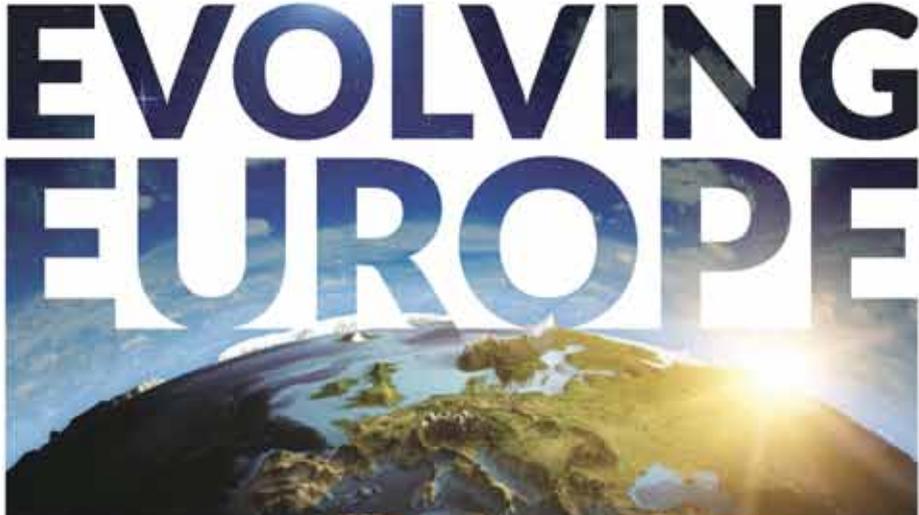


EVOLVING EUROPE



THOUGHT LEADERSHIP BY COBCOE

Report on the findings of the pan-European business survey; establishing sentiment and defining action to reform EU policy and secure support to promote internal and external competition.

COBCOE January 2016



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BACKGROUND

THE EVOLVING EUROPE PROJECT

COBCOE is an independent, non-profit making organisation representing British chambers of commerce and business associations throughout Europe. Acting as an umbrella organisation, it works with its member chambers to advance international trade and business.

COBCOE's core membership of over 40 chambers of commerce and business organisations represents around 8000 business members. A further 50 chambers of commerce and similar organisations based in the UK and around the world are affiliates.

This network means COBCOE is uniquely placed to highlight the challenges facing companies and business people operating in Europe. Reform, however, is a continuous process and Europe needs to evolve to provide the conditions for success.

Through the Evolving Europe project, COBCOE aims to give business a voice in identifying how Europe needs to change to facilitate greater competitiveness. Launched in the summer of 2015, the Evolving Europe project encompasses research, debate and analysis, the results of which are contained in this report.



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FOREWORD

By David Thomas MBE, Executive Chairman, COBCOE



COBCOE's work in undertaking this pan-European quantitative and qualitative research provides policy makers and regulators across Europe with evidence-based recommendations to promote internal and external competition. Europe has achieved a great deal, but has to improve competitiveness in the internal market and in international business to realise its potential to remain a leader in global trade.

The conclusions drawn from this report offer a real chance to cement prosperity in the EU. COBCOE will continue to work to improve the conditions for doing business across Europe through its activities, representing and promoting good business practice around the world.

EVOLVING EUROPE PROJECT TIMELINE

- | | |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| Spring/Summer 2015 | – COBCOE members undertake various research projects |
| July 2015 | – Inaugural meeting of Evolving Europe Steering Group |
| August - October 2015 | – Evolving Europe Internet-based survey
– Telephone interviews |
| November 2015 | – Preliminary results released
– London Debate 11 November
– Brussels Debate 17 November
– Follow up qualitative interviews |
| January 2016 | – Evolving Europe report published |

ACKNOWLEDGEMENTS

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Also supported by the Smurfit
Kappa Group

COBCOE member chambers of commerce and business associations

The almost 1000 companies that completed various surveys

The company executives who donated considerable time for
qualitative survey interviews

Members of the public who attended the London and Brussels
debates which contributed significant feedback

NatWest/RBS for support not only with the venue for the London
Debate, but also by ensuring that as many business voices as
possible were heard as to the issues that may prevent more trade
being undertaken by SMEs, so vital to the EU as a whole

