

Post EU Elections Conversation: *What should businesses expect?*

A BCCD White Paper



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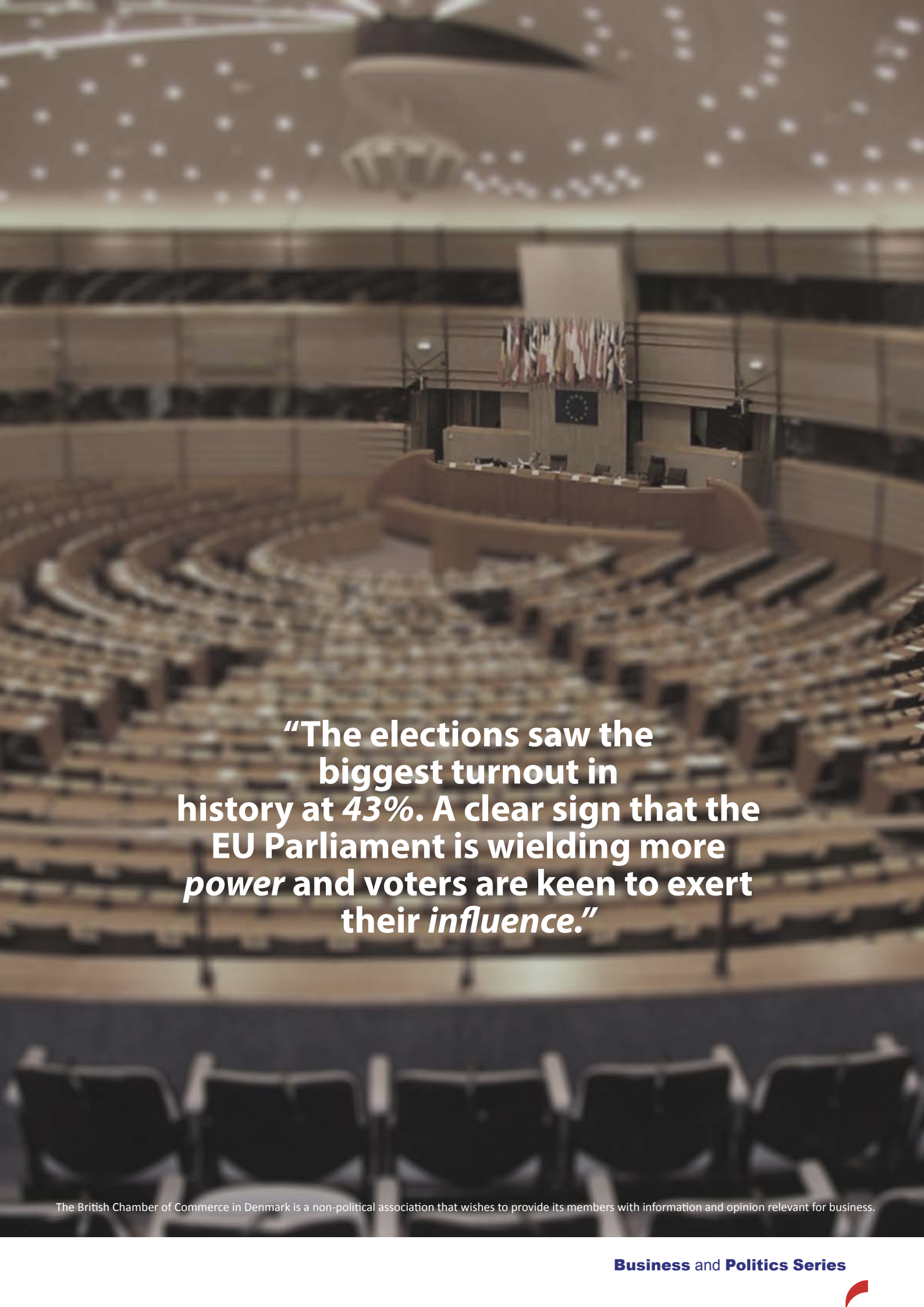
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“The elections saw the biggest turnout in history at 43%. A clear sign that the EU Parliament is wielding more power and voters are keen to exert their *influence*.”

