



EU Updates - August 2011

Eurozone

ECB buys €22b government bonds, in an attempt to ease the [Eurozone debt crisis](#) that is threatening to engulf [Spain](#) and [Italy](#). The ECB had suspended its bond buy-back programme earlier this year; however the latest buy-back exceeds the past record for total value bought by €5.5b.

Plans for closer economic integration of Eurozone have been unveiled by [France](#) and [Germany](#). The proposals include enshrining deficit limits in national law and introducing biannual summits, to be chaired by [European Council](#) President, [Herman Van Rompuy](#). However, France and Germany refused to increase the EFSF rescue fund, and dismissed euro bonds as only suitable when further European integration has been achieved.

ECB hailed as saviour of Europe by MEPs and EU rotating presidency, despite criticisms from other key bankers and finance leaders. ECB chief, [Jean-Claude Trichet](#) was marked out for particular praise, having decided to buy Spanish and Italian bonds against the advice of members of the ECB's governing council.

Second [Greece](#) bailout in trouble after a number of EU states call for collateral transfers from Greece to secure their loan contributions. The first to call for such a deal was [Finland's](#) government, which earlier this year, committed to securing collateral in return for taking part in future bailouts. Finland agreed a bilateral agreement with Greece on the matter; however the deal was then reversed as a number of other states were frustrated by the seemingly preferential treatment.

Moody's threat to downgrade France's AAA economy saw another dip in the markets. President Sarkozy introduced a number of austerity measures to prevent the downgrade.

Mini Franco-German Summit fails to alleviate Eurozone pressures. International markets have been left jittery as further problems develop with Greece's second bailout. French President Nicholas Sarkozy and German Chancellor Angela Merkel put on a united front speaking at a joint meeting in Paris. They agreed that eurobonds were not an appropriate response to the economic turmoil instead favouring further economic and fiscal integration as the way forward. In particular, closer economic governance in the Eurozone, including biannual summits (potentially to be chaired by Herman Van Rompuy) was their preferred solution. The pair also announced plans to develop a common corporate tax base between their two countries, by 2013. Their meeting also ruled out an increase in the European Financial Stability Fund.

Economy

Only 8 European banks fail stress tests set by the European Banking Authority (EBA). The result is surprisingly good, and has reignited criticisms that the tests are too lenient, failing to reflect market expectations that Greece will default on its debt. Of the 8 banks that failed the test, 5 are in Spain, 2 in Greece and 1 in [Austria](#).

EU leaders step up pace of reforms after US downgraded. Rating agency Standard and Poor's downgraded US debt from the highest level of AAA to AA+, in an unprecedented move. Consequently, several EU member states pressed the ECB and eurozone legislators to ratify an agreement made last month to upgrade the €440 billion EFSF, so that the ECB could buy Italian and Spanish debt.

Oli Rehn apologises for "bad communication", attempting to diffuse tensions caused by comments made by Commission President Barroso about the state of the EU's economy. The Economic and Monetary Affairs Commissioner came back early from holiday to speak to press in Brussels, where he highlighted efforts by the Commission to ensure decisions made at the July eurozone summit were better understood by the markets.

Spain first EU state to enshrine constitutional guarantee of budgetary stability. The decision follows the advice of Germany and France, and has received strong support in the Spanish Parliament. The new legislation will define the debt limit, and there have been calls for other countries to follow suit.

Ban on short-selling financial stocks extended by France, Italy, Spain and [Belgium](#). Short-selling is the practice by which investors borrow shares and then sell them on in the expectation that they will fall in price, and can then be bought back for cheaper. All the bans will be temporary, although the precise duration for each country has not yet been determined. The UK and [Netherlands](#) have, so far, not joined in on the ban.

[Poland](#) **pushes for 'bold' 2014 EU budget**, arguing that its own recent experience stands as a strong example of how EU funds "spent wisely" can result in economic growth. The country boasts a 4.3% growth rate in the last quarter, however the [UK](#) and Germany have been less enthusiastic about Poland's plans.

