



# Brexit: a 'lose-lose' situation for EU manufacturers

CEEMET's vision on UK's future  
within the European Union



Council of European Employers  
of the Metal, Engineering and  
Technology-based industries

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*CEEMET is the European employers' organisation representing the interests of the metal, engineering and technology-based industries. Its members are national employers' organisations and federations, representing over 200,000 member companies across Europe.*

**CEEMET is a recognized European Social partner at industrial sector level promoting competitiveness through social dialogue, consulting and joint actions with European level counterparts.**



## The future of the UK in the EU – *access to the Single Market, influential trading bloc, and investment*

CEEMET believes firmly that manufacturers in the UK and across Europe will be better served by the UK remaining a member of the EU.

CEEMET also recognises that EU countries are lagging behind in international competitiveness, which directly affects the ability of companies to grow and invest and is therefore supportive of measures which are designed to improve the competitiveness of the EU. However, the UK re-negotiation should be seen as an **opportunity to deliver reforms for all 28 Member States**, rather than simply a better deal for the UK.

Manufacturers in the UK are clear about the importance of Britain's continued membership of

the European Union: access to a single market made up of 500 million people, the ability to attract more investment and as a springboard for global commerce as part of one of the most influential trading blocs in the world. These are just some of the benefits which are vital to manufacturing and to its long-term economic strength. A vote against the UK's membership of the EU would represent a lose-lose situation for manufacturers in the UK and across the EU. For all of these reasons and more, European manufacturers believe that Britain is better off in.

However, it is also in the interests of the wider European Metal, Engineering and Technology (MET) sector that the UK continues to show strong leadership through positive and determined engagement with other Member State governments, key decision makers and stakeholders in Brussels. It is only by being integral to the economic success of the EU that Britain can help raise the bar and influence the direction of travel for the benefit of all.



## Relationship between the UK and the EU – *risk and detrimental impact*

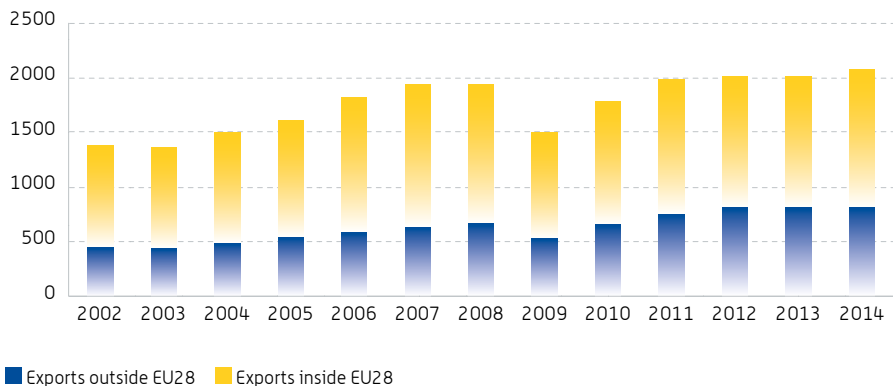
The EU is one of the largest single markets in the world with over 500 million people. In 2014 the UK exported £105bn (€130bn) of manufactured goods to other Member States, representing 46% of total UK manufactured exports, including over 600,000 vehicles. The UK also enjoyed £100bn (€123bn) foreign direct investment in UK manufacturing from the rest of the EU and £3.1bn (€3.8bn) in R&D spending from foreign parented companies in 2013. Indeed R&D expenditures of foreign affiliates as a percentage of R&D expenditures of enterprises is 53.8% in UK, whereas the figures in other large Member States are significantly lower; Germany 26%, France 27% and Italy 24%. There is evidence that the uncertainty over the UK's relation-

ship is starting to affect investments. A report by the EEF, the UK's manufacturers' organisation, highlighted that almost 40% of firms cited this uncertainty as a risk to business plans for 2016 and the third most commonly cited risk overall<sup>1</sup>.

