

A green industrial revolution?

The Prime Minister this week wrote an article setting out his plans for a green revolution. His immediate target is to help create 250,000 new jobs to go with the 450,000 jobs currently said to be involved with decarbonisation. The plans entail £12bn of public investment designed to lever in an additional £48bn of private sector cash. That's under 1% of the total jobs in the economy.

There are some good ideas in the list. He wishes the UK to plan an additional 30,000 hectares year with trees, some 100m additional trees. Last year the UK added 13,000 hectares of new wood to the total, with the largest share in Scotland.

I would add to this ambition the rider that we should at the same time plant trees that can be harvested and replaced with others, so we remove the large amount of timber import we currently bring in. We should above all wish to eliminate the import of wood pellet for Drax power station and replace it with domestic output that needs much less fuel to transport.

We need to know how this investment is going to be raised. Are there going to be more tax incentives for people to put their money into timber? Will the UK public sector start buying domestic timber for its needs?

He wishes to extend the Green Homes Grant scheme. It needs simplifying to get it to take off. Offering people cash help to get their homes better insulated, with double glazing and good draught exclusion is a good idea.

He wishes to fund research and development into hydrogen powered systems for homes and vehicles, and wants to pump prime UK made batteries. It is worrying how the UK and the EU have let China establish a lead in these areas, and gain a dominant position in some of the rare earths and materials needed to make modern batteries, which places us at a current disadvantage.

The headline from the PM's intervention was a negative. The UK wishes to ban new diesel and petrol vehicles from 2030. The best way to cut the number of diesel and petrol cars is to produce new products which are better and better value than the cars we currently rely on. If the industry has done that by 2030 then moving on from diesels and petrol cars will be easy. If they have not, maybe the then government – which might just have some different Ministers around the table – will not want to end good products that people need.

There is need for more work on how all the electricity will be generated and how the cable network will be strengthened to take all the extra power. The UK is short of power and needs more reliable power as back up to wind farms. I will talk more about the policy of banning diesel and petrol cars and gas boilers tomorrow.

My speech during the debate on the National Security and Investment Bill, 17 November 2020

I support the idea of Ministers having powers to prevent foreign acquisitions where security matters are of concern. I trust that Ministers will want to ensure that all the other transactions that do not pose those security issues will go through smoothly, easily and quickly for obvious economic reasons.

There is a wider concern. As Ministers have rightly said, this is not the debate to deal with all the other worries we might have about unsuitable foreign investors, but there is concern out there in the public that we do not want asset-strippers, we do not want large companies that come here in order to gradually close down the UK capacity to take out a competitor, and we do not want them to come in under cover of sustaining jobs in Britain only to take away the intellectual property and then later to discover that they are not so keen on the British business after all.

We do need those protections, but where Ministers are checking their defences on competition grounds as well as on security grounds, they need to ask themselves this fundamental question: why are so many of our assets sold to foreigners? There is, of course, one very simple reason: throughout this century, under all three types of Government we have had so far, we have run a massive balance of trade deficit with the EU on trade account, so we need to raise the foreign currency to pay the bills so we can afford to buy the tomatoes, the vegetables and the German cars and all the other things that we have been importing, not matched by an equal volume of exports to pay those foreign currency bills.

We see that it is having a bigger impact now on our long-term balance of payments situation. Before we ran this long series of huge deficits, we had net assets abroad, which meant that there was a big positive line in our balance of payments, which said that as a country we earned a lot more in interest and dividends from our investments overseas than foreigners earned on the investments they had in the UK. That has now been reversed, and every year now we have a very big deficit on the interest and dividends, because there are so many more foreign claims on us than we have claims on foreign assets.

This is a matter of concern. Ministers need to work on a series of economic revival policies that put much more emphasis on British people investing in Britain, so that we recreate more of that wealth in our own national hands and do not have the vulnerability, that need for foreign currency, which has been brought about by the current twin deficits—the trade deficit and now the deficit on investment income account.

I was very pleased to hear Ministers saying, rightly, that there are many great investment opportunities in the United Kingdom, so we need to deal with this paradox: why is it that foreigners can see them and are piling in with all their money to buy our best ideas, our best companies and our best properties, and why are more British people and British companies not able to do just that? The Government need to work with the British investors, British companies and British entrepreneurs to make it an even better climate for them to do the investing, as well as taking advantage of the foreign investors coming in and giving employment opportunities.

We need that entrepreneurial Britain, which grasps this opportunity and understands that we have a huge opportunity here to take out imports—to grow more of our own food, and to produce more of our own cars and more of our own products generally—so that we chip away at the very big balance of trade deficit, and in turn then generate cash that can be reinvested in the United Kingdom.

