HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Industrial Strategy, HC 616

Thursday 15 December 2016

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Watch the meeting

Members present: Mr Iain Wright (Chair); Peter Kyle; Amanda Milling; Albert Owen; Michelle Thomson; Anna Turley; Chris White.

Questions 443 - 474

Witness

I: The Rt Hon Lord Mandelson.

Examination of witness

Witness: The Rt Hon Lord Mandelson.

Q442 **Chair:** Peter, welcome. Good morning. Thanks for coming in. It is good to see you. We are here to talk about industrial strategy. If I can kick off, you helped revive the notion of industrial strategy back in 2008, and it had been a very unfashionable term for something like 30 years before then. Could you set us the context of what happened in 2008 to make you think about a revival of industrial policy? Was it simply because the global financial system had fallen off a cliff and we needed to look at a way to rebalance the economy, or was there something deeper and more underlying behind your thinking at the time?

***Lord Mandelson*:** That is a good question. There were two reasons. First of all, having spent the previous four years on the continent, I had had the benefit of seeing how other European countries conduct industrial policy and I concluded that there was something that we could learn from that experience; there were some things to avoid, but also some things to learn. Having travelled extensively in the rest of the world—that is where I spent most of my time as trade commissioner—I saw how other countries were delivering a very strong, competitive challenge to Britain: large, fast-growing economies like China, India, Brazil and many others. I felt that we had to galvanise ourselves and draw on all the strengths we had and could muster, in order to meet that challenge.

Q443 **Chair:** What were they doing that we were not at the time?

***Lord Mandelson*:** There was a much closer integration and partnership between Government and business and between public and private sectors. The other reason is that we were facing a huge crisis in our financial system: banks were in danger of breaking up and taking the rest of the UK economy over a cliff. The political response to that needed to be very great. In a sense, fast forward to now, and we are faced with exactly the sort of challenge to the UK economy as a result of Brexit, to which there has to be a political response on the same sort of scale that we mounted in 2008-09.

In a sense, Brexit is the elephant in the room in all our discussions about industrial strategy, because we are faced with a very stark choice. We can either separate ourselves as fast and as far as possible from the European Union and its single market—what is called a hard Brexit—or minimise the break and the resulting risk to the UK economy. I am in the second camp: I want to maximise our continued participation in the single market; I want to maximise continuity in trade between the UK and Europe; and I want to mitigate the future migration effects of Brexit: i.e. I want to manage future migration with the least negative impact on business as well as on communities, public services and universities.

The essence of industrial strategy is about looking at the long term. Faced with the sort of fork in the road that the UK economy is looking at, the inclination of Britain's businesses is to be more short-term and more cautious. If, in the long term, businesses are facing border tariffs, customs barriers, frictional cost, regulatory disruption and interruption of trade, you are risking a very severe deterioration in the UK business environment.

This deterioration is not going to happen straightaway. That was the mistaken impression, in my view, given in the referendum. It will be a gradual, inexorable worsening of the conditions for business in the UK. That is why those who say it all seems to be going okay so far are completely missing the point. It has not even kicked off yet. A well thought-through industrial strategy will help us navigate our way through Brexit, but there are basic choices about this, hard or soft, which must be got right first. If we get Brexit wrong, I do not think industrial strategy in itself will be able to correct the consequences of a hard Brexit.

Q444 **Chair:** Can I push you on this? We will bring in the Brexit elephant in a moment but we are at a fork in the road, as you said, and we need to look to the long term. Based upon your experience in this and based upon what we need for Britain's economy in the future, looking to the long term, what do you think the good characteristics of an effective British industrial policy are?

Lord Mandelson**:** The first characteristic is continuity in public policies and procurement policies right across Government. Government are a huge purchaser, provider and spender in the economy; therefore, continuity in procurement and the whole range of other public policies that impact on business is very important. The second is investing in technology, skills, infrastructure and other capabilities in the economy. The third is shaping markets, because that is what Government do, so that they are competitive and receptive to new entrants. The fourth is ensuring that there is a proper delivery of finance to business. The last is achieving a geographical balance of economic activity and performance across the UK as a whole.

That is, in my view, the long-term essence of an industrial strategy, and getting those things right is very important. It is not just a question, therefore, of saying "What is good for business is to get business out of the way"; sometimes that is the case, but Government have such a huge impact on every aspect and reach of business activity that they can either get it right or they can get it wrong. One thing they are not doing is simply removing themselves from the equation.

Q445 **Chris White:** You are seen as an architect of what was an industrial strategy. We have had various panels and Ministers in front of the Committee, and where we are struggling is in understanding the word "strategy" and their interpretation of strategy. How would you define it? You have come up with "this is what it should be"; how would you define what "strategy" means?

Lord Mandelson: When I came back and used the term "industrial strategy", I actually used the term "industrial activism" because I was aware of how important and sensitive language can be. In a sense, what I was doing was reclaiming the word "industry" from the mills and smokestacks of old industrial Britain, so that the term "industry" was embracing the full gamut of modern manufacturing and knowledge industries, but also the world-class services sector that supports that modern manufacturing.

Secondly, I was reclaiming the word "strategy" from the memories of industrial policies in the 1960s and 1970s. I am not just talking about Harold Wilson here; I am talking about Ted Heath as well. The problem was that policies in the 1960s and 1970s, in my view, too often worked against the grain of markets and of economic change, and successful industrial strategy has to do the opposite. It has to work with the grain of markets and, rather than trying to preserve or fossilise the existing state of industry in the situation it is, it has to be on the side of change. It has to be on the side of modernisation.

Too often in the past, there had been a tendency by Government to substitute the calculus of politics for economic and commercial reality. There had been a temptation to protect British industry and, therefore, to block competitive pressures that were growing in Europe and the rest of the world. I felt very strongly that industrial activism, as I defined it, should not be—or certainly not be seen as being—about propping up failed companies or owning or running businesses from Whitehall. It should be there to support change and to support new products and new businesses that were attempting to enter markets, very often against the stiff resistance of incumbents—oftentimes large incumbents—of those markets, which were less interested in change than simply protecting their existing market share.

Q446 **Chris White:** I am going to go slightly off track here, because I was interested in the language you used, not least about change. How do you reconcile change with a long-term strategy, which some people might see as outcomes, targets and measures? Change suggests something that would be constantly evolving.

