FACTSHEET 1

BRITAIN DOESN'T FACE AN EITHER/OR CHOICE BETWEEN TRADE WITH THE EU AND TRADE WITH THE REST OF THE WORLD

118%

Growth in emerging economies since 1999

26%

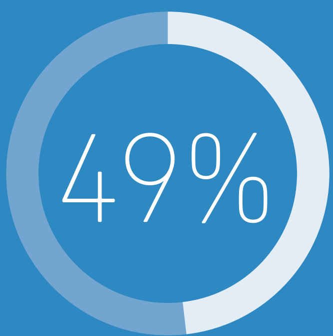
Growth in developed economies since 1999

6.6%

Of UK exports go to the four BRIC countries combined

45.1%

Of UK exports go to the EU



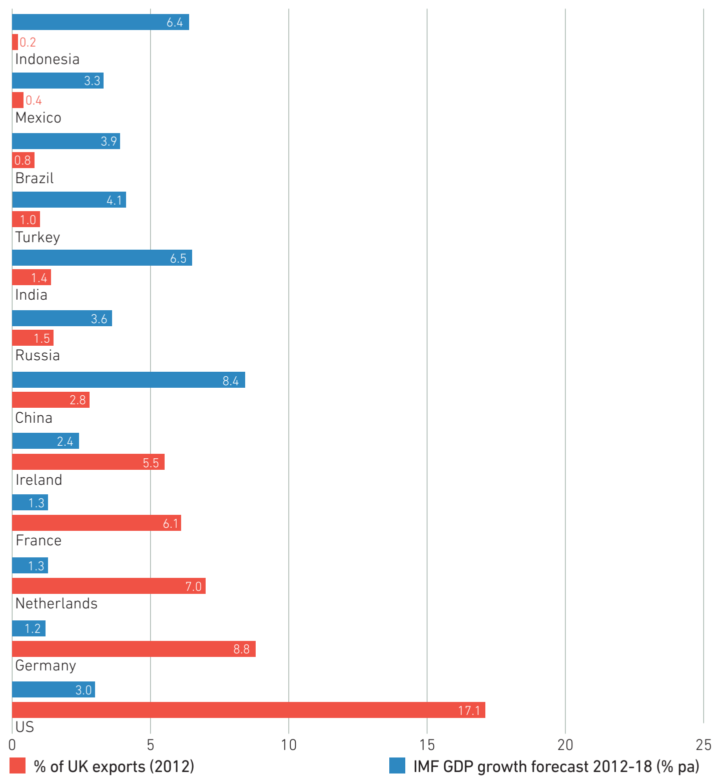
This year will be the first in which the developed world takes a minority share of global GDP

Emerging markets are increasingly driving global growth

- Since 1999, emerging economies have expanded 118% while developed economies have grown by just 26% - this year will be the first in which the developed world takes a minority share of global GDP (49.1%).
- By the middle of this century, China, India, Brazil, Russia, Mexico and Indonesia are all forecast to have larger economies than any individual EU country.

Most of Britain's trade is with slow-growing developed economies

- In 2012, the US accounted for the single largest share of UK exports, (17.1%), followed by Germany (8.8%), the Netherlands (7.0%), France (6.1%) and Ireland (5.5%). The EU27 overall accounted for 45.1% of exports – much more than any other single market.



Source: ONS Pink Book 2013; IMF WEO April 2013

- Similarly, 50.6% of UK imports came from the EU27, and 89.1% of all net inward Foreign Direct Investment (FDI) from 2002 to 2011 came from other OECD countries, with the EU25 accounting for 41.5% and the United States 24.6%.

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Britain doesn't face an either/or choice between trade with the EU and trade with the rest of the world

Britain's Global Role

Switching to high-growth markets will take time

- Our exports to the BRICs and other emerging economies are expanding rapidly – in value terms by 20.1% per annum over 2002-12 to China; 17.2% to Russia; 11.3% to India; 13.4% to Brazil; 5.9% to Mexico and 8.1% to Indonesia – but from a very low base. Today, UK exports to China account for just 3% of total exports. Exports to India (1.4%) and Brazil (0.8%) are even lower.
- British business faces barriers to entry into emerging markets. For example, issues around the security of intellectual property, preferential treatment for domestic firms, conflicting standards and worries about the security of investments have been cited as major barriers.

