

# Business, Innovation and Skills Committee with the Work and Pensions Committee

## Oral evidence: Business views on the EU Referendum, HC 88

Tuesday 24 May 2016

Ordered by the House of Commons to be published on 24 May 2016.

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Members present: Iain Wright (Chair), Paul Blomfield, Richard Fuller, Peter Kyle, Amanda Milling, Jonathan Reynolds, Amanda Solloway, Michelle Thomson, Chris White

Questions 1 - 70

*Witnesses:* Professor Brad MacKay, Professor of Strategy, University of St Andrews, and Raoul Ruparel, Co-Director, Open Europe, gave evidence.

**Q1 Chair:** Gentlemen, good morning and thank you for attending our Select Committee, where we are going to talk about the role of business in Europe and in the European referendum. For the purposes of the record, do you mind telling us who you are and which organisation you represent?

**Raoul Ruparel:** I am Raoul Ruparel. I am Co-Director of the think tank Open Europe. We are a think tank that looks at EU policy and the UK-EU relationship, and broadly pushes for reform in Europe.

**Professor MacKay:** My name is Brad MacKay. I am a professor of strategy at the University of St Andrews. We educate, conduct research and that sort of thing. I also did a lot of research around the business perceptions during the Scottish referendum, where a framework emerged to help explain some of those responses.

**Q2 Chair:** This is a question to you both: given the magnitude of the decision that will happen on 23 June, which will affect Britain for decades to come, has the debate been of sufficiently high quality?

**Raoul Ruparel:** In my personal view, no, it has not been of great quality so far. There has been a lot of rhetoric and a number of assertions on both sides, and not a sufficient discussion of the facts and the trade-offs involved in either remain or leave. There has

also been a lot of focus on issues that I do not believe are central to the debate. Issues around the NHS and certain public services, while tangentially affected by our immigration policies and whether we stay in the EU, are not central to the debate. Focus should be more broadly on the economic impacts, immigration and regulation, which are the more central areas. In terms of both quality and focus, the debate has been lacking so far.

**Professor MacKay:** In terms of the role that business takes, what happens is one of two things. Business is sometimes treated as something that is homogenous. When you see the media quoting business, for example, it just says “business”. There are lots of different types of business out there. Alternatively, it is treated as small businesses versus large businesses, rather than really digging into the nuances of why certain business leaders are responding in the way that they are and the logic behind those responses. There is a lack of nuance in much of the public debate, anyway.

**Q3 Chair:** I will come on to that, because it is an important point in respect of nuance. Forgive me for being general about the views of business at the moment. Have the views of business been sufficiently addressed with regards to the debate about the referendum?

**Professor MacKay:** I would say no. A lot of the views and some of the implications, what it means for businesses, are being lost. Much of that gets lost in the headlines of “So-and-so is for leave” or “So-and-so is for remain”, without really trying to understand what they are responding to.

**Raoul Ruparel:** I broadly agree. There is a lot lost in the headlines. A lot of it is about whether businesses want to back remain or leave; it is not about why they are making those choices. Given that neither remain nor leave is 100% certain, particularly on the leave side, as to what relationship we will have with the EU afterwards, there has not been enough discussion of how different options and different choices affect businesses. There is a lot of nuance underlying how businesses would react to a Brexit and how they would react to a leave vote. A lot of that has been missing in the debate.

**Q4 Chair:** Is it helpful to see a media headline that 300 business leaders have written to the *Telegraph* saying we should leave, and 500 business leaders say we should remain, or is it counterproductive to what we need to be thinking about, in terms of how this will impact on business, future investments, employment or whatever?

**Raoul Ruparel:** It is an indicator, so it helps people who are looking for indicators in how to vote. Again, it could be a number of large businesses on one side and a number of small businesses on another side. It is not really clear how it stacks up. Making a judgment based on the number of people who sign a letter is not the right way to approach this debate, so it can be unhelpful as well. What would be of greater use would be for businesses to more clearly spell out why they are taking certain decisions or certain views. Obviously, that is hard to have on a national level, but there has been too little debate over exactly why businesses want to stay in or to leave and what gains they see from either side. That might help people more.

**Professor MacKay:** I agree with that entirely. On one hand, it is an indicator, but on the other hand it is where a lot of the nuance gets lost. Oftentimes, that can lead to this big business versus small business debate as well.

**Q5 Chair:** Can I push you on the nuances and that distinction that people may have, which is essentially—and I am generalising to the point of parody—that big businesses will be in favour of staying in and smaller businesses will be in favour of coming out? In your experience, what are the nuances? Are there any particular types of business in specific sectors of the economy that generally want to stay in or come out?

**Professor MacKay:** What it comes down to is that a lot of the variables that tend to drive these different responses are things like where the major export markets are. If you tend to be fairly diversified globally, you might be less concerned about a Brexit, just by virtue of the fact that you are diversified globally. JCB might be an example of that. If Europe is a key market for you, particularly if you are a publicly traded company and are worried about your shareholders and what your customers are saying, that tends to drive responses, whereas, if you are a smaller business that may nor may not be exporting to Europe and may not have those types of pressures, the chances are that you are looking at some of the costs that might be associated with things like regulation, which may or may not come from Europe, or UK laws that are based on European regulations. That is where some of these different nuances begin to come into play.

**Chair:** Raoul, is that your experience as well?

**Raoul Ruparel:** Yes. There is a divide around those who make greater use of the single market and who take advantage of it, even within sectors. I take financial services as an example, because it is something that I have researched quite in depth. Often, it is said that the City of London is in favour of remaining in the EU, but there are lots of nuances within that. If you look at the banking industry, and particularly the large international banks, they are very much in favour of staying in because they make a lot of use of the single market passport and passport their services throughout the EU.

If you look at other parts of the financial services industry—take the asset management industry, a large part of the financial services sector in London—they are much more split. Particularly small and medium-sized asset managers do not feel the single market passport works as well for them; it is not implemented properly; and they feel they have a high cost of regulation. Similarly, the insurance industry is, as was hinted at, a globally diverse industry and exports only 15% of its product to the EU. Even within these sectors, there is a huge variance in how they make use of the single market and how they benefit or do not from the regulations that may come from the EU.

**Q6 Jonathan Reynolds:** Much of the debate so far has understandably been predicated on how best to retain access to the single market. From your research, how fundamental to the UK's national interest is retaining access to that single market?

**Raoul Ruparel:** Again, it varies across sectors. We have a very integrated goods market. The single market in goods works well and is very comprehensive. Therefore, access is quite important there. There is precedent for that access, though: if you look at the free trade agreements the EU has struck with other countries, 30-plus trade agreements with 60-plus countries all involve relatively good access for goods, so there is precedence for

maintaining that access and that is quite important. The services sector is more complicated. As I hinted at there, even in financial services where the single market is seen to work effectively, there are diverse views and it does not always work as well for everyone.

More broadly, we do not actually have a particularly complete single market in services across Europe. Unfortunately, that is something the EU could do better; it should seek to have a more comprehensive single market in services. Because it is not complete, because there are still technical and non-tariff barriers to trading services across borders, that means the opportunity cost of access is probably lower for certain services. It is a very mixed picture. Our research shows that, to offset the likely negative impacts to business from leaving the EU, striking some kind of agreement with the EU and maintaining some level of access would be important.

**Professor MacKay:** One of the different variables that drive these responses is why you are locating in a particular jurisdiction. Particularly for foreign direct investment, I would not underrate the importance of the European single market for companies that are looking to locate here, which is one of the reasons why, for example, a lot of the American businesses have come out so strongly in favour of the UK remaining in the EU single market. That is a fundamental reason why they have chosen to locate in the UK, among other reasons as well, of course.

**Q7 Jonathan Reynolds:** What do you both think the minimum price would be for the UK to retain access to the single market, if it was outside the European Union?

**Raoul Ruparel:** When you are getting access to the single market, that automatically means you have to adhere to the standards and regulations of that market. That is very much the minimum. Even if we were outside, any goods or services traded into that market would still need to adhere to those regulations and standards. When you are outside or you just have access, you probably do not have much influence on those standards and regulations. That is an important issue.

There are other issues tied in as well. As we see from certain relationships, looking at Norway or Switzerland, it could be that they ask us to continue free movement of people as a price for access. This is not guaranteed; it would be part of the negotiation, but it is possible and there are precedents for that. There is also a possibility that they would ask for a budget contribution of some form to maintain that access, as again in the case of Norway and Switzerland. It all depends on what level of access you are looking for. As I said, there is lots of precedent for access on goods, where the prices extracted are lower and tend to be the more basic adherence to regulations and standards, whereas, when you start getting into the more complex area of services access, then the trade-offs become more complex as well.

**Professor MacKay:** I would agree with that entirely. I would just add that, in any sort of deal that was struck in the event of a Brexit vote, the services agreement is probably the more problematic one to strike with the EU and it is, of course, of fundamental importance to the UK economy.

**Q8 Jonathan Reynolds:** On that specific point, in almost every European Council report I have seen the Prime Minister give, we always seem to be saying we need to complete the single market in services. Why is it so incomplete, compared to the single market for goods?

**Raoul Ruparel:** It is much more about non-tariff-barrier regulations and regulatory harmonisation, which is inherently more complex than simply free movement of goods between different jurisdictions. There are also very tightly held cultural and historical issues here. If you look at Germany, it has a number of protected professions and protected services, and breaking down those barriers is very difficult. That is then multiplied by 27. You have a huge number of different specific cases of protected services, and that makes it very hard to have that single market. Unfortunately, not every country is as competitive or has as competitive a services sector as the UK. That is why it has proven so difficult, and it will probably continue to prove so in the future.

**Professor MacKay:** I would agree with that absolutely.

**Q9 Jonathan Reynolds:** I have a final question on what I think is a key point, which is the de facto compliance with EU regulations for the UK if we were not part of the EU but wanted to be part of the single market. That is what concerns most people. How does that compare with, say, the free trade agreements that the EU strikes with other countries around the world? How does it ensure compliance with those regulations, because those countries are presumably not compliant with EU directives directly?

