

# Doing business in an expanded EU

## IoD members' views of EU enlargement

### Introduction

EU enlargement brings both pros and cons for British business.

The benefits are obvious. Although free trade agreements have been in place with many of the 10 new Member States since the mid-1990s, EU membership is widely expected to boost trading links. The stamp of political stability conferred by EU membership should encourage companies to invest in new markets.

On the other side of the equation, enlargement brings new challenges in the form of competition from low labour-cost economies, pressure for a redistribution of EU structural funds and adjustment to decision-making in an EU of 25 Member States.

The April edition of *IoD News* included a questionnaire designed to gauge IoD members' views on these and other issues connected with EU enlargement. The results are presented in this report.

369 IoD members responded to our survey, which was distributed in the weeks leading up to the formal accession date of 1st May. The key findings were as follows:

- Relatively few IoD members are planning to outsource operations to the accession countries, despite the lower labour costs on offer in the new Member States. Just 13% of respondents were planning to move jobs to the new EU nations.
- IoD members have no qualms about recruiting employees from the new Member States. 61% were willing to do so. Among larger companies with 250 or more employees, the figure was 82%.
- 35% of respondents are already doing business with the new EU Member States. Poland, the Czech Republic and Hungary are the most popular trading partners.
- Nearly three-quarters of those already trading with the accession nations expect to increase this business following enlargement.
- Most respondents considered themselves well briefed on the business aspects of enlargement. Over 60% said they were 'very well informed' or 'moderately well informed'.

#### *The Ten New Member States*

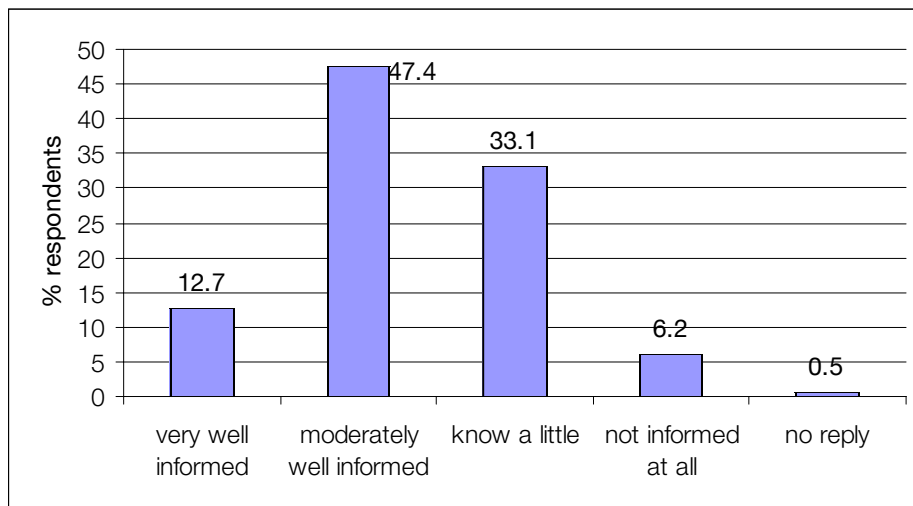
Poland  
Hungary  
Czech Republic  
Slovakia  
Slovenia  
Latvia  
Lithuania  
Estonia  
Malta  
Cyprus

- IoD members were evenly split on the question of whether we can expect to see a flow of jobs from the UK to the new Member States.
- Few IoD members subscribe to the argument that an enlarged EU will be 'wider, not deeper'. 69% expect enlargement to increase the volume of EU-generated regulation on business.

The detailed responses to each question are summarised below.

**Question 1**

How well informed do you consider yourself to be about the business aspects of EU enlargement?



