European Economic and Social Committee

Employers' Group

Newsletter February 2016

Brit-in - or Brexit?

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Dear readers,

After a tough couple of years dominated by "Grexit" now we have yet another play on words: "Brexit". Personally, I'd rather refer to the UK referendum than to create a self-fulfilling prophecy. No matter how we name it, the decisions to be taken by the British government in negotiations with the EU, and by British citizens in the referendum, will undoubtedly have a tremendous impact not only on the future of the United Kingdom but of the European Union as a whole.

First and foremost, let me clearly emphasise that from the political perspective, the UK referendum is a purely and entirely domestic issue and neither Brussels nor other Member States have the right to interfere with the point of view of British society. Contrary to what many eurosceptics say, the EU fully respects the sovereignty of its Member States and speaks out only within the bounds of its powers. The polls clearly show that the result of the referendum is far from certain. Once again (as with the earlier Scottish referendum), the UK is inviting us to the front row in a fascinating political thriller.

For British business it is clear: "whilst membership of the European Union has its downsides, the disadvantages are significantly outweighed by the benefits we get in return" – states the report prepared by the Confederation of British Industry, representing 190,000 UK businesses employing nearly 7 million people.

A decision by the British to leave the European Union would certainly cause a political tsunami in the whole of Europe. From the economic perspective, a majority of studies show that leaving would have a negative impact on the UK economy. A Bertelsmann Stiftung study published in April 2015 examined two possible alternatives: a "soft exit" and a "deep cut". In the first case, real income losses of 0.6% to 0.4% are projected for the UK based on the base year. Greater welfare losses of between 1.5% and 2.5% would result from a deep cut. The share of UK exports to the EU would decline over the long term by 4 to 6 percentage points with a soft exit.

Far bigger effects of a possible Brexit are anticipated for individual EU countries. For example, the projected welfare losses for Ireland are even higher than for the UK – about 0.8% real income loss in case of a soft exit and 1.9% and 2.7% for a deep cut.

Another study, issued in March 2015 by the Centre for Economic Performance predicts that in the optimistic scenario, there would be an overall welfare loss of 1.13% for the UK, which is driven by current and future changes in non-tariff barriers. In the pessimistic scenario, the overall loss even amounts to 3.09%. The costs of reduced trade far outweigh the fiscal savings. In cash terms calculated over a decade, the loss is £50 billion in the pessimistic scenario and a still substantial £18 billion in the optimistic scenario.

Even the report that mentions possible positive outcome of Brexit (prepared by Open Source in March 2015) underlines that a number of conditions must be fulfilled to make it happen. In the event of Brexit, the UK's GDP in 2030 would range between a reduction of 2.2% and an increase of 1.6%. The positive effects on British welfare would only commence if the UK could negotiate a FTA with the EU and at the same time successfully pursue a policy of deregulation and trade liberalisation with all other countries. This is as I see it very complicated indeed.

Even though the EU is going through turbulent times and faces plenty of internal and external challenges, the EU still plays a major role in a global economy. None of the Member States – even the UK – has any chance of having the same impact on the global scene as the EU does with its Single Market (which is of course far from flawless, but is constantly improving). TTIP nowadays is yet another example of the opportunities provided to the united EU. Would the United States be ready to negotiate such a comprehensive, substantial and crucial deal with any of the Member States separately? I don't think so.

I hope the people of Britain will take these rational arguments into account and will make a wise choice for the future.

About the author:
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UK facts and figures:

- **Area:** 248 500 km²
- **Population (2014):** 64 308 261
- **GDP per capita at market prices :** 30 600 EUR
- **GDP per capita in PPS** (100=EU28): 109
- **Prevised GDP growth (2016):** 2,1%
- **Unemployment rate (2014):** 6,1% (EU28 - 10,2%)
- **Youth unemployment (2014):** 16,9% (EU28 - 22,2%)
- **Global Competitiveness Index 2015** - 10th

UK trade (2014 data)

- **Share of intra-EU exports: 6,2%**
- **Share of intra-EU imports: 9,6%**
- **Share of extra-EU exports: 11,6%**
- **Share of extra-EU imports: 14,5%**

(source: Eurostat, World Economic Forum)

Brit-in or Brexit?