Lord Mandelson: If you take the simple legislative framework that exists both for corporate governance and for competition policy, you are creating a legislative framework that puts pressure on businesses and their boards of directors either to be responsive to the needs of longer-term thinking in those businesses, or simply to support and protect the immediate financial needs of that businesses' shareholders, for example.

Let me give you another example: competition policy. You can design and gear your competition policy, based as it is in legislation, on the need to support the challengers and insurgents, as against the incumbents in a sector. You can make those choices—it is important to do so—and, in my view, competition policy and its legislative framework should be very much on the side of the challengers rather than simply the incumbents. Where it gets slightly more difficult is in the area of takeovers and mergers, which, of course, is also affected by legislation. That has become quite controversial and we may come back to that during the course of this sitting, but Government take a position on how far, for example, in the case of takeovers, they want to introduce a public interest consideration to whether a takeover should be approved by Government, or whether Government should stand back and let the market take its course.

Q447 **Chris White:** A last question, please: you speak with the clarity of somebody who had been involved in this issue for some time. I was just wondering how significant you thought this area of policy was and how much of your energy you think you might be giving to helping to develop the policy. Finally, in terms of understanding the policy, could I suggest to you that you might feel that your project would be complete when the Government learn to love and understand a modern industrial strategy?

***Lord Mandelson*:** That is a good adaptation of a well-known quote. In my view, as I said at the beginning, Britain is facing a massive economic challenge with Brexit. Let us not revisit the referendum; it had a result and now we have to get on with it, making sure that it has the least negative impact on the UK economy. I believe, just as was the case in 2008 and 2009, this requires a huge political response. That response needs to receive broad-based political support across parties, and anyone with experience of industrial policy, regional policy or trade policy has an obligation on them to help support the Government to find the right outcomes and solutions when Brexit takes place.

In a sense, this is linked to a broader political point I would make, which is particularly relevant in the case of industrial policy. Government do not simply have to be joined up within their own ranks, but there really needs to be much greater continuity in policy between different Governments. I aspire to a world in which industrial strategy is part of our national DNA: that it is no longer controversial and we do not need Select Committee hearings on whether it is necessary or not. The Select Committee hearings should be on how effective it is, whether it is working, whether it is delivering and how it can be improved.

I looked at the previous evidence that you received from Vince Cable, Michael Heseltine and George Osborne. Vince Cable was right in his observation that, after 2015, there was a hiatus when the coalition lost office. Policy lost both coherence and momentum in this area. It is now picking that up again with the new Secretary of State, and I welcome that. I also smile slightly, because there was Vince saying how important continuity is. I remember him in 2010, when he succeeded me, arguing against my new interventionism. He portrayed it as simply going around the country like a Bourbon king waving a chequebook at different firms in industrial sectors, but it did not take him long to realise that there was a darn sight more coherence and long-term importance in what I was doing than simply signing cheques, which I did in an extremely cautious and prudent way.

It is really important that we end this stop-go approach to industrial policy, reinventing the wheel every time there is a new Government, and never giving any credit to anything that your predecessor has done. That is very bad for business, because what it wants above all is continuity in policy. Therefore, policy has to reach over electoral cycles and not simply start and finish within them.

Q448 **Chris White:** I am glad you have raised the point about Vince Cable. Continuity is what Governments want; it is, presumably, not what Oppositions want. How do you persuade the Opposition to the Government on such a flagship long-term strategic policy to go through the same Lobby? Is that basically an Opposition just giving up its purpose?

***Lord Mandelson*:** I will tell you what I did: for the six months before the election in 2010, I regularly met my shadow, who then was Kenneth Clarke—Vince Cable had no expectation of becoming Secretary of State. I regularly met him and went through all the key decisions, particularly the decisions that involved some financial outlay and the financial instruments that I was developing to deliver start-up and growth capital to new businesses, so as to create consensus across the aisle. I did that reasonably successfully and, if Ken rather than Vince had succeeded me, there would have been that continuity and there would not have been that immediate hiatus as Vince ran around the Department trying to reinvent the wheel, as I see it, before he realised that there was a wheel already in place and that all that was needed was to improve, strengthen and develop it.

I was glad, for example, that they kept in place what were called Fraunhofer institutions from Germany—those institutions that bridge the research and development that takes place in universities and the commercial sector. There is a whole network of them in Germany and they operate very successfully. I introduced the concept to Britain and passed that blueprint on to the successor Government. They then continued it and built on it, and we now have what we call catapults, which are catapulting innovation, research and development out of the higher education sector into the private sector and successfully commercialising it here in this country, rather than seeing R and D taking place in Britain but the businesses built on its back taking place in America, China or elsewhere.

There were one or two other instances of that, but, in other respects, just for the sake of change, they made some silly decisions in reversing decisions that I had taken. I remember the £80 million loan—not a grant but a loan at market interest rates—that I made available to Sheffield Forgemasters after a great deal of examination within Government. Here we were: we had a British company prepared to put in place a massive steel press, the like of which only existed in two other places in the world.

It would have given us a huge competitive advantage but, partly because of the credit crunch at the time and partly because the financial markets tend to take an overly short-term view, they could not get the money they needed for this investment from the markets, so Government stepped in and made it available—on market rates of interest, by the way—and yet they simply cancelled it on coming into office. It was silly. I think they recognised that shortly afterwards.

Q449 **Chair:** You have mentioned M&A and foreign takeovers. I would be interested in what you think the new Government are doing on that and whether it is the right approach. Immediately before she became Prime Minister, Theresa May said, "A proper industrial strategy would not automatically stop the sale of British firms to foreign ones but it should be capable of stepping in to defend a sector as important as pharmaceuticals is to Britain". Do we have the right balance? Should we restrict foreign takeovers in particular sectors that are seen to be good or should we be saying, "We welcome insurgents and we welcome market change", as you are saying? What is the right balance, and do we have it?

***Lord Mandelson*:** I looked at this following the Cadbury/Kraft experience and I asked the Takeover Panel to look at the existing rules. I took advice from other quarters and I decided in the end not to change the rules. I decided not to widen the public interest test that you apply to proposed takeovers, which I could have done by saying, "We need not just to look at security implications or plurality of media or financial stability as exists at the present time, but to consider the impact of this proposed takeover on UK research and development and on our science base, and what is going on in the companies affected".

