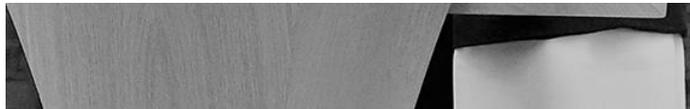


# Political Intelligence



## The Industrial Strategy

January 2017





# Overview

This morning, the Prime Minister launched the Government's long-awaited [Industrial Strategy](#) at a regional Cabinet meeting in Warrington. The much-anticipated 10-point plan marks a significant shift from the approach of the David Cameron's Government towards a more interventionist strategy – one which Theresa May describes as 'not just stepping back but stepping up to a new, active role that backs business and ensures more people in all corners of the country share in the benefits of its success'.

The consultation on the proposals of the Industrial Strategy green paper closes on 17<sup>th</sup> April 2017. The Strategy consists of the following ten pillars which underpin the Government's approach:



## Sector deals

Central to the Industrial Strategy is the idea of so-called 'sector deals'. The Government states that as part of these deals, which will be 'driven by the interests of firms and the people they employ', it will be prepared to offer a range of support including 'addressing regulatory barriers to innovation and growth, looking at how we can use trade and investment deals to increase exports, or supporting the creation of new institutions to provide leadership, support innovation or boost skills'.

The Government has stated that it welcomes work on early sector deals and is currently working with a number of senior figures from key sectors.



# Analysis and Reaction

---

To some in business, the term 'Industrial Strategy' will immediately rouse suspicion and prompt memories of the unsuccessful government policy of the 1970s when large amounts of public funding were provided to British Steel and British Leyland. However, whilst the publication of the Strategy does mark a shift towards a more interventionist approach and a degree of greater Government spending to support certain sectors, this is no return to the 70s. Indeed, the Government itself highlights that 'Industrial Strategy' no longer means "picking winners" or poorly targeted investment.

It is clear from today's green paper that both May and her Business Secretary, Greg Clark, are not believers in the total freedom of the market and their approach will combine increasing spending on science, research and development, skills training and infrastructure, with working with

industry to address regulatory barriers to innovation and growth.

It could be argued that, rather than 'picking winners', the Government intends to create the right environment to ensure that winners can emerge. Throughout the paper, specific technologies from certain sectors are picked out in a clear statement from Government on what it believes are most likely to become UK success stories. As also outlined in the Autumn Statement, addressing the UK's productivity problem is seen as key to the future success of the economy.

## **Business Reaction**

Business reaction to the publication of the consultation on the Industrial Strategy has been broadly supportive, with Carolyn Fairbairn, Director General of the CBI, welcoming the Government's actions to

address the UK's productivity problems and remove regional inequalities in the economy. However, some industry groups, including the Institute of Directors have warned against attempting to pick and choose winners in various sectors, adding that the Government should be aware of the limits of its ability to support struggling businesses through cash payments.

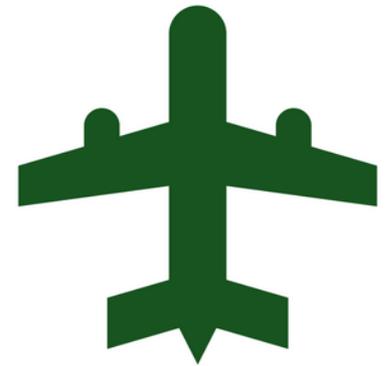
## **Political Reaction**

In terms of political reaction, Labour's Shadow Business Secretary, Clive Lewis, highlighted that further details were needed on how much spending the Government was planning, stating that what had been announced so far would 'fall short' of providing the necessary support for the economy. Meanwhile, the Liberal Democrats stated that the Government's Strategy would be undermined by its plans to leave the Single Market.



# Sectors to Watch

---



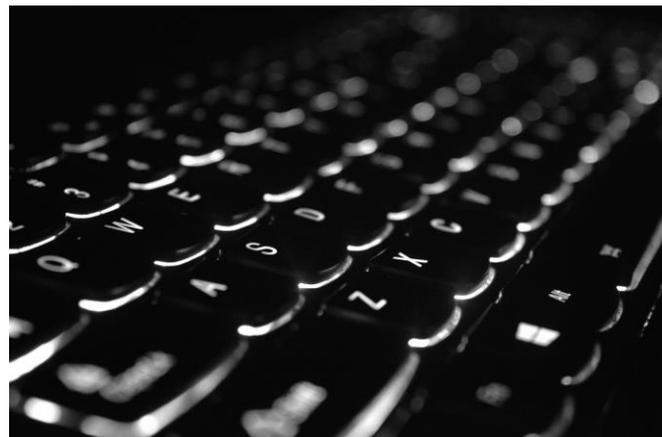


The Government's green paper focuses particularly closely on the tech sector and identifies a number of specific technologies where Britain has 'strengths in research and development', adding that these could be supported by the Government's newly formed 'Industrial Strategy Challenge Fund'. Technologies identified by the Government include: smart energy, robotics and artificial intelligence and 5G.