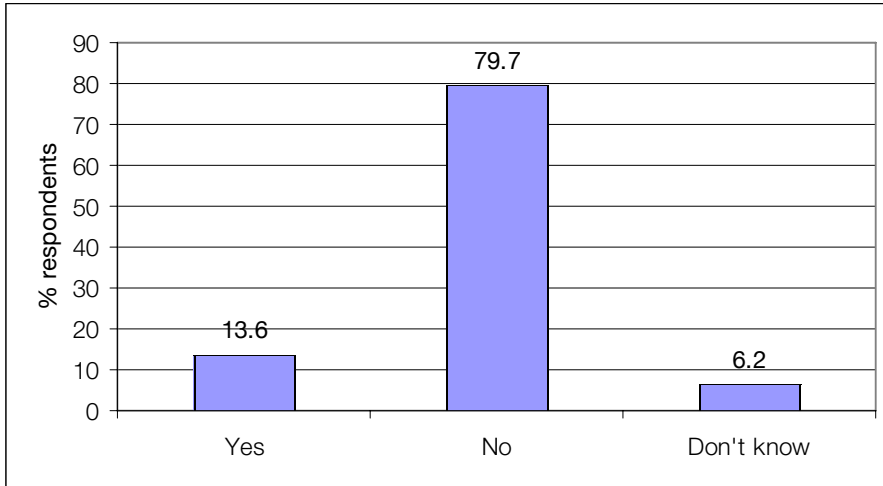
IoD members consider themselves reasonably knowledgeable about EU enlargement, with 60% indicating that they feel 'very' or 'moderately well' informed about the ramifications for business.

In fact, only 6% of IoD members felt that they had no knowledge at all of these issues, suggesting that the blanket publicity given to enlargement in the print and broadcast media has had some impact.

It is no surprise to see that awareness is highest among those members who already do business with the accession nations, with 20.1% of this group indicating that they are 'very well informed' and 51.2% stating that they are 'moderately well informed'.

**Question 2**

Do you have any plans to outsource any of your business' operations to new EU Member States post-enlargement?



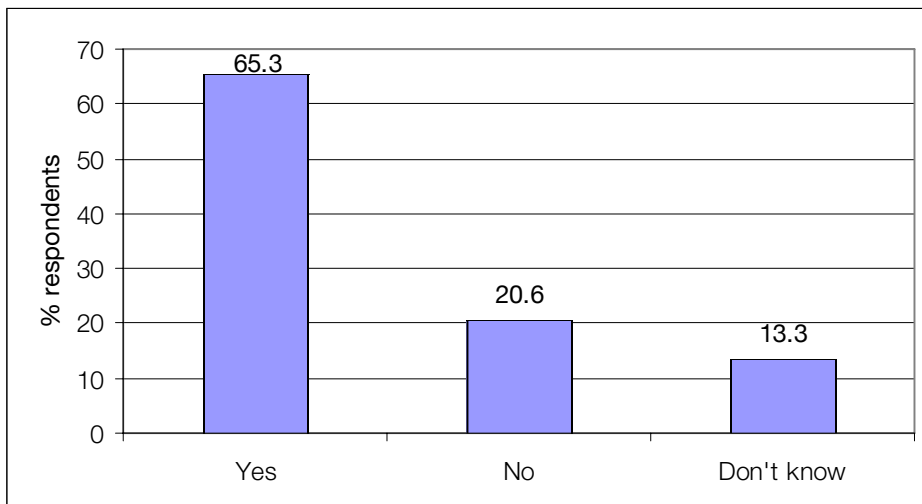
Given the extensive media comments in recent months on the trend towards outsourcing of business operations to countries with lower labour costs - mainly in Eastern Europe, India and the Far East, it is perhaps surprising that relatively few IoD members envisage making such a move in the foreseeable future.

Just 13% of respondents indicated that they plan to outsource operations to the new Member States, suggesting that fears of a massive outflow of jobs from the UK to Eastern Europe are unfounded.

Even among those members already trading with the accession states, the figure is still only 24%. By contrast, 65% of this group have no plans to pursue any outsourcing initiatives with the new Member States.

