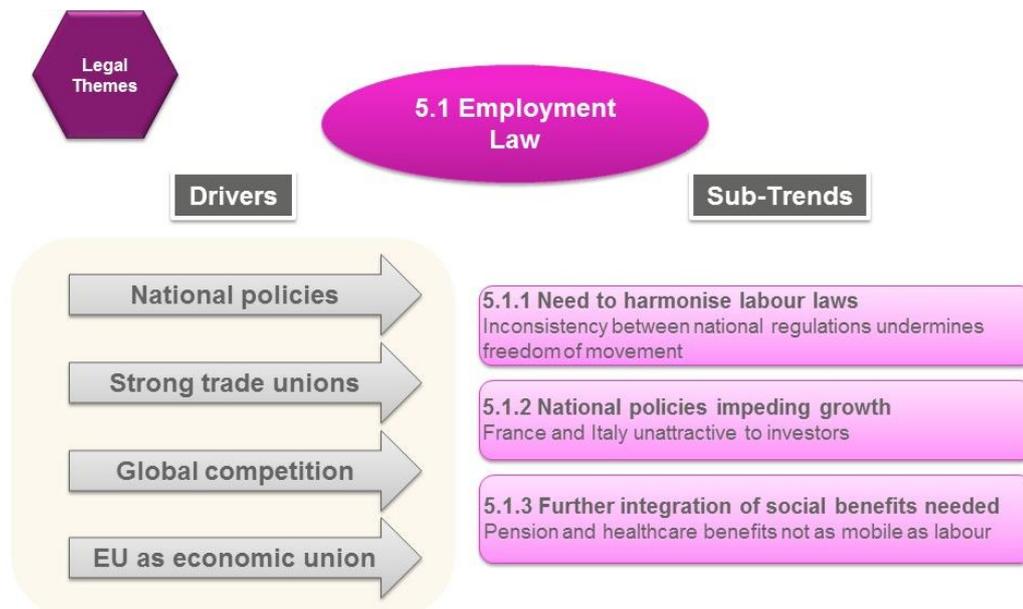
On the other hand, the importance of Horizon 2020 for academic research was emphasised. Universities can be a catalyst for business with incubation centres, supports for spin-out companies, and access to international networks. In parallel, industry partnerships are funding PhD research and development projects. The kind of co-operation between countries envisaged and encouraged by Horizon 2020 requires EU-wide recognition of research qualifications.

# Chapter 5

## Legal Themes



## 5.1 Employment law



### **5.1.1 Need to harmonise labour laws – Inconsistency between national regulations undermines freedom of movement**

While complete deregulation of employment in the mode of the USA is considered unlikely, there were repeated calls for reform. EU employment law was identified as an impediment to growth. While the benefits of free movement of people within the EU were repeatedly cited, migration from non-EU countries is still subject to bilateral agreements, visa restrictions, and red tape.

*'I suppose employment law has changed with all the ridiculous health and safety rules that have to be put into place now.'*

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.

### **5.1.2 National policies impeding growth – France and Italy unattractive to investors**

Even within the EU, variations between countries in areas like parental leave, holiday pay, and social protection make some countries less competitive. In particular, the pro-employee policy environment in France and Italy make it less attractive to investment by businesses. Similarly, the generous employment conditions for public sector workers in most countries was an issue for many businesses.

Because of the differences they see between countries, some were reluctant to talk about the EU in general and preferred to give examples of experience in individual countries. There was some criticism of French labour laws and, while there was an admission of *'the right of the French government'*, explicit criticism of the inflexible environment created by employee protection laws. By contrast, it was *'remarkably straight forward'* to open, as well as to close, industrial facilities in

Poland. Furthermore, countries like France and Italy, characterised by stronger unions and larger public sectors, were coming under pressure from countries that were prepared to make compromises in order to attract investment.

*'You could look at the French economy and the Italian economy and say they produce some fabulous products, but they're not terribly competitive because national legislation within that jurisdiction makes the labour market difficult and uncompetitive, high cost, inflexible and so on.'*

*'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.'*

### **5.1.3 Further integration of social benefits needed – Pension and healthcare benefits not as mobile as labour**

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.