The British Chamber of Commerce in Denmark is a non-political association that wishes to provide its members with information and opinion relevant for business.





Executive Summary

BCCD launched the first series of its Business and Politics Forums to assist its members establish the link between political trends and how they affect their local and cross border operations. Our first event tested the pulse of EU politics after the 2014 parliamentary election to paint a picture of what businesses should expect. Thus the title “Post EU elections conversation: What should businesses expect?”

The elections saw the biggest turnout in history at 43%. A clear sign that the EU Parliament is wielding more power and voters are keen to exert their influence. Not to the surprise of many, results saw a shift towards a euro-sceptic political change, which left businesses in shock as this threatens the single market - the greatest value the European project has given them.

In this white paper, we present the major theme of the event by informing businesses why they should pay closer attention to the political debate around them.

- 1) Europe’s political trend creates risks for today’s European businesses.
- 2) In a brief background, we show why the politics has come to be so important to businesses.
- 3) As a general solution, we propose that non-market strategies as part of an overall business strategy should incorporate more engagement with the current political agenda.
- 4) We present the BCCD -Business and Politics forum concept as a one stop shop to find this solution.

We believe that by attending and actively participating in these events, firms can build up their knowledge and skills of the Public Affairs and Business Development teams to deliver more.

In the last event, experts discussed different political trends taking place within the Union. For instance, the current political support from the Greeks to attract investment means an open invitation for Danish firms looking to tap into cash hungry southern market. That in turn supports the European Central Bank’s policies to see more transfer from surplus in northern countries to their cash-strapped monetary union southern neighbours. Whereas a political decision to take Britain out of the Union will divert businesses focus from expansion to reconfiguring their operations to adjust to the new demands of the British market. Or Danish opt-outs on grounds of social dumping could have implications for Danish service firms eyeing markets in other member states. Please look at the Appendix to this document for a summary of the speakers’ presentations and our analysis.

I hope you find this document useful and will be happy to hear from you.

