LSE European Institute *Perspectives on Europe* event

The UK in the EU Single Market: What Next? Opportunities and challenges

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Good afternoon ladies and gentlemen.

And thank you Professor Fraser for inviting me here today. It's a pleasure to be here at this fine seat of learning. The LSE's European Institute has long been respected. It is a fine example of how academic and public discussion interact. And takes a broad approach to the subject of the European Union. Allowing the often polarised views on this issue here in the UK to be voiced.

This is an especially important time to discuss the EU - and particularly the single market – here in the UK. Last year we marked twenty years since the single market was created. Next year there will be European Parliament elections. And a change of European Commission. And in the background, of course, is the debate on the UK's place in the EU. A debate that seems to be getting more and more divisive.

The single market seems to be the one thing most people in the UK agree is a positive feature of the EU. And for good reason. It is the beating heart of the European Union.

The single market is our common European space where people, money, goods and services can move freely. It stimulates competition and trade.

But the Single Market does not happen by itself. In the same way as any good system, it needs rules to make it work.

Over the last five years we have mainly focused on recovering from the financial and economic crisis. The priority now is to return to sustainable growth.

The single market is the engine to drive that growth.

And the Single Market is of massive importance to the UK economy. To the tune of between 31 and 92 billion pounds a year. Between 1,200 and 3,500 pounds for each and every family in the UK. Some 3.5 million British jobs are linked to the single market. That's around one in every ten jobs in this country. And the EU is the UK's most important trading partner by far. The EU provides nearly half of all supplies imported here. And buys over 50% of all UK exports. The figure is even higher for small and medium-sized companies. And finally, nearly 70% of their exports go to other EU countries.

David Cameron gave a rousing speech to the Conservative Party Conference a few weeks ago. In it, he was keen to underline that British exports to China, Brazil, India and Russia were all up. That's fantastic news. The fact that British industry and British services are finding their way to customers across the globe is good for the UK economy. And good for Europe's economy.

But remember that those numbers are climbing from a pretty low base. China only buys around 3% of UK exports. Trade with European partners, on the other hand, makes a massive contribution to the UK economy. 8 of the top 10 destinations for UK exports are in the EU.

And British companies know it. They know how important it is for the UK to keep its place at the European Union table. The CBI recently did a survey of its members. Nearly 80% of firms say they want the UK to stay in the EU. Most businesses feel the positives far outweigh the negatives. In fact, when asked, businesses' main concern was to put an end to gold-plating of EU rules in the UK. This is when the British Government adds its own rules on top of European ones. A further 39% want to see EU rules applied evenly across all Member States.

I support both of these positions.

A single market can only work if the rules are applied fairly.

And applied consistently.

Right across the EU.

And you have my word. I will continue to take action when that is not the case.

Take the example of the services sector. The UK has long argued that the single market for services has to be deepened. You are one of the key promoters of doing away with protectionism. Freeing Europe's entrepreneurs to expand and grow. Especially in the digital age.

In this respect, the UK and the European Commission are very much singing from the same hymn sheet. But while we have the same objective, we might not always agree on the means to get there. We take the approach that countries themselves should look at the rules that might be an obstacle to free movement.

This process of having experts from one EU country review the rules and procedures in another is proving very effective.

It puts pressure on authorities to take a long, hard look at themselves. It nudges them to ask: Are the rules they have in place really necessary? Really proportionate? Really helping Europe's businesses and workers?

We are already starting to see the results of this approach. Spain, for instance, has opened many company forms for regulated professions. Hungary has got rid of legal form or shareholding requirements for nearly all professions. Italy has made it possible for professionals to form companies. This is the way forward. Including for the UK which surprisingly perhaps has more regulated professions than nearly any other European Member State.

Ladies and Gentlemen, the UK's influence is also essential in pushing for a more complete digital single market. This will be the main subject at the upcoming European Council.

We all know that there is significant potential in providing goods and services online. Research shows that e-commerce could account for up to 20% of employment and growth in the next five years. But work is needed to create a genuine single market in this area.

We need to accelerate the roll out of a high speed communication infrastructure. Make payment services in the EU more efficient and secure. And move e-government forward. On this last issue alone, using electronic invoicing for government contracts could save up to 2.3 billion euros in the EU.

The European Commission has already made a number of proposals to meet these challenges. On payment services. On a modernised framework for online music licensing. And a wide-ranging e-commerce action plan. I count on the support of the UK in making sure that the legal proposals are adopted and the e-commerce action plan is fully implemented by the end of this European parliamentary term.