The reason I did not make a change was that, first of all, I wanted to keep at arm's length a consideration of these matters, for them to be objectively evaluated, if need be by the Competition and Markets Authority, without becoming unduly politicised, which I feared would inevitably be the case if the Secretary of State increased his or her responsibilities for this. You find public sentiment being driven by media campaigns, and, before you know where you are, you are deciding this matter not on the basis of rejecting the criteria but on the basis of who speaks loudest, who is able to mount the best campaign and who can harness the tabloids behind them. I worried about that politicisation of these questions.

If I had my time again, I would probably find a way of putting a bit more grit in the wheels of the takeover process, not least because, if companies knew that they were going to face a bit more grit and harder and tougher questions about what they were proposing to do, they would have a second thought about their proposed course of action. We know that some takeovers are motivated by reasons of short-term financial benefit, finding some new way of escaping tax liabilities or whatever, rather than what value can be added to the business and its performance. If, by changing or modifying the rules, you exert a bit more pressure on those companies and get them to think twice about what they are doing and how they will have to justify it in public, you may find some takeovers that are proposing less value in reality than is advertised for them thinking again and deciding, "I do not think we can justify this in public in the way that we thought we might be able to do. Let us pull back and think again".

I have a rather more open mind about it now than I did then. As I say, at the time I thought that the politicisation of these decisions carried risks, which I wanted to avoid.

Q450 **Chair:** Let me press you on it. What is your view on ARM Holdings being sold to SoftBank? Is that a sign of success and confidence in the British economy—a great British firm being seen around the world—or is it a sign that we are selling off the crown jewels in this really great emerging tech sector?

***Lord Mandelson*:** I do not think either. I do not think it is a judgment about the state of the UK economy; nor do I think it is selling off the crown jewels. A judgment has been formed by both companies that, together, they could do more and better and add greater value than they would do if they remained separate and apart.

Q451 **Chair:** You would not have stepped in. As Business Secretary, you would not have said, "This is good British economic activity possibly moving away from these shores".

***Lord Mandelson*:** I would not have had the power to do so. I would not have had the grounds to step in. That is why I am saying that the rules would need to be changed and a broader public interest test would need to be formulated in legislation, to enable the Secretary of State to refer it to the CMA for examination, but then it would come to the Secretary of State for a decision. In the end, it comes down to a political judgment about the evidence that is being presented to the Secretary of State. In the case of this particular takeover, looking at it from quite a distance, I do not think I would have found the public interest grounds on which to try to block it. As I said, I would not have had that power, as Secretary of State, in any case.

Q452 **Chair:** In terms of changing the law to look at extending the scope of that public interest test—you have media plurality, defence and national security and financial stability—would you extend it out to science, research, innovation, tech and other sectors such as pharma? What would you do?

***Lord Mandelson*:** At the time, I decided against changing the rules and introducing a public interest test based on the research and development criteria that you have described. I do not take a dogmatic view on it. Insofar as it has anything to do with me any more—tragically, barely at all—I would approach it with an open mind.

Q453 **Peter Kyle:** Lord Mandelson, I am going to put you out of your misery and allow you free rein on Brexit now. I am pretty certain you would read the news every morning and you will be well aware, I am sure, that Sir Ivan Rogers, the British Ambassador to the EU, in a leaked memo today, has been revealed as saying that a trade deal would take 10 years to negotiate after Brexit. Can I ask what your gut reaction to that kind of revelation is?

***Lord Mandelson*:** This goes back to the central dilemma that I described at the outset, and the stark choice that we have to make in Britain—the fork in the road—between, on the one hand, trying to maximise to the greatest extent possible the continuity in our trade with our European partners, bearing in mind that that is where 45% to 50% of our exports are sold, and, on the other hand, separating ourselves as far and as fast as we can from the single market and from the EU economy. The latter course, in my view, brings huge risks and potential dangers for the UK economy. It would effectively mean that we were walking out of the single market and not staying in the customs union, but trying to negotiate a completely new sort of trade arrangement between ourselves and the European Union, so that, being out of the European Union, we would continue to have as much access as we wanted to and participation in the single market. It is the "cake and eat it" strategy.

In my view, the timetable for following that course of exit—separation and removing ourselves from the single market and the customs union, and then trying to re-enter by means of some completely new negotiation—offered by Sir Ivan Rogers, if the BBC is right, rings true to me. While an agreement on the exit terms will come earlier, because this negotiation will come first and can be approved by a majority of the EU's member states, the quite separate negotiation on what trade arrangement replaces our membership of the EU will be harder, will be longer and will require the approval of all member states and their parliaments, not just the majority of them.

The British Government say that, rather than continuing largely with the trade arrangements that we have now, they want this new hybrid trade agreement: one that is tailored uniquely to the UK's specific needs. By definition, this will be complex and, therefore, it will be a harder slog. It will not be approved simply or quickly. Therefore, while you cannot be certain about how long it would take, a timespan between five and 10 years sounds realistic.

Q454 **Peter Kyle:** Is your greatest worry the uncertainty in that period and the impact it would have on the British economy, or the final deal?

***Lord Mandelson*:** Both. First of all, you will not know what you are going to get as a result of this negotiation. I, as Trade Commissioner, started an awful lot of trade negotiations, and I tell you they are easier to start than they are to finish. They tend to be launched with great fanfare and enthusiasm by trade liberals and then brought to a conclusion many years down the road by trade protectionists of one sort or another. They never come for free. They never cover all trade, and the agreement, as I say, is very hard to come by. That is a free-trade agreement for you.

During the course of this, business will not know where it stands. It will not know what border tariffs it is going to face; it will not know what customs barriers or frictional costs it is going to face as it continues to trade into Europe. If you are in the services sector, which is covered not by tariffs but by regulation, any divergence in the regulatory standards and requirements between the UK and the continent would have an impact on UK service providers to continue their trade in the single market.

This uncertainty is going to have one of two consequences. People might say, "I am basically going to ignore the European market but focus instead on supplying the UK market and reorient my business to the UK rather than develop it as an exporting business to Europe because it is simply too uncertain. The conditions are so unclear to me, and the costs, the tariffs and the customs hassle that I would have to face are all so uncertain, that I am just going to concentrate on supplying the UK market at the expense of exports. Where I do want to export more, I am going to transfer that business to the continent".

