Radical Options for Scotland and Europe

ROSE BRIEFING 39
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## DECLINE IN EU ECONOMY FORECAST TO CONTINUE

The EU Commission released estimates in February of projected growth by the end of 2021 reducing the previous forecast of 4.2 per cent for 2021 to 3.8 percent. There are sharp differences in the estimated contraction in GDP for the two years 2020 and 2021 from country to country. For Germany it will be -1.8 per cent, for France -2.5 percent, Italy and Spain -5.4 percent and for Greece -6.5 percent. For the US the combined growth estimate for 2020 and 2021 is +2.3 percent growth and for China +10.1 growth. UK loss over the two years 2020 to 2021 is estimated at -5.9 per cent.

Current levels of unemployment vary from 4.6 percent in Germany to 7.9 in France, 9.0 in Italy, 15.8 in Greece and 16.0 in Spain.

Political differences are currently emerging as to how far fiscal stimulus will continue after Covid – and in particular over the continuation of any stimulus that redistributes funds to weaker economies. An alliance is developing led by the new Netherlands prime minister Mark Rutte, Denmark Austria and Sweden to push for fiscally conservative policies.

## CONFLICT WITH BRITAIN OVER VACCINE SUPPLY

The EU Council meeting on 25 March will decide whether to block or limit further supplies of vaccine, or vaccine components, from factories within the EU involved in the supply chain to Britain. As of 22 March the current vaccination rate across the EU was 12 per cent. In Britain it was 42 per cent. One significant source of supply of AstraZenica comes from an AZ factory in Netherlands.

EU problems with vaccine supply appear to arise from its failure to place contracts at an early stage with the major suppliers. None of the viable vaccines are made by EU-owned firms. Pfizer is US-based and owned. AstraZenica is British-based and Anglo-Swedish owned. Moderna is US-based. Sputnik is Russian and Sinovac Chinese. The British government funded Oxford University research in February 2020 and signed contracts with AstraZenica for its supply and production in May 2020. The EU placed no contracts till August-September 2020. EU validation agencies delayed authorisation for the use of AstraZenica till later in 2020 – and France and Germany subsequently queried its safety and suspended use more than once. The EU commission has also banned the use of Sputnik although Hungary and Slovakia have defied the ban.

Subsequently EU leaders have come under sharp criticism for its very low levels of vaccination in face of a third wave in infections. In January 2021 the EU Commission President Ursula Von der Leyen unilaterally invoked the override clause in the EU Agreement with the UK in an attempt to stop supplies of AZ vaccine travelling through the Republic's 'open' border to the North of Ireland (the ban was withdrawn after protests from the Irish government). Over the weekend of 20-21 March Mrs Von Leyen announced that the EU Council meeting on 25 March would be asked to consider halting or reducing the movement of vaccines from AZ factories or suppliers within the EU to Britain.

## EU INVOKES EU COURT OF JUSTICE OVER INFRINGEMENTS OF UK AGREEMENT; REFERS 2012 GIBRALTA 'STATE AID' CASE TO EUROPEAN COURT OF JUSTICE

On 15 March the EU sent Britain a formal letter indicating it had initiated 'infringement procedures' against Britain. The issue was the delay in the institution of health checks on the agricultural produce transported across the Irish sea to Northern Ireland until September 2021. The European Court of Justice would have power, if the complaint is upheld, to impose higher tariffs on British exports to the EU.

On 19 March the EU Trade Commissioner Vestinger referred a 2012 complaint against 100 million euro of state aid to companies in Gibraltar to the European Court of Justice.

Negotiations on a deal between Britain and the EU on financial services continue. They are due to end on 31 March. There is, so far, little indication of progress.

## UK ECONOMIC POLICIES STRESS CENTRALISED CONTROL

Prior to the budget the Chancellor stressed that his priority was spend enough to sustain the economy under Covid but then radically reduce borrowing levels. He noted that the national debt level in February was higher than at any time since the early 1960s and that the markets had increased government borrowing costs by 0.5 per cent over the previous month. The budget made very limited commitments to spending post-Covid. Companies will be able to claim back 125 per cent of what they spend on capital investment over the next two years but will then face an increase in Corporation Tax to 25 percent thereafter.

The government's 'levelling up' programmes involve little or no spending. £4 billion is allocated to City deals (the cost of the HS2 rail link is, by comparison, £100B). The eight 'Free Ports' get no direct cash: companies are instead freed from some planning regulations, some customs and excise charges, some labour regulations and some liability for tax on earnings. Past experience from Enterprise Zones indicates that the main effect will be the migration of existing firms with little or no net increase in employment. The Zones will also be insulated from any regional or local democratic control. The other 'levelling up' initiative is to transfer civil servants from London – about 10 per cent of existing staff from the Cabinet Office, Treasury and the Local government ministry. Its main economic effect is likely to be on executive level house prices in the chosen locations of Teeside, Glasgow and Wolverhampton.