The British Chamber of Commerce in Belgium for hosting the
Brussels debate

The London School of Business and Finance (LSBF), notably Professor
James Kirkbride, for the initial evaluation of survey results and
interim report

ICAEW for providing background research and reading materials

Daniel Franklin, Executive Editor *The Economist*, for moderating the
London Debate

Kompass for enabling the Europe-wide dissemination of the survey
to companies

Global University Systems whose students from LSBF and the
Grenoble School of Management took part in the London Debate

Yellow Jersey PR

The Evolving Europe London Debate 11 November 2015



The Panel (left to right): Andy Bagnall, Director of Campaigns, CBI; Sir
Thomas Harris, Chairman, European Services Forum; Jackie Minor, Head
of Representation, EC Representation in the UK; David Thomas MBE,
Executive Chairman, COBCOE; Daniel Franklin, Executive Editor, *The
Economist* (Moderator); Martin Manuzi, Regional Director, Europe, ICAEW;
Will Tanner, Partner at Finsbury and Vice-Chair of Business for New Europe

INTRODUCTION

In November 2015, COBCOE released the preliminary results of its comprehensive pan-European survey on reforming the way the EU operates in order to promote and instill competition in business. The findings were debated at the Royal Bank of Scotland in London on 11 November and in Brussels on 17 November. The preliminary conclusions from these events were fed back into the iterative research and evaluation process leading to this, our final report. This independent initiative brought an unprecedented level of engagement from European business, demonstrating the importance of the subject and the central role and position of COBCOE and its members in EU commerce.

500 additional indirect respondents' views obtained through contemporaneous surveys carried out by COBCOE members

The survey was conducted between August and mid-October 2015 using an internet based survey template to which companies were encouraged to contribute. The survey comprised responses from more than 40 countries across Europe, including all 28 EU member nations. The survey template contained 14 quantitative and four qualitative questions, which more than 250 corporate respondents completed. Some 500 additional indirect respondents' views were obtained through contemporaneous surveys carried out by a number of COBCOE members using the same research themes.

Of the respondents undertaking the initial Internet based questionnaire, more than half indicated a willingness to engage in further verbal enquiry. The process was extensive, with questioning lasting over an hour. This additional research offered clarification and an opportunity to test the sample on some of the themes arising from the initial Internet based survey.



Further qualitative sample survey by telephone of more than 50% of the direct respondents

More than 40 countries across Europe including all EU countries



EXECUTIVE SUMMARY

Inconsistent implementation of regulation causes inefficiencies and barriers to development

The findings, collated from the quantitative and qualitative responses of nearly 1000 companies in over 40 countries, clearly indicate that regardless of operating location size or sector, business believes that reform is necessary for the protection of Europe's position in the global economy. Further qualitative telephone survey sampling of the original respondents enhanced and deepened the messages that the survey itself delivered, as did the key discussion threads from the two debates held in London and Brussels.

The lack of a single market in services has a negative impact on innovation and economic growth

Regulation, although seen as heavy, was claimed as necessary to maintain commercial quality and trust. However, inconsistency of implementation across the EU, manifesting in wide variation of interpretation between member countries, and sometimes even within countries, was asserted as causing significant inefficiencies and barriers to economic development.

There needs to be a new effort in developing financing options

It was claimed that regulation should be based upon commercial utility, with policy and implementation being the products of an equal partnership between business and commercial directives. The lack of a single market in services is negatively impacting on innovation and economic growth in Europe, and leaves European business under-represented in any future trade deals.

A serious skills gap exists across all sectors, constricting growth and innovation

Finance is critical to business. It was decided that new effort should be directed towards developing a broader range of financing options. These included developing alternative funding mechanisms, such as Peer-to-Peer platforms. The EC should be encouraged to facilitate the unhindered development of alternative financing sectors, building an extra-bank lending system similar in structure to that found in the United States.

A large section of businesses are prepared to move registration to outside the EU if progress in reform is not achieved

A serious skills gap exists across all sectors and geographies in Europe, and is constricting growth and innovation. Ensuring close cooperation between educators and employers must become a reality by the mid-term. However, in the immediate term, it is essential to gain access to talent irrespective of origin and location.

Having both a strong national identity and 'brand', combined with the supranational EU equivalent, was seen to significantly benefit competitiveness.

