



CBI



# Working together

CBI priorities for a strong and open Europe

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International Trade (CBI Brussels)



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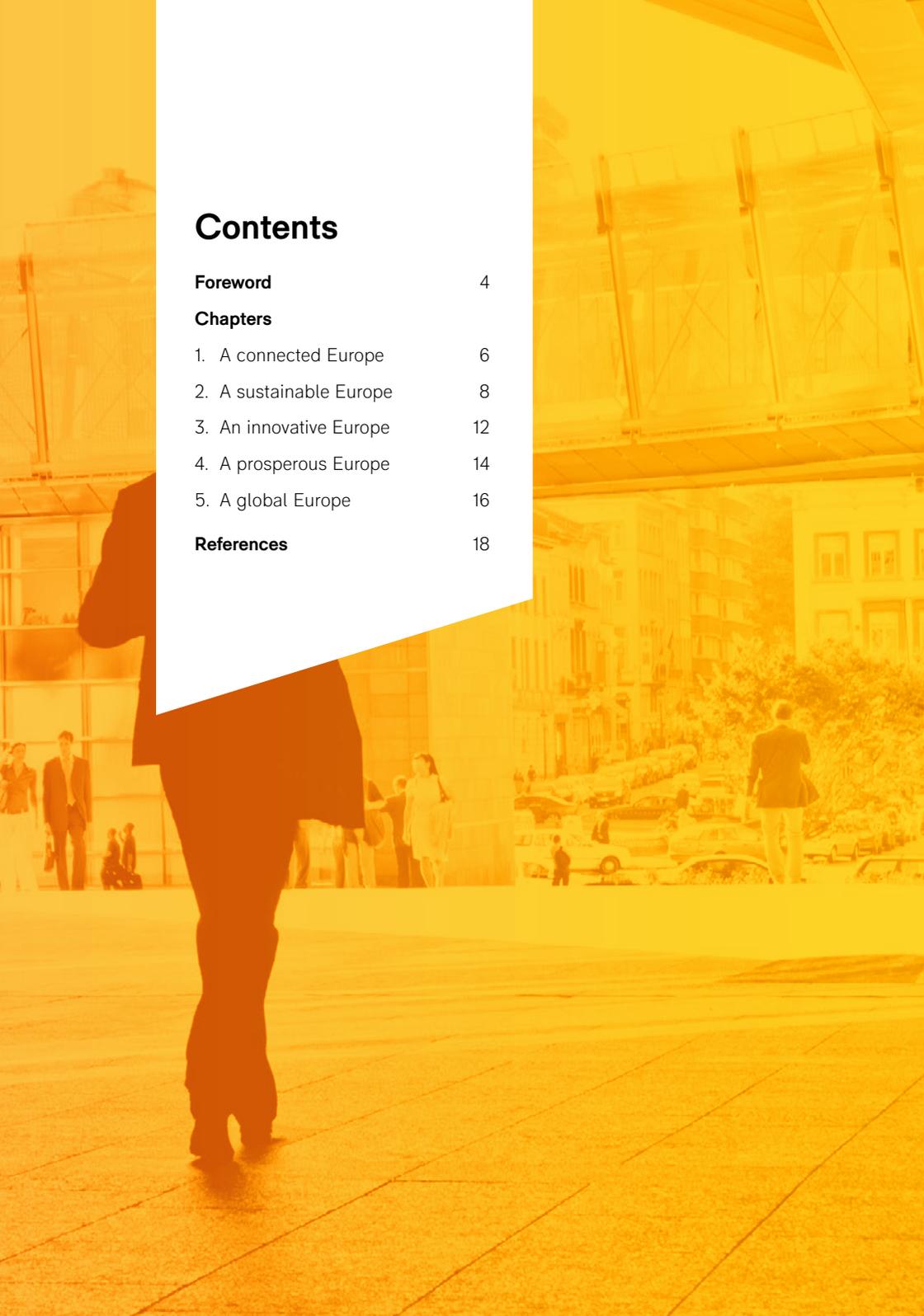
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# Foreword

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With Europe facing some of the biggest political, environmental and societal challenges in its history, the Confederation of British Industry (CBI) has developed 'Working Together: CBI Priorities for a Strong & Open Europe' outlining the key policy areas the next EU mandate must address to create a prosperous European economy. The recommendations identified demonstrate British business' resolute commitment to play a positive and constructive role in turning the challenges currently facing the EU into opportunities over the next 5 years.

The UK has been a fundamental partner to the EU in many legislative milestones and Europe's success will only be delivered through partnership with British business. By working together, the UK and EU can create shared opportunities, overcome challenges and shape a strong and open European that benefits all.

