



November 13, 2006

## Economic News

### U.S. Trade Deficit Drops

The U.S. global trade deficit dropped by 6.8% to \$64.3 billion in the month of September – the biggest drop in more than five years and in stark contrast to the all-time high reached in August. Specific to the U.S.-EU trade balance, the U.S. trade deficit with the EU fell to \$7 billion in September – down from \$11 billion the month before. Most analysts attribute this narrowing to falling oil prices allowing for a slowing of U.S. imports and upsurge in exports. Indeed, U.S. global exports in September finished at all-time high at \$123.2 billion.

### Confidence in Eurozone Economy Up-the same for the 25-nation EU

Eurozone economic confidence was at its highest level for more than five years in October – spurred largely by the fact that in the second quarter of 2006, the Eurozone economies showed the fastest rate of growth for six years. Overall Eurozone growth is now set to end at 2.6% for 2006. Meanwhile, the combined 25-nation EU economy is on course to reach 2.8% for 2006. However, many analysts expect that 2007 and 2008 will not report similar optimism in the EU.

## U.S.-Europe News

### U.S.-EU Ministerial Summit in Washington

Last week government officials from the U.S. and EU came together in Washington in an effort to strengthen transatlantic cooperation during an informal ministerial summit. At the forefront of the discussions was a renewed commitment towards further easing investment barriers and protecting piracy and counterfeiting to boost U.S.-EU trade. There was also a vow to better join efforts on energy security – energy diversification, promote greater energy efficiency and encourage clean energy technology. Last but not least, the U.S.-EU covered how to help move the Doha Development Agenda forward following its fallout this past summer.

### The EU and Energy Giants – No More

The EU Commission and its DG-Competition branch desire a break-up of energy giants operating in the EU that control both the supply of energy and its infrastructure. Seeking an unbundling of ownership within the energy industry, the Commission will propose a review of EU energy legislation in early 2007. Facing steep opposition from industry, many member states and within the EU government itself, it is uncertain whether or not the proposed reforms will gather enough momentum to move forward.

### EU Enlargement – What Happens Next?

As the EU prepares to welcome Bulgaria and Romania in January 2007, the questions still remain as to whom next, when, and in what capacity? The next absorption phase covers the countries of the Western Balkans and Turkey – which are each at various stages in the process of joining the soon to be 27-nation union. What the Commission foresees is not a repeat of 2004, but instead a country-specific accession process. There are too many forces playing against simultaneous membership – public

disengagement, the failed Constitutional treaty, the readiness of the next phase candidate countries and where the road for enlargement ends. As stated by the Commission, it is not only a matter of inviting countries to join the EU but also (and more importantly) it is a matter of integrating them into the EU way of thinking.

#### **U.S. Ready to Accept Russia into the WTO**

After much hard work over the past thirteen years, it is expected that as early as next week the U.S. and Russia will finalize bilateral talks on Russia's accession into the World Trade Organization (WTO). The U.S.'s support is crucial if Russia ever hopes of joining the 149-nation body. U.S. Trade Representative Susan C. Schwab said following the announcement that the agreement is, "...an important step in Russia attaining membership in the WTO. It is a clear indication of Russia's efforts to participate fully in and benefit from the rules-based global trading system".

#### **KPMG Reports on Corporate Tax Rates**

Based on its annual corporate taxes report, KPMG recently published an analysis on international corporate tax rates between 1993-2006. Surveying 86 countries around the world, the report concludes that there is positive correlation between low corporate tax rates adopted by countries and attracting growth and inward investment. However, this is not a "race to the bottom", KPMG says, and country economic policymakers must first assess their own macro-economic structure before automatically adopting low[er] rates. The report in entirety can be read at <http://www.kpmg.com/NR/rdonlyres/D8CBA9FF-C953-45FA-940A-FAAC86729554/0/KPMGCorporateTaxRateSurvey.pdf>.

#### **Multinationals Investing More in Research and Development**

Largely due to the upsurge in global competition within the private sector, the top 1,250 companies around the world are increasing their spending in research and development (R&D) by an average of 7%, reported the UK Department of Trade and Industry's International R&D Scoreboard. While the overall conclusion illustrates that all companies are investing more, European companies as a whole, have only spent 5.6% more as compared to a 15.4% increase by U.S. companies. Ford was ranked the top global company in R&D investment.

#### **EU Commission Approves U.S. Rice Imports Testing**

After calling for mandatory testing for a GMO rice strain – LLRICE601 – for U.S. rice imported into the EU, the EU Commission has formally adopted the Standing Committee on the Food Chain and Animal Health's recommendation and immediately put the measure into effect. The U.S. opposes the testing and will continue to lobby for its retraction.

#### **U.S. Elections Bring Democrats Back into the Limelight**

On November 7, the U.S. mid-term elections voted in a new Congress putting the Democrats back into the majority after 12 years. Besides the war in Iraq, global trade, taxes and immigration reform are likely priorities. Working with its local chambers and Federation members, the U.S. Chamber of Commerce held fundraisers, educated voters, and organized get-out-the-vote efforts. Pro-business candidates won 19 of the 35 House races specifically targeted by the U.S. Chamber, and 4 of 12 in the Senate. A majority of pro-legal reform candidates won races in which the U.S. Chamber's Institute for Legal Reform (ILR) worked to educate the public on the importance of issues such as enforcing the rule of law with integrity and impartiality. The U.S. Chamber of Commerce will continue to work with and support members of the new Congress from both sides of the aisle who favor pro-business legislation and it remains optimistic about implementing the business agenda.

#### **Bulgaria Re-elects a President**

On October 29, the incumbent Bulgarian President Georgy Parvanov was re-elected in a run-off, commandingly winning over his ultra-nationalist challenger with almost 76% of the vote. He is now set to lead Bulgaria into the EU when it joins in January.

#### **Serbia Passes a New Constitution**

On November 8, the Serbian parliament certified a new constitution after having been confirmed in a nationwide referendum in late October. Ridding of the Milosevic-era past, the constitution defines Kosovo as an integral part of Serbia.

#### **U.S. Chamber of Commerce in Action**

On November 28, the U.S. Chamber of Commerce will host a conference, "Next Steps for the American Trade Agenda". Focusing on the future of the U.S. international trade agenda after having just elected a new Congress, leading government and business trade representatives will offer their perspectives. The keynote speaker will be U.S. Trade Representative, Susan C. Schwab.

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