



## Foreign & Commonwealth Office

### Meeting with Daniel Hodson, Honorary Treasurer, Business for Britain, 4 June 2014

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1. A Foreign Office official met with Daniel Hodson on 4 June.

#### Multinationals and SMEs

2. Mr Hodson focused his initial comments on the impact that future EU Enlargement was likely to have on the British private sector, taking care to distinguish between the likely views of multinational companies and Small and Medium Sized Enterprises (SMEs). Multinationals, he felt, were better able to adapt to new EU regulations, which potentially disadvantaged newer and smaller businesses that did not have the same resources to dedicate to compliance issues.

#### EU Enlargement and the Eurozone

3. Current EU Enlargement policy means that all candidate countries are required to commit to joining the Euro. Further expansion of the EU, and thus a *de facto* enlargement of the Eurozone, will tilt the political balance away from those EU countries not in the Euro, putting them in a more isolated position in the future. This exacerbates the future risk of a 'two-track Europe'. The Chancellor of the Exchequer had secured British banking interests through the agreement of "Double Majority Voting" in 2012, which ensures Eurozone countries cannot outvote non-Eurozone countries when agreeing regulations through the European Banking Authority (EBA). Nonetheless, the future enlargement of the Eurozone may make this position unsustainable in the longer term. Unpicking this deal would damage UK banking interests, as block voting would almost certainly put the UK in the minority. This could result in excessive regulation and a gradual reduction in London's overall competitiveness.

#### EU Enlargement and UK diplomacy in Brussels

4. Further enlargement of the EU, and the consequent dilution of political power that the UK holds in Brussels, would need to be met by a significant increase in UK diplomatic activity in Brussels to help lobby for UK interests. While it was appreciated that the UK Mission in Brussels did much behind the scenes to block unfriendly initiatives or ensure positive amendments were incorporated, recent developments were concerning. According to research conducted by Business for Britain, there was a rapid increase in the number of Council Regulations being adopted which the UK voted against. Mr Hodson suggested that this indicated that

the UK faced a serious problem of winning the arguments in Brussels and forming partnerships with likeminded Member States. An expansion of the EU would almost certainly make this more difficult.

### **The EU as a market for British SMEs**

5. Mr Hodson felt that, while there were benefits to the EU Single Market, some of the advantages are at risk of being overemphasised. To many SMEs wanting to expand to foreign markets, access to the Single Market would not be a priority concern. SME interest was more focused on vibrant, dynamic markets – in particular the newer markets found in the BRICs (Brazil, Russia, India, China) and MINTs (Mexico, Indonesia, Nigeria, Turkey). These markets were increasingly attractive to UK companies looking to expand, and were fast becoming a strong competitor to the EU. As such the membership of, for example, Turkey to the Single Market would not necessarily be an advantage to smaller UK companies looking for foreign markets.