Finding satisfactory solutions for us all

by David Sears

The European Council will meet (or perhaps by the time that you read this, will have met) in Brussels on February 18th-19th to discuss and hopefully agree on 'mutually satisfactory solutions in all four areas (competitiveness, economic governance, sovereignty and social security)' of concern to the UK government.

The stakes could not be higher, for those taking part, and for those of us who watch and listen and represent the many interests of organised civil society in the European Union.

If 'satisfactory solutions' are indeed found, and if the Prime Minster of the UK, David Cameron, deems the proposed changes to the existing obligations, rules or operating practices of the EU to be a satisfactory basis for a government endorsed campaign for the UK to remain in the EU, he will set a date for a referendum, perhaps as early as June 23rd 2016.

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And if the conclusions of the Council do not provide such a basis, then the negotiations will drag on until they do, sapping the energy of all concerned and distracting attention from the closely related issues of the ongoing migration and refugee crises, and the need to strengthen the euro, also on the Council's agenda.

This would be a sad outcome for all concerned. The first three UK 'demands' set out in a letter to Donald Tusk on November 10th have already been met and differences on the last could be closed, given some good will on all sides. If all four could be incorporated in a plan for the overall reform of the EU, then perhaps we could all win, not lose. Indeed, with a little bit of imagination and mutual trust, this may even be an easier problem to solve than the steadily increasing problems of migration, the slow collapse of the Schengen area, the threats to internal security from terrorism and military actions in the East, and the continuing and over-whelming need to restore growth, employment and wealth-creation to the EU as a whole.

In the face of so many conflicting arguments, public opinion in the UK remains divided and few would bet with any confidence on the outcome of the vote. The UK Independence Party (UKIP) as the embodiment of anti-EU attitudes struggled for nearly 20 years to make any impact until its populist leader, Nigel Farage, linked it, as others have done in France and elsewhere, to the 'problems' of inward migration from both EU and non-EU countries. The largely foreign-owned tabloid (popular) press has generally supported this view – and even the BBC has tended towards 'good stories' rather than 'good news'. Few have seen any need to educate their audiences on the seemingly arcane workings of the EU or to highlight the many positive influences on our daily lives.

A second strand of anti-EU opinion lies almost entirely within the Conservative party (plus a handful of City-based fund managers) – and this is hostility to any idea of loss of 'sovereignty' over issues which they believe they are best placed (or even permanently ordained) to manage. It assumes that Britain would be better under their personal charge, free to create a new place for itself in the world, without the burden of restrictive measures imposed from Brussels. The lack of supporting evidence for this theory does not seem to bother anyone. UKIP's only MP subscribes to this view - and is at odds with his own leader in consequence.

The UK's Electoral Commission will eventually decide which of these two groups will lead the 'Leave' campaign. Both are well funded although their organisational structures are weak and their leaders are often newsworthy for the wrong reasons. Fighting between the two groups may well continue throughout the campaign.

The 'Remain' campaign in contrast has a single set of messages which are stronger on facts but weaker on emotions. It needs to generate media coverage and attract major funding. Both should improve as the campaign finally gets under way. A recent comment from the Football Association that closing borders after a vote for Brexit could negatively impact the flow of footballers from Europe and elsewhere to the British clubs could yet prove decisive!


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(This is not a trivial point for the UK; it seems that even the date of June 23rd was chosen as being the only Thursday in June unaffected by the Euro 2016 match schedules! If this date proves impossible, a Thursday in September 2016 or April 2017 would be chosen. The referendum has to take place by the end of 2017 – and the UK will hold the EU Presidency in the 2nd half of the year, which makes that a less likely option.)

