

March 2011

A review of major policy developments in Brussels, London and Washington, prepared for BABC member companies.

[BABC Policy Update:](#)

[UK Bribery Act 2010](#)

We wrote to the British Lord Chancellor and Secretary of State for Justice in February 2011, to express our deep concerns about the uncertainties surrounding the application of the new Bribery Act and the problems these are likely to cause for our member companies and the business community at large, as well as on the reputation of the UK as an investment location. We urged that the yet-to-be-published Guidance on the application of the Act must clarify a broad range of issues such as the “adequate procedures” companies must take to prevent bribery and exactly what would be regarded as acceptable levels of corporate hospitality. We also offered to contribute to the development of this Guidance, to ensure that it is both transparent and workable. This intervention follows other recent representations we have made to the British Government, about the potentially negative impact of other government policies, such as the cap on skilled migrants and taxation increases.

[London](#)

[UK Sales Tax Rises to Cut Deficit](#)

Sales tax in Britain has recently gone up to its highest ever as part of the effort to bring down the country’s budget deficit. VAT – or Value Added Tax – on most goods and services has risen from 17.5 percent to 20 percent. UK finance minister George Osborne said the alternatives – higher income or payroll taxes – would make the British economy less competitive. The Labour Party opposition has warned that the VAT increase will actually cost Britain more jobs. The Office for Budget Responsibility has calculated the tax increase will cut Britain’s economic output this year and next by nought point three percent. Sales tax in Italy is also 20 percent, in France it is 19.6 percent and in Germany 19 percent.

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[Brussels](#)

[Hungary Assumes the EU Presidency](#)

The start of 2011 saw Hungary take charge of the bloc’s rotating presidency. Europe’s debt crisis, treaty change, the budget and the Roma migrant question are all expected to top the agenda in the coming months and Hungary has been keen to display it has what it takes. However, not everyone is pleased. Moves by Budapest to tighten controls on the media and seize private pension assets have angered several EU partners. The UK, Germany and Luxembourg have all issued unusual

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public rebukes.

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Brussels

IMF: Europe Should Increase Financial Rescue Fund

The International Monetary Fund has told Europe that it needs to strengthen its financial rescue fund. In its latest updated World Economic Outlook, the IMF said unless that is done there is a greater risk of renewed global. The two speed recovery can be seen in its forecast for this year. That includes 9.6 percent growth for China, three percent for the US and just 1.5 percent for the euro zone. The IMF believes that the global economic recovery began to gain pace in 2010, but it says advanced economies still pose the biggest risk to recovery.

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London

Record UK Goods Trade Gap

The UK's goods trade deficit rose to a record high during November – a development that will raise further concerns about fourth-quarter economic growth in the UK. The trade imbalance was mostly due to imports of oil and aircraft and analysts said that was probably a one off event. The underlying deficit, which strips out such volatile items, narrowed from October's record high. The improvement was driven by a sharp rise in car exports, suggesting firms were starting to feel some benefit from the relative weakness of the pound. Britain's surplus in trade in services improved, but not by enough to offset the widening deficit in goods. Sterling fell immediately after the data, but recovered its losses as investors digested the detail of the report.

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EU's New Risk Watchdog Meets

The European Systemic Risk Board has met for the first time. The EU's so-called 'super-watchdog' is designed to monitor Europe's financial sector and highlight emerging problems for relevant authorities to act on. Jean-Claude Trichet, head of the European Central Bank, and of the board, said it will have to gain "strong moral authority." It is likely that warnings would be issued about public debt as well as banks. That would put Greece firmly in its sights and the board met as it was reported that officials in Germany's finance ministry are working on contingency plans to handle the fallout in case Greece defaults or needs to restructure its debt.

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London

Shock Q4 Contraction for UK Economy

The harshest December weather on record meant Britain's economy shrank by 0.5 percent in the final three months of last year. However, even without the heavy snow, Britain's economy would have struggled to register any growth according to the Office for National Statistics. That assessment startled financial markets and sent the pound tumbling against the dollar and UK shares dropped. The British government is

about to embark on deep spending cuts but finance minister George Osborne said this will not derail his austerity plans.

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Eurozone Inflation hits 2.4% in January

Inflation in the euro zone jumped more than expected in January. Consumer prices in the 17 countries using the euro rose 2.4 percent year-on-year in January after a 2.2 percent rise in December. That put it above the European Central Bank's target of below, but close to two percent, which is likely to fuel market speculation the ECB might have to raise interest rates sooner than thought. Economists have blamed higher inflation mainly on more expensive energy and food.

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