

Business, Energy and Industrial Strategy Committee

Oral evidence: Post-Pandemic Economic Growth: Industrial Strategy, HC 674

Thursday 24 September 2020

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Members present: Darren Jones (Chair); Alan Brown; Richard Fuller; Paul Howell; Charlotte Nichols; Mark Pawsey.

Questions 1 - 40

Witnesses

[I:](#) Kate Bell, Head of Rights, International, Social and Economic, TUC; Rain Newton-Smith, Chief Economist, Confederation of British Industry; Dr Anna Valero, ESRC Innovation Fellow—Growth, Centre for Economic Performance, London School of Economics.

[II:](#) Rt Hon Greg Clark MP, Chair, Science and Technology Committee.

Examination of witnesses

Kate Bell, Rain Newton-Smith and Dr Anna Valero.

Q1 Chair: Welcome to the morning session of the Business, Energy and Industrial Strategy Select Committee. This is our first hearing in the industrial strategy section of our post-pandemic economic growth inquiry. I am delighted to welcome our first panel of witnesses this morning. We have Rain Newton-Smith, chief economist at the CBI; Kate Bell from the TUC; and Dr Anna Valero from the London School of Economics. Good morning to all of you.

Clearly, reviewing the industrial strategy, which was launched in 2017, has taken a slightly different turn, given the pandemic and the economic consequences that have flowed from it. We want to get to the underlying issues pre-covid but then understand what covid means in the context of those underlying issues in the British economy, so we will try to tackle both those issues this morning.

To start, I would be keen to hear from our witnesses their views about the sector strengths in the British economy. We are very conscious that, in the context of covid, we have sectors that are going to take slightly longer to open, but we still have sectors on which the British economy relies more significantly for economic growth and/or for jobs.

As an opening question to our witnesses, I wonder if you could share your thoughts with the Committee on which sectors are strategically the most important to the British economy in terms of jobs and securing the quickest possible economic recovery post-covid, and which bits of the economy we should be prioritising to create new jobs and new products that we have perhaps not in the past been strong in.

Rain Newton-Smith: Thank you for inviting us all to give evidence this morning. To my mind, I would just highlight three real sectors that I think are a huge opportunity for the UK. As with a lot of my remarks that I will make about the industrial strategy, they are also partly based on technology, so thinking a bit more broadly than sectors.

I will first highlight an area where we have a real comparative advantage, particularly as we see the world moving in this direction, which is the transition to net zero. Everyone is talking about how we want to make this a green recovery, but thinking more specifically about that, if we look at the success we have had in the past in the development of offshore wind, there is potential for us to go further on that. For example, in Wales, we can develop some of the technology that will be used around the world in terms of floating wind. In Yorkshire and the Humber, technology is being developed for carbon capture, usage and storage.

These are technologies that we are all going to need in that transition to net zero. As we come out of this recovery, we know that looking at how we heat our homes, and make our homes and buildings more energy efficient—in industry as well—will create jobs and help to develop the



technologies we need, not only here in the UK, but more broadly. There are many more examples in that, but thinking about the future of heat, energy and mobility in the transition to a low-carbon economy is one huge potential for the UK.

The second area that I would highlight is our potential in services. It is challenging at the moment, because it is certainly true that our economy, being services led, has been harder hit than some other advanced economies. Looking to the future and how trade in the world is developing over the long term, that is a huge potential for us, so we should build on that capability that we already have. The services sector is one of our major and growing exports.

Globally, we know that it is in services that we will see growth in trade over the next decade. Whether that is our financial services, our creative industries, media and education, or the consultancy, design and engineering that go alongside the built environment, this is an area where the UK has a real comparative advantage and something that we can really tap into. If you look around the world, the rising middle class in Asia will be demanding a lot of these services, so it is a real opportunity for the UK.

Finally, I would highlight manufacturing and supply chain resilience. This pandemic has brought home to us that, in some parts of manufacturing, we have real capability, but it has also underlined the importance of making sure you have core capability in different manufacturing sectors. That is something that we should focus on. Particularly in this pandemic, it is about looking at fundamental research and vaccines. In thinking about how we use our universities and the research that is built there, and transform that into practical, real-world applications, the UK can lead the world.

Q2 Chair: When you talk about manufacturing, are there specific sectors in manufacturing that we are particularly strong in and which we need to protect more than others in order to grow back more quickly post-pandemic?

Rain Newton-Smith: It is always really difficult to highlight specific sectors. You end up with boundary issues in how you define one sector or others. We know that there are areas of high-value manufacturing where we do very well. When we think about the car industry and the success we have had in that, there is a huge supply chain that feeds into that. That is certainly one area and something that we will need to think about. That is why having a deal that covers tariffs and more with the European Union is really important for that supply chain.