The majority of European businesses wish to stay resident in the EU. However, a large section of businesses are prepared to move registration to outside the EU if progress in reform is not achieved.

From these issues, specific recommendations were distilled covering the way regulation is drafted to minimise the ability of member states to interpret regulation in a way that creates inconsistency; covering the implementation of the single market in services; engaging directly with the EC in emerging Peer-to-Peer platforms across Europe to help fund SME growth and innovation to complement bank lending; and finally to allow companies to recruit staff with required skills from outside the EU to fill the identified skills shortfall.

KEY FINDINGS

Specifically, respondents overwhelmingly confirmed that reform should focus on three key areas: regulation, finance and innovation. It was repeatedly indicated that these themes comprised the essential, overarching factor of competitiveness.

Professor James Kirkbride, Vice-Rector and Director of LSBF, stated in his commentary to the interim report: "Competition within the EU must be ensured in order to retain global commercial position and influence. This point is echoed by respondents to the Evolving Europe survey, and is made doubly important by increasing globalisation and the trading power of emerging economies.

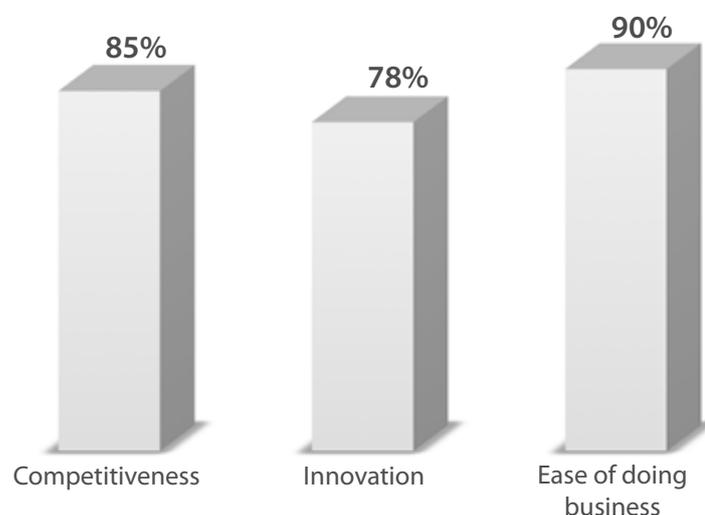
"Europe must review its commercial regulation conception and implementation procedures in order to assist the development of efficient business. Perceptions that such efficient commerce is currently restrained through lack of access to finance, talent, innovation and poor regulation application, indicated by survey respondents, must be recognised and responded to at a supranational level. The idea of an EU business brand must be encouraged in the context of developing competitive advantage."

Although respondents felt somewhat protected from outside competition by the single market system in the EU, they appeared to find it much harder to compete on the global stage as a result of their Union membership.

There was consensus regarding existing pan-European pressure on EU institutions to consider and act for business and promote their needs concerning global competition. There was, however, mixed opinion surrounding whether EU institutions were already recognising this, or would change the way they sought to support business.

The Evolving Europe Steering Group identified competitiveness, innovation and the ease of doing business as the three key areas of concern, with which survey respondents strongly agreed, as the graph on the right shows. Further research and debate confirmed that reform should focus on the three key areas of regulation, finance and innovation, which comprise the essential, overarching factor of competitiveness.

Survey respondents agreed that the debate should focus on



KEY FINDINGS

Respondents saw regulation as inflexible and unfit for purpose

Good regulation was seen as a mechanism with which to support the presentation of European companies as reliable partners in global trade

REGULATION

Regulation was uniformly accepted as necessary, with the generally acknowledged caveat that the regulatory load is too heavy. Inconsistent implementation across Europe and variation in interpretation by individual member states, sometimes even internally, resulted in commercially detrimental inefficiencies. This was seen as a significant barrier to economic development. Respondents advocated the development of an executive adjudication body for the implementation of standard interpretation. In both the initial Internet based questionnaire and the later verbal research this point was strongly supported, although there were differing opinions as to whether or not it would be pragmatic to establish a new oversight body or implement operational and efficiency improvements to the existing framework, so as to remove the potential for multilateral interpretation of regulation.

