

# An energy strategy

There are some good developments as the government seeks to change energy policy. There is rightly much more attention to security of supply, and to the need to develop our own energy sources to eliminate reliance on imports. There is an understanding that for the next few years most UK people will have petrol or diesel cars and vans, and will heat their homes with gas or oil or solid fuel boilers. For the period of transition prior to many more people heating and travelling with electricity there needs to be a reliable supply of oil and gas at affordable prices. The strategy accepts that we need to use more of our own oil and gas from the North Sea. There is a review of onshore gas. The best answer to the issues that poses is to adopt a model which allows any community or landowner to say No to drilling, but to allow communities willing to see such developments a share of the turnover or profits or offer them free or discounted energy.

For the longer term the government favours a major commitment to nuclear. There has been a long history this century of PMs wanting more nuclear only to find it is watered down and delayed by a range of forces against. The best hope the government has of changing this is probably to back the development here of a suitable small modular reactor that can be produced at scale mainly in factories and assembled on site with suitable substantial concrete workings for containment. The UK could become an exporter of such technology to extend the production runs and lower average unit costs. There are sites around the country where larger nuclear stations are closing who might welcome a new replacement and would have some of the skilled people necessary to run it.

The government still favours more wind farms. It does now accept that these will not satisfy our demands for power on calm days or on days when the wind blows too strongly. It is therefore investigating ways of storing the power on windy days and nights to use on days of high demand and little wind. This is going to be necessary to keep the lights on. It also needs to account properly for the cost of the windfarms themselves and for any backup or storage needed to make them reliable for consumers.

Meanwhile the next few years whilst people still need plenty of fossil fuels for home heating and transport and industry remains fuelled by gas we are going to need more gas as a stop gap. The government needs to work closely with industry and grant the necessary permits in good time to help this endeavour.

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## Too many wars

As a teenager I was shocked to read of the horrors of the Great War of 1914-18, and to hear a little of the reality from my two grandfathers who both fought in the trenches and survived. My study of what was called English history which was really UK history made me think the UK had fought too many wars, being dragged into many continental conflicts for no good reason.

I am no pacifist. I understand there are violent and dangerous countries that may wish us harm. Indeed having stronger defence forces than we currently enjoy seems like a good insurance policy and a necessary statement to put a hostile power off challenging us. We needed force to liberate the Falklands from the senseless and violent Argentinian invasion, and to help the USA liberate Kuwait from an unwanted occupation. There may be other such needs in the years ahead.

Throughout the last 500 years of our history we have sought to prevent a single dominant power taking over much of Europe by force. In the sixteenth century we with the Dutch resisted Spanish attempts to add the low countries and England to their continental empire. In the seventeenth and eighteenth centuries we worked with a coalition of other states to prevent French military domination of the continent, culminating at the turn of the nineteenth century in the great victories of Trafalgar and Waterloo to end Napoleon's empire building based on his large and threatening armies. In the twentieth century we twice fought against German domination of the continent. Today we have no issues with the EU emerging as a single force on the continent. We made the sensible decision not to join them, as our interests are global and based on trade, investment and contacts with the wider world. We should leave most continental political issues to our neighbours to resolve through their elected member states governments and through their strong centralised law making at EU level.

Foreign policy obviously looks very different from Warsaw which is closer to Moscow than to London, or in Berlin so much closer to the eastern borders of the EU than the UK is. Countries with continental land borders may choose closer agreements and arrangements with their neighbours to regulate their affairs. The UK is right to condemn Russian aggression and spiteful violence towards Ukraine and to help as a non combatant with other allies. The big issues about Ukraine's European status, possible membership of the EU and development of the Association Agreement are not matters we can or should wish to get involved with. We wish to see the end of the war and the dreadful violence and damage being done but we should not wish to influence the political settlement which has to follow. The main protagonists are Ukraine who need to resolve their own future, and Russia. Ukraine may want more help from the EU which they wish to join given its role in the conflict and its interest in future governing arrangements for Ukraine.