**Question 3**

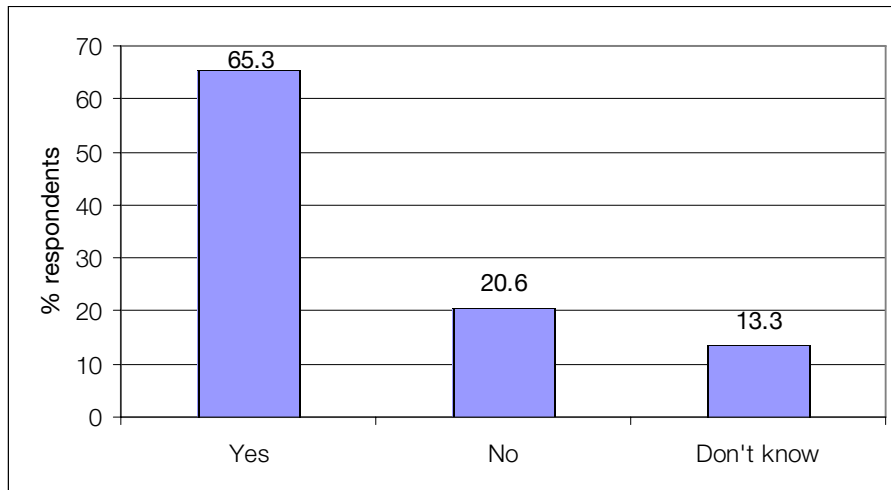
Would you consider recruiting employees from the new EU Member States post-enlargement?



IoD members clearly have no qualms about recruiting employees from the new Member States. This is particularly the case among members from companies with 250 or more employees; 82% of this group indicated that they would consider recruiting employees from the new labour source.

#### Question 4

Do you feel that workers from the new EU Member States can help to plug skills gaps in the UK?



IoD members clearly feel that some of these workers can help to plug gaps in the British labour market.

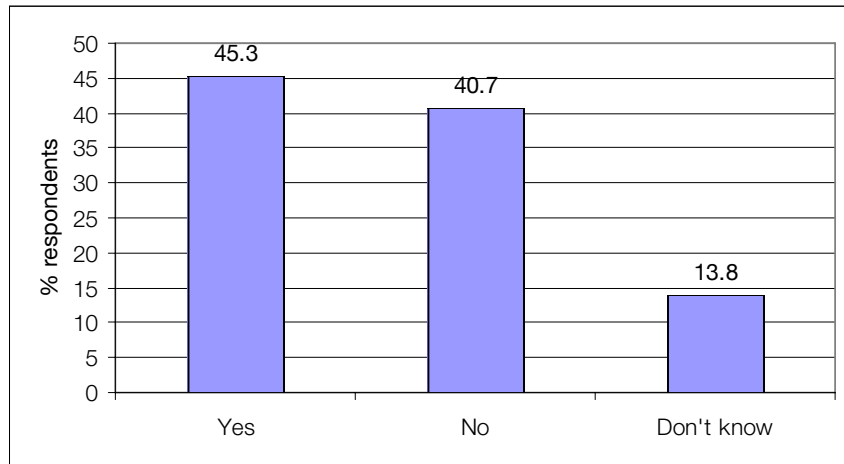
The contribution that these workers can make should not, of course, be seen as a substitute for home-grown solutions to Britain's skills shortages. With 1.4 million people unemployed (on the ILO definition) and 7 million economically inactive but able to work, the priority remains to address the skills gaps through improved training programmes of our own - hence the IoD's strong interest in policy on education and skills.

Recent statistics suggest that media predictions of a post-enlargement rise in inflows of workers from eastern Europe to the UK have proved true - although not on the scale of some tabloid forecasts. Excluding Malta and Cyprus from the picture (as Commonwealth countries, their citizens have special immigration rights) the number of visits from the remaining 'Accession 8' countries totalled 99,000 in May 2004, up from 79,000 in May 2003 and 51,000 in May 2002.<sup>1</sup>

There are, however, anecdotal claims that many of these workers soon return home, dispirited by a combination of low wages, high living costs and exploitation by their own countrymen operating in Britain's black economy. The Polish Government states that, of 15,000 Poles who came to Britain in the six weeks following accession, more than 8,000 have already returned home.<sup>2</sup> Full statistics on these trends are not yet available.

**Question 5**

Do you expect to see a flow of jobs from the UK to the new Member States post-enlargement?



IoD members are almost evenly split on the controversial question of whether we can expect to see a flow of jobs from the UK to the new Member States.