So Britain's established markets, including Europe, are likely to be important for some time to come

- With challenges to expanding British firms' presence in emerging markets, the UK cannot afford to ignore the 79% of exports currently going to the EU, US and other developed markets.
  - The EU and US are still expected to be in the world's top four economies in 2050
  - Britain specialises in goods and services that are more in demand from high-income countries than emerging countries. UN trade complementarity data show that all the ten countries with import demands best matching UK exports are high-income – seven are in Europe.

And simple economics will continue to make regional trade with Europe important

- A number of simple factors make trade higher within regions:
  - Transport costs drive trade closer to home
  - Regions have lower barriers to entry for new exporters
  - Integrated supply chains are concentrated in regions
- Forty years in a customs union with Europe and a quarter of a century in a Single Market means that the UK and EU economies are greatly integrated. This goes beyond the headline statistics about shares of exports and imports. UK firms are embedded in pan-European supply chains and vice versa.

FACTSHEET 2

THE BENEFITS OF EU MEMBERSHIP TO UK BUSINESS AND CONSUMERS SIGNIFICANTLY OUTWEIGH THE COSTS

71%
Of CBI members said the EU has had a positive impact on their business

78%
Of CBI members would vote to stay in the EU in a referendum

$16.6 trillion
Size of the EU economy

500 million
Consumers in the EU Single Market

$1.2 trillion
Invested in the UK from the EU

30
Free Trade Agreements signed by the EU

$47 trillion
Size of the market open to UK firms if trade deals are signed with US and Japan

0.4%
The net budgetary cost of the UK membership is 0.4% of GDP

- 71% of CBI member businesses report that the UK's membership of the EU has had an overall positive impact on their business, including 67% of SME members. Only 13% said there had been a negative impact. Overall,78% said they would vote to remain in the EU in a referendum, with 77% of SMEs taking the same position.
- A CBI literature review suggests that the net benefit of EU membership to the UK could be in the region of 4-5% of GDP or £62bn-£78bn a year – roughly the economies of the North East and Northern Ireland taken together.

Access to a $16.6 trillion a year Single Market of 500m people is the key benefit

- UK firms' access to the Single Market goes beyond a standard free-trade agreement. The EU has eliminated tariff barriers and customs procedures within its borders, and has taken strides towards removing non-tariff barriers - such as different product regulations - by enforcing EU-wide competition law and coordinating product regulations.
- 76% of CBI members say that the ability to freely buy and sell products in the EU has had a positive impact on their business, including 74% of SMEs.
- It has been estimated that UK trade with some countries in Europe could have increased by as much as 50% as a result of EU membership.
- The Single Market also underpins access to European supply chains. UK companies couldn't operate without getting the components and parts they need from European suppliers. They also export these 'intermediate' goods to European companies. In 2009, $207bn of the UK's total $293bn worth of exports to the rest of the EU27 was used as inputs to industries, rather than being consumed directly; and the UK imported $161bn of intermediates from the EU27.

The EU has helped open global markets to UK firms on strong terms

- The EU is a springboard for trade with the rest of the world through its global clout: it accounted for 23% of the global economy in 2012 in dollar terms. Through 30 trade deals negotiated by the EU, including the Single Market itself, British firms have full access to a $24 trillion market. The recent deal with Canada and on-going discussions with Japan and the US could double this to $47 trillion - the UK would struggle to achieve the same quality of trade deals independently.
- 58% of CBI members think that extra-EU trade agreements have had a positive impact on their business, including 55% of SMEs, compared to 3% who thought the impact was negative.

The benefits of EU membership to UK business and consumers significantly outweigh the costs

Membership has increased flows of investment into the UK

- Investment flows across borders inside the EU roughly doubled in the years following the introduction of the Single Market. As the EU's leading investment destination, the UK was a key beneficiary: the EU accounted for 47% of the UK's stock of inward FDI at the end of 2011, with investments worth over $1.2 trillion.
- Access to the EU Single Market has also helped attract investment into the UK from outside the EU.
- 52% of CBI members say that the ability to invest in other EU states without restriction has had a positive impact on business.