**Raoul Ruparel:** The way it is ensured is through a number of things, including documentation on the products you produce. There are what are known as rules of origin, whereby you have to prove that any good or product created in your jurisdiction is essentially from your jurisdiction, not imported from elsewhere and then sold into the EU single market. Along with that and customs declarations, you have to prove that the goods are up to a certain standard, be it environmental or labour. Those sorts of things are proven by the documentation along with the product, I believe. That is the way it would be enforced, I would assume, in the UK sense.

It is different, for example, if you go into a Norway situation, when you are inside the single market; then you have enforcement via the EFTA Court and the EEA agreements. It depends on the exact agreement.

**Professor MacKay:** That is simply part of the complexity of negotiating these agreements.

**Q10 Chris White:** This inquiry is obviously about business views on the EU referendum, but, as you both appreciate, this discussion is wider than our relationship with the EU. We recently had an inquiry on exports and one of the witnesses was Lord Price, the new Minister for Trade. I asked him what impact Brexit would have on BIS. If you would not mind, I would like to read one paragraph from that session. He said, “The simple fact is that we will need to renegotiate with the EU. Theoretically we have two years but we could ask for an extension. We would obviously try to do the best deal that we could to remain in the single market. However, we also have to renegotiate with China, Japan, Canada, America and Mexico. There are 60 trade deals that we would need to do. At the moment, the Department is working on about 20 trade deals and that is fully absorbing them. If we went

up to 60 trade deals, we would have to find extra resource. We would have to bring people in, so it would deflect us.”

The argument, the pieces in the paper, the reporting, the speeches and all those things are very much focused on the impact on the relationship between Britain and Europe. Do you think the debate should be much wider on how Brexit could destabilise our relationships and trade with other countries in the world?

**Professor MacKay:** The complexity, the length of time and the uncertainty that that would create in any transition period from the UK being part of the European single market to negotiating some other arrangement will be of fundamental interest to business leaders and it will have a huge impact. That has been largely lost in the wider debate. All these different negotiations would have to take place; they would all be, in their own way, idiosyncratic and complex; they would consume a tremendous amount of Government resource in doing that; and it would create quite a lengthy transition period while the UK moves to whatever new position or relationship it has with all these different countries. That, of course, would be a major factor in companies looking to invest in the UK, and perhaps even UK-based companies looking at where they are going to locate their various operations.

**Raoul Ruparel:** I would agree. Almost naturally, it has been heavily focused on the UK-EU relationship. We did try to look at this more widely in a recent paper on Brexit called “Where next?”, which looks at both the UK’s relationship with the rest of the world and also its domestic policy on certain issues. Those are also important parts of how businesses would respond to Brexit.

It is not just about what we do with the EU, although that is of paramount importance. It is also what we do with the rest of the world. You are entirely right that these current free trade agreements would not be automatically in place and would have to be renegotiated. That may be a largely technical exercise if both sides—we and the other side—are happy in the current relationship. That would basically mean signing a new agreement with the same terms, but that is not guaranteed; that all has to be gone through. We also have to look at the next stage, which is potentially looking to strike new trade agreements with countries with which we do not currently have them, such as the US, India, New Zealand, Australia. That would be the next step.

While there is a lot of focus on the negatives of Brexit, one of the opportunities is this chance to go out and do deals with the rest of the world. It will take a very long time and it will be very onerous and difficult, but we also have to take account of that. That is part of the decision. At times, maybe there has been a bit too much focus on the UK-EU relationship.

**Q11 Paul Blomfield:** I wanted to ask some questions about migration, but first I want to ask a slightly different question about how you are modelling the impact of Brexit. It is all assuming—I think; correct me if I am wrong—that the single market remains intact. There is a reasonably realistic view, which some leave campaigners have increasingly begun to celebrate as a wider objective, that Brexit would lead to a fragmenting and collapse of the European Union and potentially the single market. Have you given any consideration to that impact?

**Raoul Ruparel:** It is not something that we modelled, as you rightly say. It is an incredibly difficult thing to model, I would imagine. I would not envy the economist who tried to undertake that. There is a concern, which, from my experience, is tightly held around Europe as well, that the impact of Brexit will raise deep political questions about the structure of the EU and its future. In my personal view, it will not lead to this unravelling, at least not in the short term, because other countries are not quite where the UK is in terms of its relationship. This is something that has built up over 30 or 40 years. We are also already quite removed from the EU. For example, there is a big difference between unravelling from our position and for someone who is a core member of the eurozone. There are other things involved there that make it a much larger decision.

That is an outside risk. It is not something we have modelled, but I agree there is a concern around Europe that Brexit would have a destabilising effect on the EU, and no one really knows how that would play out.

**Professor MacKay:** My work has been primarily done on business views and that is not a scenario that is being either widely discussed or even thought about in the wider business community.

**Q12 Paul Blomfield:** Given that it is a possibility, if you were to take a punt on it, do you think it is good or bad for the British economy and British business?

**Professor MacKay:** If I were to take a punt, I would think it is bad for the UK economy and bad for most European countries as well. Effectively, you have the largest single market in the world sitting right here in Europe and, as soon as that fragments, it creates all kinds of complexity and costs. It would not be nearly as attractive an area to focus on as perhaps larger single markets like India, China and other places.

**Raoul Ruparel:** It also involves fragmenting the euro. Breaking up a currency union is a hugely destabilising financial event as well. I think it would be negative for the UK economy. There is also a political question: if you believe that is going to happen—due to Brexit or not—how would the UK want to be involved in that? If we are walking away from it, would we have a say on how that plays out? These sorts of political questions also have to be considered.

**Q13 Paul Blomfield:** I will come back to the question I was going to ask about how far your modelling of the impact of Brexit or the benefits of staying includes agreeing to the free movement of labour.

**Raoul Ruparel:** In the modelling we undertook, we looked at a fairly liberal immigration scenario. We took the view that the UK would likely keep a relatively open labour supply and a relatively open migration policy, albeit it might change the mix. We saw in our modelling that, when you start restricting the labour supply, the model throws up some very negative economic effects. I am not sure if that is entirely representative of reality, but there is consensus across the modelling I have seen on this issue that, when you start restricting the supply of labour, you get larger negative economic effects.

We also undertook a comparative study, more qualitative than quantitative, looking at how other countries around the world approach migration. We found that, over the past 15 years, other medium-sized or large developed economies that have good growth levels and

low unemployment rates have had a higher rate of migration per capita than the UK, despite us having to deal with free movement, taking Australia or Canada as examples. That highlights that this is a global issue in terms of migration flows and has a lot to do with globalisation as well.

In my view and Open Europe's view, even if we are outside, we will probably continue to have relatively high migration for a number of reasons. Business demand is there; there are already reports of skills shortages; we know the employment rate is at record highs; we know unemployment is very low. We are also looking at the fiscal impact in the long term. If you look at the OBR's modelling, the role of migration is quite important in maintaining our lower debt levels and sustaining an ageing population. Those are the sorts of reasons why we would probably end up still having a relatively high level of migration outside.

The mix might change. We can set it so we have more highly skilled migration. We get to choose more closely what types we have and better attune it to the needs of our economy. There is certainly a potential benefit there, but, overall, there would still also be a need for low-skilled migration, and headline numbers might not change as much as is possibly assumed. It also depends, as we mentioned before, on whether this is given as a prerequisite of any deal we have with the EU.

**Professor MacKay:** That certainly resonates with some of the work we did leading up to the Scottish referendum. Business leaders were very adamant that the single labour market is important as well. Raoul is quite right. It probably does not necessarily affect migration in its totality; it just gives more opportunity to customise based on the UK's needs. In all likelihood, there would still be a demand by business to have those sorts of skills and migration patterns, even if they were more tailored.

**Q14 Paul Blomfield:** Do you agree with Raoul's point that it would include some demand for low-skilled migration?

**Professor MacKay:** It could do. This is one of the big uncertainties. There is that potential to tailor it more towards skilled labour. Canada and Australia do that, through a points system, so it gives a little more leverage, but it is an uncertainty.

**Q15 Paul Blomfield:** Given that, increasingly, in the disappointing discourse around membership, the leave campaign is suggesting that departure would enable us to close borders and stop migration, or reduce it to very low levels indeed, what economic impact would that have?

**Professor MacKay:** The UK already has fairly flexible labour markets. When you look at all the different reasons that are behind the success of certain businesses and the reasons why businesses choose places to invest, labour and skills are a big part of that, as well as other things like education, stability and so forth. The idea that you can close borders and expect to have the same economic dynamism is probably inaccurate, to say the least.

**Raoul Ruparel:** It is hard to be precise, because we do not have the exact numbers, but in broad terms we can say, on average, migration is a net benefit economically. Therefore, tightening it would probably come at some economic costs. There are specific sectors that might be hit particularly hard if they make particular use of EU migration. Think of

low-skilled migration in the construction or farming sectors, or even some of the skilled migration in the healthcare sector; there are specific ones that would be hit.

You can also consider this in a broader sense. It comes back to the point of what we are doing with the rest of the world. If we are opening up to low-cost competition from the rest of the world by striking trade agreements with emerging markets, which can deliver economic gains, but doing that at a time when we are also limiting our labour supply and the flexibility of our business, those two effects would be quite a shock for us. It has to be a holistic picture of what we do on trade and immigration together.

**Q16 Peter Kyle:** Quite rightly, the debate is focusing on what Britain gets out of the European Union. I would be really keen to have your perspective on what the European Union gains from Britain's membership, particularly as the Union itself but also as individual member states. Do you get a sense of how they benefit from Britain's membership?