A more compelling argument for the Conservative government is that a vote to leave the EU would almost certainly lead to the break-up of the UK, something that they could never countenance. It would also lead to a period of intense economic uncertainty for the UK and other Member States of the EU, with downward pressures on inward investments and on all the currencies involved. Other long standing problems in the EU would remain unresolved. Hopefully these concerns will help focus minds in the discussions that lie ahead.

Employers inside the UK have so far not been encouraged to express strong views on the grounds that this might weaken the UK's negotiating position in Brussels. This now seems to be changing and they have now been asked to make a stronger case for remaining in the EU. Larger companies and multi-nationals trading across borders generally understand the benefits of EU membership and know how to operate and represent their views inside the system. Smaller companies see only the burden of regulation – and perhaps assume that, once outside the EU, these burdens would be reduced. Evidence from Norway or Switzerland suggests that this would not be the case. Inward investors – and politicians – from Japan and the US have been more outspoken on the need for the UK to stay inside the EU. This pressure is expected to grow when the date of the referendum is finally announced.

For employers located outside the UK but inside the EU, it is difficult to see why any manufacturing or service organisation – or academic or research institution or regulatory, security, defence or sporting body – would see any advantage to be gained from Brexit in any shape or form. Yes, the Brits can be irritating – or even worse, disengaged – at the political level, but that does not mean they are necessarily wrong and they do not hold a monopoly on such behaviour. Getting rid of them will help no-one.

And, for businesses everywhere, the UK is, for the moment, the second largest and one of the fastest growing economies in the EU. The UK contributes more than 10% of the EU budget for use elsewhere, provides a home for half of the best-recognised universities and business schools in the EU, is the destination of choice for many of its young people, and for the first time in the history of Europe, offers a lingua franca not based on conquest for the use of its citizens in their work, leisure, travel or protest.

In the last 60 years the EU has brought peace and prosperity to more than 500 million citizens. In durability and success it has no equal in modern times. It would be a tragedy for all of us if this was now put at risk. Finding satisfactory solutions may prove difficult but failure to do so would be unforgiveable.

About the author:
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Less regulation, better regulation: from mere words to deeds!

At the Employers' Group meeting on 20 January 2016, we talked about improving the quality of EU legislation and rules. As an introduction to this subject, we heard a presentation of the report on "Implementation of better legislation" commissioned by our group and drafted by the European Policy Centre (EPC) bureau.

At the meeting, I myself made a brief contribution to the discussion: I emphasised the connection between the quantity and quality of legislation, and the concomitant administrative burden for firms. This is relatively heavy for small firms in terms of manpower input and costs, because they only have a relatively small turnover and/or a limited amount of production units over which to spread the burden.

After being away from the EESC for 14 years, I felt a strong sense of deja vu in the course of the group's discussions. That will come as no surprise if you know that as early as 1983 I was involved in the Committee's (the ESC's, as it was known as then) part in organising the European Year of SMEs and the craft industry. One of the Committee's achievements at that time was to argue successfully for the introduction of a Small Business Act across Europe, along the lines of the American model. And to my pleasure I read an article in the January 2016 edition of our Employers' Newsletter by the Secretary General of the European organisation for SMEs, Peter Faross, who made another reference to the Small Business Act and the resulting "Think Small First" strategy, which I, however, prefer to think of as "Think Small but Act Great"!

That is of course also necessary, and we need to keep making that point, but nonetheless I can't help noticing that this attachment to SMEs is preached much more than it is practiced.

Small and medium-sized firms cannot operate properly without legislation. As a company lawyer I have to combine entrepreneurship and regulations every day. Without regulation, society would slide into chaos: a jungle where the strongest prevail, without necessarily being the smartest or most innovative. It is precisely smart, innovative entrepreneurs that we need and they themselves require a business-friendly environment that stimulates an appetite for risk and investment, as well as creativity. Legislation is an instrument for achieving this, as are access to loans and sources of knowledge, and the right to rewards.