The UK is also a significant market for the rest of the EU with £174bn (€215bn) imports of manufactured goods, which represents 8% of the EU's total exports in 2014.

Manufacturers are often reliant on customers beyond national borders and the level playing field created by the EU's Single Market has primed significant expansion of exports over the past decade (see graph below).

### ➤ EU MET SECTOR EXPORTS

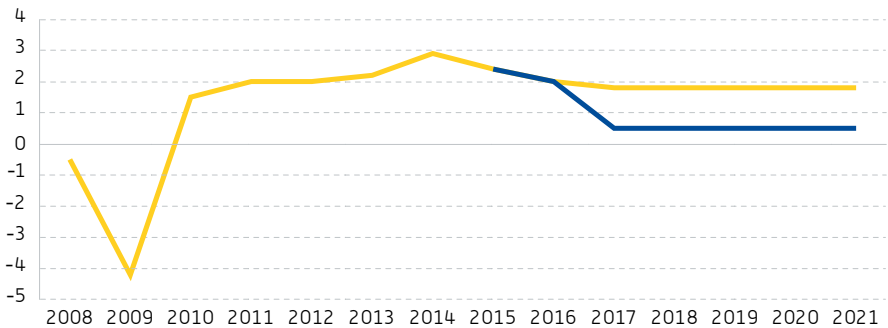


1. EEF Aldermore Executive Survey 2016.

Economic analysis suggests that there would be a substantive impact on GDP growth, particularly for the manufacturing sector, if the UK left the EU (*Brexit*). CEEMET’s own analysis of academic literature of the last two decades suggests that *Brexit* would be strongly at odds with the economic interests of the UK. Leaving the EU would depress productivity gains in the industrial sector and thus significantly weigh on growth and employment. The literature review suggests that although there will be a negative

impact on the industrial sector in the UK through the direct effect on trade and foreign direct investment, the greater impact would be on significant indirect negative impact on industrial productivity. CEEMET’s analysis suggests an overall impact of *Brexit* could trigger a downward effect on annual GDP growth of -0.5% over 15 years. The impact could be even greater as this analysis focused on the impact on the industrial sector and has not taken account of the impact on the UK financial sector.

#### ➤ IMPACT OF BREXIT ON UK GDP (industrial channel only)



■ UK GDP growth rate (for future periods: potential GDP growth rate as planned by the OECD for 2017)

■ Effect of a *Brexit* on the GDP growth rate (industrial channel only)

Furthermore, the analysis suggests that *Brexit* would particularly impact companies which both import and export, typically SMEs and of those particularly medium-sized manufacturers, as non-trading businesses tend to be

smaller. Overall this suggests that *Brexit* would be detrimental to manufacturers in Britain as they import and export more, on average, than others<sup>1</sup>.

1. Assessing the impact of a Brexit on UK industry and GDP using the academic literature, Frédéric Gonand (UIMM/University of Paris-Dauphine), October 2015.

## UK renegotiation – *opportunity for all*

The UK government has set out four key areas in which the UK is seeking reform of the EU and the UK relationship: Economic Governance, Competitiveness, Sovereignty, and Immigration. It is expected that once the UK renegotiation has come to completion and the UK Prime Minister returns to Westminster with the list of reforms, it will mark the start of the real campaign for the UK.

The UK government has called for reforms to make the EU economy more competitive. This is a key issue for all 28 Member States, it is central to the EU project, and the EU must address the fundamental competitiveness challenge. While some of the elements of addressing competitiveness will need to be addressed primarily at

a national level, there are a number of areas that are best delivered at the EU level; better regulation, deepening the Single Market particularly in digital and energy union, and completing radical free trade deals are all key.