*'I have to say I think about employment law and red tape I do think that there's a real need to reduce the amount of bureaucracy and red tape that is associated, particularly with employment law around Europe. I suppose when it comes to things like maternity leave, paternity leave, the whole area of human rights and individual rights, this legislation move at different speeds and the conditions are enjoyed and on offer in the public sector and the private sector. There [have] been different speeds of introduction of legislation and benefits and indeed even around things like holiday pay, these are areas where there are challenges.'*

## 5.2 Harmonisation of Taxation



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.

What was important in reaching agreement was that all parties had identified the ultimate benefits of co-operation, and in the course of their work together, they could share their experiences and learn from each other. The issue at the centre of the negotiations in question was admittedly *'not contentious'* but the model of co-operation has been and could be applied more widely. Professional working in accountancy and audit have a strong commitment to transparency, and want *'to be seen to be transparent'*.

### 5.2.1 BEPS agenda – OECD policy influencing EU taxation practice

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 International Financial Reporting Standards (IFRS) is a set of reporting standards for SMEs. As more countries adopt IFRS, there is less duplication and less reliance on external consultants.

Similarly, moving to IFRS accounting standards is about transparency. The single reporting standard will make reports easier for everyone to understand and will demand a high level of disclosure than previously. This is seen as a pro-business move as it will also be easier for investors to understand what is happening in companies.

*'I think there probably needs to be more tax transparency so I think there should be some changes so I think they're being sensible with the changes they're putting in place because I genuinely believe that there are profits being made in the UK that are not being taxed so I think that should be changes.'*

Tax treatment was prominent in the news while interviews were being conducted and the rulings on state aid were viewed as a step towards more transparency by raising levels of trust that tax rules are being applied fairly. Some made a case in defence of one of the companies found to be in breach of state aid rules: Starbucks argued that it was moving income rather than capital. Tax competition among states was considered unfair, but any restriction on national powers to set tax rates is unlikely to be accepted.

Switzerland occupies a unique position in Europe but outside the EU. In this way, it can benefit from proximity to the European market but can compete aggressively on tax. Indeed, the taxation regime was cited as the main attraction for doing business in Switzerland. However, the Swiss position is set to come under pressure from EU regulatory authorities working to dis-incentivise companies funnelling sales through Switzerland.

Taxation policy, and corporation tax in particular, remains an area in which EU countries compete rather than co-operate. In the current political environment, further harmonisation appears likely on reporting standards but unlikely on national policies.

*'It comes down to the economic opportunity in any particular economy and where that economy has a sound rule of law of a fair and balanced tax system, a good supply of workers with a high level of education and skills to support whatever trade or business that the company is in and if those conditions exist then frankly you don't need tax advantage.'*

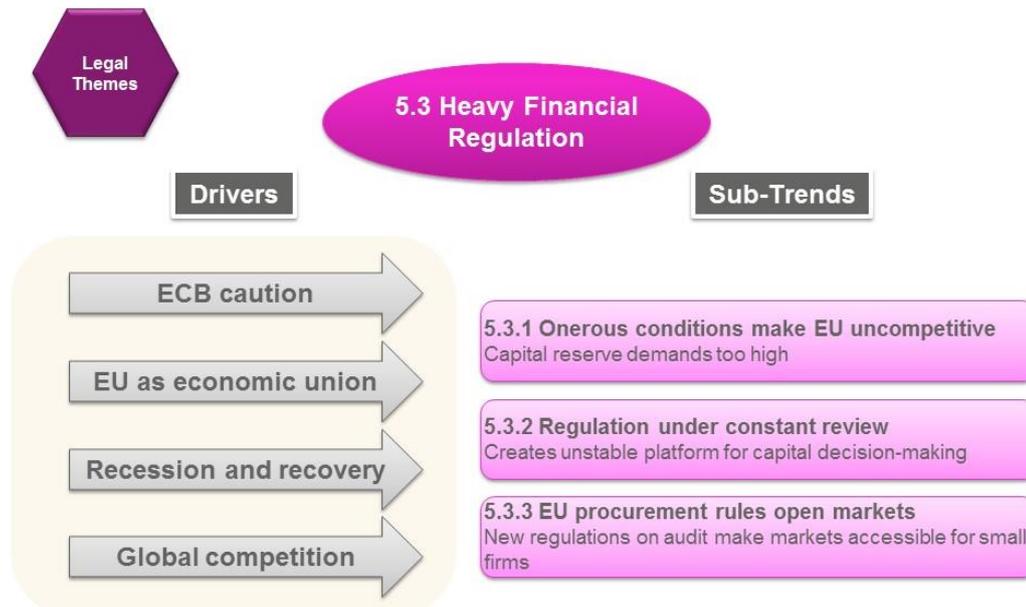
## **5.2.2 Common Consolidated Corporate Tax Base – Continuation of 120 years of tax treaties**