So why can we not manage to put a stop to this regulation overkill? Like the EPC, I firmly believe that the European system of regulations constitutes an obstacle to better regulation. As David Cameron wrote in his letter to the EU President, Donald Tusk, Europe needs to simplify its administrative structure. Such simplification must also extend to the EU's legislative process. Even well-intentioned initiatives by the Commission, once they are amended and fleshed out by the Council and Parliament, often end up as unintelligible, unusable rules, which are only of use to the officials responsible for carrying out the initiatives, lawyers and judges. As I said in our group meeting, drafting legislation is an art. It doesn't take three people to repair a watch! It is nearly impossible to put together good, high quality economic regulations by involving three different players - in this case, the Commission, the Council and the Parliament.

The European experiment is a highly ambitious one. Experiments have to be constantly adapted, adjusted, assessed and updated. The EU's legislative process needs to be adjusted: European business deserves this, and European SMEs have been calling for this to be done for more than 25 years.

Mandatory limited-term legislation, mandatory ex ante impact assessment, mandatory budgetary assessment of implementation costs, steps to strengthen the role of EESC consultation by making it mandatory for the Council and the Parliament to give their grounds for not following the EESC's opinion, and maybe even the introduction of a new, different kind of legislative model for economic legislation. Thinking out of the box? Yes, of course: it is now needed more than ever!

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Gender and demographic challenges can change the landscape of construction

The construction sector is the EU's largest industrial employer with 15 million workers. However, it only has a very small percentage of women and young people. 1.5 million construction workers in the EU are female, while 92% of the sector's working population is over 25 years old. If we consider young females, the percentage drops to below 1%.

There are several reasons for this situation, ranging from the stigma associated with skilled trades and the misperception that there are fewer career opportunities in construction, to the fact that the sector is perceived as being predominantly for men - and in reality it is.

Why does it matter?

Unemployment is one of the top issues on the European political agenda today. More than 23 million people were out of work in 2015 and the EU youth unemployment rate is more than double the overall unemployment rate (20.7% compared with 9%), according to Eurostat.

On the other hand, promoting gender equality is not only a driver of economic growth; it is also a fundamental value of the European Union. Since the 1976 Equal Treatment Directive, the elimination of gender discrimination in access to employment and working conditions has become an increasingly prominent issue in Europe.

Impact on the construction sector

The construction industry is struggling due to a skills shortage, including both specialists and general employees. In certain countries the industry does not have enough apprentices to replace retiring workers and cope with demand.

According to the Federation of Master Builder's research, in 2015 66% of the UK's small construction firms admitted they have been forced to turn down new business due to this lack of resources. Almost half have been forced to outsource work to third parties rather than leave work unfinished.

Construction is a great career for young people and women!

Construction is no longer a dusty sector where people just get their hands dirty. Nowadays, tasks involve less physical force and are more mechanical, thus suiting any age and gender. The starting salaries are much higher than many people expect and there is great scope for career development.

In addition, the small construction businesses of today and tomorrow will play an important role in the much-needed transition towards a green economy and sustainable construction.

Portraits of women and young people in construction

As a member of the European Economic and Social Committee as well as president of the European Builders Confederation (EBC), I have been working on this issue in order to close the gap. EBC devoted its 25th anniversary in 2015 to the issue of how to involve women and young people with a view to having more inclusive construction SMEs.

I am also pleased to see that the European Economic and Social Committee is hosting our photo exhibition 'Portraits of women and young people in construction' for a period of one month. Visitors will have the chance to find out some fascinating personal stories and learn more about the initiatives the sector needs in order to improve the participation of women and youth in construction.