More broadly, it is about making sure that we are not imposing a high level of fixed costs on our manufacturing sector. There is certainly a role there to look at the tax landscape and how business rates, which people often associate with the high street, can have quite a big impact on manufacturers that have large premises. The opportunity in



manufacturing is often how it links to research and development. Getting more of the development happening here in the UK is something that I would highlight.

Q3 Chair: Would you support the re-shoring debate when you talk about getting more of the manufacturing done in the UK?

Rain Newton-Smith: Global supply chains are really integrated. When I talk to businesses, there is no supplier or company that has all its inputs solely from within the UK. It is really hard to identify a firm where none of its inputs come, in some way, from our relationships abroad. It is complicated and we need to make sure that it is easy for manufacturers to have inputs from abroad. Sorry, my dog is going to try to join in at this stage. That is a hazard of being at home. It is about being able to have those inputs cost-effectively, and being able to produce for the domestic market but also abroad.

Q4 Chair: We will make sure that the dog makes it into *Hansard*. Kate Bell, what is your view on this sector strengths and strategic sectors issue?

Kate Bell: Thanks for having us. To echo some of what Rain said, the opportunity of a just transition to net zero is vital. We commissioned some research back in June that looked at potential growth sectors in delivering that. Good job-creating industry sectors, echoing some of what Rain said, include housing construction; energy efficiency; upgrading our transport system to deliver green transport; energy, waste and manufacturing infrastructure upgrades; land and forestry improvements; and broadband upgrades.

Building on what Rain said, there is an opportunity there, in developing those new sectors, to develop our manufacturing industry in the UK, and to use strategic procurement to support those foundation industries, whether it is the steel industry across the UK, which could do much more to supply our charging infrastructure and to develop those transport upgrades, or whether it is our automotive industry, which could be helping us to deliver that transition to electric vehicles more broadly. We can both build to net zero and support our strategic foundation industries, which is vital.

I have two other points to add. It is really important that we remember the role of the public sector in this. We have also set out a plan for creating 600,000 public sector jobs. When we think of the ambitions of the industrial strategy around levelling up and ensuring that we have good jobs right across the country, the public sector plays a really vital role in that, not only through procurement but through supporting local demand.

Lastly, industrial strategy conversations tend to concentrate on high-value industries. Of course, it is right that we are talking about how to develop more good, high-quality jobs of the kind that we know we have in our manufacturing industries, but, if we want to achieve the ambitions



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of the industrial strategy around higher productivity and decent jobs, we have to have a plan for our more domestically oriented industries, such as our retail sector. We cannot have an industrial strategy that ignores what is happening in retail.

I would add that we cannot have an industrial strategy that ignores what is happening in the care sector, an expanding area that has been identified by the Government. We need a strategy that thinks about how to improve the quality of jobs in those areas as well as expanding the kind of jobs that we know have high productivity and will help us meet that drive to net zero, which we all want to see.

Q5 Chair: It is fair to say that you have put three buckets in there: the strategic foundation industries, what some of us call the everyday economy in terms of the domestic economy and the technological frontier work. Is that how you would see those three separate issues?

Kate Bell: The technological frontier is really where we are driving towards net zero. The drive to net zero is a necessity and a challenge, but it can also provide a real motivation and driving force for the industrial strategy. We know this is something that we have to do. We also know that these could be delivering good-quality, high-productivity jobs right across the country. We should seize that opportunity to shape our response to what our industrial strategy looks like.

Dr Valero: I completely agree with all the points made so far. Clean growth and sustainability have to be at the centre of the industrial strategy going forward. That is where the opportunities lie. In the short term, when we think about where jobs can be created, many of those lie in net-zero-consistent projects. We have outlined in a number of reports that the job creation potential and lack of import substitutability—these are local jobs—are very high in energy efficiency upgrades, electric vehicle charging infrastructure rollout, broadband infrastructure rollout, and natural capital investments and restoration. All those things are crucial for net zero but also crucial for jobs in the short term. By creating those jobs, you will then have multipliers in the short term.

When we think long-term strategically, we have the net zero commitment, so we need to meet that. To get the opportunities from that, we need to think where we, as the UK, have a comparative advantage. Other countries are investing a lot in this, sometimes dwarfing the investment we are making. It has been discussed that we can be small and smart in some of those areas where we really have strength.

An analysis we have been doing, looking particularly at the innovation potential, comparing it to other countries and looking at where spill-overs are large, reveals a number of areas of strength, for example in wind, renewable energy and marine. In electric vehicles, it is a broad category of technologies. If you look deep within goods and services, you can see areas where the UK has a lot of strength. Some parts of the electric



vehicle supply chain are not in automotive; there is data and smart services.

I favour thinking about this in terms of technologies rather than purely sectors, because sectors are not always that easy to define. Particularly in the area of new technologies, a lot of work is going on to try to find different categorisations of industry to reflect the innovation that is going on.