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.'*

## 5.3 Heavy Financial Regulation



### 5.3.1 Onerous conditions make EU uncompetitive – Capital reserve demands too high

Some of the resistance to regulation comes from the disconnection between the regulation and the reason for it. For example, there is a requirement for the UK to produce Whole of Government account returns to the EU. For practitioners in the public sector, it is difficult to see the benefit and they know *'absolutely nothing'* about how the information is used. There is some frustration about the gap in the message coming back beyond *'just do it'*.

*'In terms of what is most influenced and what we do and how we do it in European countries over the course of the last 5-6 years certainly post financial crisis has been a very significant increase in regulation and it's on a European basis driven by the European commission really in the form of credential and conduct regulation. So now we were always very heavily regulated but now we are incredibly heavily regulated within the European context.'*

As with other examples of regulations, there is a disconnection between the regulator and the regulated and disagreement about when enough is enough.

*'They're solving a problem that wasn't the source of the crisis in the first place. The political regulator believes that they'll solve all the problems by capitalising the banks incredibly heavily, that is part of it but a much more important part of it is liquidity. Market liquidity and regulation and capital regulation and liquidity regulation is creating real liquidity challenges within the market. And in the starting point of a financial crisis liquidity is the problem not solvency, if you cannot address liquidity issues then solvency comes hard on its heels and a lot of regulation today will inform or could inform a future liquidity crisis.'*

Reforms around regulation were based on a thus-far-and-no-further stance.

*'From a negative perspective, there a lot of noise around regulation, emanating from Brussels. Some of it justified, some of it not. A lot of the regulation coming on from the back of the financial crisis and it was initially targeted at banks and the financial services industry but from their desire of one shoe fits all rather than differential regulation by sector, you could argue whether other industries are being over regulated because of the financial services failings? Which is creating a plainly more burdensome environment for business to operate in. So that's certainly a factor. And also the desire to create an ever more defined framework, probably meeting more of the flexible British principles'*

Since the financial crisis there has been considerable expansion in regulation in the banking sector. While there is a case for involving banks in the process of framing new regulations that affect their practice, key influencers had a sense that they had been frozen out on the basis of a lack of trust.

*'And in some cases it probably doesn't improve at all and in some cases it wholly effective and I think it's a reasonable point of view that certainly over the last 5 or 6 years banks trying to influence policy in the European Union as it relates to regulation of banks from a financial perspective and a conduct perspective which hasn't been effected generally speaking because banks are not trusted. That doesn't necessarily mean they're not well informed, provide good data, provide good arguments but that doesn't mean that the information has been taken into account because the trust has been lost in many cases.'*

### **5.3.2 Regulation under constant review – Creates unstable platform for capital decision-making**

*'We're in the process of implementing many different facets of that regulation and both from the Basel Committee and the European Union they continue to propagate more regulation and its true in the banking industry when you create more regulation, it can be a break or an inhibitor in decision making around the extent to which one invests and how one is able to spot customers so I would say it's more exacerbating what is a very uncertain and difficult investing environment because of the somewhat stagnant economies and when you throw both conduct and credential into the mix, the fact that it keeps changing cause unrest.'*

Moves towards greater transparency are already having an effect. For example, the EU's approach to Swiss bank accounts is to seek declarations of accounts held by companies, making Switzerland less attractive at a stroke.

The criticisms are that EU structures are considered remote, that processes are not transparent, and that there is not enough information available. However, the same individual suggested that localisation, whereby countries can make national-level changes to some policies, defeats the objective of co-operation. For example, even if there are slight differences in the legal regimes in two countries, a company wishing to operate in both requires separate legal advice for both.