**Raoul Ruparel:** In terms of the EU as a whole, the UK is, first, the most liberal of the EU countries. It brings a very pragmatic outlook and a liberal economic outlook, which has helped shape and drive the single market, maybe not as much as we would like, as we discussed in services, but it has had a profound effect. That has benefited all members. It is also the case that, if you look at the balance within the EU, speaking in crude terms—this is an assessment we did—the more free-trading bloc of the northern countries, Sweden, Denmark, Germany, the Netherlands and the UK, and the more protectionist Mediterranean bloc currently balance each other out in voting terms. There is quite an equal balance between the two. Without the UK there, it gives relatively much more power to the protectionist bloc. It would change the approach to trade regulation. It would make the EU less open if the UK were not in there. There are other benefits beyond business. The UK is one of the two military powers and one of the foreign policy powers that have to be considered.

In terms of the gains for individual countries, they vary from state to state. Some countries have a significant amount of trade and have benefited hugely from the single market, such as Germany and the Netherlands. These sorts of countries are tied in closely and work with our economy. Generally, the biggest gain is the influence the UK has had in making the EU a more liberal and economically sound place to be.

**Professor MacKay:** I would agree with Raoul. The UK adds a bit of a counterbalance to some of the more centralising and bureaucratic tendencies that the EU can have. In addition to that, if you ask diplomats from places like the US, Canada or even China what the value of having the UK in the EU is, most of these different countries see the UK as a gateway into the EU. That works both ways as well. The UK also benefits from and has an interest in being seen as that gateway into the EU. Those flows work in both directions. The EU desires to have more trade with the US, China and other parts of the world. To a large extent, in some ways, the UK is a facilitator of those ambitions.

**Q17 Peter Kyle:** This Committee did a visit recently to Italy. I was very struck, on that visit, by how many people talked about Britain as a partner in tackling the domestic economic challenges that they had in Italy, Italy having a system that sometimes mitigated against reform, liberalisation and the modernisation of their economy, and how strong a

partner Britain had become in that project, using European law and legislation in order to tackle domestic challenges they had within the economy. Is that story more widespread within Europe or is it limited to the way Italy uses Britain within the project?

**Raoul Ruparel:** First, speaking of Italy and the Mediterranean countries, there is a bit of an irony here, in that these were some of the countries that had historically opposed the UK measures on the single market. Now they are struggling economically and coming under pressure to liberalise, and they are essentially looking for new ways to boost demand. This liberalisation offers that. Some of them, in my experience, are becoming converts to the UK agenda. As you said, because of their at times problematic national institutions, having the EU setting the agenda and the UK helping to drive that helps apply pressure from above and drive this liberalisation. That is definitely something I have noticed in Italy, Spain and even Greece at times. These countries have been converted, to an extent, and they are coming more on board with the UK's agenda there.

There is also a bit of a confluence. The UK has always wanted the eurozone to make the institutional changes and take the steps necessary to solve its broader crisis. As long as they take account of the UK's more removed position and do not affect the rights of non-euro states, the UK is keen to see that happen. That fits more with the agenda of an Italy or a Spain than it necessarily does with a Netherlands or a Germany, which are quite reluctant to take these steps at the moment for their own domestic and very valid political reasons. There are some strange alliances emerging around these issues.

**Q18 Peter Kyle:** Professor, can I change the subject slightly? One of the areas of focus in the debate is the fact that this started off as an economic project and has become increasingly a social project as well. In your role as professor dealing with strategy, when we talk about the economy domestically, the links between social and economic are absolutely profound, interwoven and interconnected in a very, very solid way. Does it not seem logical that, if we are to build a long-term economic project across a continent, the social has to come into it in some way? Is that inevitable?

**Professor MacKay:** I think it is inevitable. There is a debate about how much of that is localised. In the EU, even though it is a single market, there is a tremendous amount of variation in views politically and socially. How much of that is localised? You need to look at the particular model that the UK has built, around having both social configuration and economic configuration, and how much of that you can superimpose across all countries. I would be a bit sceptical about that. You are right to say that, yes, society and business economics are intimately linked, but how much of that is localised variation within a larger unit and how much of it can be superimposed across? In some cases, that may be the case, but in many cases it is going to be very contextual.

**Raoul Ruparel:** I agree with what was said. If it is to happen, it is something that would have to happen more organically than be forced.

**Q19 Peter Kyle:** Would you say it is being forced at the moment or that it has happened organically?

**Raoul Ruparel:** It varies from time to time. There are areas in EU regulation and legislation that are classified as single market but do go beyond the single market. Sometimes that is necessary, but oftentimes it gets into political and social realms where

maybe it is not needed. Given the political backlash we are seeing more broadly in Europe, forcing this kind of agenda would be very risky.

**Q20 Peter Kyle:** So Jean-Claude Juncker's recent comment about us needing to focus on the big issues and less on the smaller ones is probably welcome in that regard.

**Raoul Ruparel:** I think so. To be fair to Jean-Claude Juncker and his Commission, they have made a fist of trying to reduce the level of regulation and legislation coming out of the Commission. They have tried to focus more on these bigger institutional questions, such as the migration crisis and the eurozone crisis, than on the little stuff. That has always been a welcome approach, from Open Europe's perspective and, I dare say, from the British perspective. We want Europe to deal with the big, cross-border issues, but the smaller things that can be handled domestically should be handled domestically.

**Professor MacKay:** In addition to that, you are seeing quite a bit of fragmentation across Europe itself, so, by focusing on the larger issues, in a sense they are also addressing what is becoming an increasingly fragmented political spectrum across Europe and within countries in Europe.

**Q21 Chris White:** Professor, I wanted to follow up on one of your answers to Peter. You said that Britain acts as a counterbalance. If that counterbalance was taken away, what would happen?

**Professor MacKay:** If I were some of the more liberalising elements of the EU, I would be worried. The UK is an important ally for those. It comes back to what I said before: Europe itself is becoming increasingly fragmented. If you look at how much faster the UK has bounced back since the financial crisis relative to a lot of our European counterparts, it is a model that is clearly having some success. That is recognised within many different spheres across the EU. The UK, in that sense, is an important partner. I suspect, even in terms of the renegotiations that the UK has, possibly rightfully, tried to take on to reform the EU, privately there would be an awful lot of support for that in different parts of the EU.

**Q22 Amanda Milling:** I have a couple of questions around the Scottish referendum and comparisons there. You both mentioned earlier on that you did not feel there was enough information for businesses currently in terms of in and out and what that would look like. I am just interested to know how this compares to the run-up to the Scottish referendum. How is it similar or different and what does that mean over the next month?

**Professor MacKay:** It mirrors the run-up to the Scottish referendum. In terms of business views, they are almost identical to what we found in the Scottish referendum. The most recent British Chambers of Commerce survey bears out the framework that I developed from what happened in Scotland. The one notable difference, of course, would be that multinationals are far more positioned in the EU debate than they would have been in the Scottish debate, for a whole bunch of different reasons. So views very much mirror it. Across businesses, there will be a lot of variation in how they are planning for it; that will range from minor discussions at board level, to scenario planning, to some that will be building in contingency plans. Some multinationals work as internal markets anyway, so

plants that are bidding on business in the UK will be competing with plants in Spain or France, and this will be factored into that decision-making.

By and large, what we found in the Scottish referendum was that business was not really attuned to it, probably right up until the polls began to close. Once the polls began to close, you started to see the debate within the business community beginning to heat up quite a bit. The closer we got, the more business became part of the wider political debate as well, as they were beginning to release their annual reports, for example, where they have to identify the risks. Mark Carney recently got himself into a little bit of difficulty when the Bank of England released what the big risks are. Well, that is something they are obligated to do. The more these things began to be released, the more it was picked up by the media and the more the debate really picked up. In terms of perceptions and how business is responding, it was almost identical in Scotland as in the wider EU debate.

**Q23 Amanda Milling:** To take that a bit further, in the run-up to the Scottish referendum, as I remember it, quite a lot of the larger organisations would come out and describe their position. What impact did that have on smaller businesses in their decision-making? Did any views shift during that period?

**Professor MacKay:** Let us take, for example, some of the small businesses that were pro-independence. Many of those businesses—again, it comes down to what their business logic is—were looking at the costs associated with the UK; they might have been looking at a licensing fee that was the preserve of Westminster, but was having some sort of negative impact on them. They were looking at it from their specific business case. Smaller businesses, because many of them are not necessarily exporting to the rest of the UK or even to the EU, tended to answer based on where their trade was, where they were based and what some of those costs were.

This is where there is some difference between the UK debate and the Scottish debate. If you are a large business in Scotland, the chances are a big part of your market is in the rest of the UK. Things like double regulation, possibly being domiciled in a jurisdiction that was not where most of your UK market was, all came into play, but again there was variation depending on whether they were exporting globally. Even if you were domiciled in Scotland and there was a possibility of independence, if your business was fairly diversified globally, you tended to be a little less concerned about the prospects of independence. Those views tend to be echoed in the wider EU debate as well. Businesses that are large and fairly diversified globally might even be pro-leave or might be ambivalent, whereas those that are exporting heavily to the EU or are located here, because of access to that single market, will probably be very firmly within the remain camp.

**Q24 Richard Fuller:** Professor MacKay, you are a professor of strategic management at the business school, so may I ask you a question about your experience with business forecasts? How much would you bet on a 15-year forward forecast of GDP: 100 quid, your home, your country?

**Professor MacKay:** I am a guy who does a lot of scenario planning. Forecasts are oftentimes best guesses. The longer out you are, the more different things can happen, the less likely they are to be accurate.

**Q25 Richard Fuller:** So you would not bet.

**Professor MacKay:** I would not bet on a 15-year forecast, no.

**Q26 Richard Fuller:** Not even 100 quid?

**Professor MacKay:** Not even 100 quid.

**Q27 Richard Fuller:** Let alone the future of your country?

**Professor MacKay:** You can get a view on direction of travel. A forecast is a single point prediction. It is saying that GDP is going to be such and such a number at such and such a date. The further out you are, the less likely that is going to be accurate, but you can get a broad direction of travel and say that, broadly speaking, these are likely to be some of the different consequences.