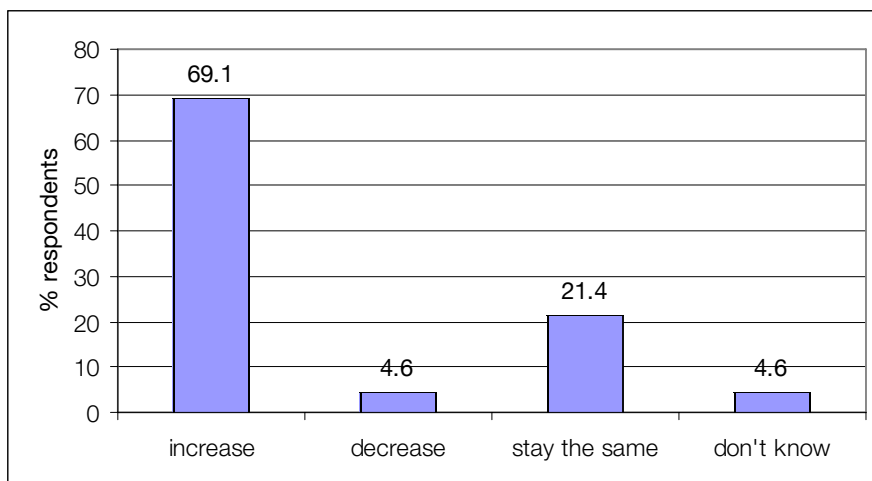
It is interesting to note that expectations of this flow of jobs are higher among those members who rate themselves as well informed about EU enlargement (e.g. 59.6% 'yes', 36.2% 'no' among the 'very well informed').

As previous IoD Policy publications have pointed out, the accession states offer a combination of lower labour costs and (especially in Slovakia, Czech Republic, Hungary and Slovenia) rates of labour productivity that are within striking distance of those in Britain.<sup>3</sup>

This potential for producing goods very cheaply and at standards and speeds that approach those found in the West makes the new EU members highly attractive to manufacturing investment. The extra guarantee of stability that EU membership brings could be expected to add an even sharper edge to their competitiveness.

**Question 6**

Do you feel that EU enlargement will increase or decrease the volume of business regulation generated every year?



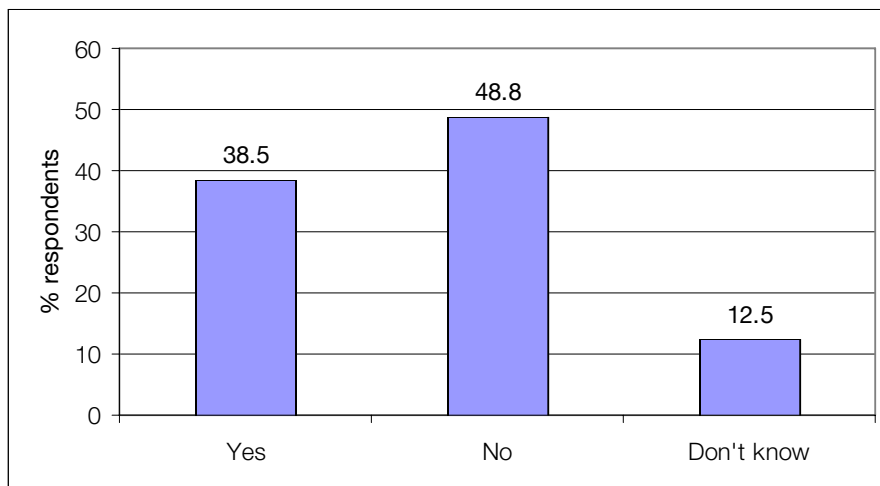
Many politicians have argued that an EU of 25 Member States would be 'wider, not deeper' - that enlargement would make it more difficult to get all parties to agree to new rules and regulations.

IoD members take a more pessimistic view of the regulatory outlook, with 69% expecting the burden of EU regulations to continue increasing post-enlargement.

HM Treasury now estimates that 50% of all new regulations on UK businesses have a European origin and a glance at the IoD's recently published dossier of 'red tape case studies' bears this out. These first-hand accounts draw attention to a wide range of EU burdens on business, including the Integrated Pollution Prevention and Control Regulations, the 'ATEX' Directive on potentially explosive substances and the Working Time Directive.<sup>4</sup>

### Question 7

Would you like to see further enlargement of the EU beyond the current commitments to admit 10 new members on 1 May and Bulgaria and Romania in 2007?



