

WA BRIEFING

The government's *Modern Industrial Strategy*

23rd January 2017

INTRODUCTION

Standing on the threshold of Number 10 in July last year, Mrs May [pledged](#) to fight the “burning injustices” plaguing British society, to expand opportunity for all and to allow people to “go as far as your talents will take you”. Today her government published the [Modern Industrial Strategy green paper](#), in a milestone towards delivering that objective.

Mrs May has not shied away from the scale of the challenge since entering Number 10, reiterating the need for government to intervene and create an economy that works for all at her party’s [conference](#) in October and, most recently, at [Davos](#) last week. The need to address regional inequalities and inject more fairness into the economy have also been hallmarks of Theresa May’s speeches in recent months.

She has been clear in her worldview that capitalism needs fixing, and that businesses and free markets cannot be relied on to address the issues fuelling the rise of populism internationally on their own.

For Mrs May, setting out an industrial strategy offers a framework for her domestic agenda and attempts to signal that her government is doing more than managing the challenges posed by Brexit. It also offers the chance to build on the Conservative Party’s current dominance of the political landscape, to see off the UKIP challenge once and for all, and take advantage of Labour’s weakness.

Today’s green paper puts some flesh on the bones of what that strategy looks like for the first time. For the energy sector, key developments include:

A new debate on energy priorities – out with the trilemma

- The ‘trilemma’ of affordability vs security vs low carbon is no longer the lens through which energy policy will be viewed. The future will be focussed around **affordability ‘for households and businesses’** and **‘securing the industrial opportunities for the UK economy of energy innovation’**. The document sets out that the low carbon agenda will be covered in the forthcoming Emissions Reduction Plan (expected by the end of February 2017) – some may well see this as a real de-prioritisation of the climate change agenda. This new agenda of affordability and securing economic opportunity is how stakeholders need to approach government in their engagement.

Informing the new debate, a series of targeted reviews

- The Industrial Strategy provides an opportunity to explore ways of reducing energy costs sustainably and ensure a cost-effective transition to a low-carbon economy. The government has set out three tangible outputs for 2017:
 - a ‘long term road map’ to **minimise business energy costs**;
 - a review of the opportunities to **reduce the cost of achieving our decarbonisation goals in the power and industrial sectors**;
 - a review of the opportunities for **growth in the energy sector**.

Analysis: This provides yet more opportunity for input on policy formulation but also an even greater need for clear messaging and wide engagement.

Moving to the new energy future and changing networks as a core part of energy policy

- There are three major challenges facing the energy sector:
 - to ensure that the shift to a low carbon economy **minimises cost to the tax payer, businesses and consumers;**
 - to **manage the network changes** required in the transition to a low carbon economy;
 - to make sure that the UK capitalises on its strengths in the energy sector and **builds its share of the global markets** – for instance in areas such as nuclear decommissioning and offshore oil and gas.

Analysis: The recognition of the network aspects of the future of the UK energy market is a welcome move but means firms will need to make sure the network aspects of their business are robust and add value to the system as a whole. The current review of embedded benefits is just the tip of the iceberg in this agenda.

Coordinating markets to leverage private sector investment

- The government has a **role to play in coordinating markets to enable major changes to the UK's energy infrastructure**, particularly smart grids and electric vehicles. While it is the private sector that will ultimately be the driving force behind the UK's low carbon economy, **the government will play a role in investing in and spreading new techniques for energy saving, generation and storage.**
- The government will invest heavily in infrastructure across the country by providing **higher rates of public investment and supporting private sector infrastructure investment.** For the energy industry, **this investment will be most visible in the nuclear sector** where the government's commitment to Hinkley Point C marks an investment in the first new nuclear power station in the UK.

Analysis: The government is only going to get more involved in the energy sector going forward so building relationships across departments is key, not just in policy-making terms but the operational arms of government too.

Coordinating policy to maximise benefits in practice

- In many parts of the energy sector – from decommissioning to new generation – the UK has a depth of expertise and experience. The **Industrial Strategy will ensure connections are made between public policy decisions and industrial opportunity**, particularly in light of the combined portfolio of the former energy and climate change ministry with the business and industrial strategy brief. This document commits the government to a **programme of research and innovation in energy storage and smart technologies which will align with work to develop the smart grid and the roll-out of public charging points.**

Analysis: Again, the interaction between policy and operational issues is key, this will mean some businesses need to develop completely new relationships while others will have to invest more in existing relationships to ensure they are not crowded out.