Free movement of labour has brought benefits to the UK economy

- Free movement of labour helps UK business plug skills gaps. 63% of CBI members say that the ability to recruit and transfer staff from across the EU has been positive for business, including 48% of SMEs. Overall only 1% of members said the impact had been negative – and only 2% of SMEs said it had been negative.
- UK citizens have also benefited from free movement of labour – at least three-quarters of a million live in other EU countries.
- The CBI recognises that there is public debate over immigration – consideration must be given to how free movement can practically operate in an EU of 28 in a way that commands public support.

Business sees the UK's lack of unilateral control over some regulation as a downside to membership

- There is recognition that common rules are needed to support the Single Market. 52% of CBI members think that common product standards across the EU are a positive, including 50% of SMEs. Overall, only 15% of members said that the impact of common standards had been negative.
- However, firms are concerned about labour market regulation. 49% of CBI members say that the pan-EU employment rights in areas such as working hours are a negative for business.

The UK's net budgetary contribution is a small net cost relative to the benefits

- The UK's net contribution to the EU budget is around €7.3bn, or 0.4% of GDP. As a comparison that's around a quarter of what the UK spends on the Department for Business, Innovation and Skills, and less than an eighth of the UK's defence spend. The £116 per person net contribution is less than that from Sweden, Denmark, Finland, Germany and the Netherlands.

FACTSHEET 3

BRITAIN IS AND WILL CONTINUE TO BE INFLUENTIAL IN THE EU IF IT PLAYS ITS CARDS RIGHT

72%

Of CBI members believe that the UK is currently influential in the EU

74%

Of CBI members believe that the UK will continue to be influential in the future

10%

Of the seats in the European Parliament are for UK MEPs

1st

The UK has the joint-highest number of votes in the EU Council with Germany, France and Italy

- 72% of CBI member businesses believe that the UK currently has influence on EU policies that affect their businesses, and 74% that it will have influence in the future.
- The UK has helped shape the EU: from the creation of the single market to EU enlargement, the UK has been a driver of key structural reforms in addition to being highly influential on day-to-day issues.

The UK has significant formal voting rights

- The UK has the joint-highest share of weighted votes in the European Council with Germany, France and Italy (8%).
- The UK has around 10% of European Parliament seats, the third-largest share.
- Decisions on taxation, social security or social protection, the accession of new States to the European Union, foreign and common defence policy and operational police cooperation require unanimity to pass – the UK has a veto.
- The UK is a key member of other international bodies, including the G20, the OECD and the WTO which help shape the EU's positions.

The UK is effective at building alliances

- A survey of more than 600 member state representatives in 2010 found that, despite being outside the Eurozone, the UK was the best country at building alliances with other member states in 2003 and 2009 and came second in 2006, indicating that other member states are keen to engage and cooperate with Britain.
- In response to suggested amendments to the 1992 directive on pregnant workers, the UK was able to block damaging proposals during the negotiation phase by building an alliance with Germany and other member states.
- A proposed regulation to restrict third-country access to the EU's public procurement market was reshaped through coalition building with other member states including Germany, the Nordics and the Netherlands.
- Unfavourable changes to the existing 2003 IORP Directive were dropped after the UK built a broad alliance with other member states including Germany, the Netherlands and Ireland.
- The UK successfully pushed for the agreement in 2012 to reduce the EU budget.

> *"...despite being outside the Eurozone, the UK was the best country at building alliances with other member states"*

Britain is and will continue to be influential in the EU if it plays its cards right

The UK technical expertise helps shape the detail of EU proposals

- The UK's "Small Firms Impact Test (SFIT)" was cited as an example of best practice that influenced the Commission's decision that all Regulatory Impact Assessments should include a specific evaluation of the impact on SMEs of the proposal.
- The UK's strong code of best practice, worked up between industry and the regulator (OFCOM) on a voluntary basis, has helped push the Commission towards pursuing a similar approach on the issue of "net neutrality" in the EU.
- The evaluation of the Commission's Impact Assessments labelled the British system for assessing the impact of a proposal as a benchmark for progress in the Commission's own processes.