Respondents saw regulation as inflexible and unfit for purpose. The qualitative answers, developed further during telephone interviews, presented the view that regulation from Brussels is written and imposed by people without the necessary and relevant specific industry or business experience. They indicated a wish to see regulatory reform be premised upon, and designed to, support business, expedite verification procedures and drive quality and the achievement of competition. Furthermore, the creation of a more bilateral approach to regulation involving a partnership between commerce and administration/legislature was advocated. It was proposed this should take the form of an independent council to standardise implementation and interpretation.

Good regulation was seen as a mechanism with which to support the presentation of European companies as reliable partners in global trade, and as producers of high quality trusted products, whether they be goods or services. Good regulation was seen as an important way of giving commercial players a marketing advantage in the global trade environment. Respondents from the follow-up discussions reinforced the need to differentiate between global competition, the EU and countries within the EU as being, "well regulated trusted partners in business and trade."

Initial survey findings – regulation



KEY FINDINGS

Respondents do not see banks as the 'go-to' partner for flexible financing to respond to competitive global pressures

There is a clear wish for the EU to support alternative sources of finance

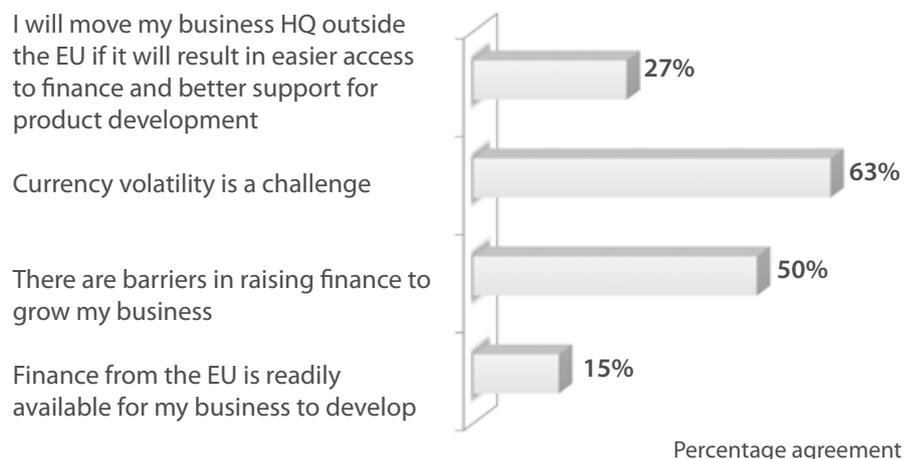
FINANCE

Finance and the development of a broader range of financing options for business was viewed as critical by respondents. Encouraging the EU to reform in favour of developing extra-bank financial services and alternative finance was seen as essential to address the misalignment caused by the current system, which is almost entirely bank-dominated outside the UK. Clearly, the respondents do not see banks as the 'go-to' partner for the provision of flexible financing to respond to competitive global pressures. Respondents repeatedly stated that banks are not lending or cannot lend, and that if they do their procedures are too complex for all but large borrowers. This point was confirmed in Brussels by an attending senior banker. He stated that under present regulation it was less 'balance-sheet encumbering' (i.e. less expensive) for a bank in Europe to provide mortgage debt on price-inflated real estate than it was to finance SMEs.

Alternative sources of finance are attractive to respondents, especially Internet based businesses, but their provision across Europe is seen as very patchy. There is a clear wish for the EU to support this area. Respondents complained that increasing the role of the Private Equity/Venture Capital finance sector is not being encouraged by the EU. As a result of this, outside the UK and Scandinavia, respondents did not see Private Equity/Venture Capital as a possibility for their financing needs.

There was much debate surrounding possible EU action, whether it should encourage member states to domestically advocate these financing options or whether the EU should lead the way in its supranational capacity by channelling some of the Juncker development money through new and existing finance providers. In further questioning, respondents preferred the latter, with some lamenting their governments' inability to act quickly.

Initial survey findings – finance



KEY FINDINGS

It is essential for the EU to do more to assist the development of domestic Private Equity and alternative financial sectors

An interesting point made by several respondents in later discussion was that the capital markets and Private Equity environment dominate the USA, while in Europe banks remain preeminent. This cannot continue if Europe is to compete properly with the US, especially taking into account the trend in bank regulation. Therefore, it is essential for the EU to do more to assist the development of domestic Private Equity and alternative financial sectors. Follow-up questions confirmed that respondents saw closer alignment to the US-style system and markets as a solution to this issue.