Clearly, data and digitisation are key. We are good at developing those types of service in the UK and we need to do more about adopting them. By improving that adoption and diffusion in sectors like retail and hospitality, which are facing crisis now, but even before this current crisis were large employers across the UK with relatively low productivity, there are lots of gains to be made through the diffusion of existing technologies and practices.

In terms of other areas of the service sector, in the pre-financial crisis period, our growth was not just all financial services. We had a lot of productivity growth from business services, as others have mentioned, as well as professional services, architecture and creative sectors. These are areas of comparative advantage. There are risks now to do with Brexit. Raising non-tariff barriers to services is a big issue and we need to focus on that. Cultural and geographical proximity are important. While we might be able to export a lot of services further afield, there is a risk to our EU exports of those services.

Q6 Chair: You said it was difficult to define sectors, but would it not be fair to say that we have data that shows that we are good at making cars, aerospace, pharmaceuticals and gas turbines? Is there, therefore, not an argument that we need to provide some protection to give stability to what Kate referred to as strategic foundation industries? Would you agree with that or do we just need to take this horizontal approach around tech, data and services?

Dr Valero: Fundamental to solving our productivity crisis are the horizontal aspects and, for the most part, the levelling up agenda. There are specific areas that are very reliant on a particular sector, so you cannot just let a sector fail, because that will have very negative impacts and be very costly for specific areas, as well as for national Government. Clearly, there are areas now where we see sector-specific issues, like retail and hospitality. You need a balanced approach. You need to understand the connections between those sectors, where a specific issue for a sector in one area might not exist for that specific sector in another, and the differences.

The way that I was thinking about this was that, even within retail and hospitality, there are winners and losers at the moment. Even within London, for example, some of the central London retail and hospitality businesses might be doing less well, but perhaps more local cafés and



restaurants are doing better as more people are local. It is about having that granular data to understand where the issues are.

Q7 Paul Howell: Listening to the questions there, I would be interested to see whether anybody has any thoughts about where the priorities should lie. There are various sectors in which, if you do something, you will get multiple effects as a result, driving other things from them. There are others where it is a very focused thing that is literally just for that sector. In trying to get the economy moving again and trying to get things moving more quickly, are there any areas where, by putting particular effort in, we are most likely to see good regional gains, specific gains, or just the fact that there is a multiplier that sits behind it?

Rain Newton-Smith: I would separate two things. Thinking about our recovery from the crisis at the moment, we and others have certainly made the call that we need some more targeted support. We need a successor to the job retention scheme that helps a wide range of businesses through a period where we know demand is going to be incredibly weak, for a variety of reasons. Keeping as many people connected, in a job and in the workplace, and, importantly, gaining skills and training, is really important.

Other things, targeted to helping businesses survive through these winter months and helping their cash flow, need to be available to a range of businesses across sectors, but certainly those in real distress in areas like hospitality and retail. One of the challenges is that some retail locations are doing really well and some are suffering, and you need to think about the businesses that supply those sectors, such as food and drink manufacturers. That is why we need some whole-economy efforts.

When we step back from the crisis and think about what sort of innovation landscape we want to create, to what Dr Valero was saying, we need to focus on the whole-economy levers. Skills and training, physical infrastructure and how you connect people are really important for productivity, as is digital connectivity.

Maybe I could give a few examples of where targeted support in different sectors has been really effective. I would highlight things like the development of offshore wind, where the Government, with business, identified a technology where the UK had the opportunity to lead the world. They came in with both public and private money to make that industry grow, and it is now the case that offshore wind no longer needs a subsidy and we have seen the price of that technology come down. That can be replicated. There are developments continuing on offshore wind and floating wind. The Aura innovation cluster has proven to be really successful.

The Medicines Manufacturing Innovation Centre, a partnership between pharmaceuticals and manufacturing industry, has proven to be successful. In the aerospace industry, the Aerospace Technology Institute has a partnership with Boeing. Where you can get partnerships between



larger businesses, you can help innovative start-ups to grow and become part of that supply chain, which is really important.

Q8 Charlotte Nichols: Before I ask my question, I would like to make a declaration of interest for the record. Until this month, my father was the annual president of the TUC, and I am a member of the TUC constituent unions GMB and Unite the Union.

What impact has covid-19 had on the industrial strategy and its ability to deliver on the grand challenges, sector deals, growth and improved productivity?

Rain Newton-Smith: We have covered some of these already. I will just bring in some of the points to the conversation and then open it up to others. As we emerge from the crisis, we need to think about how we help to ensure that we have a revival in city centres. We know the challenges in some of our city centres, such as London, Manchester, Birmingham and others. They have lost international tourists, commuters and students, all at the same time, which has made it really challenging. How we help those businesses through that, because they are large employers, is really relevant, and how we help those city centres revive is really important.