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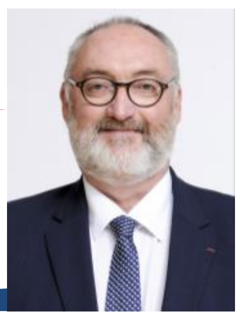

Why is Schengen important for business?

“Schengen means freedom of travel without burdensome border controls and unhampered transeuropean freight. It is a success story for the citizens of Europe. Most of all, it has enabled young people to become more international and open-minded. But it is also a success story for business: no more costly and time-consuming congestion at border crossings in a time of globalisation and just-in-time logistics. No one should damage this truly historic achievement.”

Peter Clever
Vice-President of the Employers’ Group
Confederation of German Employers' Associations

“Transport logistics is expected to be fast and punctual to meet the needs of customers. Interruptions and traffic jams cause delays to both passengers and freight. Over long distances, delays at one border easily multiply at the next. Finland is highly dependent on cross-border trade, while being located far from central markets and across the sea. Therefore, smooth transport is particularly important for us and any additional days in transport times would be costly and imply a considerable setback for trade.”

Tellervo Kylä-Harakka-Ruonala
Member of the Employers’ Group
Confederation of Finnish Industries

“Schengen is more than a pragmatic reality; Schengen is a symbol, a pillar on which the other EU pillars are based. It has so many benefits and is key to the way that the EU is seen. However, Schengen also has its needs. It needs to be safeguarded. Schengen is not a platitude. Schengen is one of the biggest EU achievements with clearly identified benefits. Without Schengen, Europe would be very different.”

Petr Zahradník
Member of the Employers’ Group
Czech Chamber of Commerce

“Schengen is one of the most tangible achievements of Europe so far. To do away with border controls over so much of Europe, after so many centuries of war, turmoil and shifting borders, has been a real mark of our achievement. It offers greater security, freedom to travel and above all freedom to do and grow business - in a market of some 500 million people, when most of us live in countries with populations of 10 million or less. This is also very attractive and important for visitors and investors from abroad. Rising prosperity helps us all - we need to do all we can to keep barriers away from this unique open market.”

Eve Päärendson
Member of the Employers’ Group
Estonian Employers’ Confederations

The cost of non-Schengen

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Various studies suggest a decrease in bilateral trade between countries belonging to the Schengen Area of more than 10% [when border controls are reintroduced], which can in turn induce **a drop of 0.8% in the zone's GDP**.

The French economic institute CEPII took into account the macroeconomic impact of imposed border controls. Reintroducing border controls inside the Schengen Area is modelled by implementing an iceberg cost equivalent to a 3% ad valorem tax on all trade flows between countries belonging to the current Schengen Area. **Average bilateral trade between Schengen member countries would fall by 12.5% to 10.5% by 2025.**

It is very likely that as with international trade, **the decrease in freedom of movement within the Schengen Area would impact financial flows and FDI**. However, these effects are difficult to quantify.

source: Vincent Aussilloux, Boris Le Hir "The Economic Cost of Rolling Back Schengen", France Stratégie

Employers' Group at the third Polish Economic Congress

The problem of bureaucracy pinpointed by employers' organisations in Poland has reached epic proportions, agreed participants at the third Polish Economic Congress held on 27 January in Warsaw. Participants discussed how to cut red tape and improve the business environment. A delegation of the Employers' Group was also present.

Andrzej Malinowski, President of the Employers of Poland and member of the Employers' Group, presented a compelling picture of the situation of entrepreneurs obliged to keep up to date with all changes in the law. In Poland, the regulations prepared in 2015 alone take up almost 28 000 pages!

Jacek Krawczyk, President of the Employers' Group, emphasised that bureaucracy hinders business at both Member State and EU level. The employers strongly support better and smarter regulation, hoping for a visible improvement in the business environment.

The Congress aimed to discuss entrepreneurs' problems and find solutions to them. One of the tangible results of the event will be a "white paper" setting out recommendations to curb bureaucracy, to be presented to decision makers.

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