Alternatively, they might say, "I am a global business. I want to be in Europe. I have to decide whether to be in Britain or on the continent. I like Britain. I like doing business in Britain. There are all sorts of things about Britain that are very attractive to businesses and investors, but I just do not know quite what the situation will be in five or 10 years' time, so I am not going to take the risk. I am going to go to Barcelona or Dortmund," or whatever.

That is the opportunity cost of Brexit. It is opportunities that we would have and investment that might have come to Britain, but which we lose because of the uncertainty that is going to continue during this period.

Q455 **Peter Kyle:** Amidst this hurricane that you have just described, the Government are developing an industrial strategy. Is it possible to have an industrial strategy that is robust enough to survive the uncertainties, the winds and the forces that you just described?

***Lord Mandelson*:** If we get Brexit wrong, industrial strategy will not be big enough or strong enough to correct its consequences. I have absolutely no doubt at all about that, if we get Brexit wrong. But, please, I underline that it is possible to get Brexit right, and Brexit right is, while removing ourselves from the political framework of the European Union and the political implications of greater union among European countries, we nonetheless want to keep as close, constructive and positive a relationship as we can with our erstwhile European partners, not least because, for the sake of trade, economy and investment, as well as defence and security, we need to be acting together rather than separately and apart. It is that route—the sensible Brexit route, as I would call it—that I would like the Government to take. It has massively more implications and consequences for British business than any industrial strategy would have.

Q456 **Peter Kyle:** Bringing it back to your role as a senior Government figure, the implementation of an industrial strategy and the influence that a Secretary of State can have, from your experience what is it that a Secretary of State for Business can do that has the most impact out there in the business community? What tools do you have—whether it is giving a speech, whether it is policy, whether it is trying to influence the machinery of government and trying to get something in the budget—and what can you do to deliver the most meaningful change for people who are running businesses in Britain?

***Lord Mandelson*:** You can get two things right, probably. You can get your own Department's policies right, so that you are really pulling every lever, pressing every button and using every policy instrument available to you to strengthen the underlying capabilities of the UK economy, on which different sectors sit. Therefore, you are not simply taking a sectoral approach that says, "I want this for that sector, that for the other sector, and this for something else"; you are saying, "British business and each industrial sector sit on a platform called the UK economy, and where its capabilities, whether they be skills, infrastructure, the legislative framework we were talking about, environmental policy or taxation policy—the whole gamut—are within your own Department's responsibility, you want to get them right as far as possible".

But you also need to speak up for business, business interests and what we need in order to preserve and strengthen Britain as a good, positive environment for businesses, so that we attract growing businesses and foreign investment here, as well as supporting start-up businesses and growing businesses, and make sure that the total business environment is good. That means exerting your influence within Whitehall to make sure that other Departments' policies are right in their impact on business.

When I first came to this area in 1998, in my unfortunately short-lived tenure at the DTI, I said—and it seemed incontrovertibly right to me—that my job in Whitehall was to speak up and represent business interests. From some in my party and other parts of the Government, there was a sharp drawing-in of breath: "You are not here to represent business; you are here to represent the public interest", but I pointed out that all these other Ministers were representing doctors and nurses in the National Health Service in the Department of Health, farmers in the Ministry of Agriculture, and road and rail users in the Department for Transport. They all had their interests to represent and to make sure that they were not brushed aside or ignored in Whitehall's policy debates. My job was to speak up for business interests and I did so unashamedly.

Q457 **Peter Kyle:** My final question is about activism and the nature of activism. Clearly, you brought being an activist Minister back into fashion, and you did it very effectively, but the problem with activism is that you have to choose who you are going to be active with. We had a couple of moments as a Committee of activists, one of which was over the Sports Direct issue, and we were quite active in that, but the consequence for us was that we, as individual MPs and as a Committee, were inundated with requests from unions and stakeholders in other sectors, who wanted us to get involved and solve problems in other businesses directly. Presumably, once you were out there being active in one sector, you were inundated with requests to be active in other sectors, and nothing really happens unless you personally are picking up the phone and asking what is going on.

***Lord Mandelson*:** You have to remember that, in 2008-09, when I was asked to come back from Brussels, when the banking crisis came, in one sense I had to turn the Department straightaway into a sort of casualty station. We were getting calls every day from businesses that were being foreclosed on by banks, and my response to that was to say that every business in that position contacting us needed an ally. I created hotlines between the Department and all the banks. Every time we got a request from a business to do so, we asked the banks to think twice or three times before they foreclosed on these businesses. Unashamedly, I exerted moral pressure on banks to create some breathing space and a tiding-over period so that those businesses could right themselves and find a way to stabilise themselves and secure their future. In many cases, we succeeded; in other cases, we failed. In a sense, what I was trying to do all the time was to manage the present while thinking strategically about the future.

In terms of the outcomes, what we wanted for the UK economy was not the dividing lines between different Government Departments, but to have the Department perform the role of informed analyst of the strengths, weaknesses, opportunities and threats across the UK economy and, therefore, how we could optimise the strengths and deal with the threats and the weaknesses, and also to be a trusted partner of business. That was what I saw our role to be and that is what we did, as it were: managing the present but also looking ahead to the future and making sure that the decisions that we took to cope with the immediate pressures of the credit crunch would help and strengthen us in the future.

A very good example of that is the automotive programme that I put together with Alistair Darling. It was a £2 billion automotive investment package in which I said, "You can draw on loans from this programme, but you have to spend money on research and development of new green models and green engines"—all the sort of green, low-carbon, hybrid motor developments of the future, where we want British manufacturers and British producers to be ahead of the curve. They did that. While car manufacturers faced a huge crisis in 2008-2009, they also utilised that programme to invest for the future, and their success in doing that is one of the reasons why they are so successful and so strong now. In a sense, they did not waste the crisis, and we helped by giving them the financial means not to waste the crisis.

Q458 **Anna Turley:** I would like to go back to Brexit, if that is okay, Lord Mandelson. I know you said in your comments that you do not want us to revisit the referendum and the decision was taken, but in order to look forward we have to listen to what people said and what led to that decision, particularly in terms of areas of traditional industry and manufacturing, who spoke so strongly and quite overwhelmingly in the referendum: 67% in Redcar and 70% in Hartlepool. Why do you think people in industrial and manufacturing areas voted so strongly for Brexit? Do you think that represents a failure over the last 30 years or so of our approach to industry in this country?