### **5.3.3 EU procurement rules open markets – New regulations on audit make markets accessible for small firms**

The accountancy profession again provided an example of how reform of EU regulations could have positive effects, this time in the field of procurement. Previously, EU procurement rules appeared to

inadvertently advantage larger companies. The Big Four operate as a partnership of local companies, so a client of the UK branch can be referred to the German branch for their German operations. For smaller companies this has not been possible to date but expansion of the common market to services such as audit and accounting will facilitate partnerships among smaller companies. A possible barrier to this, however, is the issue that professional qualifications are not always recognised across borders.

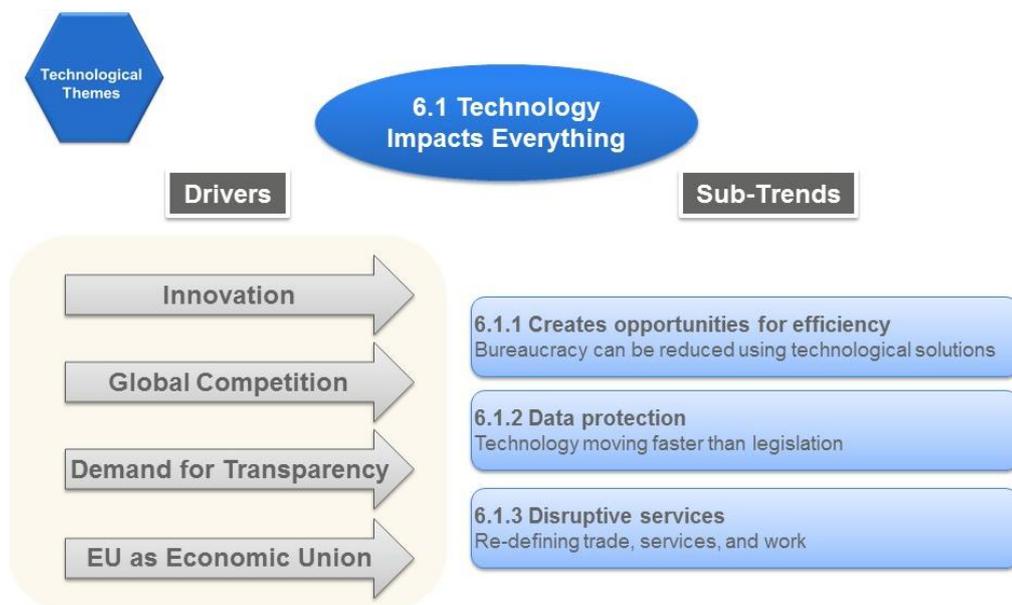
State and public sector bodies could have a positive role in laying a level playing field by actively creating a broader supply line in awarding public contracts. At present, the requirement to translate contracts into local language represents a real barrier for smaller companies.

*'The other change that we've seen a lot is tendering. So mandatory rotation of public company audits. That has started in the last year and it's going to continue over the next couple of years. All the larger public companies will have to rotate their audit firms either every 10 years or every 20 years, it depends on how the law is implemented here. At the moment it's 10 years but there's a member state option to have a second 10 year period. You have to rotate the audit partner every 5 years anyway but this new regulation applies to rotation of the actual firm.'*

# Chapter 6

## Technological Themes

### 6.1 Technology Impacts Everything



#### **6.1.1 *Creates opportunities for efficiency – Bureaucracy can be reduced using technological solutions***

Technology has created enormous opportunities for efficiency but these have not always been realised. A range of reasons were identified, including inflexibility in the public sector. It is possible to contrast these private sector views with those of the public sector leaders. Over the past five years, a shift in culture has been observed in the private sector: There is now a more commercial sensibility with more risk-taking, a clearer focus on value for money, and better deployment of assets. At the same time, the public sector has retained its commitment to sharing knowledge and best practice rather than seeing it as private property.

*'I really think that there has to be areas that can be spun out of the public sector I order to boost the private. And equally where the private sector overlaps whether it be waiting list in hospitals and accounting, the public sector needs to be more alert for opportunities for making businesses more efficient and often the right environment for an efficiency improvement is in the private sector.'*

Investment in digital technology and supports for companies in the sector has already opened markets.