There should be no doubt about my commitment to the single market. No doubt about the commitment of all my colleagues in the European Commission to making sure that the single market supports growth. Indeed, drives growth.

Too much EU red tape is a recurring concern. But since 2007, we have cut the administrative burden on SMEs across the EU by 25%. The Commission announced a few days ago a programme of simplifying – and even withdrawing – EU rules and regulations. Called REFIT. To make life easier for businesses and citizens and drive economic growth. We have helped cut the costs of starting a business. We introduced an SME test as part of our assessments of the impacts of EU policies. And launched tools to help small businesses like venture capital funds and entrepreneurship funds.

But we are not complacent. Of course there is still more work to do.

One more point. The single market is not just an economic project. It affects people in their daily lives. The student from Swansea on Erasmus in Salamanca. The manufacturer in Manchester finding suppliers in Maastricht. The lawyer from Ljubljana working with a law firm here in London. The British banker financing a start-up in France – why not?

And where we have people, we can't just talk economics. We have to take the social into account too. I know that some in the UK would like competence over social and employment law to be given back to the Member States. I know there has been constant resistance to laws like the Working Time Directive.

But social rights and the free market are two sides of the same coin.

You say you want the single market. You want people to be able to move freely. So that British retirees can have a warm retirement on the Costas. And Latvian young people can staff Britain's hotels. You want to deepen the single market for services. Well, if you want these things, then some minimum social and employment laws have to be in place. To avoid unfair competition and social dumping.

Another challenge that is often put to me from the UK is opt-outs. I've often read that the UK would like to use the 'emergency brake' procedure more. To prevent you from having to accept regulations you do not support, particularly in financial services. But you have to understand there is no such thing as a single market and a separate financial services market. They cannot be prised apart.

Why is this? Because to opt out of rules on financial services would be to open a Pandora's box. Every Member State has its own priorities. Its own areas of particular interest. If each of them was to put on the emergency brake, we could end up with a situation where: Germany opts out of legislation on carbon emissions; Italy fails to open its professions up to competition; Poland decides that its loss-making shipyards should continue to get state support indefinitely. I am sure you get the picture.

The UK is not a special case in wanting to protect its golden goose. But neither is it in Europe's interest for the City of London to lose its place as one of the world's top financial centres. And it's not our intention.

Of the hundreds of pages of rules that have been re-written over the last four years, there is only one on which the UK has ultimately been outvoted. And that was on bankers' bonuses.

The fact we usually manage to find a compromise is not only a sign of the UK's skill in negotiating. But also of the general desire among the other EU member countries. And the Commission, as well as the European Parliament. To meet London's expectations in an area that is so important to it.

Another future challenge we have to face is the balance to be struck between the euro area and the other members of the European family. The shared responsibilities and cross-border links within the euro area require specific measures. To make the single currency work. Eurozone members have deepened the ties between their economic and budgetary policies through substantial new legislation and governance procedures.

They have also decided to create a Banking Union, an ambitious but vital project. And one that I have confidence will be completed in the coming months. These measures are what is needed to put the euro on a permanently solid footing.

And a strong eurozone will help the single market as a whole. The banking union will benefit euro–ins and euro-outs alike.

At the same time, I do understand concerns about the impact on non-euro countries. Especially the UK with its huge financial sector. We have no intention of marginalising those outside the euro area. Or leaving them behind. Nor do we intend to undermine our Single Market.

The UK and other non-euro countries have obtained the safeguards they need, in particular as regards voting arrangements. And the Commission will continue to play its independent role outside the euro governance structures.

Watching out for the interests of the EU28 and not just the euro 18.

Ladies and gentlemen, the UK is entering a decisive period. Taking a stance on its relationship with the rest of the EU. Starting with the campaigns for the European Parliament elections next May. And the UK general election the year after that. Finnish Prime Minister Jyrki Katainen said last January that the EU without Britain would be like “fish without chips”. I thoroughly agree. In terms of your focus on competitiveness. Your role in shaping the single market. Your strong history of free trade and wider global outlook.

The UK brings so much to the European family.

As Commission President Barroso said during his State of the Union speech last month, “if you don’t like Europe as it is, improve it”.

Ladies and Gentlemen, you can’t reform a club if you have given in your membership card.

You could try to live within the single market but outside the EU. But if you did, you would suffer the Norwegian syndrome. This means having to contribute to the budget and implement all the agreed rules. Without having a real part in designing them. And still be stuck with all the rules on financial services. The single market that the UK supports so strongly could become very different without you at the negotiating table.

It is your choice of course, but it is my very strong hope that you will not allow that day to come.

Thank you.