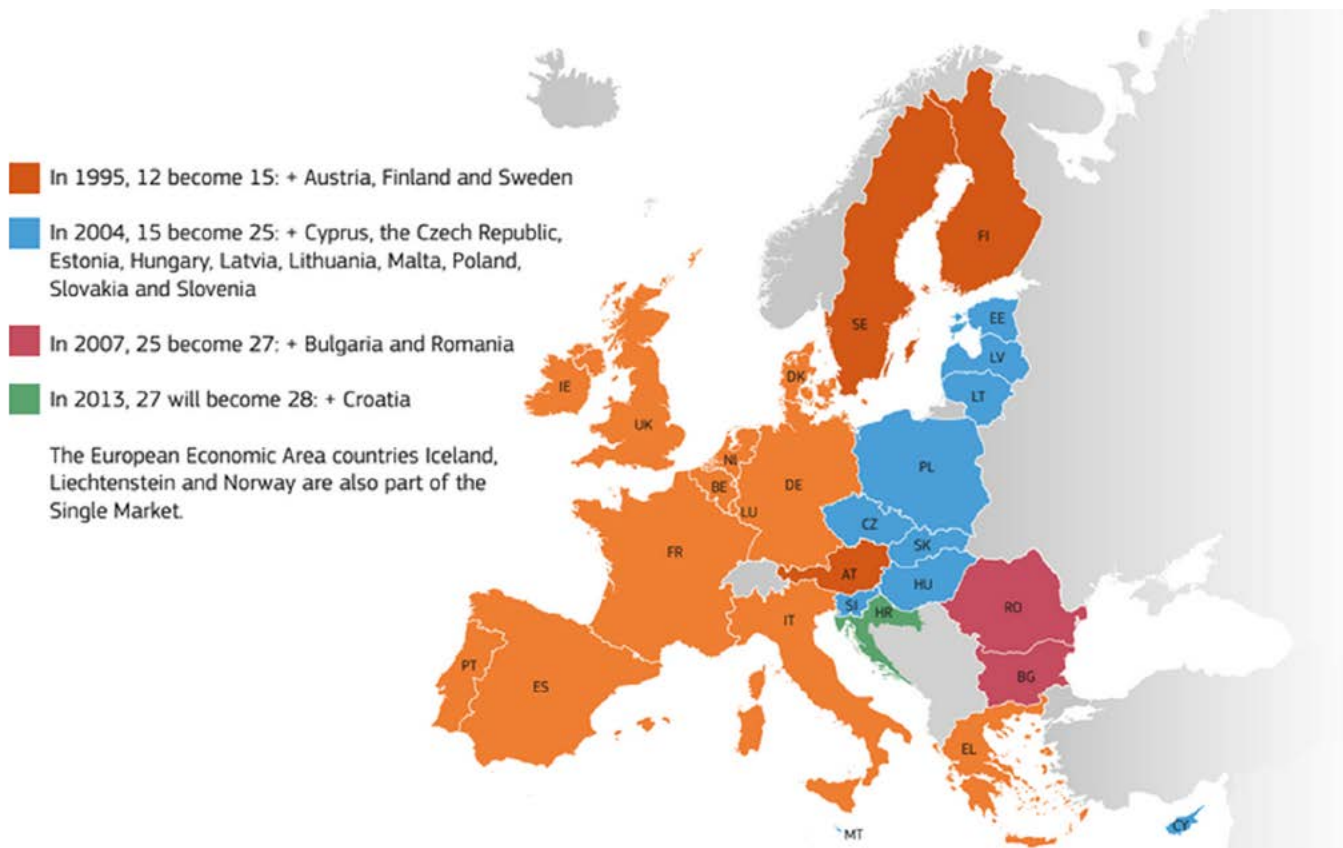
Mariano A Davies
President & CEO

Introduction

EU elections problem but opportunity for business

The shift in EU political ideology has far reaching impact for European businesses. That is why business leaders should be keen to know if the mainstream political platform, say, after an election, presents an opportunity or a problem. Why should they even bother? Since the first EU elections in 1979, the political agenda has shaped policies that either created opportunities for businesses or caused problems for them. Whether by creating new markets by allowing a new member into the Union, a change or the introduction of regulations that increase business profits or raise their compliance cost, accelerating the go-to-market process of new and innovative products or simply creating a new industry from scratch, they have all been circumvented by active political support harboured in various platforms.

An ever growing market



Source: EU Commission Internal Market Directorate (2012)



The issue is, if businesses are not appropriately informed about the economic implications, which underpin the political agenda, they are left vulnerable to market shocks. Resulting policy changes that are not anticipated will make it difficult to avert risk emanating from political decisions. Highest on this list of changes is regulation.

While regulation can bring clarity, market predictability, effectiveness and in some cases develop a new sector from scratch, it can also be a burden on businesses with unnecessary administrative obligations and impose excess compliance cost. A report by EuroChambers (a sister body to BCCD) showed that regulatory compliance cost for EU businesses topped 1 trillion Euros over the last 11 years. The Commission itself through its trade office confirmed that combined administrative and compliance cost amount to 12.6% of EU GDP (€1.6 trillion) and which translate into €3,200 tax for every EU citizen. That is money missing from the consumer-spending budget and will not be good for retail sales.

European businesses looking to expand across Europe to exploit the full potential of the single market are the ones who are ultimately affected by the slightest change in political trends. It affects business growth plans and therefore explains why businesses are faced with the problem of keeping a constant watch. On the other hand, firms that are fully aware and have anticipated changes can turn this problem into a ready opportunity.