Technology

[European Commission](#) **criticises [Bulgarian](#) phone charges.** The Commission warned the country's telecommunications regulator to tackle the increasing costs of phone calls, which are currently the highest in Europe despite Bulgaria being one of the EU's poorest countries. Prices were last lowered in 2009, after European intervention, however there has been little progress since. A particular target for reform are mobile termination rates (MRTs), by which operators impose a fee each time a call is made to another network. This has led to many Bulgarians carrying several mobile phones, each on a different network, in order to avoid the charges.

Google under fire for antitrust complaints. EU regulators are investigating 9 separate complaints, although the European Commission has only confirmed four cases. Regulators are now pressing the internet giant to reach a settlement, having opened the investigation into the company in November 2010.

European Commission to review controversial REACH project, which introduced regulations compelling chemical manufacturers to justify that their products were safe for consumers, in an effort to protect consumers' health and the environment. Originally adopted in 2006, the regulations caused intense conflicts between the heads of the chemical industry and green campaigners, calling for the review of some 100,000 chemical substances that had been widely available on the market for some time, although only a small proportion of chemicals have in fact been subject to this review.

Samsung Galaxy phone banned from sale in a number of EU countries after Apple wins patent infringement case. A district court in the Netherlands ruled that Samsung had copied an Apple iPhone feature regarding how photos are shown on the device. However Samsung declared the ruling a victory after the court rejected several of Apple's other claims.

Social EU

European Commission approves €1.4m for redundant Portuguese. Each of the 680 workers who will receive a share of the EU Global Adjustment Fund (EGF) were made redundant from the country's shoe manufacturing industry, which suffered badly during the recession. The money will be used to provide the workers with additional training so that they can find new employment. The grant must now be approved by the European Parliament.

Widespread social problems exacerbated by the Eurozone crisis. Social housing in several EU countries has become unaffordable. There are high levels of unemployment in many EU member states and many of those in work are on frozen wages, yet living costs continues to increase. Home foreclosures are also rising, particularly in the Eurozone's poorest countries.

Foreign Policy

Catherine Ashton announced the EU will resume its chairing of talks between Kosovo and [Serbia](#) after they broke down in July. Serbia cannot move to candidate status until it recognises Kosovo, something its government refuses to do.

All member states in favour of Syrian oil ban except Italy. The Italian government is asking for a ban date of late November, as it says it will make no difference to Syria if the ban comes in to play now as EU member states have already paid for their oil upfront until November.

Catherine Ashton echoed Barack Obama's calls for Syrian President Bashar Assad to step down, saying he has lost all legitimacy in the eyes of the Syrian people.

EU oil companies prepare to return to Libya. The rebels have indicated that those supporting countries, such as NATO states, will be allowed to drill for oil, whereas other countries like Russia, who were less-inclined to help the rebels, will lose out.

Justice and Home Affairs Policy

A new Ipsos poll shows widespread international dislike of immigration, including across EU member states. Over 65% of the British people polled agreed with the sentiment "there are too many immigrants in our country". The release of the report ties in with recent Schengen troubles and the growing criticism that the EU's Schengen rules, as they stand, are not up to scratch.

EU Energy

UN suspends Romania's right to trade surplus carbon emissions, after it was revealed that the country had breached rules on emission reporting. The ban from the Kyoto carbon market will operate with immediate effect, and will continue until Romania can implement an adequate emissions monitoring system.

EU states

France – President Nicolas Sarkozy has stated that the French government will introduce new austerity measures in an effort to maintain the country's triple-A credit rating. Proposals may include closing tax loopholes, as well as cuts in department spending. The announcement comes as France's growth figures stagnated, although credit rating agencies have commented that the country remains in a stable position.

Spain – The Spanish Government announced further austerity measures, in an attempt to cut its deficit whilst stimulating economic growth. It is attempting to make €5 billion worth of savings, including through a new charge on some medicines and other front-line tax payments. However, there are also plans to slash the sales tax on houses by half, to encourage the purchase of some of the one million unsold houses in the country. Spain also announced its election date as 20 November.