***Lord Mandelson*:** That is a very big question. People—themselves or their families—who had been more traditionally employed, if I can put it in that way, felt that a lot of Britain's traditional industrial base was simply being washed out of the door by globalisation. We originally saw the growing integration and interdependence across the global economy as a great opportunity for Britain to, in a sense, have globalisation on our terms, prioritising western preferences, western priorities and, frankly, the interests of western capital. Suddenly we were seeing this tilting the other way and it seemed to be playing more in favour of the emerging economies like China, India, Brazil and others. My Indian counterpart, whenever I talked about the emerging economies, used to say, "That must mean, by definition, that the sun is setting on the submerging economies, thank you very much".

That is the sense that people had, and that the European Union was magnifying and accelerating that pace of change, over which they had very little control. Indeed, not only did they have very little control, but they had views which people were not interested in hearing. People in the north-east—and my former constituency was Hartlepool—voted very strongly to leave, as Iain knows, being there now. I can just hear their voices in my ears saying, "This is a wake-up call. This is my chance to say to you people that we do not like what is going on; we do not like the way change is taking place; we do not like the way in which everyone seems to be indifferent to its consequences and impact on us, and you are not even interested in our views on it".

There was a large measure of that. What is the response? The UKIP response is to say, "You are absolutely right. It is terrible how you were being ignored and it is terrible, all this globalisation and trade. Let us just pull up the drawbridges, slam the doors shut, construct a great big brick wall around the country, and stop the world and get off". That is not what I believe is a responsible response. It is not what mainstream parties—either of the centre-right or the centre-left—should be offering. We have to offer policies that do not stand in the way of change but make change more manageable, in respect of local communities or individuals and their skills, looking at the way in which the economy is changing with the growth of very important areas of specialisation in the UK economy. We have to gear Government policy, investment in infrastructure and skill development to those growing areas of specialisation in the economy, making sure that individuals can benefit from change and go with the grain of change, rather than, as it seems to them, always being casualties of it.

That is partly about narrative and storytelling about what is going on in the world, how you interpret it as the Government and what you think your policy and political response should be. It is also about specific policies. I will give you an example: skills. This is an area where I felt, when I was Business Secretary, I did not ring the changes in the way that I wanted, to be perfectly frank. We had already, as a Government, introduced something called Train to Gain. It was a Treasury and Department for Innovation, Universities and Skills initiative and, essentially, it was offering subsidies to employers to train. The truth is that it was both public subsidy in the main for quite basic skills, but there was also quite a lot of deadweight spending; i.e. it was Government money replacing what would have been done in any case by those companies.

I wanted to move our skills strategy to a different plane. I wanted it to move to a higher level, where we were training individuals for more specialist and modern technician skills. It is why I introduced a system of modern apprenticeships, as I called them, and got Treasury funding for an initial paltry rollout of 20,000 or 30,000 modern apprenticeship places. I also wanted to increase the numbers of ways in which young people could eventually find themselves in universities, not taking the classic school/sixth form/UCAS route but entering universities from, for example, colleges of further education or, indeed, from the workplace and undertaking degree apprenticeships. I put a lot of my energy behind those.

Rather interestingly, gratifyingly, having just become Chancellor of one of the universities in Manchester—Manchester Metropolitan—I went on one of my monthly visits to the university and met a room full of 40 or 50 degree apprentices in a whole number of different areas—digital, legal, managerial. These were bright, hungry, very motivated individuals who had jobs, wanted to upskill themselves and had the opportunity to do so with one foot in work and one foot in the university, and they were loving it. I wish we had been able to make faster progress at the time but we did not; we ran out of time.

Q459 **Anna Turley:** That is a really interesting insight into some of the opportunities for those who are already in university or training—a high-tech and fantastic approach to our industrial policy. My concern is that there is still an awful lot of the population who are not accessing that at the moment and are feeling exactly as you described—buffeted by the trends of globalisation. What can industrial strategy going forward, in the context of Brexit, look like for those people in Britain: the people we have seen in the warehouses in Sports Direct? What kind of industrial strategy can they buy into?

***Lord Mandelson*:** Both the manufacturing and the distribution processes right across the waterfront of the UK economy are going to change with growing speed during the course of this century. The ways in which we do things are going to be transformed quite dramatically by the advent of further waves of technological progress and innovation. We are just seeing the beginning of digitalisation. It is going to transform what we do in the economy, including how people are working in Sports Direct or other similar companies.

It is a long-term perspective that we have to take on this, but it is also longer-term planning and longer-term investment in making sure that we have the systems in place to prepare individuals and train them, taking them to a higher and different level of skill, so that they can do their jobs in the future. I do not want to dwell on Manchester, but I have been going all out for the last three months to get Government support—and we have won that now—as well as support from the private sector to create an international screen school in Manchester, based at the university. The simple word "screen" covers such a galaxy of changing technology, new commercial opportunities and demand for skills, of which we are only now just seeing the beginning. To create that school, located in the north-west of the country but serving the UK as a whole, will, in my view, be a tremendous addition to our education and training system in this country.

It has to become more granular than simply saying, "There is a great thing called Train to Gain. Let's throw money at employers and get them to spend more on basic skills". I am not saying that that is unimportant. Of course, it is important, but I come back to what I said before: we are going to see growth points in the UK economy in much more specialised ways of working. Just as specialisation characterises what we produce, what we provide and how we do it, specialisation also applies to the individuals who are going to be employed in the doing of it. That is why we have to think much more creatively and innovatively about what we want out of the skills system in this country and how we draw on the structure of further and higher education to underpin it and make sure we provide it.

Q460 **Anna Turley:** It is really interesting to hear you talk about the future of our economy being specialised. Are there particular sectors that you think are our strengths? Where do you think we are going to particularly flourish? What happens to industries that you think may not be competitively leading? Issues like steel are very dear to my heart.

***Lord Mandelson*:** Take steel and look at one salient fact about the steel sector: two-thirds of steel product in the UK now was not invented 15 years ago. Just think about that. Two-thirds of what we produce in our steel industry was not even thought of or invented a decade or more ago. The problem, in my view, is that there are cyclical issues affecting steel—lower demand, lower price and less profitability—which exert their own obvious commercial pressure on steel producers. There is a more structural problem, which is that the industry has not innovated consistently enough. I am not saying that there has been no innovation in steel—of course there has—but there has not been, in my view, the consistency over time that you need: the constant reinvention of what you provide and supply to the market, how you do so and the manufacturing process involved.