Background

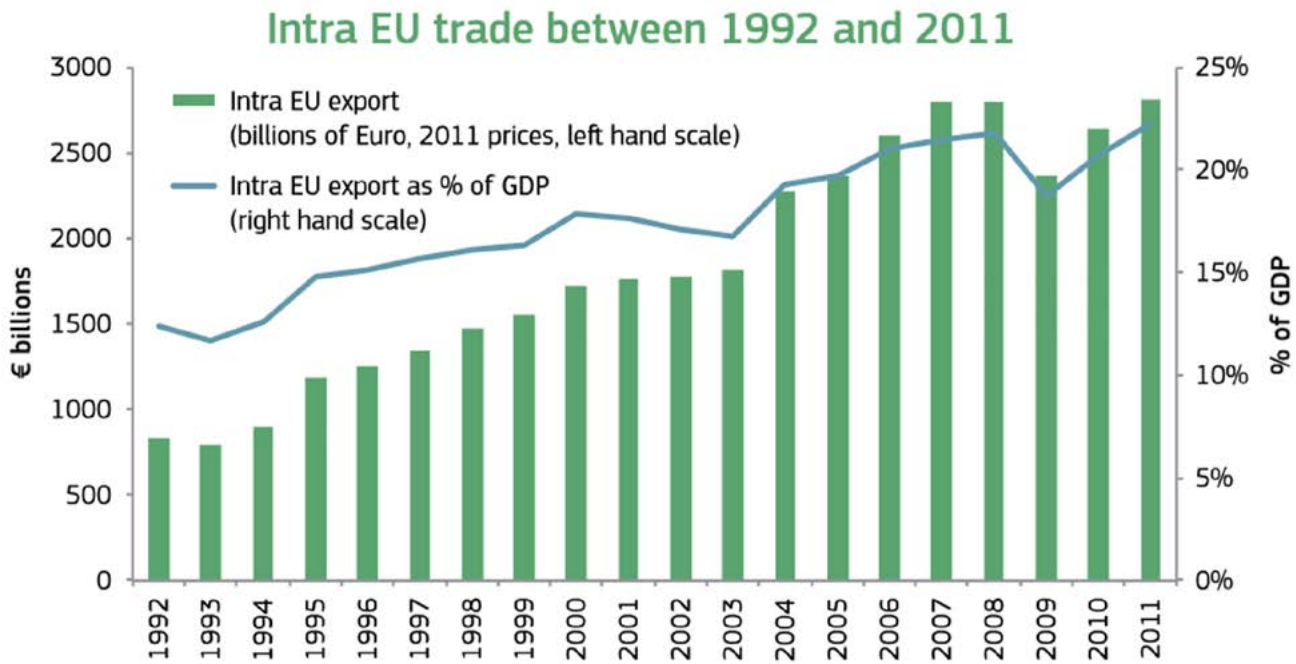
Why EU politics matter in EU business

The biggest concern for businesses regarding the last EU elections has been its impact on the European Single Market or the Single Market(SM). The Single Market became a reality in 1993 replacing national rules with European ones. It reduced the level of complication and cost for any business trying to market a product throughout the Union. A review of the Single Market after 20 years by the European Commission revealed the following:

The Market expanded from 342 million to 500 million citizens making it the 3rd largest in population after China. Furthermore, intra EU trade increased from €800 billion to €2.8 trillion from 1992-2011. External trade went from €500 billion to €1,5 trillion and the number of companies from 12 million – 21 million over the same period. With just 7% of the world's population, trade with the rest of the world accounts for around 20% of global exports and imports. The Single Market is the biggest global exporter and importer of food and feed, with exports of food and beverage products amounting to €65.3 billion and imports to €55.5 billion in 2010. Therefore, in the new world economy, where critical mass creates leverage, a political agenda to increase mass by adding new members such as Turkey should mean something to businesses. This large volume of trade remains the top priority of businesses.



The value of the Single Market



Source: EU Commission Internal Market Directorate (2012)

But why should the election results matter for the Single Market? That is because since the first EU elections in 1979, the power of the European Parliament has grown significantly as can be seen through its growing membership and the 1521 Directives and 976 Regulations it has issued over the period. It presides over the Single Market through the Committee on internal market and consumer protection, but most importantly the European Commission, which regulates just about everything that impacts businesses in Europe. Approx. 80% of the Single Market rules are set out in Directives that are issued by the European Commission that is appointed by the Parliament.