More broadly, I do not want us to think during this crisis that we should step away from the investments that we need to see, particularly in rail infrastructure, although I say that in the context of a move to a low-carbon economy. We know that, if we can move our train lines to electric, hydrogen and renewable energy sources, our public transport will be consistent with a net-zero economy. I do not want us to move towards a situation where we see an increase in car use that is not consistent with the development of low-emission vehicles, so there is more that we could do to encourage low-emission vehicles in this.

We need to think about the cities and towns that are going to be particularly hard hit by covid and how we help them recover. Fundamentally, I would probably come back to where I started in terms of productivity. We need to identify the technologies where we can really help in a low-carbon transition and focus on support within that. There are great regional stories around that, such as in Yorkshire and the Humber or Wales, or other examples that I have given already.

Dr Valero: Covid-19 has had an unprecedented impact on the economy and, therefore, it will have hampered our ability, at least in the short term, to deal with the pre-existing sector challenges, in addition to the new challenges, and our progress against the grand challenges and productivity. The ability of the industrial strategy, and how much of a bite it can have, is a function of the political will and the monetary investment that goes into it. I would argue that it is absolutely necessary to think about the recovery with an enhanced and refreshed industrial strategy to guide complex decisions across the economy and ensure that all the



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incentives are aligned, to crowd in private sector investment and to target public sector investment effectively.

The pandemic has somehow created an opportunity, despite the disasters that it has also created, in the sense that we now have a chance to look at business models. We have a chance to use Government investment to direct change, whether it is to do with clean growth and sustainability of practices across the economy, changing working practices, reducing waste or reducing business travel and the emissions impact of that. We have been doing some work with the CBI looking at the extent to which this crisis has accelerated technology adoption among businesses and whether that might have a persistently good impact on productivity. Maybe it is not just quick fixes but an acceleration of things that are good for productivity, which could last and be not necessarily labour replacing but labour augmenting. That would be a positive story and we are doing ongoing research to understand it better.

Q9 **Charlotte Nichols:** My follow-up question is for Kate Bell from the TUC. Does the industrial strategy need to be adjusted to take account of covid-19? If so, how?

Kate Bell: Yes. It is impossible not to take into account our current context. Building on what Anna said, this is an opportunity to say that Government are intervening in the economy and could be doing so in a more strategic way. When we did our analysis of which sectors would support job creation, we were looking at not only job creation in the near future, but the long-term resilience of our economy and that move to net zero.

Building on something that Rain said in terms of prioritisation, there are areas where what Government do fundamentally influences the outcome. Offshore wind was able to develop only because Government put the investment into it. The lack of a strategy at the moment, particularly around a plan for our energy infrastructure and the energy transition, means that business cannot develop, plan or put those strategic investments in place. Those can be encouraged by public sector investment, but business cannot plan without that strategy there. This is an opportunity to look again at that strategy and to ask, "What decisions are businesses going to have to make over the next five, 10, 15 or 20 years? How can Government help guide them and give them some certainty in taking those decisions?"

As other witnesses have said, it is also an opportunity to ask, "What do we want from this strategy?" We have seen the undervaluing of workers across the economy exposed like never before in covid. It is good that the Government's industrial strategy did say that improving earning power is an aim, but we have to put renewed emphasis behind that and to put decent work right at the heart of that strategy. This is an opportunity to rethink and do that now.

Q10 **Mark Pawsey:** The industrial strategy was launched three years ago,



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when the business climate was entirely different from what it is today. I want to challenge each of our witnesses by suggesting to them that you are not living in the real world. In the real world, businesses may be interested in some of these grand challenges, but I have the industrial strategy open next to me and it is pie in the sky for businesses right now.

Businesses right now are bothered about survival. We know that there have been pretty substantial redundancies in manufacturing, and the list includes Rolls-Royce, GKN, Airbus, British Airways and Jaguar Land Rover. There are failures in the retail sector, including Debenhams, Monsoon, Quiz and Victoria's Secret. We know that the hospitality sector is facing a huge challenge and further challenges as a consequence.

Is it not the case—I put this to each of our witnesses—that the industrial strategy has, frankly, been made completely redundant by the events of the last six months? Rain Newton-Smith, perhaps your members are worried about survival right now, rather than these rather grand schemes that you have spoken to us about. How do you respond to that?

Rain Newton-Smith: You are absolutely right that we are hugely concerned about survival. As I was saying earlier, we absolutely need a successor to the job retention scheme. We need targeted measures to support businesses' cash flow. Earlier, Government allowed businesses to defer Q1 VAT, but we know that that needs to be repaid at the end of Q1. There is still huge pressure on businesses' cash flow and we absolutely need to focus on making sure that as many businesses as possible survive through what is a really challenging time, so that we can have jobs.

I absolutely agree with you. The Chancellor, we know, is going to be making some announcements later today. I hope that there are some things that are really focused on those areas. I do not think that any of us wants to detract from the immediate things that need to happen.