*'There's always that trade off where big companies that can afford to invest in IT whereas small businesses will struggle so I think that's something EU will have to contend with and make sure small start-ups have the same advantages as everyone else.'*

### **6.1.2 Data protection – Technology moving faster than legislation**

Data protection policy has been positive, but the demands on policy-makers are changing rapidly. While Freedom of Information legislation has generally been well received, it has created an administrative burden. Future legislation should focus on being less unwieldy and intrusive.

*'At a time when Facebook and Twitter and all of these mediums have been expanding, data protection needs to be protected, so internal whether there plethora of legislation, I think the general direction of travel is in a well-understood line. The issues is always making sure the legislation doesn't become unwieldy or intrusive and certainly when there are grievances and internal disputes, access to appropriate data becomes a telling factor. Also when I think of data I think of freedom of information and everything coming out of that, I know for governments and larger institutions, managing freedom of info [is a drain on resources].'*

One such challenge is the right to be forgotten and companies already have protocols in place to remove or restrict search results, for example.

Data sharing is more of an issue for transmission of data to countries outside the EU than within the EU itself. For global companies, then, there is increasing pressure to disclose their data storage and data sharing practices. There is a growing trend for tech companies reacting to legal cases rather than developing procedures in advance.

To an extent, the lag between innovation and regulation is understandable. It is only when a new technology is used widely enough that regulators can begin to identify where parameters might need to be put in place. For example, within the EU, data protection regulations require now data storage on EU-housed servers for any EU body but this has only become an issue since the large-scale use of cloud computing.

### **6.1.3 Disruptive Services – Re-defining trade, services, and work**

A growth challenge for any business is to extend its reach.

*'Another thing is the internet enables you to do mass distribution to your long tail, your small and medium-sized customers, and that's a very costly thing to do in terms of direct sales when you do that remotely from one location, you're suddenly taking a*

*part of the business and you're making it what was a money loser into a significant profit generator and doing that in one location is a huge advantage.'*

We are in the early stages of major changes to work practices, driven by digital technology and global business. As with regulation of technological services, employment law is already out of step with changing work patterns.

*'Technology today redefines work and people can worker work, at home, coming to and fro from work because connectivity is a situation where your connectivity to a network today is more important than your proximity to a desk. Yet labour laws and European laws are all about governing the world of work pre-internet.'*

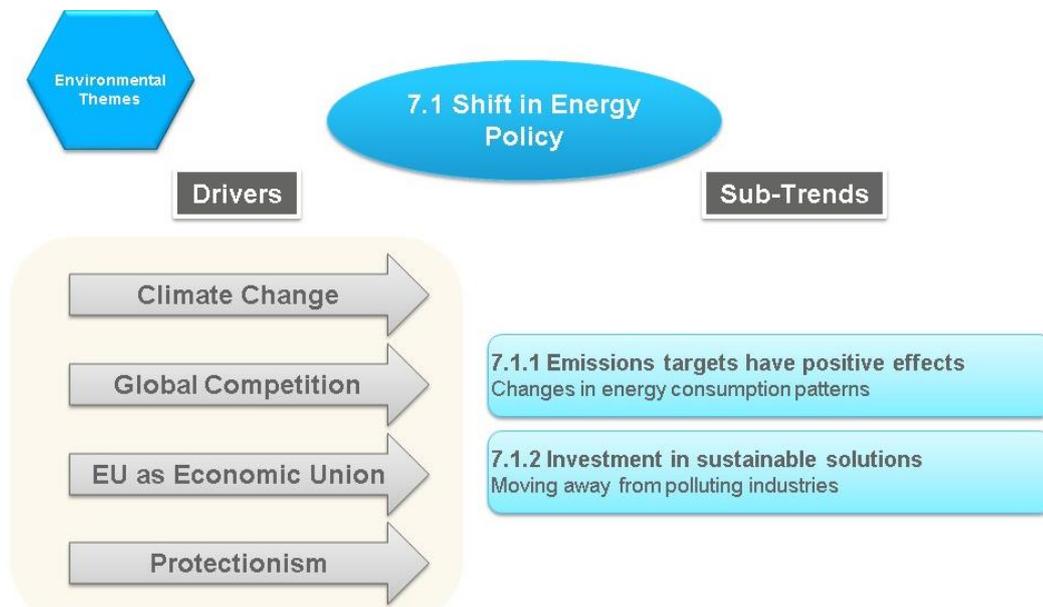
Historically, government-sponsored technology projects were important starting points but were not always *'what the market wanted'*. As an alternative, tax breaks for investment in designated technology centres should be encouraged, on the model of Silicon Valley.