Take Redcar, your own constituency. I faced a terrible issue on this in 2009-10. Tata said they were pulling up stumps and abandoning the whole thing. They had a very unpleasant CEO at the time—gladly, we saw the back of him—who just laid down the law, barely listened to any alternative view and kept writing rather long, disobliging letters to the Prime Minister. What did we do in those circumstances? We gave them some money to tide them over and to keep them going during the period of mothballing of the plant. If they had closed it, as this disobliging man wanted to do, that would have been the end. There would have been no prospect of bringing it back into life and no possibility of finding the Thai company, SSI, which, by the way, we were doing in the last couple of months. Pat McFadden, the very able Industry Minister in my Department, who ran large swathes of it very competently indeed, was never off the phone to these Thais. I was forever walking round to his office asking, "Have you delivered the Thais yet?" "No. Please go away because I need to make another phone call".

Fast-forward: when the same situation arises again, the Thais find that it is not profitable for them and they feel they need to walk away, what is the Government's response the second time round? It is not to mothball, not to tide it over and not to create the opportunity of new owners, new product or new exports. Heaven knows, with the value of the pound going down as it now has and the sort of products that had been made in Redcar, this would have resulted in their output finding its way into export markets by taking advantage of the cheaper pound, but it has not, because they were not given that further opportunity and lease of life. Sometimes, there are very difficult decisions that Government have to take. Sometimes, the Government have to say, "I am going to be very honest with you. I just do not see a future here. I just do not see the prospects for this". On other occasions, you have to be rather more hard-headed, back your judgment and that of the people advising you, and say, "I can see an alternative here and I am going to back you in the meantime to get that".

Q461 **Anna Turley:** As they did in Port Talbot.

***Lord Mandelson*:** As they did in Port Talbot, because they thought twice. I wish they had done the same in Redcar.

Q462 **Chair:** Even in your case, Peter, it was reactive in terms of what has happened subsequently.

***Lord Mandelson*:** It is called managing the present.

Q463 **Chair:** Is the crisis in the steel industry the result of an absence of an industrial strategy, where Government working with business think about the need to change, to adapt and to innovate in order to stay competitive? Would you have liked to see more done to help that steel industry as a foundation industry?

***Lord Mandelson*:** A Government cannot do the job of the owners. They cannot replace the management. They cannot second-guess every decision that is taken, even in basic industries like steel. What you can ensure is that you are an informed analyst. You look at what is going on in Teesside. When you look at a particular plant at Redcar, you can see that greater connections could be made between the business and areas of research activity and product development that are going on, but at the moment those connections are not being made adequately or enough. You can be a catalyst and you can bring people together.

In my view, that is not the job of a central Government Department. It is the responsibility of devolved bodies and regional structures and entities that are much closer to what is going on in a particular locality or industry. Their job is to do much more to connect up the dots. Central Government cannot do that for the whole country; of course it cannot and you could not imagine it doing so. While we, as a Government, put an enormous amount of resource and therefore investment into the regional development agencies that we created, we did not create the points of executive action and accountability for those RDAs that were needed if they were going to do their job effectively.

Again, that was a shortfall in policy and activity of the last Labour Government, which to an extent has been rectified by the coalition and is continuing, I hope, under Mrs May's Government, in terms of directly elected mayors, coalitions of local authorities and the northern powerhouse: that area of policy and activity that supports Government intervention, which is much better done locally and on the ground than it is centrally from London.

Chair: That leads us nicely into the next theme of questioning.

Q464 **Amanda Milling:** I am going to come on to the devolution side shortly. I just wanted to talk about Whitehall and the characteristics that you have talked about in terms of the industrial strategy. One of the recurring themes throughout the discussion this morning is that you have talked about skills and you have touched on infrastructure and the regions. One of the key things for industrial strategy to succeed is co-operation and engagement across the Whitehall Departments. It is fair to say that it has been an aspiration of successive Governments and successive Ministers to get a joined-up approach in Whitehall. Why is it so difficult? If this industrial strategy is going to succeed, what needs to happen in terms of co-operation and collaboration across Departments?

***Lord Mandelson*:** Heads of Departments and Secretaries of State become very possessive and very protective of their policies and resources. Oftentimes, if they have to share them, they think either that they are going to be less well executed or that they are going to get less of the credit. That is politics. Welcome to the world of Westminster.

I will give you an example, as an illustration of where we tried to counter that. We identified the decarbonisation of the UK economy—clean growth, the way in which we were going to harness the decarbonising revolution, the technologies and environmental goods and services we were going to produce—and we wanted to invest more in it as a really important potential growth point and area of specialisation for the UK economy. Initially, you could say there was a tension between the Business Secretary, me, who saw it as a major growth point and a major potential for my industrial activism, and the Secretary of State for Energy and Climate Change, Ed Miliband, who saw it as a major point of departure and focus for his Department. Who was going to have control over the policy? We resolved this by basically saying that we needed a green industrial strategy.

It is where, for example, the recently opened Siemens fabrication plant in Hull came from. That started in 2008-09, when I had my first meeting with Siemens and they said, "We want to do more. We want to take advantage of this huge rolling out of offshore wind energy and its generation in the North Sea. We have a choice: do we manufacture the turbines and all that is needed in Denmark or in Britain?" I said, "Come to Britain". They said, "Well, we would need really good ports. We need a really good port to base it at because they are very large and very heavy. Transportation of them into the North Sea will be very tricky and has to be done over the minimum distance and at the minimum cost". I said, "We have lots of very good ports along the east coast starting from Aberdeen going down to Tyneside, Teesside and Hull".

They said, "We do not think any of these ports are sufficiently specialised or modernised for our purposes". I said, "Okay. I will create a port modernisation competition fund that can be bid for by these different ports. They will put forward their plans for how they are going to change, how they are going to modernise and how they are going to create that receiving point and location for the fabrication that you want to undertake".