We will all get through this crisis. It is really hard and really tough for everyone at the moment, but we need to look to the future as well. One of the challenges for businesses across sectors is that they are waiting for the Government to make decisions on important things that they can invest in and get behind. It is not every business that will be involved in those, but we are still waiting for the Government's energy White Paper and the national infrastructure strategy. I hope we do see a Budget in the autumn, because that allows businesses to know the landscape they are operating in, and to plan and adapt.

It is really important that we make some of these big decisions. It is also a moment where the Government can carry on with some of the public sector investments that they have committed to. The green homes grant announced in the summer was a really good initiative to try to stimulate the construction sector, get the development and get our homes much more energy efficient for winter. That will help more businesses survive in that construction sector.



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We also need to think about developing hydrogen energy, making some of those decisions, and getting behind some technologies that will be important over the next 10 years, with Government investing in that so that the private sector can then invest behind it.

I appreciate that it is really challenging for policymakers at the moment, and they do need to do that immediate policy support, but I would not underestimate making those decisions on the long-term investments that we need and what that does for confidence now as well.

Q11 Mark Pawsey: Dr Valero, what would you say to the premise that the industrial strategy was great for its time, but that, right now, we need to park it and get on with dealing with the challenges that businesses are currently facing?

Dr Valero: Its time was just three years ago. The whole point of an effective industrial strategy is that it is long-term. If you think about the way it was set out, I do believe it was dynamic and long-term. Those five foundations absolutely apply to now. The challenges within them might have changed, but we need to focus on people, ideas, places, infrastructure and business environment.

Given the crisis, we have immediate policies within all those things. On people, we need to understand which people are being the most affected and for which groups of people the risk of labour market scarring is the highest. Even if we are supporting jobs in certain sectors, there might just not be a demand for those jobs any more. We need to focus even more on retraining and reskilling.

This was already laid out in the industrial strategy; it is just that we need to update it and enhance it. Indeed, this is the paradigm set out by Dani Rodrik on what a modern industrial policy or strategy should be. It should not just be a static view of support for various sectors, but something that is dynamic and constantly evolving, based on the evidence of what works and how things are developing in the real world. It needs to be enforced and made more relevant in light of the current challenge and the future challenges, which are no less urgent. Climate change is no less urgent; it is even more urgent than it was, given the diversion of attention to solving the issue of covid.

It is about updating and understanding better how challenges are different in different places and sectors, but building on those foundations as they are and the grand challenges, which continue to be important.

Q12 Mark Pawsey: Kate, those of us on this seminar are pretty insulated from the effects of covid. Many of your members are losing or fear losing their jobs right now. Should we not be really focusing on the here and now rather than some grand strategy that was great for three years ago?

Kate Bell: We should absolutely be focusing on the here and now. Many of our members have already lost their jobs and, as you say, many are worried about losing them. We have been pushing for a successor to the



job retention scheme and are looking forward to seeing what the Chancellor says when he speaks today. That is vital.

It is important that, when Government are spending money, they do so in a strategic way. Government have intervened significantly across the period. They could have been intervening more strategically, in our view, to make sure that they are not just protecting jobs, but also creating jobs for the future, in sectors that are going to be sustainable.

As Anna said, we need to look at people who are particularly at risk and, given some sectors are going to face a long-term decline, at the jobs that will be created so that people have decent jobs to go to. For those jobs to be sustainable, we need to have a long-term plan for what we want the economy to look like, which means that we need a strategy.

We are absolutely 100% focused on saving jobs in the here and now, but that is not in competition with having a long-term strategy. It should go alongside or be guided by that long-term strategy of where we want to be going when we come out of this crisis.

Q13 Paul Howell: We have digressed nicely into part of the question I was going to bring with regard to how the industrial strategy foundations are relevant or not as we go forward. It seems to me that there is a lot of credence to them and they still sit there as being the right things to do. I would be interested in your agreement or otherwise. We have heard from one contributor already who is very strongly behind them.

Do you see an emphasis or prioritisation being required in terms of what we need to be doing in the here and now, in the accelerated area? One of the benefits from the covid situation is that it has accelerated change. The ability of people to change what was thought to be a fixed paradigm has been remarkable. Taking as an example the position we now see of increased homeworking, how does that flow into the consideration of the foundations? Could I ask you to talk around that?

Kate Bell: The foundation in which we are most interested and that should be top of the Government's priorities list is people. If you look at any corporate mission statement, it will say, "Our workers are key to our business," and that should be the same for the country.

There are two particular areas where we would want to see a much greater focus from Government in delivering that strategy. One is improving the quality of work. We have been promised an employment Bill by Government, but it is not clear where that is. We have plenty of ideas for improving the security of people's work, which we know is a really important part of productivity, as well as improving people's ability to have a voice in the workplace, which is strongly correlated with productivity and with a successful business.