This Second Reading debate presents an opportunity to make the wider plea to Ministers that, as we recover from covid and the damage, we remember that £100 billion deficit that we were running in 2019 before covid-19 disrupted world trade and say that that is unacceptable: that means too big an increase in claims by foreigners on our country year after year. That is why we need policies to get the investment in, chipping away at the £20 billion deficit in food with the EU and at the fishing deficit and the car deficit, so that we are generating those jobs on British capital, and starting to reverse that net liability position that now disfigures our accounts.

What is national security

Yesterday I joined the debate on the government's bill to give Ministers powers to block foreign acquisitions of companies, technology and other property that could be damaging to to our national security.

The Bill attracted cross party support. Much of the debate was about the detail. Two main questions arose. How can the system be set up to act smoothly and quickly for all the many foreign acquisitions that do not entail any threat to national security, as there is the danger that many buyers will feel the need to get clearance before proceeding. How do we define national security?

I pointed out that the UK has a high level of acquisition of our companies and assets because we run a large balance of trade deficit with the EU and now run a deficit on investment income thanks to all the past sales of assets to pay the import bills. I urged Ministers to develop policies that encourage more UK investors to invest in our future, and to invest in import substitution.

Many people define the national security phrase narrowly, to encompass specialist technologies for defence and Intelligence. I raised the issue of strategic weaknesses. In the two world wars of the last century – which we do not wish to repeat- one of the UK's worst strategic weaknesses was the need to import food, fuel and other essentials through dangerous shipping lanes subject to sustained submarine and bomber attack.

Today we are very dependent on imported food and to a lesser extent on imported electricity. Shouldn't our strategic audit encompass doing something to correct these weaknesses just in case? The continent is too dependent on Russian gas.

A new energy policy

The UK used to set two main goals for energy policy. The first was to ensure competitive supply to keep prices down. The second was to ensure the UK could cover all her own electricity needs from home generation, with a sufficient margin of capacity to handle cold dark days and failures in part of the generating system. Some diversification of sources of power was always built in.

These policies were important to combat fuel poverty and to assist industry. If you want to have a strong industrial presence in everything from steel to ceramics and from chemicals to aluminium you need plenty of cheap energy. It is also a good idea to have electricity self sufficiency for strategic reasons. The low price was produced by a merit order system, where the cheapest power was produced all the time and dearer power was only added when demand rose to high levels.

In the 1980s major changes were made to allow more competition. These changes drove electricity prices down, whilst still ensuring something like a 20% capacity margin to allow for problems and demand peaks. The industry transformed itself from substantial reliance on coal to gas, and in so doing greatly increased its fuel efficiency, lowered its carbon output , cut polluting emissions and reduced prices.

In recent decades government has placed much more weight on two additional policies. The first is to decarbonise, forcing changes to close down fossil fuel stations. The second has been to accept the framework of an integrated European energy system, with more dependence on interconnectors deliberately put in. It is no surprise that the EU which pushed this is now using it as a threat against our exit. These two policies have led to higher prices.

As we leave the EU we need to change policy. We should discard the integrated EU policy, and reset UK independence of supply. We should seek to use competition again to drive down prices, and to ensure that where renewables are being added to the mix they are good value, taking into account their

full cost. Wind energy, for example, is intermittent so allowance needs to be made for back up facilities. Water based renewable systems should have an advantage from being always available and that needs to be reflected accurately in comparative costings.

It will be more difficult for the UK to enjoy an industrial revival without cheaper power or without plenty of capacity and no interruptions to supply .

The twin deficits

The UK is currently running a large state deficit, with the government spending maybe £350 bn more than its tax income this year. Last year we also ran a £100bn balance of payments deficit. Whilst this fell sharply during the global lockdown and big hit to world trade, it is picking up again as world trade recovers.

Allowing a huge deficit for just this year by the state is affordable, as interest rates are near zero and at the same time the Bank of England is buying up £250 bn of the state debt for taxpayers. The US, the Euro area and Japan are all doing the same. It's still not a good idea to waste any of the money so borrowed, nor to think this is a long term answer to our economic challenges.

More serious is the balance of payments deficit. This now stems from two main causes. The first is the persistent large trade deficit with the EU. Our surplus with the rest of the world does not manage to get anywhere near offsetting all of this.

The second is the now persistent deficit on investment income account. Because for the last few decades we have imported so much more than we exported to the continent, we have had to sell companies, properties and shares to foreign buyers to raise the foreign exchange we need to pay for all the European imports. As a result we have changed from a country with a large surplus on our overseas investments prior to joining the EEC/EU into a country with a large deficit in investments, owing overseas investors much larger sums in interest payments and dividends than they owe us.

In future blogs I am going to return to the question of how once out of the single market and customs union we can reduce our trade deficit with the EU and stem the need to keep making our investment position worse by having to sell our assets. It is not a good economic model to be dependent on the goodwill of foreigners to buy your food or electricity, relying on foreign supply and on foreign finance to do so. The balance of payments has to balance, so if we import too much we have to sell off the country's assets to pay the bills.