The European institutions, and in particular the Commission, are broadly moving in the right direction, with the appointment for the first time of a Vice-president for Better Regulation and the publication of a new Better Regulation agenda in early 2015. The EU institutions must now deliver on this new Better Regulation agenda, on proposals for deepening the Single Market and the Energy Union, and the latest Trade and Investment Strategy.



## Competitiveness – essential for all manufacturers in the EU

The manufacturing industry is the heart and engine of Europe's economy with the metal, engineering and technology (MET) sectors by far constituting the biggest part of the manufacturing industry. With manufacturing growing globally there are many opportunities to be seized. However, EU countries are lagging behind in international competitiveness.

Last year, CEEMET set out its vision for Industrial Competitiveness for a Social Europe with key proposals in three different areas: better regulation, labour market reforms and industrial relations<sup>1</sup>.

The UK renegotiation offers an opportunity to deliver a coherent policy vision for industrial competitiveness.

The European metal, engineering and technology-based industry is a global heavyweight. However its competitive advantage lies in its agile workforce and ability to adapt to changing circumstances. A supportive European industrial policy therefore needs the right employment and social policies to create a better business environment so that EU businesses can thrive, grow, and employ more people. Through industrial competitiveness we are able to support a social Europe, providing sustainable security for those who live and work here.

## Better Regulation – sticking to the Agenda

CEEMET welcomes the Commission's efforts towards better regulation and towards a better cooperation with stakeholders concerning existing EU legislation. However there remains a need for regulation with fit-for-purpose policies, active leadership and active engagement with all stakeholders. The EU must ensure that all policies which impact upon manufacturing's international competitiveness are fully aligned

with the stated aims of this Commission to promote growth and job creation.

CEEMET believes that, despite recent improvements, the burden from existing regulation is still too high. The EU should therefore examine the proposal for a target to reduce this burden, whilst maintaining a high level of worker and social protection.

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1. [Industrial Competitiveness for a Social Europe – CEEMET Manifesto, 2014.](#)



## Better dialogue with Industry – *understanding the real economy*

CEEMET also calls for improved cooperation between policy makers and industry to ensure industrial policy and economic governance reflects the reality for companies.

The European Commission, Council and Parliament need to demonstrate clarity and

single-mindedness on economic growth in their decision making. With fully fit-for purpose and stable framework conditions developed hand in hand with industry, European manufacturing will be in a position to invest and deliver solutions for a better world – invented and manufactured in Europe.

## Deepening the Single Market – *a market that works for all*

On 28 October the European Commission presented a roadmap aiming to unleash the full potential of the EU's Single Market. As part of the roadmap, the Commission intends to improve the recognition of professional qualifications and facilitate the cross-border provision of business services. This will make it easier for companies and professionals to access new markets and will in the long run make genuine European mobility a reality.

Manufacturers have long called for improvements to deepen and strengthen the European Single Market and this strategy is an important next step in delivering this. The single market is important for business, and for Britain, as one of the key positives of membership of the EU.

The Strategy will promote industrial competitiveness and drive strong, sustainable growth

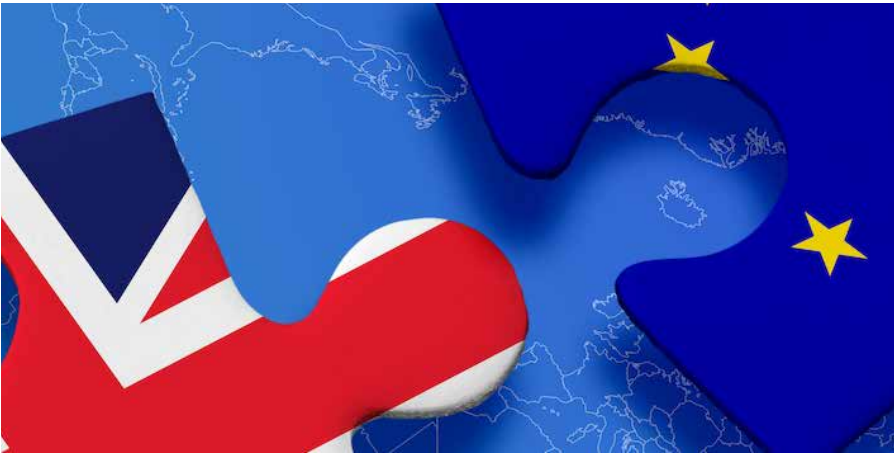
in the EU. Citizens will not only benefit from a better and a fairer deal and the driving down of costs, but will be empowered to work across borders through improvements in the recognition of professional qualifications. We hope that this will go some way to solving Europe's enduring skills mismatch.