The second one is skills and training, which is where the need has only got greater, as we may see more movement between sectors. Government have said they have a national skills fund. There is an urgent



need to bring forward investment in that. We have, for a long time, been calling for a universal right to retrain and for that to be funded through individual learning accounts.

We see a role for the national retraining partnership, which is a partnership between the TUC, the CBI and Government, in brokering that learning and delivering the skills upgrade for which UK has been asking for at least 15 years since the Leitch review of skills, which said that the UK is significantly under-skilled. We then saw huge cuts in skills budgets over the austerity decade from 2010, with a 40% cut in adult learning. This is an area that desperately needs attention, and the current situation has only increased that need.

Paul Howell: I will come to you next, Rain. Dr Valero has already touched on the subject partly, so I want to make sure I get something from all of you before we finish with Dr Valero.

Rain Newton-Smith: I would partly pick up on the skills point that Kate mentioned and build on that. We see a real focus on adult retraining as being vital to our economy. That is where having an industrial strategy that recognises that can play a real role. The crisis can also, hopefully, make us think differently about how we offer some of those services. If we can really transform jobcentres into something that also works digitally and virtually, that may help individuals fit training into much more challenging personal circumstances. That is really important.

From research we have done, we know that nine out of 10 of us, unsurprisingly, will need some form of retraining over the next decade. Even before the covid crisis, around one in six roles needed significant retraining. The statistic that really sticks with me is that over half of people on the bottom 20% of income have had no training since they left high school, so this whole piece about how we get adult retraining working really well is so vital for us.

Thinking about whether people who have been unemployed for six months or longer have an individual training account funded by the Government seems to be a really useful intervention. For businesses, looking at the apprenticeship levy and making it much more flexible, much wider, and much fitter for a much more digital economy is really vital.

The second area that sits across the whole economy and really taps into the events we have seen more recently is how we can help SMEs invest in digital technologies. You could have a voucher scheme to help SMEs invest in some of the digital technologies that are readily out there to work on. We know that we have some frontier firms, but we are not always so great at making sure that the readily available technologies are available to all types of business, so there is a role for encouraging that diffusion of technology.

Q14 **Paul Howell:** Thanks very much for that contribution. There is one



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further point that you might want to pick up, Dr Valero. I am an MP from Sedgefield in the north-east of England. One of the things that we talk about is the levelling up agenda and making sure that we build back better. In the strategy, is there any particular focus that should be underpinning the whole levelling up, if that is the right phrase? Could you touch on that a little, please?

Dr Valero: I would agree with the other witnesses that skills are absolutely fundamental both to people's outcomes and in terms of productivity and levelling up. An analysis from Henry Overman and others who work on spatial issues has shown that differences in skills really explain regional disparities. Clearly, we have to focus on that, and it is not just those in work, but those coming through the education system. We know that a lot of the disruptions will be felt much more by those from disadvantaged backgrounds, who are already doing worse, for various reasons, in the system. These needed to be addressed already, but are now even more pertinent.

In terms of skills in the workforce, reskilling and retraining, one of the recommendations that we made in the LSE Growth Commission was incentivising firms to do more training. This has been in decline over time in the UK, in terms of how many people are being trained as well as the amount of investment in training. Some kind of incentivisation in the tax system, such as human capital tax credits, could help to address that, which is especially needed now.

Other than skills, the other foundations also affect people, which is why we are interested in them. If we improve digital infrastructure, that will enable more people to work at home. Clearly, people who have been working at home have been less impacted by this crisis. There could also be some positive impacts. For example, there are sectors where working from home was never feasible, but they have now discovered that it is feasible. This could make those professions more inclusive going forward and, therefore, be better for productivity because there will be a better allocation of talent. One thing I have in mind there is the finance sector. For many banks, it was simply impossible to work from home when you had to access sensitive data. Now that has been enabled, could more women rise to more senior positions in that sector and, therefore, have better outcomes?

Investment in transport and smart cities is important for productivity and helps people and goods move around in a more efficient way, but it is also better for people's lives: cleaner air or a walk to work. Fundamentally, all these agendas, which were there in the initial industrial strategy, are important now and going forward in thinking about how to improve people's lives. Fundamentally, that is what we care about.

Paul Howell: Chair, I could talk for a couple of hours on this one as we are going at the moment, but we had better move on.



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- Q15 **Alan Brown:** Rain, some of this has been touched on. On the grand challenges, has there been sufficient progress in clean growth and decarbonisation? If we are talking about a green industrial revolution, what would you expect to see from the UK Government going forward on these aspects?

Rain Newton-Smith: In short, there has not been enough focus on clean growth. In fact, I am not a huge fan of separating clean growth or green technologies, or having green finance as being something that is separate from the rest. I suppose I would come back to what Mark Carney said: those companies that make the transition to net zero will be rewarded handsomely and those that do not will cease to exist. All our investment should be absolutely focused on the transition to a net-zero economy. That is what we have adopted as a Government and where we should be focused.