**Q28 Richard Fuller:** The point is, when push comes to shove, you are not prepared to bet anything on it, are you? Maybe I want to ask another question, Mr Ruparel. The unemployment rate in Japan is 3%; in the US, it is 5%; in the UK, it is 5%. In the eurozone, it is 10%. We have a big problem in the UK with youth unemployment, which is at 16%, but in France, it is 25%; in Italy, it is 43%; in Spain and in Greece, it is one in two. Why is the eurozone such a job-destroying machine and why should we hook ourselves to it?

**Raoul Ruparel:** I will make a point on the forecasts first, and then come to your next question. There is an important point to make about this kind of economic forecasting. We are not saying we know exactly what GDP will be in 15 years. The point of forecasting around Brexit is to ask: "How does a policy choice deviate from a baseline?" There is a very big difference between that and asking: "How do all the factors in the economy play into the resultant GDP in 15 years?" That is impossible to predict; I will agree with you on that. However, we can look at what happens if you change a certain policy, change certain barriers to trade, and how that deviates from the baseline.

**Q29 Richard Fuller:** How much are you going to bet on it, Mr Ruparel? That was my question. Are you going to bet £100, your home or your country? Professor MacKay has been quite clear; he is not prepared to place a bet. I agree with him. What do you say?

**Raoul Ruparel:** That is for people to decide.

**Q30 Richard Fuller:** What would you do?

**Raoul Ruparel:** I will talk about our forecasts. I am very confident in our forecasts that say, if you look at the long-term effect of Brexit, leaving the EU, introducing a customs border, introducing less access to the market, there is likely to be a small negative economic shock from that. I am fairly confident in that. Then you look at whether there are opportunities to offset that as well, in terms of being outside

**Q31 Richard Fuller:** This is why people have diminishing trust in the forecasters, the big international institutions, because, when push comes to shove and I ask you, you will not bet anything.

**Raoul Ruparel:** I have bet my organisation by making the forecast.

**Richard Fuller:** The reason I ask the question about unemployment is because that is real people's jobs and real people's futures, and, in terms of youth unemployment right now, half of the young people in many eurozone countries are out of work. This referendum is asking the United Kingdom to tie itself to a club where 26 of 28 are either in or going to be in the eurozone. They have a right to know about their future, do they not?

**Raoul Ruparel:** Agreed. I was making the point that there is a misunderstanding of forecasts and I was trying to clear that up. Getting on to the unemployment point, yes, the eurozone is a disaster. My organisation originally grew out of the Business for Sterling campaign, which was influential in campaigning against the euro and keeping the UK out of the euro, so I hope you will give us credit for our point of view on that. Yes, there are huge problems in the eurozone; it is an economic disaster. They need to take steps to solve that. The UK leaving the EU will not reduce our economic exposure to the eurozone. In leaving the EU, we will continue to trade quite heavily with the eurozone as our closest geographical neighbour. We can diversify elsewhere, but that will happen over a decade or 15 years.

If there is an economic downturn in the eurozone, it will impact us whether we are inside or outside of the EU. They are our closest trading partner and, because trading links will remain, which is a positive view of Brexit, I do not think there will be any gain in terms of reducing our exposure. If we are taking a vote on the fact that the eurozone is a disaster, it is a disaster, but to me it does not make that much difference whether we are in or out, in terms of how much it impacts our economy.

**Q32 Richard Fuller:** Can I turn to the Prime Minister's renegotiation, which is, of course, what all of this is about. The Prime Minister made a statement in the House of Commons, saying, "I believe Britain will be stronger, safer and better off by remaining in a reformed European Union." How has the Prime Minister reformed the European Union in his renegotiations?

**Raoul Ruparel:** I can give Open Europe's take on the renegotiation. It is a step in the right direction, in the sense that it signifies where the UK is and where it is not. There is better understanding around Europe that we are not heading for ever-closer union, that we do not want to be part of the euro or any centralisation. There are certain safeguards that help on the margin. However, it is not the transformative deal that was on offer and it is not a huge structural change to the UK's position. That is our view.

**Professor MacKay:** My expertise is not within European reform, but it is in the way a lot of businesspeople perceive these different issues. If there is a tremendous amount of uncertainty after the vote on the 23rd, it is likely that the UK will have a drop in FDI. Whether Europe is a mess or not, it is still a huge single market. There is a pretty good chance, which I would be willing to take a bet on, that you see a drop in GDP just by virtue of the fact that a lot of investment decisions that may have come to the UK would go elsewhere.

**Q33 Richard Fuller:** The Prime Minister's words were "in a reformed European Union". What would you put your finger on as the key reforms the Prime Minister has achieved that are beneficial to the UK remaining?

**Professor MacKay:** Reformed or not, businesses will tell you that they are here because it is a major single market.

**Q34 Richard Fuller:** Has the Prime Minister achieved any reform of the European Union, in your opinion, in his renegotiation?

**Professor MacKay:** It is not my area of expertise.

**Q35 Richard Fuller:** So you do not know.

**Professor MacKay:** It is just not my area of expertise.

**Q36 Richard Fuller:** So you will not say or you do not know.

**Professor MacKay:** I do not know, but it does not matter either, in terms of perceptions from business on the debate.

**Q37 Richard Fuller:** Can I ask you another question about perceptions of business? Again, words do matter. The Prime Minister said that he had he had "permanently protected the pound" and that the UK would "never face any discrimination for being outside the eurozone". Are those words—"permanently", "never"—the appropriate words to use for communicating a message to businesses?

**Raoul Ruparel:** There is an open question about how effective the safeguards he secured in renegotiation will be. There are different legal analyses, some of which have been published by various Committees from this House. We will not fully know until it is tested. You can see that, legally, after you go through the machinations of registering an objection to any legislation that you think is discriminatory via the safeguard mechanism that has been set up, it can probably be ignored. It does introduce new political and certain legal hurdles. There are some safeguards in there, but we do not know the extent of them until they are tested. That is what the legal analysis shows.

**Q38 Richard Fuller:** So you would not put much weight on "permanent" and "never"?

**Raoul Ruparel:** It is being overly categorical about something that is yet to be tested.

**Q39 Michelle Thomson:** I have a question following on, probably not surprisingly, about Scotland. We see the polls there showing a relatively—at the moment—clear differentiation in voting intentions as compared to the rest of the UK. Of course, it remains to be seen, because there is only one real poll, and we know that.

Following on, then, to the potential scenario where the rest of the UK votes to come out and Scotland votes to remain in, which presumably includes a business element, in discussions I have had with some senior business leaders, they again are adopting a pragmatism that suggests that Scotland finding a way to remain in is not the end of the world for them, because they would then consider headquartering their businesses in Scotland on

the basis that it continues to give them access to these markets. This is quite detailed scenario planning, which you alluded to earlier. Have you encountered in your travels any thinking about the implications of this kind of dichotomy at UK level?

**Professor MacKay:** When we did the interviewing in the lead-up to the Scottish referendum, the EU referendum also featured very strongly in a lot of the responses. There were a number that said it would present an interesting scenario, effectively, were Scotland a part of the EU and the rest of the UK out, in terms of where businesses located in the rest of the UK might decide to direct future investment decisions. There are a whole lot of different factors that have to play out there as well. What is the business environment like in Scotland? What is the tax rate? What is the transition to whatever this new state of play and relationship with the EU and the UK would involve?

**Q40 Michelle Thomson:** Is it fair to say, at this point in time, that we should watch with interest and there is open-mindedness to that? Is that how you would assess it at the moment? Obviously there is a devil in the detail, which is what you are alluding to.

**Professor MacKay:** What happens in the way businesses handle these sorts of things is that some might be doing some planning; some might not be at all, but it will be a “wait and see what happens”. Once there is the vote, there will be a small period of time where there is still a bit of “wait and see”. What they will want to see is not attempts to forecast the future, but simply a direction of travel. Based on that direction of travel, they will then begin to decide where, for example, they are going to make future investment decisions. For example, if there were a vote to leave and it looked like there was going to be a very fast free trade deal with the EU, then some of the consequences of a Brexit vote might be mitigated. If it were looking like there would be quite a prolonged negotiation and a period of uncertainty as that transition was being made, at that point, once they determined what that direction of travel was, they would begin putting into play some of their contingency planning. It would begin to filter through to some of their decision-making on investment locations and where they put their money and resource. That would begin to play out over time. Of course, what Scotland did would be a factor among many they would be considering.

**Q41 Michelle Thomson:** As a follow-on question from that, do you at this stage see any difference in terms of how business in business in Scotland is looking at the debate as a result of the Scottish independence referendum? In other words, would you see that the argument and discussion is more mature or about the same? Do you see any effect, really, as a result of the Scottish referendum, on how businesses are engaging in their dialogue?

**Professor MacKay:** The views mirror the rest of the UK in Scotland, by and large, and probably right down to whether it is a small business that has a fairly local market versus larger organisations that might be exporting. The views are more or less the same. I am not convinced that the views represent the overall narrative in Scotland; the overall narrative has very much been captured by remain. There is more diversity of views once you get into the idiosyncrasies of the different businesses and different business leaders. Certainly, the narrative has been a little more consistent in Scotland than it has been in the wider UK.

**Q42 Chair:** Gentlemen, I would like to finish on regulation. To what extent is regulation derived from Europe weighing down British business?

**Raoul Ruparel:** As you may be aware, Open Europe has undertaken quite a lot of work in this area. We looked at the top 100 costliest regulations from the EU and found that they amount to a recurring cost of around £33.3 billion per year. However, they come with an associated benefit of £58.6 billion.

Our view is that the benefit is overstated for a number of reasons. Some 75%-plus of that benefit comes from just three regulations: specifically, a big chunk comes from the environment and climate change package, which was assumed to be based on a global deal to tackle climate change being struck in 2008/09. That clearly did not materialise and therefore the benefits of that regulation have not materialised.

Combined with other concerns about the benefits, which we have spelt out on our website and papers in this area, that makes us think the benefits are overstated. The question of what would change for business, after Brexit, is also important. We looked at this as well and found that a feasible deregulation—again, this is subjective; it is Open Europe’s view—of what could potentially be removed post-Brexit would deliver a saving of around £12.8 billion per year.

