



Policy Focus

A bi-monthly review of major policy developments in Brussels, London and Washington, prepared for BABC Member Companies

April/May 2007

Brussels/Washington

EU approves 'open-skies' agreement with the US

On March 22, 2007, EU Transport Ministers approved an 'open-skies' accord allowing EU airlines to make US flights from anywhere within the EU instead of being restricted to fly from their home country only.

According to a study for the European Commission, the agreement will lower airline fares and increase annual EU-US traffic by 26 million passengers to about 73 million over five years. The study also argues that the agreement could produce consumer savings of about 12 billion euros (\$16 billion) and generate about 72,000 jobs. The accord is due to be signed by the EU and US at the EU-US Annual Summit on April 30, 2007. [LINK](#)

Brussels

2009 deadline for EU institutional reform

During the EU's 50th anniversary celebrations, at an informal summit in Berlin on 25 March, EU leaders stated their intention to have a new treaty in place by 2009. German Chancellor and holder of the EU Presidency Angela Merkel is aiming to present a roadmap for a new treaty at the EU Summit on June 21-22, 2007. Not all EU leaders share Angela Merkel's view and some see her timetable as unrealistic. [LINK](#)

Brussels

New pipeline will bring Russian oil to the Mediterranean

Russia, Greece and Bulgaria have agreed to build an

London

Chancellor Gordon Brown's Budget 2007

On Wednesday, March 21, 2007 Chancellor Gordon Brown delivered his eleventh Budget. The Chancellor met a central demand of business and agreed to reduce corporation tax by 2 per cent to 28%. The Chancellor painted a picture of sustained economic growth, with an improved balance between consumption and investment. [LINK](#)

Follow this [LINK](#) for Chancellor Gordon Brown's speech in full.

London

Law firms must offer more financial transparency

Legal Services Minister Bridget Prentice has urged law firms to be more open about the way they operate. In an interview with the Financial Times Ms Prentice agreed with comments that the minimal financial details released by many firms made them out of touch with a world where big business had to demonstrate that they were acting responsibly. She also added that she thought that reform of the profession was still possible despite the heavy lobbying over the Legal Services Bill now going through parliament. [LINK](#)

London

New rules for international VAT fraud

New rules will be introduced on June 1, 2007 making it more difficult for organized criminals to steal VAT from the UK tax payer. The measure is called the "reverse charge" and is an important part of the Government's strategy to tackle Missing Trader Intra

oil pipeline linking the Bulgarian port of Burgas and the Greek port of Alexandroupolis to reduce congestion at the Bosphorus Strait. The deal on the pipeline's construction has been under discussion since 1993 and was finally concluded on March 15, 2007. The pipeline will further increase Europe's energy dependency on Russia which already supplies a third of Europe's oil and 40% of its natural gas. Russia holds 51% of the consortium with Bulgaria and Greece sharing the remaining 49%. [LINK](#)

London

UK draft Climate Change Bill

On March 13, 2007, UK Secretary of State for Environment, David Miliband, laid out the UK's plans to reduce green house gas emissions.

The draft Climate Change Bill includes the following points: binding targets to reduce emissions by 60% by 2050 and between 26-32% by 2020; binding five year carbon budgets, set 15 years ahead to provide clarity for policymakers and certainty for business; setting up a Committee on Climate Change, giving advice and guidance to the Government; and annual and transparent reporting on progress to the national parliament. [LINK](#)

London

FSA increases monitoring of commodity markets

The arrival of new players has increased risks in the commodity markets and the Financial Services Authority (FSA) has said that it would increase monitoring of commodity markets after having identified several challenges faced by participants including exchanges, banks and investors. Staff levels will not be boosted but one person will be reallocated to look more closely at energy, metals and soft commodity markets in London.

[LINK](#)

Washington

Concerns for macroeconomic outlook as new home sales in US drop 3.9%

Sales of new homes dropped 3.9% in February and purchases in January were also lower than expected. The trend comes during the spring selling season and is expected to shake the construction industry's confidence that demand is stabilizing. Sales in February were 18% lower than one year ago and many economists fear that the market could be

Community (MTIC) fraud. A new VAT accounting system will be applied to mobile phones and computer chips, which are the goods most commonly used in fraud. It is hoped that removing the opportunity to steal VAT on business-to-business transactions will prevent MTIC fraud in these goods.

[LINK](#)

Washington

Automakers pledge to manufacture flexi-fuel cars

In a meeting with President George W. Bush on Monday, March 26, 2007, Detroit automakers hardened their pledge to make half the cars they manufacture compatible with ethanol fuel by 2012. The pledge came during a White House meeting where President Bush reiterated his support for using ethanol and renewable fuels.

The President's '20 in 10' plan would cut US gasoline consumption by 20% in 10 years by using non petroleum fuels like ethanol and boosting fuel economy standards. However, very few of the US' fuel stations (1094 out of 170, 000) sell E85 (15% gasoline and 85% ethanol) and consumer advocate groups argue that carmakers are taking advantage of a loophole in federal fuel economy regulations allowing them to obtain extra fuel economy credits for flexi-fuel vehicles and doing very little to cut petroleum consumption. [LINK](#)

Washington

Gasoline and housing blamed for the fall in consumer confidence in the US

The New York-based Conference Board's index of consumer confidence fell to 108.5 from 112.5 in February, according to the median forecast in a Bloomberg survey of 65 economists. The index is still higher than the 105.9 average for 2006. Job gains and rising pay have helped the American consumer hold up very well. Mortgage defaults are contributing to unease and retail sales rose less than forecast as higher fuel costs limited spending on other goods.

[LINK](#)

pushed lower by the sub prime mortgage crisis. Michael Moskow, President of the Chicago Federal Reserve, stated that this could become an issue for the macroeconomic outlook if the troubles impacted availability of credit markets generally. [LINK](#)

Forthcoming Events

London:

1 June: Department of Trade and Industry (DTI) consultation on the Implementation of EU Directive 2005/56/EC on Cross-Border Mergers of Limited Liability Companies closes

Washington:

30 April: EU-US Annual Summit, Washington D.C.

Brussels:

18 May: EU-Russian Federation Summit, Samara/Russia

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