More specifically, there could be more in the industrial strategy to kick-start some of the technologies that we know we need as part of that transition. We have talked a lot about them already. We could do more on battery storage. We could do more to promote the take-up of electric vehicles not just by households, but as industrial vehicles. We can think of the development of hydrogen and hydrogen testbeds to help develop that as a potential technology and source of renewable energy across a range of applications.

More fundamentally, there is a real role for the industrial strategy in getting joined-up thinking across different Government Departments and regulators. We would like to see Ofcom, Ofgem and other regulators having the transition to a low-carbon economy in their sights when they are making their decisions. There are examples of how regulations interact around EV charge points and taxation, where there could be more joined-up thinking that would encourage the development of those technologies. We could do more to accelerate that transition and we should, because it is fundamentally, thinking globally, an area where the UK can have a competitive advantage and help to export some of those technologies around the world.

- Q16 **Alan Brown:** Following on from that, one of the five foundations is supposed to be infrastructure. You mentioned EV charging there. An area that Government are solely in charge of is infrastructure, so is that a failing in not addressing that? You mentioned a national infrastructure strategy being required. How critical is that so that businesses can look ahead and understand where that investment is coming from?

Rain Newton-Smith: We really need that national infrastructure strategy to be published. Thinking about the development of offshore wind and those sorts of technology, the returns from those technologies are over 50 years, if not longer, so you need to have that framework and certainty. It is really important that we get those decisions, so that businesses can get behind and invest. I have not quite answered your



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question. There was something else that I was going to say, but I have lost my train of thought.

Q17 Alan Brown: That's fine. Moving quickly to Kate, in terms of the green industrial revolution, there are concerns that not enough has been done to create jobs in the UK supply chain. The GMB has complained this week that, in terms of the Seagreen offshore wind contract, Scottish yards missed out on the latest round of procurement. What more could the UK Government be doing to create a better supply chain and jobs in the UK?

Kate Bell: That is a really good example of where an industrial strategy is not currently guiding Government policy. Another one that I was going to bring up is the Prime Minister's promise to develop electric buses. At the moment, the bus manufacturer ADL is planning to make 650 people redundant and Government has no plan to bring forward the purchase of those buses, which would help to save those jobs here in the UK. We have called for the Government to use procurement much more strategically.

One example that we like is that of delivering the Olympics in the UK, where Government, unions and businesses agreed a framework agreement that set out how they were going to use the Olympics to deliver local jobs and training. There are other examples of this across the UK. For Hinkley Point, they set out that plan with local jobs and training, making sure that those jobs were of a decent quality.

Government suggesting that every major infrastructure project should come with a framework agreement that sets out a plan for how it is going to deliver skills and jobs, and develop the local supply chain, would be a real step forward. It would help us to deliver this joined-up approach and, exactly as you say, avoid the situation where we have seen the workers at BiFab having to watch turbines being installed, which they could have made but were delivered offshore. It is a tragic missed opportunity.

Q18 Alan Brown: Dr Valero, are the grand challenges flexible enough to address regional and local differences when delivering them? Could more be done in terms of sector deals to involve the devolved Administrations as well as the regional authorities in England?

Dr Valero: The grand challenges are flexible enough, in the sense that the extent to which they are relevant for local areas will vary. On clean growth, I favour thinking that all growth should be clean, because that is the path that we are on and we need to save the planet, and it is in law. This is something that affects everyone in the world, but what specific localities can do about it will vary. While these grand challenges are useful, it is up to local areas, and their local industrial strategies and other policies, to think about which pieces of this really apply, based on the local industrial structure, the skills supply and the types of business that are there too. That is how I would see this fitting together. The grand challenges should be pervasive, but local areas interpret these and apply policies to address them in a way that works in the local area.



In terms of the sector deals, this is, again, going to vary because, in certain areas, one sector has a very large share of employment. You would expect devolved Administrations to be key stakeholders when it comes to thinking about certain sectors, either because that sector has a large share of local employment or because that sector in that region has a large share of that sector's employment in the entire country. That is a specialisation of a specific area. If we want to bring key stakeholders around the table, that should definitely include policymakers who can either design policy or work with industry to try to find those sectoral solutions.

Alan Brown: Like Paul said, I could go on a lot longer, but I had better hand back, Chair.

Chair: Thank you, Alan. Due to time, we probably need to bring this first panel to an end at this point, so thank you to Rain, Dr Valero and Kate for your contributions this morning.

Examination of witness

Rt Hon Greg Clark MP.

Chair: Mr Clark, welcome to the Committee this morning. I hope you are okay being back on that side of the Committee.

Greg Clark: Thanks for inviting me.

Q19 **Chair:** It is a pleasure to have you with us. Of course, people will know that you were the Secretary of State who introduced the industrial strategy in 2017, so we are keen to get your views on its performance, how you think covid impacts that, and how the Government should be taking it forward. Perhaps you can give us a general opener about your view on the performance of the industrial strategy, before we go into more detailed questions.