But the UK must play its cards right to ensure it maximises its influence over outcomes that affect business

- The UK must ensure that it has a comprehensive strategy for the new EU Parliament and Commission from 2014.
- The UK is now significantly under-represented in terms of staffing levels in the Commission and Parliament. The number of UK nationals in the Commission staff has fallen by a quarter in seven years, standing at a total of 4.6% of Commission staff, compared to the UK's 12.5% share of the EU's population.

And the UK needs to address the reputational hit caused by the financial crisis

- The UK has historically used its technical expertise and credibility to help shape the direction of policy on issues such as Financial Services. But this has been negatively impacted by the financial crisis and the UK needs to work to restore its reputation.

The UK government must continue to proactively build alliances to achieve its aims across the EU institutions and in other member states

- UK influence will matter more than ever in the coming period, as the further integration of the Eurozone potentially changes the nature of the EU. The UK must navigate a course that ensures it builds alliances to help shape the EU, preserving the advantages of membership felt by British business.

CBI
THE VOICE OF BUSINESS

FACTSHEET 4

NO ALTERNATIVE TO EU MEMBERSHIP OFFERS A BETTER BALANCE OF ADVANTAGES AND DISADVANTAGES

90%

Of UK exports to the EU would face tariffs under basic WTO arrangements

10th

Norway is the 10th highest contributor to the EU budget despite not being a member

9 years

It took Switzerland 9 years to negotiate and implement partial access to the Single Market

Zero influence

Turkey is a completely silent partner in EU trade deals

Overall, businesses believe that leaving the EU would be bad for them and bad for Britain

- 67% of CBI members think that exit would damage their access to EU markets.
- 65% think that the UK's ability to influence policies that affect their business would diminish.
- 75% think that UK-wide foreign direct investment would fall.
- 82% think that the UK's ability to participate in EU supply chains would decline.
- 59% think that the UK's international competitiveness would decline.

'Going it alone' via the World Trade Organisation would reduce market access

- The UK would not automatically retain its current access to the EU market upon exit – this would have to be re-negotiated. Without EU membership or a Free Trade Agreement, the UK would face new tariffs on 90% of its exports by value to the EU under 'most favoured nation' status.
- Upon exit, the UK would no longer benefit from any of the EU's trade deals with the likes of South Africa, Colombia, South Korea, Norway, Mexico – or the possible future deals with the United States and Japan.
- The UK would be negotiating any new trade deals on the basis of having 3.5% of world GDP, rather than as part of a bloc with 23% of world GDP.

'One step removed' – the Norway option would reduce UK influence on the rules it would have to follow

- If the UK joined Norway in the European Free Trade Association (EFTA) and the European Economic Area (EEA), the UK could gain access to most areas of the Single Market.
- However, in areas where the UK had market access, all relevant new EU rules would have to be implemented into UK law (and existing rules, such as the Working Time or Agency Workers Directives, maintained). The Common Agricultural Policy and Common Fisheries Policy are not included – but market access in these areas would be lost as a result.
- EFTA/EEA states have no formal sway over Brussels decisions – no Commissioners, no MEPs and no Council votes – but must adopt its rules nonetheless.
- EFTA countries contribute to the EU budget. Norway is the 10th highest contributor to the EU budget in per capita terms.
- EFTA countries have the ability to strike their own trade deals, but the UK would have to start from scratch in negotiating access and with less to offer than the EU.

'Pick and choose' – Switzerland has more flexibility but at the cost of market access

- The first round of trade deals between the EU and Switzerland took nine years to negotiate and implement and might take longer for the complex UK economy if Britain sought to emulate Switzerland.
- Switzerland has some flexibility in negotiations with the EU – it has kept out of the Common Agricultural Policy – but it has not been able to secure a deal on free trade in services, and has had to accept free movement of labour in most cases.
- Switzerland has even less formal influence over EU rules than Norway. Although it can choose not to adopt new rules, it does so at the cost of decreasing its market access. In practice, the Swiss government rarely avoids implementing EU rules.
- Switzerland has signed an individual free trade agreement with China– but the deal is thought to have granted more market access for Chinese products being imported into Switzerland than vice versa.

'Back to 1975' – the 'Turkey option' provides limited market access and no influence over trade deals

- If the UK joined Turkey in the EU customs union, it would prevent duties being imposed on most goods, but offers no action on non-tariff barriers such as different product regulations. Services are not covered by the customs union.
- The UK would have to abide by the EU's international trade deals with no say in negotiations, as Turkey does today. And countries signing a free trade deal with the EU don't have to grant access to Turkish exports, even though Turkey must effectively grant access to their exporters.