Although there was clearly a spread of views here, the balance of opinion is against further EU expansion.

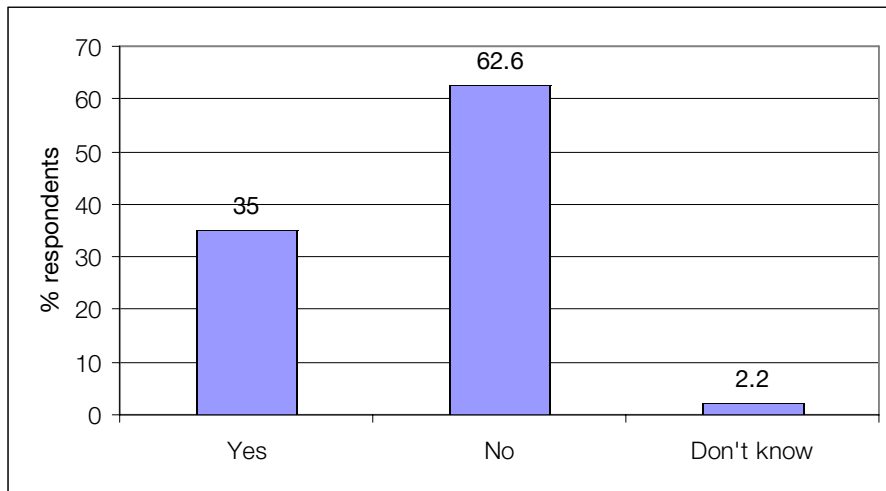
The 48% of IoD members taking this view are unlikely to have their wishes granted, since potential Member States are already queuing up to join the club. Croatia has passed the initial hurdles and will start formal negotiations in January 2005. Macedonia has submitted an application to join and Serbia-Montenegro, Bosnia and Albania can all be expected to follow suit.

Looking further ahead, it is perfectly possible that countries such as the Ukraine and Moldova could be future candidates for membership. Even Russia and Israel could come into the frame - raising fundamental questions about where Europe's borders really lie.

One of the most controversial issues facing EU leaders concerns Turkey's application for membership. The EU will decide this autumn whether Ankara has satisfied the 'Copenhagen Criteria' that are the basis for membership, but the final decision will undoubtedly be based on political factors. Turkey could easily be the biggest EU Member State in terms of population and her Islamic culture and essentially Asian status would make for a decisive change in the character of the EU.

**Question 8**

Do you currently trade with any of the 10 countries set to join the EU on 1st May?

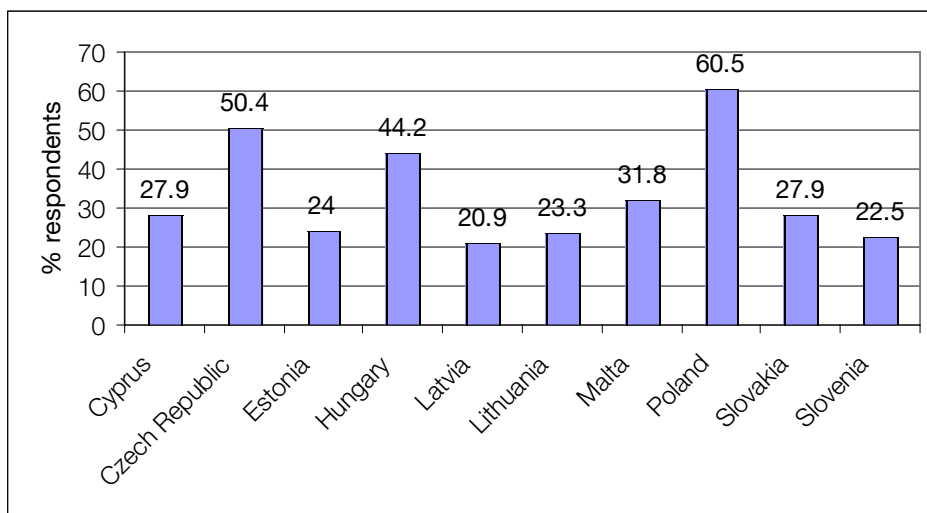


An impressive 35% of respondents reported that they were already trading with the accession nations - even before these nations joined the EU. These IoD members are clearly well aware of the benefits of the bilateral 'Europe Agreements' on free trade, signed by the EU and the accession states in the mid to late 1990s.