**Q43 Chair:** What would likely be removed in terms of the regulatory burden? Are there any specific examples that you can show us?

**Raoul Ruparel:** Sure, I can go into more detail. We found three broad areas that have potential for deregulation. The first would be social employment law. That is things like removing the Agency Workers Directive which disproportionately hits the UK, given that something like 70% of the agency workers in the EU work in the UK; so it disproportionately affects us. Removing parts of the Working Time Directive in terms of on-call and rest restrictions is also something that could be possible. Another area was the environmental side: specifically scrapping the renewables targets is one option, which is something that is coming into place with the EU anyway from 2020 onwards. Broader changes in the environmental approach are also possible.

On financial services, certain regulations, such as Solvency II and parts of AIFMD and MiFID, could be scaled back at least for those who do not want to or do not make use of the single market passport. The broader point is that there are some gains in deregulation, but they may not be as large as always assumed. A 0.7% of GDP boost is not insignificant, but it is not enough to offset some of the other negative effects that we have found, at least not alone. We also see that these sorts of issues—social employment law, environment and financial services—are very political areas; regulation of these areas is tightly fought over. It is therefore unclear which way the political support would go and whether there is a willingness in this country to deregulate those areas or not. That would be a political decision for any post-Brexit Government. These are tough choices. The point that has to be made is that they do not come easily and there are trade-offs involved.

In terms of broader competitiveness, if you look at where the UK stands, we do very well in most measures of things like labour market competitiveness and we rank second in the OECD on product market regulation. We are generally seen as a competitive economy by most global indices and comparative measures.

If you look at the areas where we do less well in terms of these comparisons, they are areas such as our investments, certain parts of our education system, healthcare system and infrastructure; these things do not have a huge amount to do with the EU and have been longstanding issues in terms of our competitiveness. They need to be improved, but it is not clear that they could not be improved inside the EU, or that the EU is what is making us less competitive.

There are plenty of pointless and unnecessary regulations that come out of the EU, but the real costs are ones where there are big policy shifts or ones that disproportionately impact the UK. Therefore, if we left, the gains to be had would have to come from policy changes. These would involve political choices, and that is up to the post-Brexit Government to decide.

**Professor Mackay:** I would add that all business leaders will have a view on which regulations benefit them and which are costly, but what they all hate is any regulatory uncertainty. They like to know what the regulations are so that they can deal with them.

If you go through a period of prolonged uncertainty where they are not sure what the regulatory framework is going to look like, then there are costs associated with that uncertainty. Those are the costs that filter into their decisions on where they want to invest.

**Q44 Chair:** Gentlemen, thank you very much for your time. I think I speak on behalf of the whole Committee in saying that that was a good opener in terms of our inquiry into the EU referendum. We are very grateful for your time. Thank you very much.

### **Examination of Witnesses**

*Witnesses:* **Paul Nowak**, Deputy General Secretary, TUC, **Josh Hardie**, Deputy Director General, Policy and Campaigns, Confederation of British Industry, **Mike Spicer**, Director of Research, British Chambers of Commerce, and **Lee Hopley**, Chief Economist, EEF, gave evidence.

**Q45 Chair:** Thank you for attending the Select Committee. We are very grateful for your time. Could you tell us who you are and which organisations you represent, for the record?

**Lee Hopley:** I am Lee Hopley. I am Chief Economist at EEF, the manufacturers' organisation.

**Mike Spicer:** I am Mike Spicer. I am Director of Research and Economics at the British Chambers of Commerce, which is the national association for accredited chambers of commerce in the UK.

**Paul Nowak:** I am Paul Nowak. I am the Deputy General Secretary of the TUC. We represent 52 affiliated unions. We represent just short of 6 million workers, right across the economy.

**Josh Hardie:** I am Josh Hardie, Deputy Director General at the CBI.

**Q46 Chair:** Starting with you, Lee—but it is a question to you all—could you summarise your organisation’s position regarding the referendum?

**Lee Hopley:** EEF surveyed its members last autumn. A majority, 61%, are in favour of remaining in the EU; 5% want to leave; 10% are indifferent; and the remainder were split between not having an opinion yet and not being prepared to take a corporate view. We see that as giving EEF something of a mandate to be positive about the UK’s relationship with the rest of the European Union and to speak to the advantages that many of our members have indicated to us that they see as coming from that relationship.

**Q47 Chair:** The supplementary question, which I will ask all of you, is: how did you arrive at that position? You surveyed members and found a clear majority. Is there any distinction between large, small, particular sectors of manufacturing? What is the message that is coming out of your survey?

**Lee Hopley:** I should add that the survey was one part of the engagement that we had with our members. We have been in regular dialogue with manufacturers since the famous Bloomberg speech from the Prime Minister back in 2013. We had a number of roundtables exploring members’ views on Europe, issues that they had, advantages that they saw of being part of the European Union; and we have not come across a significant difference between different sectors or sizes of company.

Part of that speaks to the nature of EEF’s membership. We have a lot of mid-sized and larger businesses in membership, and not too many micro-businesses; 90% of our members are exporters and the remainder probably export indirectly through supply chains in the UK, so we do have a very export-focused membership. However, we are not seeing a huge distinction between large, medium or small-sized businesses.

**Mike Spicer:** As an organisation, we are strictly neutral. We are not campaigning for either position. This comes from two things. The first is a longstanding commitment to political neutrality, which goes beyond this referendum and extends to the referendums that we have had in the past, such as in Scotland two years ago and the AV referendum before that, as well as the neutrality that we have across general elections. That is a standard policy that we have.

The other element is that we see divisions in our membership that are very real. Overall, in the last poll that we will do before the referendum vote itself, we recorded 54% of the 2,000 or so respondents to our survey across the UK as saying they would vote to remain in the EU; 37% said they would vote to leave.

**Q48 Chair:** That is 2,000 respondents out of a potential population field of how many members?

**Mike Spicer:** We have around 70,000 direct members. I should also say that we have been regularly polling our members since around 2013, roughly once per quarter. We have stepped that up a little bit in the last six months. On top of that, we have regular engagement through focus groups and, indeed, we have just come to the end of quite a long period of doing focus groups in every region and nation of the UK.

There are a variety of things, but we do see divisions that hide beneath that top-line figure. Some of them have already come out through the previous session, and we see the same thing. We definitely see a sliding scale of commitment to remain in the EU, based on business size; the lowest levels of support would be among the smallest businesses and the highest among the largest. We see splits on exposure to international markets, so the most pro-EU of companies are those that export to the EU alone. The least pro-EU of companies are the ones that either do not export anywhere at all or that export outside of the EU only.

We also see very real differences in geography. This is a point that was brought up in the last session, but one of the things that we have seen is that the most pro-EU of the regions—and this has a long history to it—would be London, Northern Ireland and Scotland; the least would be the West Midlands. There are very real geographical differences. You see some parallel with the public opinion polls, and we do not take a view on specifically why that is, but those patterns of exporters versus non-exporters, and big versus small, are fairly uniform across the country.

**Paul Nowak:** From the TUC's perspective, it is important to say that there is not one homogenous view that represents 5.8 million people. Of our national unions, three are backing Brexit. In terms of those unions backing remain, they represent just over two-thirds of our affiliated membership; over 4 million members are in unions that are formally backing remain. There will also be a number of unions that have not taken a formal position at all.

Whichever position the unions have taken, I would stress that they are democratic organisations and have done that through democratic processes, whether those are conferences, their national executives or, in some cases, direct consultation with members. UNISON, our largest public sector affiliate, went through a very extensive consultation exercise with its branches and members directly.

For the TUC as an organisation, we have long been supporters of a social Europe and, through our democratic processes, we have a general council that represents unions across the country: unions large and small, from a few hundred members to over a million. We have a very clear mandate from our general council to talk about the risks associated with Brexit and what it might mean for jobs, investments and employment rights in particular.

**Josh Hardie:** We have undergone a similar process to our colleagues in BCC and EEF. We have done a lot of consultation with our members, through our committees and roundtables, to get a qualitative feel, but we have then also done a survey of our members to understand their views in more depth.

The results are consistent with other business surveys. 80% of our members overall want to stay in the EU, with only 5% voting for leave, so 15% are unsure. There is some variation by sector, geography and size, but not massive. If you look at size, it ranges

from 80%-plus down to 70% as you get smaller. We see that the less exposure our members have to European markets—

**Chair:** That is the big criterion, is it?

**Josh Hardie:** There seems to be a correlation there, although exposure in itself is a complex thing to understand, because of complex supply chains. Similarly, the lowest response we get in England is West Midlands, which is down to 69%; however, in other areas like London, we get up to 90%. There is variation, but a very consistent theme.

We have, because of that, a very strong mandate from our members, not to register as a campaigning organisation, but to present their voice and views in a balanced way. That naturally lends us to a more positive argument about the impacts of Europe.

**Q49 Jonathan Reynolds:** I have a couple of questions on the single market. What are your views on the proposed alternative models for the UK's relationship with the EU if we were to leave and for the ability of those models to secure access to the single market, and the relative costs and benefits of doing so?

**Chair:** That is an easy exam question to start with.

**Lee Hopley:** This is not something that we have investigated fully. We have spoken to our members a great deal about how they view the trading relationship with the European Union at present. They see it as a big advantage for their businesses and think it is important in terms of attracting inward investment. Being part of the single market is good for first-time exporters because it is an easy first step into exporting, which is what our economy is in desperate need of at the moment.

There are still some shortcomings. We do not have the fully functioning single market in services, which might sound odd coming from a manufacturer's organisation, but, increasingly, that is the sort of business model innovation that we will see from modern industry. It is not just selling products; it will be selling services, so there are potentially opportunities to deepen the single market. As for any trading arrangements in the event of a vote to leave, the feedback that we are getting from our members is that there is not a unified vision of what that would look like. We are not getting consistency of message on the leave side. The extent to which having free trade and access to the single market, and the extent to which we would even have an appetite to negotiate free trade deals with the rest of the world, would only become obvious to members over a period of several years.