Hull won the competition; 60 million quid was therefore earmarked for the modernisation of Hull and we were off with Siemens. That story has unfolded over the last six years with the building of a wonderful manufacturing plant in Hull and its opening by the new Secretary of State, Greg Clark, two weeks ago. I wonder whether Greg Clark, at the opening of Siemens in Hull, was honest enough to say, "Actually, this was a product of intelligent thinking by Government. This is a product of industrial activism that started before I came into office and before my Government appeared. It started as long ago as 2009 when those other people were in charge".

That simply goes to show the importance of harnessing new developments, new sources of manufacturing activity, new technological firepower and how we want not simply to research into it and to develop it, but to provide a manufacturing base for it so that it is made in Britain rather than invented in Britain and made somewhere else. That goes to show the sense in continuity of policy as time goes on across Departments. I will go back and look at his remarks, to see whether he made that point. I suspect that he did not.

It is such a good illustration of how creativity and inventiveness at the beginning, plus Government intervening and doing the particular heavy lifting and pump-priming that only Government can do at the time, and then the continuity of policy with successive Governments taking it forward rather than abandoning it, has resulted in, six years later, Greg Clark opening up this wonderful Siemens plant in Hull. It is a very good illustration of what we have been talking about this morning. I am sorry that I do not remember the original question that you asked me.

Q465 **Amanda Milling:** It was about working across Whitehall, but it is an interesting point that you make there.

***Lord Mandelson*:** It was about the green industrial strategy.

Amanda Milling: It was also about the issue that we have with the industrial strategy, and lots of other policy areas, in terms of co-operation between Whitehall Departments.

***Lord Mandelson*:** I will give you another story that could have had a very unhappy ending. We created a strategic investment fund and, because so much of it was directed at climate change, decarbonisation, the green industry and green goods and services, this fund had a dual lock on its use and that double key mechanism was given both to me and to Ed Miliband. The third of it that was to be devoted to climate change and decarbonising purposes had to have the agreement of both Secretaries of State.

A very urgent decision needed to be taken because Rolls-Royce was thinking of taking the entirety of its R and D from Britain to Singapore at the time, and I wanted it to keep a whole swath of it here in Britain. However, as ever, these things needed a bit of pump-priming to help the board take the decision. It was a perfectly legitimate investment for public funds and something that was really important in terms of maintaining an R and D base in Britain for our future modern manufacturing capability. I just could not get the Department of Energy and Climate Change to sign off on this decision. I could not do it for love or money. In the end, the CEO of Rolls-Royce came to me and said, "Look, my board is meeting tomorrow. We are going to take a decision. It is going to be irreversible. If you want to make the difference, I am afraid that you will have to give me an answer now". I went out and told my officials that we were going to shoot the lock off this strategic investment fund, apportion the money and that I would just take the consequences and explain it to Ed Miliband afterwards.

He was very, very cross. The Energy and Climate Change Secretary stated on the phone to me the next day, "How could you do this? We thought we had a new, collegiate Peter Mandelson operating here, and there you go in your nasty old ways, acting unilaterally, trampling over everyone else". I said, "I am very sorry, but at a time when we needed this decision and we were right up against it with the Rolls-Royce board meeting the next day, your Department said that it needed yet another iteration and another paper in order to help it make up its mind. We had run out of time. I am sorry, I will not do it again, but on this occasion it was necessary".

Q466 **Amanda Milling:** A Cabinet committee has been created and is chaired by the PM. Do you think that will help address a situation like that? I know this was within a short period, but do you think it will go some way to getting co-operation across the Departments? I take the point in terms of "welcome to Westminster" but we see this across the country.

***Lord Mandelson*:** You need the commitment of the Chancellor, the support of the Prime Minister and the willingness of the Prime Minister at the end of the day to arbitrate between Ministers in case of disagreements. You need that. Whitehall needs to get the message that this is a top priority, that this is a key focus and interest of the Prime Minister and that he or she means business. That is absolutely essential. I think I had that in 2008 when I came back.

I have to say that I remember a very senior official in Whitehall coming to me and saying, "Peter, with this industrial activism, are you trying to introduce some new ideology to the Government? You know there has been an unwritten rule in Whitehall for the last 30 years that Ministers and markets do not mix. You of all people, surely, should know that". I said, "I am, actually, because I think the rule has been over-interpreted or misused". To be honest, when I came back, I saw my role as being one of introducing more pragmatism to the Labour Government. Over the time of the Government as a whole, we had become a little bit dogmatic in our approach to industrial strategy and I wanted to introduce a little more flexibility and activism; which is what I did.

Q467 **Chair:** You need the buy-in of the Prime Minister and the Chancellor. Is the Treasury too dominant in terms of executing a proper industrial strategy? Do we need a beefed up Business Department? You know your Labour history, Peter. Do we need a Department of Economic Affairs as a counterpoint to the Treasury, or is it all about individual Cabinet Ministers and whether you have big beasts in that particular Department?

***Lord Mandelson*:** I feel that, over the time of the last Labour Government—and I hope, incidentally, that it will not be the last Labour Government, but the one that started in 1997 and ended in 2010—the Treasury had become very domineering. It regarded the DTI, and the

Business Department as it became, as a location for modest outsourcing of whatever the Treasury could not be bothered to do, like getting money out of the door for certain schemes or management of stakeholders. It used to take our blueprints, plans and ideas, cherry-pick them, announce them and leave the rest on the shelf.

I felt that that was greatly underutilising the huge talents and knowledge that exist in the Business Department. They are very fine officials indeed with a great deal of expertise and judgment, and an ability to act intelligently but pragmatically in all these matters, as well as strategically in the long term. I sometimes felt that the Treasury's idea of the long term was the six month interval that existed between the Budget and the Autumn Statement.

Q468 **Albert Owen:** You stole my question there; I was going to ask about bringing Departments together. You did not quite answer it. Do you think there should be, now that we have a new industrial strategy, a coming together of other Departments? For instance, you talked about your relationship with Ed Miliband. I remember very well having to deal with you both over the smelting works in my constituency. I got the same answers on that occasion, and we called the company's bluff and they walked away, but that was not the fault of Government. I had to deal with you, the Energy Secretary, the Prime Minister and the Chancellor. The Chancellor was always the hardest to get hold of, by the way, of the four of you.

The serious point is this: do we really need a bigger Department now? A lot of the issues on climate change are about housing and transport, for example, and you have these dominant characters, as you said, in Government with their own self-interests. Do we need another Department—a big beast in Westminster—to deliver all this; or, as we are going to come on to later in more detail, do we need more regional ones? Is it not time that Whitehall let go?