Developing a circular economy

- The government's existing **25 Year Environment Plan will set out a long term vision for delivering a more resource efficient and resilient economy**. This will be informed by engagement with stakeholders to explore opportunities to reduce raw material demand and waste, methods to promote well-functioning markets, and the role of disruptive business models in challenging inefficient practices.

Analysis: With the environmental credentials of the government's energy policy being questioned by some groups, opportunities to help bolster the government's green credentials through an efficient economy will be warmly welcomed by ministers.

More funding for innovation

- The creation of a new **Industrial Strategy Challenge Fund** will help the UK capitalise on the strengths in the science and innovation sectors, including clean energy. Alongside this, the government will **review the case for a new research institute** to act as a focal point on battery technology, energy storage and grid technology in order to draw together its priority for a low-carbon, cost effective energy economy. The review is due to report in early 2017.

Analysis: A boost for innovation funding is undoubtedly good news but yet more organisations to engage with will make life complicated for small businesses accessing the funding. Ensuring businesses dedicate the right resource to this engagement will be a key decision.

THE TEN PILLARS

The [*Modern Industrial Strategy green paper*](#) is wide-ranging in its ambition. It addresses ten 'pillars':

- Investment in R&D
- Skills
- Infrastructure
- Creating the right conditions for businesses to start and grow
- Procurement
- Supporting free trade and attracting inward investment
- Energy
- Developing the UK's competitive advantage in 'world-leading' sectors
- Delivering balanced regional growth
- Building local capacity and institutions to 'bring together sectors and places'.

There are some reflections that immediately come to mind before looking at the specific proposals contained in the green paper:

- It is a discussion document, and it's taken six months to get this far. The government will need to pick up its pace if an industrial strategy is to bear fruit in time for Brexit (not to mention the next election). This amplifies some of the criticisms that have been made of Mrs May's governing style already. Number 10 cannot oversee everything, and attempting to do so will hold up policy development.
- The green paper is all-encompassing, to the point of being unwieldy and unsustainable. It attempts to give something to everyone. If everything is a priority, nothing is a priority.
- What's more, some of the ten pillars contradict each other. Should the UK invest in building on competitive advantage, or should government be delivering balanced regional growth? UK Sport delivered a record haul of Olympic medals at Rio because it ruthlessly invests in sports where British athletes excel – at the cost of other sports.
- Some of the pillars identified are hackneyed. Every government wants to create the right conditions for businesses to start and grow, and access to finance is a perennial issue that no government has been able to nail. Will this time be different?
- Despite all of this, particular priorities do shine through. Mrs May wants to deliver for the North, and after some apparent hesitation she has embraced George Osborne's Northern Powerhouse strategy. Addressing the UK's productivity challenge also continues to be crucial. And ensuring the supply of affordable energy remains a priority.
- Politically, the absence of Philip Hammond from today's papers suggests Treasury is not playing the overarching role it may have done previously. No new money has been announced today – allocations were made by Philip Hammond at the Autumn Statement in November. But it's unthinkable that George Osborne wouldn't be front-and-centre today if he were still in Number 11. Successive prime ministers have tried to curb Treasury dominance by empowering a business department, and early indications are Mrs May is succeeding where others have failed. This is not least because of her decision to appoint Greg Clark as Business Secretary. Not only is he competent and a hard worker, but he shares Mrs May's vision of the role government should play in the economy.

SECTOR DEALS

Today's green paper is accompanied by the [announcement](#) of five informal sector champions for life sciences (Sir John Bell), low-carbon emission vehicles (Richard Parry-Jones), industrial digitalisation (Juergen Maier), creative industries (Sir Peter Bazalgette), and the nuclear industry (Lord Hutton).

Each will be working on sector deals, packages of support from government to advance particular sectors. Number 10 has been clear it will consider other sector deals where businesses can come together with shared concerns and an ambition to work together.

This partnership approach will be welcomed by businesses, and could deliver real results for high-value industries that each support significant numbers of jobs. It also dovetails nicely with the government's ambition to seek access to the EU's customs union on a sector-by-sector basis.

For sector deals to be worthwhile the government will have to show it can respond rapidly to the needs of these growing areas. By way of example, a Modern Transport Bill was pledged at last year's Queen's Speech and so far it has not seen the light of day.

Today's announcements will generate a flurry of positive headlines for Theresa May. But if she wants to tackle the growth of populism and cynicism, and get the economy match-fit for Brexit, she will have to demonstrate a real commitment to doing things differently and delivering concrete results.

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