Germany – German Chancellor Angela Merkel has been listed by Forbes as the most powerful woman in the world.

UK - New EU-sceptical parliamentary group to be formed. Instigated by three of the new cohort of MPs, they will be, according to their invite letter, "an informal group of like-minded MPs who could come together to talk, receive regular quality topical briefings, exchange ideas and, indeed, provide support and helpful advice to the government."

Italy – Italy has been criticised for removing a proposed tax on the rich from its emergency austerity package. The 'solidarity tax' had been set at 5% for those earning more than €90,000 a year, and 10% for those earning in excess of €150,000 a year. However, parliamentarians – who can up earn up to €140,000 – will still be subject to this tax. The move will reduce the cuts savings by €2 billion.

Cyprus – President Demetris Christofias has appointed a new cabinet, including economist Kikis Kazamias who, it is hoped, will lead the country out of financial disaster.

Other States

Serbia – Serbia is pressing the EU to refrain from making demands with regards to its relationship with Kosovo, after German Chancellor Angela Merkel instructed the country that it had to relinquish control of the province in order to join the EU. Deputy Prime Minister Bozidar Djelic had expressed the intention to “define a date for the beginning of membership talks” soon after the war crime fugitives Ratko Mladic and Goran Hadzic had been arrested, stating that there was “no doubt” that the country would earn candidate status.

Ukraine – The EU and US have condemned the arrest and imprisonment of former Ukrainian PM Yulia Tymoshenko for contempt of court. One of the key figures in the Orange Revolution of 2004, Tymoshenko is the country’s leading opposition politician and has been fiercely critical of President Viktor Yanukovich. The arrest came during her trial for abuse of power; she denies forcing state energy company Naftogaz to illegally sign a gas supply contract with Russia in 2009, when she was still Prime Minister. Throughout the trial, Tymoshenko refused to stand for the judge, who she repeatedly accused of being the President’s “puppet”, and after several days she was taken to a detention centre by police escort. The EU has been in discussions with Ukraine in an effort to strengthen bilateral ties with the country, and eventually create a free trade zone.

- President Viktor Yanukovich has commented on the progress made by Ukraine since it declared independence from the Soviet Union two decades ago, describing it as “a modern and dynamic country”, and stating that it is fast moving towards becoming a “proud members of the European Union”. When Ukraine first became independent, it faced weak growth and large scale unemployment, however direct foreign investment increased by 35% in 2010, and Yanukovich has predicted a strong role for the country in boosting the European economy.

Russia – One million residents of Kaliningrad will be able to travel to neighbouring countries without Schengen visas, under new Commission proposals. The Russian territory is situated between Poland, Lithuania and the Baltic Sea, and the measures are intended to enhance economic cooperation and the movement of people. Poland and Lithuania would be able to issue special permits, although they would only be effect within a 30km or 50km distance from the Russian border. The proposals still require the agreement of each of the member states before they come into force.

Georgia – The EU and NATO have refused to recognise elections in the Abkhazia region of Georgia, in which Moscow loyalist Alexander Ankvab received a majority, with 54.9% of the votes. Although the result has been welcomed by the Kremlin, Georgia has condemned the election as making a “mockery of international law”, as each of the three candidates standing opposed reunification with Georgia. Similarly, EU foreign policy chief Catherine Ashton has rejected the results, and European Parliament president, Jerzy Buzek, stated: “The European Union does not recognise the constitutional and legal framework within which these elections have taken place.”

Switzerland – Switzerland is negotiating bilateral agreements with a number of countries to crack down on tax evasion, following concerns from EU member states. The country already has such agreements compelling clients in the UK and Germany to pay a levy on secret accounts held in Swiss banks. The levies will allow clients to retain anonymity, whilst preventing them from escaping tax outright. The UK agreement would charge an initial levy of 19-34%, with 48% on future income, and could raise up to £5 billion by 2013.