Specific new tech-related policy commitments featured in the Industrial Strategy include:

- An increase in research and development investment by £4.7bn in total, an extra £2bn per year by 2020-21.
- The creation of a new Industrial Strategy Challenge Fund to help the UK capitalise on strengths in science innovation, including robotics and biotechnology.
- A review of the case for a new research institution to act as a focal point on battery technology, energy storage and grid technology, reporting in early 2017.
- £170m of funding for the creation of a new Institutes of Technology to deliver higher technical education in STEM subjects.
- A new testing ecosystem for connected and autonomous vehicles will be established, with the location of the coordinating hub to be announced in spring 2017.
- The Government will use additional infrastructure funding to unlock growth in areas where connectivity is holding it back

by creating new funding which allow better coordination of local economic plans with infrastructure investment





One of the 10 pillars of the Strategy is investing in science, research and innovation. In this area, the strategy outlines that the UK has a strong science base, but is not as good at commercialising and development. To address this, the strategy outlines the below policy commitments:

- An additional £4.7 billion in R&D investment by 2020-21.
- The creation of a new Industrial Strategy Challenge Fund to allow the UK to increase its strength in science and innovation. Part of the fund will be used to focus on leading-edge healthcare and medicine.
- £100 million invested until 2020-21 in R&D facilities in order to enhance the Biomedical Catalyst. In addition to this a further £100 million will be invested until 2020-21 to incentivise universities to collaborate on technology transfer.
- A review of the tax environment for R&D has been launched.
- A forum has been established on EU Exit, Universities, Research and Innovation. This will be used to maximise on the opportunities of the UK leaving the EU.
- Bring together the Research Councils and later-stage innovation funding through Innovate UK to create UK Research and Innovation (UKRI). UKRI will focus on developing a strategy for fundamental research through to business innovation.

The strategy also outlines ways in which the Government will review procurement procedures in key areas such as health, given the outcome of the Accelerated Access Review. This review will involve a new supply chain contract coming into place in 2018 which will allow the NHS to:

- Scan for innovative products that the NHS should adopt.
- Improve their relationship with their suppliers.
- Ensure that there is a UK-based medical supply chain.
- Put the NHS at the forefront of health procurement and logistics.

It suggests that the Government can then bulk buy innovative products, which will get a price discount, but also ensure that patients benefit from the innovation quickly.

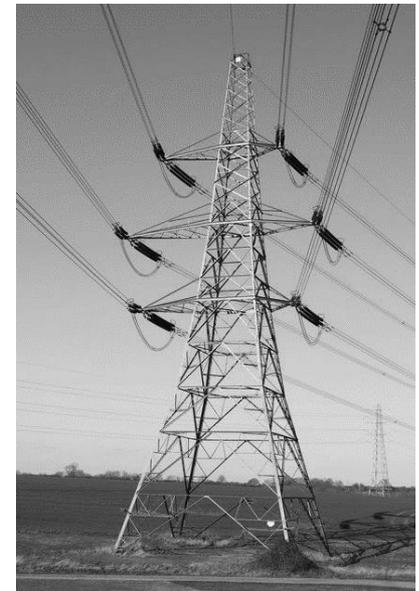
# Energy



The need to upgrade energy infrastructure and the delivery of affordable energy and clean growth appear as key pillars in the Government's ten pillars which underpin the Industrial Strategy Green Paper.

The paper announces that the Government will:

- Confirm the first new nuclear power station for a generation - Hinkley Point C
- Publish an Emissions Reduction Plan during 2017, with the aim of providing long-term certainty for investors
- Set out a long-term roadmap to minimise business energy costs. This is to be informed by a Government-commissioned review examining the opportunities to reduce the cost of achieving the country's decarbonisation goals in the power and industrial sectors. This will cover: how best to support greater energy efficiency; how existing instruments can support further reductions in the cost of offshore wind; and how Government can work best with Ofgem to ensure markets and networks operate as efficiently as possible in a low-carbon system.
- Review opportunities for growth in new energy technologies
- The Industrial Strategy Challenge Fund will focus on smart, flexible and clean energy technologies (such as storage, including batteries, and demand response), amongst other things.
- Government Chief Scientific Advisor Sir Mark Walport has been asked to review the case for a research institution to act as a focal point for work on battery technology, energy storage and grid technology, and is due to report in early 2017.
- Working on sector deals for ultra-low emission vehicles and nuclear.



---

# Transport

---



The Industrial Strategy builds upon commitments made in the Autumn Statement and promises heavy investment in transport networks. The green paper highlights that good transport infrastructure doesn't just reduce delays; it raises productivity and supports the rebalancing of the economy. Key announcements included:

- Government will support the growth of autonomous and connected vehicle technology by establishing a new testing ecosystem, using both controlled and real world environments. Government will announce the location of the coordinating hub for this project by spring 2017.
- A commitment to tackle the historic lack of investment in transport infrastructure outside of London, and support the midlands and northern regions by rolling out smart ticketing across multiple transport types and providing development funding for major upgrades to regional connectivity, including Northern Powerhouse Rail and the Midlands Rail Hub.
- The Infrastructure and Projects Authority will lead a new review to identify ways the Government, working with industry, can improve the quality, cost and performance of infrastructure.
- Government will be looking to pursue a sector specific deal which will encourage automotive companies to build ultra-low emission vehicles.
- Government have [announced](#) initial allocations to local areas for 2017/18 from the additional £1.1 billion of funding for local roads and transport, this includes substantial investment in the North and Midlands.
- The paper highlights a number of key road investments Government will be supporting, including: the M60 North West Quadrant, the A66, A303 Stonehenge route, Oxford to Cambridge expressway, and the Lower Thames Crossing.
- Following the elections for the first combined authority mayors in May 2017, the Local Government Association will work with new Mayoral Combined Authorities to build up administrative capacity, for example in transport planning, which could involve seconding officials from Whitehall to cities.