The growing power of the EU parliament

DISTRIBUTION OF SEATS IN EUROPEAN PARLIAMENT
AFTER EUROPEAN ELECTIONS, ENLARGEMENTS AND LISBON TREATY

	1979*	1981	1984*	1987	1989*	1994*	1995	1999*	2004*	2007	2009*	12/2009**	2013
DE	81	81	81	81	81	99	99	99	99	99	99	99	99
FR	81	81	81	81	81	87	87	87	78	78	72	74	74
BE	24	24	24	24	24	25	25	25	24	24	22	22	22
IT	81	81	81	81	81	87	87	87	78	78	72	73	73
LU	6	6	6	6	6	6	6	6	6	6	6	6	6
NL	25	25	25	25	25	31	31	31	27	27	25	26	26
UK	81	81	81	81	81	87	87	87	78	78	72	73	73
IE	15	15	15	15	15	15	15	15	13	13	12	12	12
DK	16	16	16	16	16	16	16	16	14	14	13	13	13
EL		24	24	24	24	25	25	25	24	24	22	22	22
ES				60	60	64	64	64	54	54	50	54	54
PT				24	24	25	25	25	24	24	22	22	22
SE							22	22	19	19	18	20	20
AT							21	21	18	18	17	19	19
FI							16	16	14	14	13	13	13
CZ									24	24	22	22	22
EE									6	6	6	6	6
CY									6	6	6	6	6
LV									9	9	8	9	9
LT									13	13	12	12	12
HU									24	24	22	22	22
MT									5	5	5	6	6
PL									54	54	50	51	51
SI									7	7	7	8	8
SK									14	14	13	13	13
RO										35	33	33	33
BG										18	17	18	18
HR													12
EU	410	434	434	518	518	567	626	626	732	785	736	754	766

* European elections

** 01/12/2009 : Entry into force of the Lisbon treaty.

Source: EU Parliament (2014)



A few important regulations issued by the Parliament, which had sweeping business impact

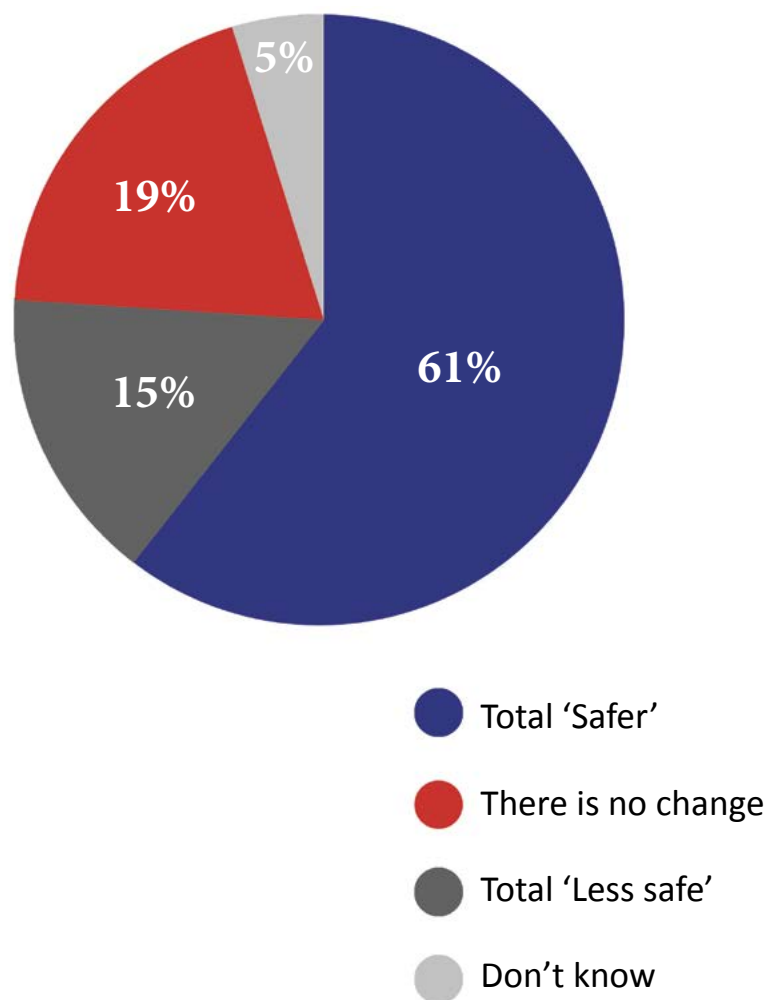
1 The Bolkestein - Service Directive 2006/123/EC of the European Parliament that resulted in the liberalization of services across the Union heavily impacting the construction industry, real estate and professional service industries. It eliminated administrative and legislative burden for businesses by saving some of the cost of up to €5.9 million in some Member States. A Commission survey conducted by the Internal Market Directorate showed that by 2009 the Directive had added 600,000 new jobs and an approximately €140 billion to the EU's GDP (the economic benefit of the Service Directive).