*"The CBI is strongly committed to continued engagement with the EU to drive these recommendations forward, building a competitive future for businesses across Europe. British businesses want a strong EU, that will push for global openness. We have great common challenges and opportunities coming our way, whether it's our relations with China or the U.S., fighting climate change or developing our digital economies. The CBI will remain a constructive member of BusinessEurope and will continue to work closely with our European sister federations to forge a better, more prosperous future for our companies and citizens."*



**Sean McGuire**  
Director  
CBI Brussels





# A connected Europe

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British business remains committed to accelerating the liberalisation of the EU Single Market. The UK has £692.7bn worth of direct investment in the EU27.<sup>1</sup> Strong cooperation between the UK and EU has positioned the UK as the second largest export market for the EU with 5.8 million EU jobs now linked to UK-EU trade.<sup>2</sup>

The EU is the most important single trading partner for every major sector of the UK economy. The level of integration between the UK and EU economies and supply chains sets the EU apart from other markets for UK firms. For example, in 2018, 45% of UK goods and services were exported to EU and 53% were imported.<sup>3</sup>

Similarly, for services the EU is the single largest destination for UK services - worth £120 billion annually<sup>4</sup> to the UK economy – with millions of jobs<sup>5</sup> dependent on the services UK firms provide across Europe. UK companies benefit from the ability to sell into and receive services from the EU. International service companies create competition and drive innovation.

The smooth flow of expertise enables the European economy to benefit from the rich pool of workers, talent and skills across the continent. Numerous diverse sectors in the EU contain many hundreds of thousands of employees from another EU Member State. These staff form an integral element of our workforces and this transfer of skills and talent must continue to serve the whole economy and to drive forwards European innovation.



## Recommendations

- 1. Cooperation between the UK and EU has created a truly connected real economy.** The liberalisation of the EU's Single Market has enabled a strong, integrated European economy that millions rely on for jobs and prosperity. The UK and EU must continue to work together to ensure all European citizens reap the benefits.
- 2. The EU must build on the success of the Single Market to ensure businesses can thrive and consumers feel the rewards.** An integrated and effective Single Market must deliver to ensure that the economic benefits are felt by all across Europe.
- 3. A deal must be agreed between the UK and EU as a top priority.** Cooperation between both sides must continue to ensure the millions of jobs reliant on UK-EU trade are protected.
- 4. The EU should ensure businesses remain competitive by ensuring the current and future workforce has the right routes to access new skills.** Businesses need skilled talent to stay competitive, but the working world is changing faster than people can develop the necessary skills. The EU must develop skills through education and retraining, in conjunction with the real-world requirements of business to ensure a competitive labour market.

# A sustainable Europe

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Responding to climate change is the biggest global challenge of the 21st century. It poses a significant threat to the UK and EU's long-term prosperity; however, British business is committed to push for a sustainable economy and be a driver in combatting climate change.

The UK was the first G20 economy to legally commit to a net-zero emissions target by 2050 while the new Commission wants Europe to become the world's first climate neutral continent. British business supports this ambition and wants to see this matched by strong international collaboration to build on the Paris Agreement. The UK's hosting of COP26, as well as ambitious targets, including for 2030, present great opportunities for businesses, and signal to the rest of the world the action that all must take.

Public money alone will not plug the gap needed to reach this objective. The UK, as the world's second-largest financial centre and the largest centre in Europe and nearly three times the size of centres in France and Germany,<sup>6</sup> can play a pivotal role in collaborating with the EU to ensure the sustainable finance agenda is successfully completed. Furthermore, it is essential to connect the ambitious EU Green Deal with a strong industrial strategy, with businesses as solution-providers at its core.

To secure the significant economic benefits of a transition towards a low-carbon sustainable future, a close relationship will be essential for the UK and EU to remain leaders in the fight against climate change, liberalising energy markets as well as investing in low-carbon infrastructure and mobility. Together, governments, businesses and consumers can make the move towards a sustainable Europe.