**Mike Spicer:** I agree with large parts of that. The problem is that, from the focus groups we have done across the country, we get a sense, when we talk about the single market, that a lot of businesses do not have a single concept in their heads. If you are a services company, the thing that is important to you is having an in-market presence, so things like tariff barriers, for example, are not going to mean a great deal to you if the way that you conduct your business is by setting up an office in France and you are delivering services direct to the public. However, if you are in automotive engineering, the issues around customs requirements and tariff access are very pertinent to you. When the alternative models have been put out, it is quite a reductionist way of looking at it. Most businesses would expect, certainly from what I have heard, that any post-Brexit deal would have to

take account of the difficulties and the opportunities that industries have that are very different to each other.

**Paul Nowak:** There is an issue about the premise of the question. My starting point would be that our relationship with the European Union at the moment is known. We do not know what a future relationship would look like and what model we might end up with. If we look at the situation now, there are 3 million to 4 million jobs associated with our trade with the EU. You can take those figures with a pinch of salt; there is a difference between 3 million and 4 million, but it is absolutely clear that there are millions of jobs inextricably linked to our relationship with Europe, at the moment. Some of those jobs are in our most productive, highest value-added, most highly skilled sectors, whether that is automotive, aerospace or chemicals—45% of our exports go to the European Union at the moment. Nearly half of our foreign direct investment comes from Europe, so it is the difference for us between the known of our relationship with Europe at the moment and the unknown in the future. Nobody knows what the impact of Brexit is going to be. What we do know is that it is going to create uncertainty, and uncertainty potentially impacts upon business investment decisions.

**Josh Hardie:** Again, I would echo a lot of that. It is important for us to listen to what our members actually really like about the European Union. Although there are challenges, there are a lot of benefits. Clearly, access to 500 million consumers—the most affluent and large consumer base in the world—is the primary benefit. We have heard talk about regulation previously. There are some benefits, particularly for medium-sized businesses and small businesses, to being able to do things once for 27 markets and having that consistency. For some, the freedom of movement and the speed with which you can fill skills gaps is very important. Something that is often overlooked is that, for a lot of businesses, particularly for SMEs and innovative start-ups by young people, this sense of openness, collaboration and confidence across Europe is a really important thing.

When you look at the alternative models, it is hard to see a model that replicates all of those benefits. Some might be closer than others, and some are potentially quite disastrous, but there is no evidence that there is a model that gets you there. A lot of our members are saying, “Why would you change it? There are things to fix here but it is working very well. None of the models add up. Why go for a less good model at the same time as injecting massive uncertainty into the market?”

**Q50 Chris White:** My question is to you, Paul. You mentioned three issues, which were jobs, investment and employment rights. I do not think you sat in to listen to the last session, but one of the responses we got was that, if we left Europe, we would be able to abolish regulation. I just wondered what you were specifically concerned about in terms of employment rights if we were to leave Europe.

**Paul Nowak:** That is a big question. I sat in for some of the last session. The first thing to say is that I do not believe, if Britain voted to leave the European Union on 23 June, that on 24 June all the employment rights derived or underpinned by European directives or legislation would disappear, but we would certainly be worried about the impact on things like working time, paid holidays, information and consultation rights, family-friendly rights, and rights around collective redundancy and parental leave; there is a whole list and

I will not go through all of them. These are rights that are underpinned by European legislation.

I would have a couple of concerns. First, if I look at the direction of travel in terms of what has happened in the last five or six years in this country, we have seen a steady erosion of some of our key employment rights. We have seen the introduction of fees for employment tribunals. We have seen the extension of qualifying periods for unfair dismissal. We saw the introduction of a scheme that would allow workers effectively to trade their employment rights for shares, which not only we but a large number of individual employers and employers' organisations were concerned about. I would be worried, looking at that direction of travel, that some of the key employment rights I talked about before would be undermined.

Priti Patel, who is a Minister in the Department for Work and Pensions, just described some of those key employment protections as a burden, and I think that was the description used in the last session as well. I would not see fundamental rights to protect people at work as a burden. In any market, you need to have labour market regulation. Some of those employment rights have been absolutely fundamental. As an anecdote, when I was a young shop steward 24 or 25 years ago, we used to do a training exercise where we went through which rights were underpinned by law—paid bank holidays, the right to a paid holiday and so on—and, actually, none of those rights were underpinned by law. Now, things such as four weeks' paid holiday and paid bank holidays are underpinned by European legislation. I am sure there would be differences of opinion on this panel about the balance of employment protection and regulation, but I think they are fundamental rights and ones that our members and the people we represent at work think are very important.

**Q51 Chair:** Can I just follow up on that, because it is an important point? It is a question to you all. There is obviously an inherent tension between making sure that there is good employment protection and greater flexibility in the labour market. As it currently stands, where we are now, is the balance about right, both from the perspective of the worker and from the perspective of a business? I will start with you, Paul, but I am interested in everyone's views.

**Paul Nowak:** I do not think the balance is right, Chair. We have been pushing very hard, as have unions across Europe, for a renewed impetus behind social Europe. We have real problems with the way things like the Posted Workers Directive, for example, would be applied, and we have real problems with the way that European directives are applied in this country. The one thing I would say, though, is that the rights derived from Europe do not drop from the sky; they are subject to a lot of negotiations between the social partners and between Governments in Europe, so, while I would like to see those rights strengthened and I think that that is an important debate going forward, nobody should think that those rights have been won lightly.

The final thing I would say on this is that, while I do not negotiate trade agreements and I do not negotiate at a European level, I have negotiated with employers and I occasionally negotiate between unions, and I think that our ability to influence that framework of employment rights, whichever way you want to go, is far better served being within the European Union rather than being a voice outside trying to influence things.

**Q52 Chair:** Josh, would you have a similar view? Are businesses saying the same things as trade unions on this?

**Josh Hardie:** It is interesting. The CBI has a history of challenging what we feel is unhelpful regulation but supporting helpful regulation. We are quite strong on this. If you look at the balance of regulation that is coming from the EU at the moment, it is relatively balanced. There are some areas, such as the Working Time Directive, where we have an opt-out and where we need to continue to be careful. Overall, there are not many red flags. Interestingly, more of our effort and discussion at the moment is on domestic regulation. Again, it is an illustration that this spectre of huge European regulation coming down and disappearing is not quite true; a lot of it is domestic and a lot of the challenges are at a UK level.

**Q53 Chair:** Lee, what is the manufacturing sector saying on this?

**Lee Hopley:** One of the frustrations with Europe is around the burden of regulation. Manufacturers have had to deal with an awful lot coming down the track over the last 10 years or so. That flow seems to be tailing off, and we welcome the fact that there is more focus within the Commission on reducing regulation, so that is potentially positive going forward.

There are frustrations with certain bits of regulation, and it is certainly not just on the employment side; some of the regulations around things like REACH and the EU Emissions Trading Scheme, for example, are also impacting on competitiveness in the UK and across Europe. However, our members are pragmatic. The EU does not have a monopoly on poor regulation. As Josh just mentioned, there is plenty that we do not do sufficiently well at home that we could point to as a source of frustration for businesses, which impacts on their ability to export and innovate as well.

**Q54 Chair:** I asked the Prime Minister this in the Liaison Committee. Would we have been able to save the UK steel industry had we been out of the EU?

**Lee Hopley:** It is not obvious to me that the answer to that question is yes. Trying to work through some of the scenarios, it is not obvious that the outcome would have been significantly different.

**Q55 Chair:** Paul, what is your view?

**Paul Nowak:** I do not think the position we have arrived at in terms of the UK steel industry would be impacted positively by us being outside of the European Union. I will give you a couple of reasons why I think that is the case. If you look at some of the big challenges facing the UK steel industry, the dumping of Chinese steel would be preeminent amongst those. The UK Government have actually played a blocking role in the EU, in terms of the lesser duty rule, so there is the role of the UK Government there. You can think about other big costs for the steel industry, such as the impact of carbon and environmental taxes. The German Government spend €6.4 billion a year to support energy-intensive industries. In the UK, we are aspiring to spend £400 million. There is nothing, within the framework of the European Union, stopping the Government doing

more, in the here and now—likewise on industrial policy—to support the UK steel industry, and we are beginning to see that coming through.

**Q56 Chair:** Mike, going back to the original question about that inherent tension, is the balance about right?

**Mike Spicer:** I would agree with what Lee and Josh said, but I just wanted to add one more thing, which is to do with the perceptions. The strong sense I get, on this issue around whether the social policy employment regulations coming from Europe are right or wrong, is that judgments from the European Court of Justice on things such as holiday pay seem to strike out of a clear blue sky, with almost no warning. Remember that, for Europe-watchers, those kinds of ongoing court cases may be of interest, but for businesses they sometimes come out of nowhere. Some of the most vocal challenge we have had from our members has tended to be on issues like that, rather than the other issues that we have discussed across the panel. There is genuinely an issue there, both real and perceived.

**Q57 Richard Fuller:** The Chairman asked you for the position of your organisations' members on the referendum. Ten years ago, we were discussing the euro; maybe you could just say whether your organisations had a view on the UK joining the euro.

**Lee Hopley:** EEF has a long tradition of surveying its members, and we did on the euro twice, I believe, back in 2001 and in 2002. We did not find our members in favour of joining the euro.

**Mike Spicer:** It was long before my time, but I can tell you that we have surveyed businesses more recently on joining the euro, and there is a very, very strong majority against.

**Paul Nowak:** We did not actively campaign to join the euro. We took a pragmatic position that we should join the euro if the conditions were right. At the time, I seem to remember, I was the TUC's regional secretary in the north-east. There were four conditions, which I cannot remember off the top of my head; I apologise.

The broader point I would make is that our views on Europe have changed over time. When we go back to the original referendum, the vast majority of our unions, and indeed the TUC, were opposed to membership of the common market. That position has changed over time, and it has been the subject of vigorous debate over time, as well. In the last two or three years at our congress, this has been a very live debate. As I say, some unions have always had a position of scepticism towards Europe; whether that has manifested itself in terms of Brexit or not is a different matter, but it has been a very live and real debate.