2 The Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) altered the production of chemical and chemical based commodities for European firms forever. It increased compliance cost as production process and supply chain had to be adapted to meet the new standards. However, firms became more competitive by raising product standards for non-EU firms. In addition, the regulation validated the safety of chemicals used in consumer and industrial products, thereby raising consumers' confidence, which in turn expanded the market for producers and users of chemicals within the Single Market. A public opinion survey by the European Commission in 2013, showed that 61% of Europeans say that chemicals on the EU market today are safer than 10 years ago. This data demonstrated widespread consumer acceptance of many chemical containing products on the basis that they had been validated by EU Regulators.



Regulating a market

Q5. Would you say that the chemical substances on the EU market today are safer or less safe than they were 10 years ago?



Source: EU Chemical Agency (2013)



“The Single Market is Europe’s greatest asset and sits at the very heart of its political agenda. Consequently, companies must pay particular attention to what the political outcome could mean.”





Solution

There are two solutions for businesses that find themselves constantly trapped in this dilemma of lagging behind in relation to the political agenda and interpreting what affects their businesses.

1 Businesses must closely follow the political dialogue to secure the design of their non-market strategy as a means of anticipating changes that could potentially have a knock-on effect on precious investment but also to raise profits. According to research by management experts, firms whose non-market strategy encompasses full political awareness are far ahead of the regulatory game and are in better position to shift their activities in response to new changes. Politically aware firms can also influence pipeline regulation by engaging policy makers earlier than their rivals, thereby carving out unique advantages for themselves long before changes impact the market.

2 Ensure that both Public Affairs and Business Strategy teams attend events that create awareness around the political discussions that have direct or indirect impact on their operations. This solution helps both teams to see the mutual benefit of drawing the link between the political agenda trends and the value or risk they pose to their firm at a national or cross-border level for both operations and profits.

Long Term Focus

Firms using this solution will see their team tasked with painting a picture of the link between the political agenda and on how their overall strategy can draw on the expertise and opinions from a variety of independent sources readily available at these events. The opinions of experts can be used to inform agenda in business/industries lobbies and trade unions when pursuing their simplification. A report by the former Head of the Internal Market, Mario Monti, also highlighted that politically informed businesses can assist impact assessment and stakeholders' consultations that are essential to ensuring alignment with the introduction of new regulation.

Furthermore, following policy action through active engagement can help secure new production or market entry strategy to deliver to its full growth potential.



"Powerful businesses are built on the foundation of strong market institutions that have their foundation in politics."

Conclusion

The Value of BCCD's Business and Politics Forums

At the BCCD Business and Politics forums, firms can establish much closer links between today's political decisions and global business outcomes tomorrow. As a forward-looking Chamber, we know that key political decisions like the results of the EU events could have serious implications for businesses, many of whom are our members with interests in Britain and the rest of Europe. Our political independence gives us access to high-level speakers and policy makers that either firms themselves or their trade association would find difficult to reach.

That is why BCCD encourages as many of its members and partners to take full advantage of these forums. Be it national, European or international, each event gathers experienced experts to explore with the business community common political themes and trends. The impact for businesses is that they can then draw normative conclusions that keep them better prepared.

Following each of these kinds of events, BCCD will publish a full white paper recapping the major themes and a pitch as to the way forward.

Powerful businesses are built on the foundation of strong market institutions that have their foundation in politics. So be a part of it. You have nothing to lose and potentially so much to gain.





Appendices

Appendix A – Scenarios

A Synopsis of “Post EU elections conversation: What should businesses expect?”