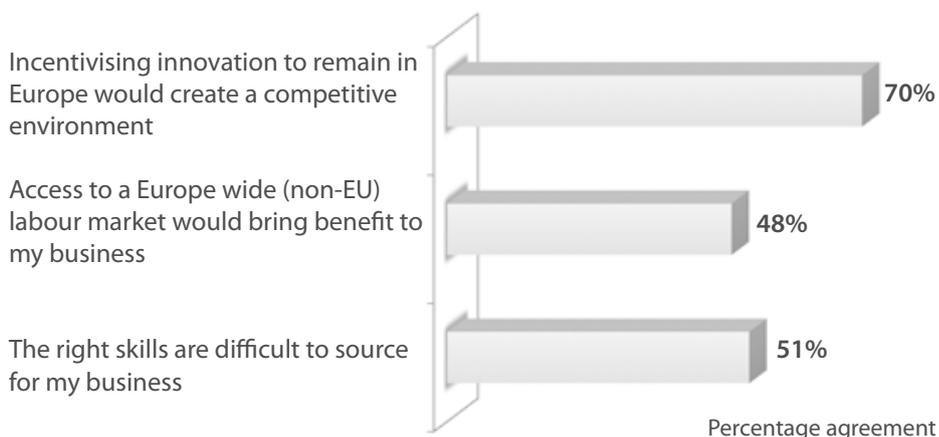
The EU itself was not seen as a source of finance for growth and innovation, except in the East, where structural funds have had an important recent role directly with business.

SKILLS AND MOBILITY

Innovation and its promotion, essential to competitive development, were seen to rely upon closing an existing and serious skills gap. Both the initial survey and qualitative follow up indicated that this problem is felt across multiple business sectors, across a wide range of skills and across the whole of Europe. Hindrances to solving this issue were viewed as highly damaging to growth. Ensuring close cooperation between educators and employers was asserted as being a necessity, and was confirmed as such in both the London and Brussels debates.

It was widely stressed in the survey that cooperation needs to become a reality by the mid-term. However, in the immediate term, gaining access to talent, indiscriminate of its source, is critical. Europe was declared to lag behind the US in skills development, and there were claims that China is about to overtake Europe in this area.

Initial survey findings – skills and mobility



KEY FINDINGS

It is possible that the ongoing refugee crisis, combined with the UK's renegotiation of its position in the EU, will further hamper or delay solving this issue. Respondents engaged in the second round of questioning stressed that a way must be found for accessing key skills, irrespective of their geographic origin, or Europe would face the rapid erosion of its competitive position as a trading bloc.

OTHER ISSUES AFFECTING COMPETITIVENESS

Exchange rate volatility

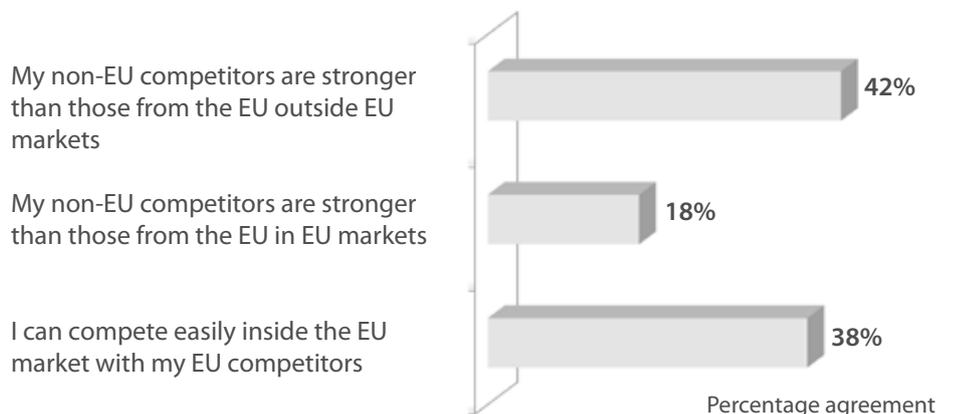
Euro exchange rate volatility was seen as a significant trading issue for the respondents, both within and outside the single currency area. Major imbalances are being caused by volatility in the euro, created by individual government budgetary policies and the aftermath of the 2008-10 financial crises. These factors are disrupting competition in the single market as well as causing problems in global supply chain relationships.