A bespoke UK-EU free trade agreement would fail to secure vital benefits

- The EU would have substantially greater clout than the UK in any such negotiation. The price of deep market access is likely to be regulatory cooperation, and the UK is likely to be at a relative disadvantage in the negotiation:
  - The EU (excluding the UK) has a 445m population, compared to the UK's 63 million, and its economy is six times the size of the UK's.
  - The UK is more dependent on the EU for its trade than the EU is on the UK. Around half of the UK's total trade is with the EU, while just 8% of EU trade is with the UK. The fact that Britain runs a deficit in exports with the rest of the EU is of much less relevance.

> *"The UK is more dependent on the EU for its trade than the EU is on the UK"*

FACTSHEET 5

A REFORM AGENDA THAT SUPPORTS THE UK'S GLOBAL FUTURE

"The UK must use its influence to shape the EU"

- The EU is not perfect. The UK must use its influence to shape the Union to ensure it maximises the potential benefits for the UK and supports our global trading future.
- We need an EU that is open, competitive and outward-looking, and which gets the balance right between the Eurozone and the wider Single Market, as well as between the EU institutions and all 28 member states.
- Below are signs of progress which would show that the EU is moving in the right direction.

The EU must be outward-looking

1. The EU should successfully conclude a high-quality Free Trade Agreement with Japan and sign the Transatlantic Trade and Investment Partnership (TTIP) agreement with the US
2. The EU should push forward a more dynamic trade agenda with key emerging markets to support member state trading ambitions.

£10bn

Annual boost to UK GDP from the EU signing the Transatlantic Trade and Investment Partnership (TTIP) agreement with the US

The EU must be open and competitive, ensuring its regulatory environment is globally competitive and not unduly burdensome.

3. EU member-state leaders should organise a high-level symposium by the end of 2015 to give political impetus to the completion of the Single Market, especially in services.
4. The new Commission should set a target for the reduction of the regulatory burden to be achieved within its 5 year term.
5. The new Commission's work plan should include clear commitments to improve the way the impact of proposals is assessed.

The EU needs to function more effectively, prioritising growth and better recognising and respecting the boundaries set by member states

6. EU leaders should adopt a declaration that explicitly calls for steps to be taken to ensure that further Eurozone integration does not undermine the Single Market and protects non-members from discrimination.
7. Procedural safeguards such as the double majority voting rules created for the Single Supervisory Mechanism should be introduced for remaining supervisors in the upcoming review of the European Supervisory Authorities and the proposed MiFID legal safeguard should act as a precedent in other areas of legislation where there is a threat to the integrity of the Single Market. Legal safeguards should be enshrined in any new Treaty to ensure the benefits of the Single Market to the UK are maintained.
8. Member-state leaders must work to restore the principle of subsidiarity, where decisions are taken by member states wherever possible. Until this is fully restored, there should be a moratorium on any new regulation where adequate legislation already exists or there is a strong argument for national decision-making, including in the area of social and employment law. The opt-out from provisions of the Working Time Directive should be made permanent
9. The Commission should reduce the number of portfolios in order to increase the number of Commissioners in key priority areas for the EU. The use of senior and junior Commissioners could be used to effectively push progress in a number of areas within a portfolio – such as having one Commissioner each in DG Trade for trade deals with developed and emerging markets.
10. The EU must keep its budget in check, rationalise its bureaucracy, and focus funding on supporting a dynamic and competitive economy.

The UK must reform how it engages with EU institutions and improve engagement with EU issues at home

11. The UK government must set out a detailed EU engagement strategy. This should include an ambitious target for UK presence in EU institutions in the medium-term — reversing the long-term decline of UK nationals in the staff of the European Commission — as well as comprehensive plans for how government intends to engage with the increasingly powerful European Parliament to best support UK interests.
12. The UK Parliament should strengthen informal ties with like-minded national parliaments and seek to use the Yellow Card Procedure more frequently, which allows national parliaments to block EU-level proposals.

> *"We need an EU that is open, competitive and outward-looking"*