For business too, operating on a level playing field will create a more viable case for the badly needed Europe wide investment. A single market of over 500 million people should be an engine for global growth and with a coordinated and integrated single market, alongside a strong Digital Single Market. However the EU must move at pace to deliver this strategy and create a better business environment.

## Trade & Investment – *one of the most influential trading blocs in the world*

A central pillar of the UK renegotiation is the pursuit of trade agreements; CEEMET supports an ambitious trade and investment strategy for Europe. Free Trade Agreements have the potential to deliver considerable benefits in terms of improved trade, economic growth and new employment opportunities for Europe and for the metal, engineering and technology-based industries. However ambitious agreement must rest on evidence-based dialogue and transparent negotiations with the aim of boosting Europe's industrial competitiveness whilst maintaining social standards.

In this context CEEMET strongly supports a future Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US, and welcomes the pursuit of trade deals with China, Japan and ASEAN. CEEMT sees these trade deals as indispensable to stimulate growth for European industry, to contribute to net job creation on a long-term and sustainable basis, to maximize the potential for new high-skilled jobs that meet the needs of an increasingly flexible labour market and finally, for Europe to remain competitive amidst new global economic challenges and other, competing, large-scale trade agreements.



## Economic Governance – *better functioning Eurozone and integrity of the Single Market*

CEEMET is convinced that increased economic policy cooperation and strong economic governance is needed to ensure a well-functioning and globally competitive European economy.

As early as 2011 CEEMET had expressed its strong support for the approval of the recommendations for the Euro area to help Member States restore and maintain economic stability and adjust imbalances within the Euro area. Improving European competitiveness and reinforcing the sustainability of public finances is essential for the future of Europe.

However CEEMET insists that the integrity of the Single Market is protected and recognises the need for all Member States to have a say in issues affecting all 28. CEEMET recognises that the EU is a multi-currency single market and that measures which help improve the functioning of the Eurozone must not be at the detriment of non-Euro countries ability to determine which mechanisms and schemes they voluntarily participate in.

Better functioning of Eurozone cooperation and closer fiscal integration is a key existential question for the EU, notably the Eurozone, however this process must continue to recognise the important role of social dialogue and bargaining play in many Member States and its integrity must be reserved.




## Subsidiarity – *'Europe where necessary, national where possible'*


CEEMET firmly believes that before any new legislation is introduced, the EU must improve the current implementation, simplification and consolidation of the existing EU regulatory framework across all Member States. EU legisla-

tion should only be adopted where its aims cannot be achieved by Member States. Over-regulation reduces EU competitiveness and adds to the image of a bureaucratic and distant regulatory machine out of touch with reality.



## Conclusion

 *The UK renegotiation, represents a unique opportunity to examine the competitiveness of the EU and put in place measures and policies which drive toward the ambitious goal of bringing industry's contribution to EU GDP from the current 15% to 20% by 2020.*

 *However the renegotiation must be seen as an opportunity to create lasting structures and measures for all 28 Member States rather than simply a better deal for the UK.*

 *Therefore CEEMET supports the drive towards a more competitive EU where businesses across Europe can thrive, grow, and employ more people. An EU grounded in the principles of Better Regulation, enabling growth, promoting trade and the concept of Europe where necessary, national where possible.*

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