The speakers provided participants with critical insight from different political perspectives of interest and divergence on the EU and its implication for business. Below are the speakers’ highlights and BCCD’s independent analyses. At the end of the event, participants had more understanding of the political agenda driving the economic changes in these sample economies and Europe as a hold. Feedback from this event has helped the Chamber to improve and develop the concept.

Turkey - How does Turkey see the EU?- Ali Haydar Sen

With 76 million people and €50 billion worth of trade with the EU, Turkey is a critical mass that just cannot be ignored. A decision to let Turkey into Europe will expand the Single Market. A contrasting view, like that of the speaker from Turkey, who advises Turkey not to join the EU, means a huge market is so close but yet so far away.

Greece-The Faith of the Greeks in EU Politics- Harris Ikonopoulou

The crisis in Greece reduced Foreign Direct Investment (FDI) into the country and led to devaluation of assets. The speaker presented a case of a newspaper bought in 2013 for 1 Euro that was initially valued at €300 million in 2006. There are genuine worries about the Euro and the Greek economy’s ability to hang on to the currency. His major caution to business was the need for strengthening Greece’s market institutions and the recapitalization of its banks.

Greece’s debt is dragging its economy down and threatening the Euro. However, it still presents excellent investment opportunities in a new growth health-tourism segment. It has been estimated at potentially €500 million a year- an investment opportunity for surplus countries in the north. Structural reforms should remain a demand from business looking towards that market. At the top of the Government’s agenda was improving the tax systems and recapitalization of the banking sector.



Appendices

Denmark - How do the Danes view the EU?''- Associate Professor Rebecca Adler-Nissen

Denmark wants a less bureaucratic EU with a more liberalized market within the EU and its major trading partners. However, its multiple opt-outs fuelled by labour union interests and a generous welfare system stand in the way of Single Market features such as services liberalization.

As one of Europe's most efficient and productive economies, Denmark is a net exporter and benefits enormously from the Single Market. Trade with other EU countries accounts for almost 69% of its exports and 74% of its imports with Germany being its most important trading partner. The election results saw a swing towards the anti-establishment parties. The Danish result was heavily influenced by powerful Unions, whose concerns are to maintain the employment level of their membership. This could mean a restriction on labour from Member States resulting in high cost for Danish firms in the service industries.

However, the Government's political agenda is to see simplification of regulation, free movement of services, with some reservation concerning social dumping and the finalization of the free trade agreement with the US.

The Single Currency-''Will the Euro survive?''- Professor Niels C. Thygesen

Professor Thygesen confirmed that the Euro made it easier to do business in Europe and made it more robust and resilient against swings that the USD goes through. This has been a success so far.

This resilience to the swings of the USD, he said, is going through a period of consolidation. Irrespective of its challenges, it has made it easier for intra EU trade. It still lacks an insurance mechanism but policies toward a banking union and fiscal rules are steps moving in the right direction. It diminishes the scope of national protectionism and gives more independence from rating agencies.

Professor Thygesen pointed out that the new policies are meant to give more confidence to the market and to businesses.

The Single Market-''What is the British position on the EU and the Single Market?''- The Earl of Dartmouth MEP

The Earl of Dartmouth, who is a UKIP MEP, argues that UKIP has a focus on trade and claims that the Party could be called the UK Internationalist Party. Exports to the EU from the UK are less than 10%. The "huge cost" is that 100% of UK exports are subject to EU regulation.

The UK accounts for 15% of the EU economy. Stepping out would mean that a huge chunk of that pie would be lost plus access to vital capital for business as London is Europe's financial transaction centre. The nearly 30% Euro sceptics UKIP election win increases the probability of UK leaving the EU (in their view). They argue that UK-EU trade is insignificant to the burden of the cost of regulation. They see the main risk to businesses as having to revert to new compliance costs as EU regulations are reversed to independent UK regulation. The question is what will that mean for UK firms operating or planning entry into other Member States?





Appendices

Appendix B – Contributors

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The British Chamber in Denmark is a membership driven market place for bilateral trade between Denmark and Great Britain as well as international business in general. British Chambers are the oldest commercial brand with a very high level of recognition for quality and seriousness that attracts a wide representation of the business community and many guests.

Appendices

Appendix C – References:

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