

## Power cuts and cheap energy

I am writing again to the new Secretary of State at the Business Department about our energy situation. I am asking him to reassert the priority of ensuring sufficient supply in the UK for our needs. We have become too reliant on imported electricity from the continent. They are embarking on closures of many nuclear stations and coal stations, are becoming more and more dependent on Russian gas, and may in the future have less surplus to send us. We can neither rely on their power being green enough nor always available for our needs. I also wish him to reconsider the issue of affordability. To tackle fuel poverty cheaper power is a big help. To attract and retain industry at home, a plentiful supply of good value electricity is essential. The importance of reliable supplies has just been underlined by the substantial outages in Texas at a time of very cold and snow filled weather.

It is important not to have the wrong policy for the sake of a mistaken way of calculating the carbon results of our actions. If we only count the carbon dioxide emitted by industry in the UK, and not the carbon from all the factories abroad making products to sell us, we will develop a policy which positively encourages the deindustrialisation of the UK. Many goods made in China are made using substantial quantities of gas and coal for direct fuel and to generate the electrical power also needed by the factories. It is false accounting to ignore all that but to penalise UK producers for using fossil fuels.

The UK may well be able to generate much more power from renewables. The government should be keen to encourage more capacity to be installed by organising the relevant auctions and putting in place the necessary policies. As it has big ambitions for electric cars and heating it needs to plan for a huge expansion of generation, as well as for the replacement of the ageing fleet of nuclear stations that are about to be retired. More biomass based on UK wood would be an option, as it generates reliable power. More water power from new barrages and from tidal interventions would be predictable. With the right auctions and rules it would be possible to strengthen our capacity and provide some competitive pressures on prices.

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## Making cars green means closing engine plants

The decision of most governments and the world Climate Change conferences to go for electric cars unleashes a juggernaut of change on a shaken motor industry. Sales of new diesels and even of petrol engined vehicles have

plunged. Potential customers have often decided to hold on to the vehicles they already have, to see what is going to happen to car fuel taxation, to subsidies for new electric vehicles, and to taxes and regulations on the use of diesels and petrol cars before committing to a new product. The wary who might like a new diesel or petrol vehicle worry lest in a few years time they are blocked from going where they wish, given the way German cities for example are already blocking older vehicles from entry. What will happen to second hand values when we reach the point of a ban on the sale of all new diesel and petrol cars? Some fear a fall, others think they might paradoxically go up as people chose to buy a second hand one in the absence of a new one.

It is true that lockdown last year hit output and sales badly, but it would be wrong to think all the fall in diesel sales was temporary. There was a trend developing against new diesels before the pandemic hit, which will continue given policy as lockdown ends. The car industry has accepted, even welcomed the transition to electric. It will be costly, disruptive and difficult for those involved. The industry has preferred to talk about other far lesser issues or more temporary concerns and ignore the structural imperatives that should preoccupy it.

The UK government needs to be engaged and concerned about the UK car industry. The UK with some government encouragement and help built itself a great position in diesel engine technology and output. Ford changed Dagenham from car assembly to an engine production plant. BMW put in a great automated engine plant at Hams Hall Birmingham. Jaguar Land Rover spent a lot of money with government help on a brand new engine facility at Wolverhampton. Toyota put in an important engine factory on Deeside. The UK helped design and perfect the new clean diesels with practically no particulate material coming out of the exhaust. All these plants make engines which the government wishes to retire by 2030 at the latest, with encouragement to people not to buy such engines from well before that date. These factories cannot make the big batteries that form the core of the electric vehicle power unit, nor can they turn out the electric motors without stripping out all existing equipment and starting again.

If the UK is to keep motor manufacturing at home it needs to support and encourage large scale battery production and new factories for new electric models. The problem both the government and the industry have is they need to put in all this electric capacity before there are enough customers to buy the vehicles. Jaguar Land Rover shows the problem. Their buyers still want to buy the petrol and diesel product. As they transition to an all electric line up they have decided to go more up market, losing the better off and concentrating on the rich who can afford to pay many tens of thousands for a single car. This will probably mean much less volume. If they end up closing or greatly shrinking the Wolverhampton engine works and Castle Bromwich assembly works, favouring more overseas production, they will also lose more traditional UK buyers of their product who like the Britishness of the brand.

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## Buying from the EU

Eskenzi PR and Marketing put out a press release yesterday reporting a sampled survey of 1000 people. They said that one third of those asked had stopped buying EU goods. Reasons given included extra costs and delays in getting the goods into the UK and an unwillingness to buy EU goods given the attitude of the EU to trade with us in recent months.

I would be interested to know whether your experiences bears out this survey. Does it worry you? Do you yourself seek substitutes for EU products?

It is curious if true that the EU is trying to impede exports to us as well as seeking to make our exports to them difficult. The UK has made clear it was not going to impose new barriers at our ports to get in the way of the substantial volume of imports from the EU that we have accepted, and is working with a grace period at our borders. Despite this there are reports of surcharges on card transactions and postal delays. It is also true that some continental websites have failed to collect UK VAT as required leading to an extra bill for the UK consumer who expected VAT to be included in the pricing,

I myself have long followed a policy of buying UK food items wherever possible, to cut the food miles and to back UK fishing and farming. My second choice is to import from a developing country who are in more need of the trade and who have warmer climates offering products we cannot grow here.

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## Going for growth

I have explained before that the U.K. calculates real GDP differently from many other countries. It adjusts the cost of public services like health and education for real output where others just rely on money spent. The U.K. reported correctly a sharp fall in output in education when all the schools were closed and a substantial fall in health output when elective and non urgent activity was cancelled to leave more capacity for CV19 cases. Both services recorded sharp falls in productivity as a result.

If we look at nominal GDP figures based on spending the U.K. economy had a relatively small fall of just 2.2%. This was less than Germany, France, Spain and Italy though a bit more than the USA at minus 1.2%.

The big debate now is how do we get back the lost real output and reverse the decline in Nominal GDP. Some are briefing that the U.K. needs to return to austerity with tax rises to cut the state deficit. This would be a bad

idea, leading to a larger state deficit than a policy centred on going for growth and recovery. As the figures reveal there has been a big transfer of spending from private to public sector as the state has tried to make up for the inability of millions of people and hundreds of thousands of businesses to earn their own living thanks to the closures and social distancing imposed to combat the virus. The way to boost real GDP and to cut the deficit is to allow many more people and firms to supply goods and services, boosting output and tax revenue at the same time.

What we need is to expand output capacity. That needs keeping and reviving as many of the businesses as possible that we had before lock down. It also requires a positive environment for the self employed and small business to invest cash and effort to meet more of the new demands of the post CV19 world. The state needs to rebuild its service output in health and education as quickly as possible which will make our real numbers look more like others. This is a time when lower tax rates will boost output and investment and cut the deficit by more than attempting to lower it with tax rises.

The worry is too much capacity amongst the self employed and small businesses will be lost as they grapple with up to a year of lost turnover and revenue and as they work out how to pay back the loans they have taken on. There remains a number of issues for government and Parliament to help work out over liability for past rents, Business rates, and the other costs of keeping a business which cannot trade. In future posts I will look at more of the opportunities for the UK to expand its capacity as we emerge from lockdown.

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