***Lord Mandelson*:** You will recall that, after a year or so, two Departments were brought together when I came back. Business enterprise, regulatory reform and all that came together with innovation, universities and skills in a large Department.

Albert Owen: You lost energy though.

***Lord Mandelson*:** Some people said that this was empire-building by Mandelson. Nothing could have been further from the truth, obviously. It was so clear to anyone with half a degree of knowledge on all this that these were different threads of activity and policy, which really needed to be pulled together.

Can you literally have a Department that is so big that it straddles the whole of Whitehall? No, but that is what the Cabinet Office is there for. That is what No. 10 is there to achieve and that is why having that co-ordination between Government Departments, but also having a

Prime Minister who is prepared at the end of the day to call the shots and bang heads together, is so important.

Q469 **Albert Owen:** On the devolution thing, it was a failure of the Labour Government during 1997 and 2010 not to devolve greater economic activity and executive powers to the regions and to the nations. You touched on that and I think that was more or less what you were saying.

***Lord Mandelson*:** Yes.

Q470 **Albert Owen:** Do you think we were bogged down too much with constitutional issues or was there a resistance from your colleagues to give powers away? When George Osborne was the Chancellor and would get up and talk about the northern powerhouse, he never once talked about devolving any Treasury responsibilities.

***Lord Mandelson*:** One of the criticisms that I would make of the last Labour Government is that we left the very centralised system of power and government that we have in this country too untouched by change and by reform. I would have liked to see a much stronger devolution agenda, not just to Scotland and Wales, but across the UK. We tried to push directly elected mayors, which would have created a single point of executive action, authority and accountability, but there was resistance in Government to those reforms. We were not united in our approach.

As I said before, we gave resources to and empowered the regional development agencies that I had been instrumental in creating in 1998 at the DTI, but it was unclear to whom this new power was accountable. We just did not have the regional entities and structures that would support this devolution. I wanted RDAs to develop really strong, thoroughgoing regional industrial strategies, and I urged them very strongly to work with leaders of local authorities in doing this.

I do not think we operationalised this enough. Add to that the disagreement within Government as to whether there should be really strong devolution coupled to directly elected mayors, rather of the sort that you have had now from the coalition and this Government in the combined authorities. There was not the agreement on it then and so we did not pursue it vigorously enough.

Q471 **Albert Owen:** Do you think that we are right to go for cities, or do you think we should go for economic clusters in areas and have local government?

***Lord Mandelson*:** We tried to pursue city regions and regional development around cities, which are a sort of powerhouse and drive growth. I believed in that. It was desirable, but it did not form a sufficient part of a coherent approach that we were taking. We invested so heavily in the cities, which is why they have been transformed over the last decade. We were not so successful in creating the systems of accountability at the time.

Q472 **Albert Owen:** I have heard your responses on the Treasury, but do you think it is possible to break the Treasury up and have regional banks to help regional economic development, for example, so the Government runs this but with a regional bank, not just a nationalised bank, that speaks for that region, like we had with building societies?

***Lord Mandelson*:** Creating regional banks would not be my priority. They are very difficult to capitalise. They are very difficult to design governance for. We are inevitably much more prudent and cautious about how banks operate as a result of our earlier experience.

Albert Owen: International banks are not perfect either.

***Lord Mandelson*:** You have to look in a different area. You have to look at how we develop a system in this country of marrying and matching public savings to investment opportunities, in a way that we are doing only barely adequately at the moment. Britain has many of the world's best universities. We have an abundance of intellectual capital but, frankly, the UK fund management industry, which runs a lot of our pension funds and accumulations of capital and savings that are available for investment, is hampered by a short-term approach and by an obsession with liquidity, i.e. what they can buy and sell at very short notice. As a result, the system of financing business has lost a great deal of its long-term patient capital.

Q473 **Chair:** We are also looking, Peter, at corporate governance. What is the answer, in terms of that short-termism, with boards and fund managers taking a short-term view? What should we be doing?

***Lord Mandelson*:** I do not know. I commend to you what Neil Woodford, one of the best and most successful fund managers in the country, has said and written on this subject about the drying up of patient capital: i.e. capital that is given to new investment opportunities and to new businesses to enable them to grow patiently over time rather than expecting some short-term return. Read what Neil says on this. He has advocated the creation of incentives that can be employed to overcome this mismatch between the availability of savings and funds and the investment opportunities available, which is hindering us in making the best use of our knowledge economy. It may be that we need to examine further Government policy incentives in order to encourage the formation and deployment of such patient capital.

Again, when I was pursuing industrial activism, I was very preoccupied by the question of finance. I had seen how, in 1945, the Government had created the Industrial and Commercial Finance Corporation—what later became known as 3i. It was a massive, state-backed, resource-rich venture capital organisation. I think it was privatised. It rather lost its way, in my view, as did the whole of the venture capital sector to an extent. It started going for big-ticket items and investments rather than smaller and more measured ones. It was less long-term and retreated geographically more towards London and the south-east of the country, away from the midlands and the north.

I embarked on an examination of this, in order to see whether we could create a new 3i, a 21st century version of the original Industrial and Commercial Finance Corporation, as has been created and is working very well in Germany: the KfW. Just as we are now, I faced this also in 2010: we ran out of time.

Q474 **Chair:** We are running out of time. The final question is from me. You mentioned very vividly the Siemens example, whereby something that you decided in 2008 and 2009 is only coming to fruition now. What is the timescale to evaluate the success of a proper industrial strategy? How will we know that Theresa May has carried that out? In the meantime, what are the things that we can be looking at—the metrics—to see whether that is coming off the rails or not?

Lord Mandelson**:** We can judge it in a sense by the story it tells now, the narrative it offers and whether it makes sense. We can judge it too by the policy instruments and levers that have been harnessed to it and the sorts of decisions and judgments being taken in the use of those policy instruments. Finally, how long will it be before we are able to judge what is being done now? I would say a good 10 years' time: the same length of time, coincidentally, as I suspect it will take to negotiate an alternative arrangement between Britain and the European Union to replace our existing membership of the EU.

Chair: Peter, that was excellent. Thank you very much for your time and your input. We are very grateful.