*'For example the UK is light years ahead of anyone else in Europe, you have both from a David Cameron and Boris Johnson, what they're doing now in the start-up world, if many of the other European countries are aware of it then they should be frightened so I think you have the UK which is every bit as innovative as the US. I think the Dutch are the second most innovative. Germany is benefitting from its size and scale. And then you get patches. It would be incorrect to say other businesses aren't doing well but it's patchy.'*

# Chapter 7

## Environmental Themes

### 7.1 Shift in energy policy



#### **7.1.1 Emissions targets have positive effects – Changes in energy consumption patterns**

Policies on waste disposal, recycling, and emissions reduction have had a number of positive effects. Firstly, EU policies and campaigns have raised public awareness of environmental issues. Secondly, penalties for exceeding emissions targets have acted as a stimulant for innovation to find solutions.

*'At the moment I suppose one of the big policy influence is the area of waste, emissions and recycling are and to be fair the EU policies has instilled a degree of awareness of these issues and there's a penalty system which is a stimulant and I think has been a*

*positive stimulant in creating awareness of environmental issues which will hopefully lead to an improvement in the environment. That's one of the positive examples of policy change is being properly introduced for the benefit of Europe.'*

### **7.1.2 Investment in sustainable solutions – Moving away from polluting industries**

Changes have been observed in investment patterns away from polluting industries. In general, this is because carbon taxes and other disincentives are making polluting industries less attractive. However, there is still some tension between environmental concerns and commercial opportunities in fossil fuels.

*'I'm a bit concerned about the fracking in North America and the relative high cost of energy in Europe versus the US who are benefitting from an abundance of shale gas from fracking which is fundamentally and structurally lowering their cost to operate so the ability of European chemical gas plants, for example natural gas, to be competitive. Which means that you're not going to see anymore big investments in plants in Europe. It's all going to happen in US. Any country where energy costs are meaningful component to the overall cost of product I think is challenged versus what's happening in other parts of the world particularly the US.'*

As well as opportunities for sustainable energy generation using solar, wind, and wave, energy policy can promote energy efficiency measures. For example, building regulations with higher demands on insulation, and with grants for building and retro-fitting, create new markets.

# Chapter 8

## 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.

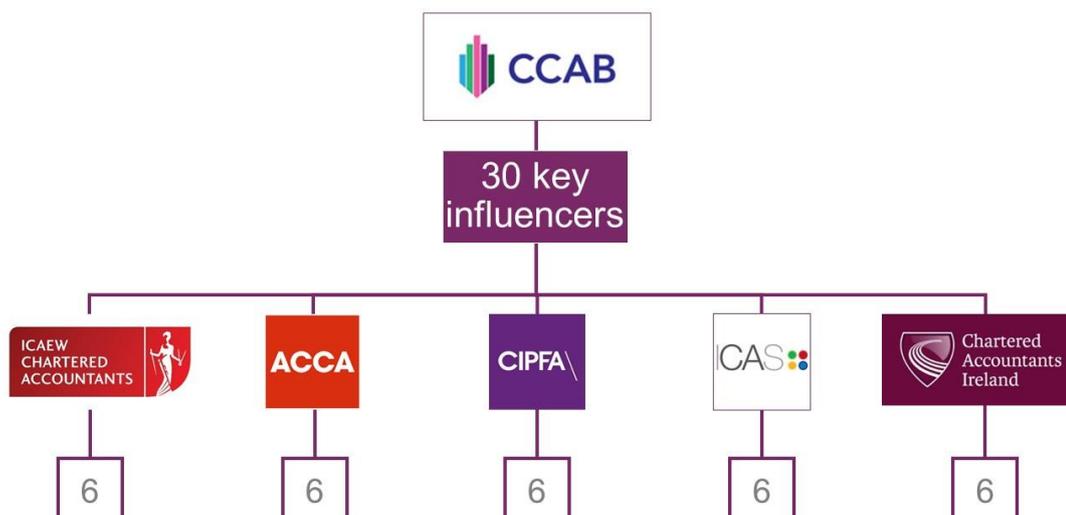
## KEY INFLUENCERS

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](http://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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