Innovation and flexibility

Although in general our respondents indicated a desire to remain within Europe, there was a sizeable minority (some 28%) who indicated that they would relocate to be able to operate in an environment conducive to competition. This was an issue ignored in the Brussels discussion, and only briefly touched on in London.

Qualitative questioning showed that the minority prepared to leave Europe held this view very strongly, and looked to the USA as a possible location. The view was based firmly on the greater access to flexible finance and skills.

Initial survey findings – competition and markets



KEY FINDINGS

EU identity and 'brand'

Respondents recognised the significant benefit of having both strong national identities and brands, and a common EU identity. This was seen as an assertion of the importance of product quality, coupled with a complementary European 'common brand' indicating quality, dependability and engendering trust.

This point was the most controversial of those discussed in both London and Brussels, and created a clear split in audience opinion. Audience members from larger countries did not discern the importance of this issue for smaller countries. However, all participants engaged in further questioning confirmed that whether they were in support of this concept or not, they did not want the EU to begin efforts to develop a formal 'EU Brand' in any way or form.

Respondents believed that the EU enhances national brands in many cases, with Europe representing quality, reliability and trustworthiness. A European identity allows a business to align with a solid commercial reputation, demonstrating that they operate according to a certain set of high standards. This is valuable to businesses across the region and can offset price issues in competition.

The Evolving Europe Brussels Debate 17 November 2015



The Panel (left to right): Tom Parker, Vice President, British Chamber of Commerce in Belgium (BCCB); David Thomas MBE, Executive Chairman, COBCOE; Philippe de Backer MEP; Thomas Spiller, President, BCCB

CONCLUSIONS

Competitiveness is essential

The results of COBCOE's unprecedented pan-European business survey of close to 1,000 businesses across more than 40 countries have produced clear conclusions. Regardless of where a company is domiciled, reform was seen as necessary for the protection of Europe as a competitive trading bloc. Specifically, the respondents confirmed that there should be three areas of reform focus: regulation, finance and innovation, which came together under the overarching theme of competitiveness.

Heavy regulation and inconsistent implementation hinders growth

Regulation, although heavy, was seen as necessary to maintain quality and trust. However, the inconsistency of its implementation across the EU through wide variation in interpretation between member countries, and sometimes even within countries, was seen to cause much inefficiency and create barriers to economic development. Regulation should be designed and only implemented to support business and drive efficiency, thus creation and implementation of regulatory policy must involve a partnership between business and regulators.

Services need a single market

The lack of a single market in services is having a negative impact on innovation and economic growth in Europe, and leaves European business under-represented in any future trade deals.

The range of financing options must widen

Finance and the development of a broader range of financing opportunities to business is critical, this includes developing Peer-to-Peer platforms. The EC should be encouraged to enable the unhindered development of alternative finance. This should mitigate the present pre-eminence of the banking sector, and align the system closer to the US example.

Filling the skills gap is crucial

A serious skills gap exists across all sectors and geographies in Europe. This is seriously constraining growth and innovation. Ensuring close cooperation between educators and employers must become a reality by the mid-term. However, in the immediate term, gaining access to talent, irrespective of global origin, is crucial.

European identity can benefit business

There is seen to be a significant benefit to competitiveness from having both strong national identities and brands in the area of product quality, coupled with a mutually complementary strong European 'common brand' of dependability and trust.

Lack of reform will cause some businesses to relocate

European companies wish to remain domiciled in the EU, however there is a large section of business prepared to move registration to outside the EU if progress in reform is not made.

PROPOSALS

The responses from European businesses and the discussions following the survey publication have led to the following proposals:

- A change in the way regulation is drafted to minimise the ability of member states to unilaterally interpret regulation, avoiding inconsistency
 - A body to be established within the EC to provide formal, homogenous interpretation and implementation of regulation
 - Implement a single market in services before any other trade agreement is signed (e.g.TTIP)
 - EC to either establish a Peer-to-Peer financing portal for SMEs, backed with cash from the Juncker funds or, more preferably, establish a fund that would invest through existing Peer-to-Peer platforms. This should encourage the development of new portals in member countries in which they do not yet exist, complementing bank lending
 - Allow companies to recruit staff from outside the EU to fill the identified skills shortfall
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FURTHER INFORMATION



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