ROSE BRIEFING 49
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Subsidy Control Act 2022

The Subsidy Control Act received Royal Assent at the end of April 2022. The Act largely replicates in UK law the powers previously exercised by the EU Commission over public sector support for firms or any public sector interventions in the economy and concentrate control in the hands of Westminster. The Welsh Government has protested at the Act's infringement of the economic and industrial powers delegated in 1998 – as has the Scottish parliament. All decisions on public sector subsidies by devolved administrations will now have to go for review to the Competitions and Markets Authority using criteria largely approximating those previously enforced by the EU Commission. It will limit any significant public sector investment in the productive economy.

City of London seeks closer alignment with EU on financial regulation

The senior policy maker for the City of London, Catherine McGuiness, has called on the UK government to seek closer alignment with EU on financial services. A Memorandum – on a 'financial regulatory forum' – had been agreed in principle in 2021 but never signed. So far only one agreement has been reached which enables EU banks to use City of London clearing houses till 2024. Ms McGuiness noted that so far the loss of City jobs to the EU has been limited to about 7,000 – half the number originally projected – but that divergence might increase that number. The UK government confirmed in April its intention to deviate from the EU Regulation Solvency on Insurance. The UK government estimates that the relaxation will release a potential £92 billion for its infrastructure projects.

Energy sector profit gouging

Research for Common Wealth on 'Power Profits' by Joseph Baines and SD Hager (March 2022)

Using statistics on profits for 20174-2021, before the current price rises, the research reveals companies controlling energy distribution across Britain as a) being highly monopolistic (four companies for gas distribution and six for electricity b) having the highest profit rates of any industrial sector c) being largely owned by externally-based finance companies.

Profit margins:

Electricity distribution	42 percent
Gas distribution	40.5 percent
Private equity	34.7 percent
Commercial real estate	33.4 percent
Water Utilities	32.1 percent
Whisky	31.2 percent

Global

Inflation Triggers

The global economy is set for the biggest surge in price inflation since the 1970s. It is important to remember that the inflationary process was well underway prior to the war in Ukraine. The war has increased the pace of inflation for some food commodities - wheat, vegetable oil especially. The imposition of embargoes on Russian oil and gas is also responsible a further increase in energy costs. But the main triggers were already in place months before. Isobel Snabel of the EU Central Bank, reporting in January 2022, explained what she described as a protracted period higher energy inflation as the result of the switch to green energy and the collapse of investment in fossil fuels. Already in January 2022 energy futures had ***trebled*** for purchases relating to second-half 2022 – and it was on this basis that the current increase in electricity and gas prices for domestic households, the increases that came into effect in April, were justified. Equally food prices. By December 2021 prices for milk, cheese, eggs and fruit had increased by over 6 per cent and lamb by over 10 percent. Housing costs in Britain had increased by 5 per cent in the year to January 2022. As of late 2021 wholesale prices of steel had increased by over 20 percent and copper and aluminium by over 40 per cent. Equally the shortage of computer chips was creating widespread industrial disruption early in 2021 and contributing to price increases of over 10 percent in the motor industry. As noted earlier, at least some of the price increases were the result of profit gouging in monopolistic sectors and speculative market capture in a period of extremely cheap credit.

Growth and financial stability endangered:
IMF Stability Report April 2022

The April Report contains significant warnings of financial instability – with 'substantial financial risks in emerging markets, outflows from 'high valued bonds' (e.g. those with a high risk premium) and a substantial 'downgrade of earnings forecasts' (for investors). It calls on financial regulators to take 'decisive action to rein in rising inflation and address financial vulnerabilities while avoiding a disorderly tightening of financial conditions'. The Report also indicated that Britain's growth rate over the next two years was likely to be the lowest among the G7 economies.

EU

Growth slowing; inflation rising fast; debt high

Eurostat figures for April show inflation reaching 7.8 percent in the EU's powerhouse, Germany, and German business investment falling to 20.6 percent of GDP (in France it remains over 25 percent) Disparities across the EU also increased: unemployment stands at 12.6 percent in Spain and 11.6 in Greece. In both countries government debt remains high: 118 per cent of GDP in Spain and 193 per cent in Greece.

Frontex crisis over 'pushback' tactics

The head of the EU Border Agency Frontex resigned with senior colleagues at the end of April as the EU Commission announced – after exposure by voluntary organisations – a formal investigation into reports that Frontex was systematically using 'pushbacks' in the Aegean sea jointly with the Greek government. 'Pushbacks' occur when refugees at sea are refused landing rights and 'pushed back'. Frontex has 10,000 armed officers and a budget of 750 million euros.