The next question, aimed solely at those who answered 'yes' to question 8, attempted to identify which of the accession states were the most popular trading partners

**Question 9**

If you answered 'yes' to question 8, which countries in particular?  
(Members could tick as many boxes as were applicable.)



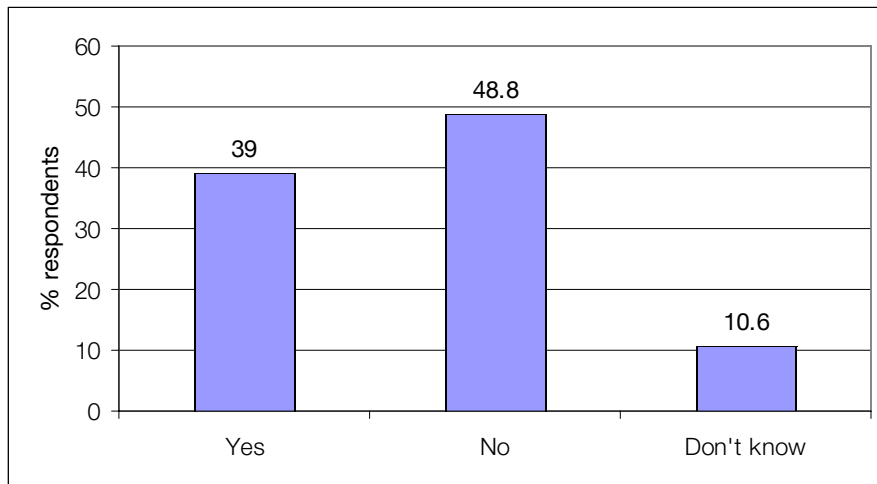
Base: 129 respondents who answered 'yes' to question 8

It is no surprise to see that the most popular trading partner for EU members was Poland - the largest of the accession states by some distance with a population of 38.6 million. The Czech Republic and Hungary took second and third places (both with populations of 10.2 million).

The two smallest accession states - Malta and Cyprus - bucked the trend by occupying fourth and fifth places respectively, undoubtedly because of their historic and cultural links with the UK.

**Question 10**

Do you expect to increase your trade with the new EU Member States post-enlargement?



The headline answers to this question disguise an interesting trend that can be identified by cross-tabulating with the answers to question 8 (Do you currently trade with any of the 10 countries set to join the EU on 1st May).

The response from those members already doing business in the Accession 10 was far more positive. 72% of this group indicated that they expect to increase their trade in the new member States, compared with 39% for all respondents.

**Conclusion**

It is interesting to note that the questionnaire responses from IoD members already trading in the new EU Member States tended to be far more positive about the prospects for developing cross-EU trade than those from members who have not had the same experience.

The challenges for policy makers include the following:

- to raise business awareness of the opportunities available in the accession nations;
- to dismantle practical barriers where they still remain. The proposed Directive on the Internal Market in Services has a vital role to play in helping to remove tackle these problems and complete the Single Market; and

- to ensure that the new Member States do not have their competitive edge blunted by excessive regulation as they adjust to the EU's *acquis communautaire*.

If these objectives can be achieved, then we can expect to see even more IoD members doing business with the new Member States in the future.

*James Walsh*  
*Head of European and Regulatory Affairs*  
*August 2004*

### References

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1. *Visits to the UK from the Enlarged EU*, ONS, July 2004, available at [http://www.statistics.gov.uk/downloads/theme\\_transport/Visits\\_to\\_UK\\_May.pdf](http://www.statistics.gov.uk/downloads/theme_transport/Visits_to_UK_May.pdf)
  2. *The Guardian*, 7th July 2004, p.1-2
  3. *EU Enlargement: not all it's cracked up to be*, James Walsh, IoD Policy, June 2003, p.21
  4. *In Their Own Words: red tape case studies from IoD members*, IoD Policy, July 2004