**Josh Hardie:** I am similar to Paul. We were supportive but with caveats about certain conditions being met. I cannot remember the four either, but they were around areas such as consistent monetary policy and a strong central bank. Those measures were not met, and so by 1990 our position was, "Not now". It is not a conversation that is live with our members now.

**Q58 Richard Fuller:** That is the point, is it not? Things change. We were just talking about balance of where regulation is set. Do your organisations believe in democratic accountability for business? If so, is that best made at the UK level or at the European level?

**Chair:** Josh, you are looking pensive but we will start with you.

**Josh Hardie:** Do we believe in democratic accountability for business? Yes, it is impossible to avoid. It is a very good thing for businesses to be transparent. It is a very good thing for businesses to be held to account, and increasingly we are seeing businesses welcome that. Should that happen at a European or a domestic level? Again, it happens at both. It depends on the area and the regulation. There is a role for both our domestic Government and European Governments to hold businesses to account, to make sure they are transparent and to make sure they are operating in a way that is fair and balanced.

**Q59 Richard Fuller:** One has to override the other, right? Given the choice, which is best?

**Josh Hardie:** If I am honest, I am not sure. It is not something we have asked our members about. It may be one that I have to get back to you on.

**Richard Fuller:** Paul, do you have a view?

**Paul Nowak:** Yes. Certainly I believe that businesses should be held to democratic account, and should be held to better, more intensive democratic account. The point I would stress is that all European directives have to be transposed into UK law. Quite often, national Parliament has a great deal of say over how those directives are transposed, and I would like to see, for example, more engagement of the social partners in the transposition of those directives, which is something that has happened on various directives.

If you take the national minimum wage as an example, there is no requirement on countries across Europe now to have a national minimum wage. We have argued that there should be an obligation on Governments to have a national minimum wage, but we would not want to see the level of the national minimum wage set at a European level. We think there is value in having a tripartite system, as we do in the UK, for determining the level of the national minimum wage. These things are interrelated; it is not a case of Europe or national. Even in a UK context, for some of these issues—for example, the approach to the public sector workforce—there is increasing divergence between what is happening in Wales and Scotland and in Westminster. Some of that divergence we think has value; other bits we would be concerned about. I would not want to pin the tail on the donkey on Europe, national or devolved Administrations. It is really horses for courses.

**Mike Spicer:** Businesses already have to deal with different levels of democratic accountability. One of the issues that we have been very vocal about in recent months is what we perceive to be a lack of accompanying democratic accountability for some of the changes to local government finance, for instance, which is slightly outside of this. Set against that, if you take an area that we have not discussed, which is business taxation, it is an interesting area because it is affected not only by our membership of the EU but by our membership of other organisations, such as the OECD. That is an area in which it is not altogether clear exactly where accountability falls.

Businesses expect that, on certain issues, there have to be international agreements, whether that is on the environment, trade or whatever. You cannot necessarily say that it is one versus the other; as Paul said, it is horses for courses.

**Lee Hopley:** This is not an issue that we have particularly explored with manufacturers, so I am not confident that I could give a truly representative answer to that question.

**Q60 Paul Blomfield:** Josh, you talked about free movement of labour being one of the things that is attractive to business. I am guessing that is something that Mike and Lee would probably concur on. There clearly is a concern around that, and a flipside to that. Many might argue that accessible cheap labour gives business the opportunity to evade responsibilities to train a skilled labour force. How do you respond to that challenge?

**Josh Hardie:** The evidence shows that businesses are real champions of developing skills and have a very strong track record on it. The apprenticeship levy will drive more of that. You are right that it is absolutely important that businesses continue, as they will, to invest heavily in skills and ensure that the UK workforce is fit for where the UK needs to be in generations to come.

Having said that, in any given situation, there are always skills mismatches in every economy. The ability across Europe to fill those mismatches, both in terms of people coming from other countries to the UK and in terms of people from the UK travelling across Europe to other jobs, is incredibly valuable for Europe, particularly, for example, in science and engineering areas. In an ideal world, we absolutely need, to some degree, for that to be a short to medium-term option as we build our skills in the UK to fill those gaps, but it is an issue at the moment, it is there, and being able to solve it through the EU is very valuable.

**Q61 Paul Blomfield:** Would that be your view as well, Lee?

**Lee Hopley:** Yes. I do not want to repeat what Josh said, but a lot of our members already invest in apprenticeships. It is not just about recruiting people from the rest of Europe; the ease with which you can move workers around subsidiaries to fulfil contracts across Europe is also seen as an advantage.

**Q62 Paul Blomfield:** The question of immigration control is increasingly the ace card of the leave campaign. The impression has been given that, if we vote to leave, we will be able to close our borders and stop the flow of inward migration. What impact do you think that will have on business? Could I ask Lee, Mike and Josh, because I want to come back to Paul with some different questions?

**Lee Hopley:** If our members were looking at facing the same kind of restrictions and compliance requirements on recruiting from other parts of Europe as they did from non-EEA countries, that would be an issue for them. They see the process of engaging with UK Visas and Immigration, and even just recruiting overseas students into full-time vacancies in the UK, as extremely problematic, so that would pose challenges for manufacturing.

**Mike Spicer:** I talked earlier about the most common questions we were asked and discussed in the focus groups that we held across the country. Certainly one of those would be, “What happens on T+1?” in terms of staff they already have who come from elsewhere in the EU. I get the sense that they want more clarity than there is around that. In particular, there is a real desire to see that clarified very quickly. You could imagine, perhaps, a commission being established very swiftly in the event of Brexit, looking specifically at the issues of skills gaps and the immigration status of the workers they already have. It is a question that we are asked a lot, and the fact that we are still being asked it means that there is a lack of clarity there as to what would come next.

**Q63 Paul Blomfield:** Would you be worried, as I took from Lee’s answer, if Brexit was accompanied by no change in the immigration rules that currently exist for non-EEA nationals and that was simply applied to everybody? Would that be a problem?

**Mike Spicer:** It is certainly the case that, for Tier 2 migrants who come from outside of the EU—so people coming into specific jobs—the visa regime that accompanies that is quite costly. It also has a level of uncertainty attached to it. It can be lengthy as well. For many businesses, their own experience of that can be quite frustrating, so they would want to see a system that is less costly, swifter and more certain.

**Q64 Paul Blomfield:** So liberalisation of immigration rules.

**Mike Spicer:** Something that offers them a system that is not as costly or uncertain as the current visa-based system would be for Tier 2 migrants.

**Josh Hardie:** Again, I would echo a lot of those thoughts. First, it is important, from the CBI’s perspective—and I suspect from the perspective of a number of the other witnesses—to separate some of the more emotive aspects of the immigration debate from the skills debate, which is what we have a mandate to talk about. The access to skills from the EU, as I have said, is very important and very useful. I have one example of a science and engineering member who has gone to India to attract skills. A year later, they are still waiting for that person to start. Within the EU, that can happen in a matter of weeks, if not days. That is a very real consideration for businesses.

The thing that worries a lot of our members is when you talk about what happens after a potential Brexit vote. If there is a Brexit vote, it is reasonable to assume that the immigration debate will be one of the things that pushed it that way. If that is the case, it is very hard to see a future model that involves free movement of labour, because you would then be giving up the very thing that actually decided the referendum. With that disappearing, whether the deal is a WTO, a Switzerland, a Norway or a Canada, it does not feel right to have free movement of labour within any of those. That is a very grave concern for businesses, for the reasons that we have discussed.

**Q65 Paul Blomfield:** Paul, can you reflect on the trade union movement’s views on the issues? I have spoken at trade union meetings where clearly this is a real concern to people who feel that conditions have been eroded by membership of the European Union.

**Paul Nowak:** Absolutely, and migration is an issue that lots of our members care very deeply about. If you look at our membership, they reflect the British public at large. We know that this is a key issue of public concern. Our starting point is that, across the

European Union, there is value in the free movement of labour, but that is precisely why you need a strong framework of social and employment protections to underpin it.

We know from all the studies that there is no evidence overall that migration drives down wages across the economy. In fact, I think LSE published a report earlier this month that counterposed that. However, we know that that is an average, and we know that there are some sectors, some particular parts of the country, some occupations and indeed some employers that are using migrant workers, in quite a cynical way in some cases, to drive down pay, terms and conditions. Can you pin the issues that we face around wages in the UK all on migrant workers? Absolutely not. Wages have been declining as a proportion of GDP in this country for the last 30 years. There are lots of reasons for that, including the relative weakness of unions in sectors like, with some notable exceptions, retail and hospitality.

However, there are other policy issues at play here as well. In the last six or seven years, everybody working in the public services has been subject to either a pay freeze or a pay cap. That is a real-terms pay cut; that has an impact on holding down wages. We have seen a growth in precarious forms of employment. Everybody talks about zero-hours contracts, but there are other things that have an impact on wages: umbrella contracts and bogus self-employment, which is endemic in some sectors, such as construction. There are real concerns there.

For us, the solution is not to clamp down on migration or blame migrant workers; it is to have a stronger domestic policy framework that supports decent wages right across the piece. What does that look like practically? To give you an example, look at Germany; it is not a perfect example by any stretch of the imagination, and the proportion of the workforce in Germany that is in a trade union is less than it is in the UK, but they have a strong system of sectoral collective bargaining that establishes a level playing field across sectors. That is the sort of active labour market policy that a Government could adopt in the UK. There is nothing that precludes you doing that while being a member of the European Union.

**Q66 Amanda Milling:** I have a question for all of you, but I want to start with Mike. We have talked about regulations, and we are going to go back to that topic again, and about the difference between EU regulation and UK regulation. I am interested to understand the extent to which businesses recognise that there is a difference between the two, and whether it is something you picked up on in the focus groups you have been doing around the country.