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## The latest CO2 report

The latest UN report on CO2 reveals what some of us have been saying for several years. CO2 output continues to rise year by year. The large emitters led by China and India are producing a lot more, and the USA remains at a high level. Total world CO2 output is now 54% higher than in the base year of 1990, when it is meant to be falling from that level. It demonstrates that many countries have not offered a realistic target to reduce their emissions to assist the world plan, and demonstrates that some countries do not even deliver what they have promised. Meanwhile the UK producing under 1% of the world total is one of the few that has made major reductions. In 2020 CO2 output was just half the 1990 level though it presumably went up a bit in 2021 as we came out of lockdown. It was down 38% on 1990 levels in 2019. As the press releases based on the Report state, on this basis the world will not come anywhere near hitting the targets they say we need to hit to avoid a temperature rise of more than 2 degrees.

The net zero movement is only going to succeed if all major countries participate fully and take actions that do actually reduce their CO2 output. Some of the UK's tough actions to cut its CO2 have probably served to raise total world CO2, as we have closed down industry at home only to import from places like China where they may produce more CO2 per unit of manufactured output. As I have often pointed out, keeping our own gas unused and importing LNG is a sure way to more than double the amount of CO2 generated in the overall process of extracting, transporting and using gas as a fuel.

In a world of energy shortages and high prices and food shortages the UK needs to take self sufficiency and security of supply more seriously. Making and growing more at home can also cut world CO2 at the same time, though UK CO2 will rise on the way of accounting adopted for this. Today the world economy is running on a model which maximises exports from high emitting economies and industrial processes, with imports into countries that could make and grow with less CO2 if the net zero rules were properly enforced in the exporting countries. It looks as if COP 27 needs to have more realistic tougher talks with the big emitters if it is serious about cutting overall world CO2 anytime soon.

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## Ease the squeeze

This is my latest Conservative Home article.

Since March 2021 I have been telling the Treasury that their forecasts were

far too gloomy. They underestimated growth, understated tax revenues and wrongly ballooned the likely level of borrowing. I was not surprised when the Chancellor had to report much better news and confess how wrong the budget forecasts had been, though even I was surprised that the latest figures just before the 2021-2 year end show that they borrowed an almost unbelievable £105,000 million less than planned! Keeping tax rates down, cutting Stamp duty and going for growth produced a much stronger economy than they expected. The extra tax revenues poured in thanks to more spending and more housing transactions.

So why change a winning formula? Why did the Chancellor fail to stress the successes and turn instead to more gloomy forecasts? Why did he think these mean he had to put National Insurance up, freeze Income tax thresholds and get ready for a huge increase in company tax rates next year? Once again we were treated to some bizarre figurework from the OBR and Treasury. Clearly upset by how much better the revenues were than expected they presented the costs of servicing the state debt in a new way designed to sensationalise it. It looked as if they hope that the government would be panicked into tax rises in the name of debt control. They decided to add to the legitimate and affordable cash costs of paying interest on the outstanding debts to savers and other investors the non cash costs of the indexation of the index linked debt. This only becomes a liability on maturity of any given bond and will simply be refinanced by rolling over the real value of the debt when it comes due. They did not put any offsetting figures into the account to show how much the state will benefit from the high inflation the Bank has now created or allowed, as it will reduce the real costs of refinancing or paying back the majority of the debt that is not index linked.

The government needs to understand that the cost of living crisis is going to be difficult for many people. It needs to do more to offset the effects of runaway energy price inflation, rising food costs and price hikes in a wide range of other goods and services. This is not the time to be taking more money off people through a National Insurance hike. It is not the time to insist on VAT on domestic fuel. It is the time to be more generous in offering a cut in petrol and diesel taxation which otherwise will rake in far more revenue than the original plans. Given the magnitude of the official forecasts for the hit to real incomes now coming the Treasury should at least have given back more than 1% of GDP. This was eminently affordable given the great performance of the public finances over the most recent year. Instead the Chancellor spent less than 0.5% of GDP in tax remission, leaving most of his revenue windfall untouched.

The danger now is of the opposite effects. The hit to real incomes will slow growth. Many people will be unable to afford discretionary goods and services after they have met the food and energy bills. The fast recovery of health output credited to the state last year on the back of free test programmes and massive roll out of vaccines will slow dramatically. Higher taxes will knock confidence and higher inflation will worry consumers. The economy is going to slow sharply. Instead then of a revenue bonanza from better than expected growth we will experience a slowdown in extra tax receipts. More people will qualify for top up benefits and income support. The Treasury will

learn the hard way that higher taxes can lead to bigger deficits and fewer good options for economic policy.

