

January 2011

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

## Policy Action:

### Limits on Non-EU Economic Migration

In September 2010, we responded to the British Government's invitation to comment on their proposals to limit non-EU migration into the UK by submitting a detailed paper outlining our concerns: namely, that these proposals, and in particular any restrictions on intra-company transfers, would be very damaging to the interests of our member companies and to the UK's reputation as an investment location, and reinforce the view that the British Government no longer fully understood the needs of business or the demands of a competitive global market.

In November, the Government announced its decision to exclude intra-company transfers from the cap, as we had argued, albeit subject to a minimum salary requirement of £40,000 and maximum stay of five years; but to reduce the number of other skilled workers allowed into the UK from outside the EU by 6,300 (less than we had feared, but more than we would have liked) to 21,700.

In our response, we welcomed the Government's acceptance of our argument on intra-company transfers. But we noted with regret the new salary and term restrictions, and the reduction in the number of other non-EU skilled workers allowed into the UK, and undertook to monitor the experience of our member companies as these new rules are implemented and to continue to represent their views to government on any resulting impediments to the conduct of their business in the UK.

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### London

#### UK and France in Unprecedented Defense Deal

Britain and France are to sign far-reaching defense treaties that will see military co-operation between the two countries reach unprecedented levels. The NATO allies and Europe's only nuclear powers will share nuclear technology and equipment, and create a joint rapid-reaction force. Several thousand strong, the force will include elite units from both countries, and will be ready to take part in NATO, EU or UN missions. British and French aircraft carriers will be made compatible so that each country can fly their planes off the other. The ultimate aim is for only one carrier to be at sea at all times. The enhanced nuclear co-operation has been described as particularly significant.

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### Brussels

#### Euro Zone Manufacturing Rises Unevenly

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Factories in the euro zone boosted their output in October at a faster pace than previously estimated. The revised Markit Manufacturing Purchasing Managers Index came in much better than economists had forecast. The survey of around 2,000 businesses showed Germany once again leading the upturn, with Spain and Ireland both recovering while Greece continued to struggle. The survey showed factories across the 16 countries using the single European currency hired staff at the quickest rate since March 2008 last month. Economists expect the uneven economic recovery will force the European Central Bank to keep interest rates on hold at their record low of one percent until late next year.

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### London

#### Britain Signs Trade Deals with China

A UK trade delegation to China led by British Prime Minister David Cameron has secured its first major deals in Beijing. The biggest so far is a contract worth 860 million Euros for Rolls Royce to supply and service engines for a major Chinese airline. It is part of Cameron's aim to double Britain's trade with China within five years. "We want a stronger economic and business relationship with China – we are the fifth-largest economy in the world, but we have only two percent of China's imports," Cameron said. Britain is counting on exports to drive growth as deep budget cuts dampen the prospects of consumer spending back home.

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### Brussels

#### Euro Zone Growth Slows

Economic growth in the euro zone slumped between July and September compared to the previous quarter. The European Union's statistics office, Eurostat, said GDP in the 16 countries using the euro grew 0.4 percent that is less than half of the one percent expansion in the second quarter. GDP expanded 1.9 percent year-on-year. Economists said growth is likely to slow further due a divergence between robust Germany and the weaker euro zone nations. The third quarter expansion was mainly thanks to continued robust growth in the euro zone's biggest economy, Germany, which grew 0.7 percent on the quarter, for a 3.9 percent year-on-year rise. The second biggest, France, saw GDP growth of 0.4 percent quarter-on-quarter and 1.8 percent year-on-year.

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### London

#### UK Services Sector Surprises with Growth

Britain's services sector has shown a surprise hike in October activity according to the latest figures. On the back of the PMI data, which covers firms that account for 40% of GDP, the Bank of England are now widely expected to postpone further stimulus unless the economy dips again. However, last month's Spending Review has left some companies cautious, with continued uncertainty over spending cuts.

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### Brussels

#### EU Agrees Permanent Rescue Fund

The EU has agreed to set up a permanent rescue fund to help euro zone members struggling with sovereign debts. EU treaties will now be revised to allow the fund to be set up in 2013. However, any euro zone country that needs help will be made to act on cutting its deficit. Germany insists countries should not be able to access bailout money too easily. The fund replaces the temporary mechanism set up in May. Greece and Ireland have already received some of that money, while investors expect Portugal and Italy to seek help next.

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