**Mike Spicer:** In terms of regulation more broadly, I would say there are roughly three areas that tend to come out in discussions. The first is about what you might call product standards-related stuff, so technical things that are quite industry-specific. These relate to the manufacture, sale and distribution of goods and, to a lesser extent, services. The difference that can open up in business opinion is that, if you are primarily a domestic-focused business, you might see that as a net cost—that you are having to comply with an international standard. If you are an exporter, particularly if you are active in the European market, you may well see that as a cost-saver, so there are quite big differences that open up.

In terms of the perception of where it comes from, certainly I have picked up a widespread perception, particularly regarding directives, as opposed to regulations, which have to be

transposed into UK law, of heavy-handed implementation and interpretation. One example of that was brought up in the last session, which is to do with some of the land use-type directives, such as the Habitats Directive, which plays such a big role in the planning system. It is a directive that is really focused on cross-border situations, where you have adjacent land or rivers or waterways; obviously that is not something that we encounter in Great Britain, and yet it is generally thought to feature more commonly in planning decisions in this country than in others. Things like that give the perception, “Hang on a minute here. Other countries seem to manage to make use of those directives in ways that are less heavy-handed”.

The enforcement point is another good one. The thing to understand is that there is a wide variety of practice already within Great Britain. We have pilot schemes, for example, in Leicestershire and the West Midlands called Better Business for All, which is about enforcement agencies at a local level coming together and working together so that they can reduce the burden of being inspected, for example. There are practical things that you can do, but businesses on the whole see the issue of gold-plating, and they see that there is a difference between where product standards come from, for example, and how directives are transposed.

**Q67 Amanda Milling:** In your focus groups, do businesses think that, should we decide to come out, this regulation is going to vanish?

**Mike Spicer:** Again, this is something that has been discussed. From what I have heard—and we have not done a representative questionnaire where we have asked this question specifically—

**Amanda Milling:** It is qualitative research; I get it.

**Mike Spicer:** I get the strong sense that there is no expectation of a great repeal, and that it is easier to control the flow of new regulations than it is to reduce the stock of existing regulations, partly due to some of the things that have already been discussed. A lot of the big-item regulations are in sensitive areas of policy, such as social policy, and you would expect there to be long lead times in Parliament to get that through and for very engaged interest groups to take firm positions; you would expect there to be a long process of assessing the costs and benefits. Businesses know this, because they see it as new laws get passed. There is no expectation that there will be a great repeal Act of some kind, simply given the complexity of it all. There is an expectation that something might be possible in terms of reducing the future flow, which is quite different.

**Josh Hardie:** To the first point of the question, about whether they notice and whether they understand, that will depend slightly on the business. Most businesses will have a good understanding of what is EU legislation and what is domestic regulation. There is probably slightly less understanding among, for example, smaller owner-managed businesses, but they probably on balance have a better view of that than the general public.

Regulation is very complicated and businesses’ focus is much more on good versus bad regulation than it is on where that regulation comes from. That is what we hear. It is not so much, “This came from the EU”, or, “This is domestic”; it is, “How does this help me? How does this make my life easier rather than more complicated?” On top of that, some of the regulation is very clearly European, such as the digital single platform or consistent

packaging for products, which can be fantastically beneficial for businesses wanting to export. It is quite a mixed picture.

What we are hearing from businesses is absolutely focused on the bad regulation. As we have heard, there is not a massive expectation that there would be a sudden bonfire of regulations, were we to leave the EU. A lot of the regulation is actually very useful, so let us be in there influencing it and making sure it is good, rather than walking away, because a lot of the regulation would apply to us anyway.

**Lee Hopley:** I have just one point to add, really, about the extent to which a huge bonfire of regulation would actually make a massive difference to the economy and the growth prospects of our members. Yes, regulation is important, and it can be a source of frustration, but, looking at some of the big macroeconomic challenges that we face as a country, is deregulation the only answer when we have a bit of a deficit when it comes to innovation spending, for example? Can we get more bang for our buck from that through collaboration with Europe? These are all things that our members have expressed as perhaps more significant in terms of their future growth prospects than simply the regulation argument.

**Paul Nowak:** I have two very quick points. First, I would make the observation that, in my experience, businesses are remarkably adaptable to regulation. If you think back to the early 2000s and late 1990s, when the national minimum wage was introduced, we were told it was going to cost us a million jobs. It did not, and businesses adapted. I think there is a broad consensus now that the national minimum wage is a good thing.

If you look particularly at some of our larger multinational corporations, they adapt to the environment they are in. If you are a large multinational automotive firm in Germany, you are part of the sectoral agreement and you have a supervisory board that workers are represented on. If you are in the UK, you do not have those mechanisms in place but you have a collective bargaining agreement, probably, with a trade union. If you are the same German multinational operating in South Carolina in the US, you probably have no relationship with a union at all. The point I am making is that the employer adapts itself to the regulatory environment it is in.

I will just make one observation about the people we directly represent. Quite often, people do not understand that some of those key protections they take for granted are underpinned by European directives and legislation. If Britain votes to remain on 23 June, this is an issue about the discourse that we have on Europe, because successive Governments—I am not going to pin the blame just on this Government—have quite often been happy to let Brussels take the blame for issues and never to give credit where credit is due. That is an important part of our national discourse.

**Q68 Chair:** Amanda has touched upon a very important point, in terms of gold-plating of European regulations. Have your organisations done any work in terms of reality versus perception? Do we gold-plate regulations in Britain?

**Paul Nowak:** Shall I start and just say no? As I said before, we have real problems with the way that some of those directives have been transposed. If you look at agency workers as an example, the so-called Swedish derogation effectively allows employers to circumvent the spirit of the Temporary Agency Work Directive by directly employing

agency workers, so there is still a real issue in this country. In particular sectors, of which food processing would be one, agency workers would be working alongside directly employed workers on much less favourable pay terms and conditions, so we do not have that experience of gold-plating. I wish it were the case, and we would like to argue that there is a need for a stronger regulatory framework, but I do not sense it across the UK at all.

**Q69 Chair:** Are there any other comments in terms of any work being done? Is it just a perception that we always apply to the letter of the law and France and Germany put these regulations in a drawer and do not even think about them?

**Mike Spicer:** There is a slight issue. Taking the planning one that I brought up before as an example—the Habitats Directive—the way that that manifests itself in our system is different because our system of planning is different. It is not necessarily one of intent. It could simply be the system that it finds itself in and how that gets expressed, so some of the reporting requirements, the number of committees that it has to go through and things like that might be partly related to the way that our system is different. There has not ever been, certainly to my knowledge, a quantitative comprehensive work of all the directives that we have, looking at that.

**Q70 Chair:** I want to finish with foreign direct investment. Ernst & Young produced its latest attractiveness survey yesterday, and I have it in front of me. The picture is really interesting. We have been outstanding, in the last year, in attracting foreign direct investment into the UK, and we have had a real success over the past 15 or 20 years with regards to this. It says in Ernst & Young's report that last year there were 1,065 FDI projects, creating 42,000 jobs. This is a great success for the UK. However, it says here, "There are worrying signs for the future." When asked about their likelihood to invest in the UK in the next year, only 23% of investors responded positively, compared to 27% last year. That is the lowest UK figure since 2010. When asked how the UK's attractiveness for FDI will change in the next three years, only 36% of investors expect that it will improve, compared to 54% last year. That is the lowest UK score since 2004. The UK's ranking for Europe's most attractive locations for FDI fell relative to Germany. We are now two percentage points behind. That picture is not getting better.

I have two questions to you all, if I can. First, to what extent has that success in foreign direct investment been as a direct result of us being members of the European Union, in terms of direct investment as a springboard to the single market and 500 million consumers? Secondly, to what extent are we putting this at risk as a result of this referendum agenda?

**Josh Hardie:** I have quite a brief answer. There are lots of reasons to invest in the UK, and lots of those reasons will remain. We have a great location, time zone and language, and a good skills base. All of those things will stay. We can still be an attractive place to invest. Having said that, of course access to the EU and 500 million consumers is a very significant pull. It makes us even more attractive. Of course, adding an uncertainty, you have the short-term impact; we are seeing less and less investment right now because there is a referendum coming, no matter what the result. People quite naturally—why would you not?—put large spending decisions on hold until you know the outcome. There is

then the second question: if the outcome is to be outside of Europe, it is completely logical to say that we are a slightly less attractive place to invest in than we were before.

**Paul Nowak:** To look at it from a different perspective, Ernst & Young give a pretty clear indication in terms of the concerns that exist more broadly about foreign direct investment. I talk to senior representatives in our private sector unions, and one of the things they are very clear about is that, if Britain voted for Brexit on 23 June, we would not see plans to close down on 24 June. They would be really worried about the impact of further investment decisions coming down the line.

What is the difference between last year and this year in terms of that lack of confidence? It is the European referendum. If that is uncertainty caused by the referendum itself, for the uncertainty caused by Brexit you could take that and multiply it a number of times.

**Mike Spicer:** I agree largely with what Josh said. I would just add one further point. If you look at some of the most high-profile examples of foreign direct investment, they tend to be large manufacturing companies. Of course, as was said in the previous session, they go through a process of competing to build that particular make of car or whatever it might be. However, perhaps less well known are some of the large service companies that come here as well, such as the big American accountancy firms and so on. As Josh said, there are many reasons why they would do that; language is clearly one of them, and the tax environment would be another. Some of those things would be entirely the same post-Brexit; others, such as tariff-free access to the European continent, would be uncertain. I think the message my members would want to get out is that they want clarity as fast as possible. That is what any investor would want. What would be the nature of the post-Brexit world that they will encounter, and what does that mean if they are a manufacturer or a service company?

**Lee Hopley:** Global competition for this kind of mobile investment is really fierce. Companies will go where the returns are most predictable. If the UK is not offering a stable and predictable framework in which you can judge the returns from that investment, that is clearly going to push us down the rankings, whether that is around domestic policy decisions or our relationship with Europe; it is a fairly straightforward equation, I would have thought, over the next few years.

**Chair:** Colleagues, thank you very much for your evidence. That has been really helpful and informative to us. We are really grateful for your time. Thank you very much.