The official figures tell us that tax as a percentage of national income was at 33% in 2019 and will be at 36.2% by the end of this Parliament. That is a substantial rise in the tax proportion. It comes from the upwards movement of rates for companies, the freezing of personal allowances and the introduction of the National Insurance/social care tax proposals. It will cut the growth rate and lower average take home pay. It will damage private sector investment, which is already disappointing despite the offer of a temporary super allowance. Businesses look at the coming hike in company tax rates and are put off.

I am glad the Chancellor wants to be a tax cutting Chancellor and admires Nigel Lawson who definitely was a tax cutting Chancellor. He slashed the rates of Income Tax and company tax and the extra money rolled in as a result. It would be a great policy to follow now. People want to know the government is on their side at a time of income squeeze. They will see that external events have created strong upward pressures on oil and gas prices and may understand government cannot protect us from all such pressures. They will be less understanding of why at the same time the government shifted from a successful relatively low rate of tax policy to higher tax rates. They will blame the government for taking money away that they need to pay the higher bills.

As the Treasury needs more revenue they need to help the private sector grow the economy to deliver the extra cash. They already get a windfall tax on home produced oil and gas in the form of a doubled corporation tax rate on such activities. They should make extracting more oil and gas at home a high priority with every government assistance to get it done. That will bring in a lot of extra revenue as well more well paid jobs. Then the Treasury needs to be more positive in support of domestic process industry which is struggling to stay alive against the background of such elevated energy costs. That too could be a net win on revenues. I will urge the government again to dump the gloomy Treasury fiscal rules and substitute just two key aims and controls. One should be to take the 2% inflation target seriously. That means the Treasury helping government do more to eliminate supply bottlenecks at home. The other should be a growth target to galvanise public policy to support expansion of jobs and investment.

We need an update on the Spring Statement urgently. It would be better to head off the worst of the income squeeze before it sets in and people have to pay the high bills.

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# Ukraine and the great powers

Like most westerners I blame Russia for the murderous assault on Ukraine and for the violent siege tactics now being deployed to try to wrestle territory away from those who live there who wish to remain self governing. Russia's troops have been killing civilians in frustration at not being able to occupy and overwhelm as easily as they expected. Proof of this will be used as evidence of war crimes. We are all appalled at some of the scenes we are now being shown.

Like most westerners I would like to see an early truce and a negotiated settlement. I understand how difficult this will prove as the two sides have such a different view of the rights and wrongs of the situation, and neither side has yet been able to achieve enough by force of arms to enforce their settlement on the other. Ukraine has fought bravely but cannot rid themselves of Russian troops and artillery on their land. Russia has failed to capture any of the major cities on its list and has shown it lacks the ability and force to maintain control over areas it has thought it had conquered.

As peace talks continue the aims of the two sides remain incompatible with each other. Ukraine wishes all Russian troops to withdraw, to be followed by discussion of the government of those parts of Ukraine which Russia has occupied and a referendum on a possible new constitutional settlement. Russia is holding out for Crimea to become part of Russia, and for new governing arrangements for a swathe of territory from the Russian border to Crimea that would give it control or substantial influence. That is why the fighting is likely to continue.

There seems to be a bit more flexibility over the ability of Ukraine to choose its own allies and international policy. It seems unlikely NATO will offer membership to Ukraine any time soon, having notably refused to come to Ukraine's assistance with any NATO forces. Russia's aim of excluding Ukraine from NATO might in practice occur. The issue of EU membership also hangs over the conflict. The EU intervened in Ukraine to help topple the elected Ukrainian President in 2014 when he wished to walk away from the draft EU/Ukraine Association Agreement and be closer to Russia. This was the background to Russia's annexation of Crimea and civil war in Donbas. Today Ukraine has applied for formal membership and the EU needs to respond. The EU says it sees Ukraine as part of Europe and talks of Ukraine's European destiny in terms that implies in due course it does want Ukraine as a member state. This is a complication for a Russia which dislikes the expansion of the EU as well as of NATO close to its borders.