## Recommendations

- 1. The EU should ensure a strong commitment to the net-zero target by 2050.** The EU should work towards the objective of climate neutrality by mid-century, while ensuring competitiveness is embedded in a strong industrial strategy.
- 2. The UK and the EU must remain global leaders in the fight against climate change.** Achieving the objectives of the Paris Agreement is essential but will require business leadership and inter-governmental cooperation, especially with countries such as the US, China and India to ensure a global level-playing field.
- 3. The EU should work towards an EU ETS that works for all sectors.** As a market-based system, the EU ETS has the best potential to reduce emissions in the lowest cost way and create a clear signal to drive low-carbon leakage across Europe. More action will be needed in the future to protect industries at risk of carbon leakage and assess the potential impact of an extension to other sectors such as transport and shipping.
- 4. The EU must remain committed to seeing through its Sustainable Finance Action Plan.** The speed at which the initial legislative proposals were completed is laudable, however business needs to now see a completed taxonomy proposal steering clear of any punitive measures.
- 5. The EU should ensure energy security through diversity of supply and improved infrastructure.** Investment in diverse and market-led energy mix and technology such as nuclear, low-carbon gas, electrification, renewables, interconnection and CCUS and hydrogen will maximise business opportunity and ensure secure energy supplies while delivering on our climate change ambitions.



*“Cooperation between the UK and EU has created a truly connected real economy. The liberalisation of the EU’s Single Market has enabled a strong, integrated European economy that millions rely on for jobs and prosperity. The UK and EU must continue to work together to ensure all European citizens reap the benefits.”*



# An innovative Europe

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The digital revolution has changed the way we live our lives and the relationship between consumers and products, services and content. From the way we shop and communicate online through to the way we make bank transfers and use devices connected to the internet, digital services are a key part of everyday life, revolutionising the ways in which businesses deliver products and services to their customers. For the EU to remain firmly at the forefront of this transition, it will have to work closely with European and British business to implement a Digital Single Market that benefits the whole of society. British business is ready to build trust in technology and support Europe's thriving digital economy, ensuring that any future regulation is targeted, proportionate and risk based.

The EU is lagging behind countries like China or the US in terms of sheer investment in Artificial Intelligence (AI). However, the UK takes the lead as the Europe's strongest AI ecosystem. It will be crucial for the UK and the EU to cooperate and foster an environment that enables AI to flourish while addressing the concerns surrounding ethics and cybersecurity.

Research and Innovation is an area that needs collaboration in order to thrive and EU and UK businesses have greatly benefited from close alignment on science and innovation. International collaboration gives businesses access to a broader range of expertise, knowledge and assets than could be accessed in a single country alone. Studies show that international collaboration drives up the quality, impact and influence of research outputs.<sup>7</sup> To ensure the continued competitiveness and success of European science and innovation, the UK and EU should maintain commitments to international cooperation.



## Recommendations

- 1. The EU should continue to build a competitive Digital Single Market.** The EU should accelerate the cybersecure digitalisation of the European economy, seizing the opportunities it creates to ensure that the EU does not miss the next digital revolution. To achieve this, SMEs and start-ups, in particular, will need help to enter new markets in order to scale-up, whilst giving consumers the content and services they have come to demand delivered directly wherever they are in Europe.
- 2. The EU must continue to look to the OECD to find a solution to address the tax challenges arising from the digitalisation of the economy.** Businesses need to have a stable and consistent framework for raising tax in a broad based and non-distorting fashion in the many jurisdictions in which they operate. The EU must avoid uncoordinated unilateral measures that create economic distortions, reduce investment and growth and significantly increase the risk of double taxation and uncertainty for business.
- 3. The UK and the EU should work together to become global leaders on AI.** As the EU fosters an ethical environment favourable for AI development, it will be important to refrain from introducing new legislation that would prevent further innovation or lock-in current technologies and practices.
- 4. The EU must support and facilitate R&I throughout Europe to regain global leadership and remain open to the world.** The EU should maintain commitments to openness and international cooperation by ensuring that research programmes such as Horizon Europe are based on excellence and open to third country participation.

# A prosperous Europe

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Cross-border investment between the UK and EU is substantial. The EU27's total combined claims and liabilities with the UK amounted to around 70% of EU GDP in 2018.<sup>8</sup> Around 5,500 UK firms provide financial services to clients within the EU and EEA<sup>9</sup> ensuring that European citizens are insured, their investments and pensions are managed, and capital is provided across the continent. Servicing customers effectively relies on a harmonised regulatory landscape and the EU must ensure that future financial legislation does not cause market fragmentation.

Corporates are the lifeblood of the European economy. Yet European corporates are still heavily reliant on bank lending. The UK has the EU's biggest capital market and both the UK and EU would benefit greatly from increased cooperation to ensure corporates have the financing they need. 46% of the EU equity is raised in London and around 75% of the EU foreign exchange and interest rates derivatives trading takes place in the UK. As a consequence, 35% of the wholesale financial activities of the EU takes place in London.<sup>10</sup> Working together, the EU and UK must complete the Capital Markets Union to ensure corporates have the capital needed to create a strong European economy.

Many EU regulations originate from international commitments such as those discussed at the Basel Committee on Banking Supervision and the International Accounting Standards Board (IASB). The UK's voice is critical in these forums. The UK was instrumental in the Basel Committee post-crisis when banking reforms were shaped, and it is crucial that the EU works with the UK to ensure that financial regulation is successfully drafted to ensure everyone feels the benefits.



## Recommendations

### **1. The EU must put corporates at the heart of decision making.**

Corporates are the lifeblood of the European economy. This must be reflected in EU legislation. As such, the EU should continue to ward off efforts from certain Member States to implement a Financial Transaction Tax (FTT) which would have unintended consequences on European investment and must continue to find ways to simplify and alleviate corporate reporting.

### **2. The EU should complete a Capital Markets 2.0, expanding the size and capacity of European capital markets.**

The CMU has been crucial in diversifying sources of funding for Europe's corporates and SMEs. The EU must develop policy measures that keep capital markets open and competitive. This means balancing sufficient levels of market supervision, market resilience and integrity.

### **3. The EU must lead the way in developing a coordinated global regulatory framework that enables cross border provision of financial services.**

Conflicting regulatory policies and divergent implementation of global standards create barriers to capital flows and reduce market efficiency. The EU's implementation of the Basel III framework must therefore respect its international commitments to avoid rises in capital requirements.

### **4. The EU should continue to champion supervisory and regulatory dialogue, international standards and openness with third countries.**

Activities of third countries will be systemically important for the EU and the EU should look to expand regulatory dialogue with key third countries.

# A global Europe

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The UK's position as a leading player in the G7, G20, UN, OECD, and NATO provides a strong role to shape the global debate and it should continue to be seen as a pivotal EU ally. Overcoming today's global challenges and defending our shared values can only be achieved if we work together.

The EU and UK must unite to oppose unilateralism, including damaging tariffs that undermine trade rules. Global challenges require global solutions. In this respect preserving and modernising the WTO to deliver a free and fair multilateral trading system is a top priority. A key aspect of this will be updating rules to harness the power of digital. The UK is a global hub for data flows, which increased 28-fold from 2005-15,<sup>11</sup> and over 75% of UK data flows are with the EU underlining our close links and digital interdependency.<sup>12</sup>

Open markets and free and fair trade create millions of jobs, generate growth, investment and innovation and promote our shared values around the globe. The EU must work with international partners, including the UK, to challenge increased protectionism. Trade tensions must be reduced and asymmetries in trade conditions eliminated through positive agendas that break down barriers and modernise trade rules. The UK and EU should work together to build strong relations with the U.S. and China, and we must ensure we are never forced to pick or choose between two vital markets.

Effective competition policy underpins the European project and firms in the UK are staunch defenders of liberal competition and will continue to emphasise the importance of open markets and free trade. If Europe is to meet the challenges and opportunities presented by the 21st century, it must be outward-looking and embrace global economies. An open and competitive European economy is vital for a strong European voice in the world.



## Recommendations

- 1. The EU and UK must remain the closest international partners to protect and promote our fundamental shared interests.** Bilateral cooperation should be complemented with joint-efforts in international institutions to ensure a powerful European voice on the global stage that promotes open markets and free and fair trade.
- 2. The UK and EU should build a coalition of the willing to provide the required momentum to reform and modernise the WTO to deliver an institution that is adapted to the demands of 21st century business.**
- 3. The important nexus of trade and climate policy must be further explored.** The UK and EU should pursue bilateral and multilateral talks on reducing barriers to green trade, including through a plurilateral agreement on environmental goods and services.
- 4. The EU and UK must maintain strong relations with China and the U.S. and should cooperate to maintain our economic and strategic autonomy.** Our economic relationship with China should be rebalanced and we require stable positive relations with the U.S. The Chinese and U.S. markets offer huge opportunities, which could provide great gains for the entire European economy.
- 5. We must update trade rules for the digital economy to reflect the modern realities of trade and business.** Free flowing data should be ensured, along with a rejection of the practices of forced data localisation and technology transfers. The e-commerce negotiations at the WTO and extending the moratorium on customs duties for electronic transmissions should be prioritised.
- 6. The EU must continue to champion an effective and objective competition policy that benefits consumers and provides legal and economic certainty.**

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To share your views on this topic or ask us a question, contact:



**Elsa Venturini**  
Principal Policy Adviser  
Elsa.Venturini@cbi.org.uk



**Meg Griffith Otway**  
Senior Policy Adviser  
Megan.Griffith-Otway@cbi.org.uk



**Ben Thom**  
Senior Policy Adviser  
Benjamin.Thom@cbi.org.uk