Greg Clark: I was interested in some of the questions and answers in the last panel. The purpose of the industrial strategy was always to look to the long term; indeed, you might say that a short-term strategy is a contradiction in terms. It was designed to be a serious attempt to, first of all, diagnose and then start to correct long-term aspects of the British economy and structure of business life that were holding us back. The diagnosis was that, for example, we needed to double down on our research intensiveness. Other countries were looking to do more of that and it is hard to see that, in the future, we should not at least keep up with, if not exceed, others' performance in that.

Skills were talked about in the last panel. It is a sad fact that, for decades now, the level of particularly technical skills in the UK workforce has not been as good as that of some of our competitors, which has held back prosperity. It has been reported in better times by employers that there



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have been skills shortages. Our infrastructure has not been as good as that of our competitors. Place was, for many years, largely absent in national decision-making, whereas we know that the difference in potential and specialities between different parts of the country is very pronounced and we should give more expression to that. The business environment is important. You cannot take it for granted that people will come and want to invest and locate here; you have to be active in promoting a certain business environment.

These five foundations were always intended to be for the long term. Taking skills as an example, you are not going to turn around, in a very short time—months or a small number of years—something that has been a long-standing problem. The purpose was to bring the country together in something that might stand the test of time, being not particularly party-politically controversial and reflecting the contributions of people from different sectors and parties, and something that we could all get behind to improve, over time, the performance of the economy and the country, right across the United Kingdom.

Q20 Chair: This is being led by the BEIS Department—your Department at the time—but, of course, it requires leadership from every Department across Government to ensure delivery of these objectives. Did you have buy-in at the time from all the Departments, especially the Treasury?

Greg Clark: It was quite controversial at first. I am pleased that this discussion is taking place about the industrial strategy. One of the features of the discussion has been almost an acceptance that we ought to be looking to the future and thinking about how we can prepare for that. That was not the case. When Theresa May declared that there should be an industrial strategy and created a Department, or at least expanded the remit of the Business Department to pursue that, this was initially quite controversial, and understandably so. If you look back to the 1970s, the industrial strategies of the time turned out not to be terribly successful in trying to pick winners, as it was called. They often turned out to be losers and tended to lose a lot of public money in so doing.

The approach we took was different from that. It was not to look for particular firms or companies that should be subsidised, but to have a fundamental analysis of what we can do better in the country. That has enjoyed support across Whitehall. It is fair to say that, in the early days, there was a degree of scepticism and, indeed, suspicion around it. If part of the point of a strategy is to be a plan or a direction for the long term, another dimension of a strategy is to pull together disparate and sometimes conflicting parts of a system and organisation to go in the same direction.

The nature of Whitehall and Government is that there are still silos. It is very evident to all of us who are Members of Parliament that we have different sessions of questions for different Ministers, and there are different cultures and priorities. This was an attempt—certainly not wholly



successful, but I think the right attempt—to bring not just Government, but institutions, organisations and firms outside Government, into a collective effort to improve things that can and should be improved.

Q21 Chair: You mentioned that Theresa May, the then Prime Minister, supported this and put it in the name of the Department. Does Boris Johnson support the industrial strategy?

Greg Clark: The words “industrial strategy” have not been much used, I would say, in recent months. Having said that, looking at the components or the fundamentals of the industrial strategy, if I take the ideas pillar that we should double down on one of our strengths, which is to be a powerhouse of innovation in science, as well as beyond, in the creative industries, one of the achievements that I was proud of in the industrial strategy is that we increased the R&D budget from about £9 billion a year to £12 billion a year by the end of the Parliament. This was a one-third increase at a time when the public R&D budget had been flat, first in cash terms during the coalition, and then in real terms. I took some pride in increasing it by a third over the Parliament.

What the Government have committed to blows that out of the water. It is going to go from the £12 billion a year that I had agreed it should be taken up to, to £22 billion a year—by far the biggest increase that we have ever had. That is an illustration that the analysis seems to be shared. When it comes to skills and training, for example, I do not detect—quite the reverse—any sense in which the analysis that we need to be much better equipped in technical skills is something that is rejected.

I hope and discern that the analysis is not rejected, and various people, including the Industrial Strategy Council chaired by Andy Haldane at the Bank of England, have recommended that the Government should perhaps have a refresh and take their own ownership of it. That seems a sensible idea, and I hope they will.

Q22 Chair: The Industrial Strategy Council has said that there has not been as much progress as it would like to have seen in the delivery of the objectives under the industrial strategy. I would be interested to hear your views as to why that is the case and, as an extension to that, whether you think decisions being made by Downing Street are being made with the industrial strategy as a framework. Are they looking at that as the strategy and asking, “Are we operating within this?”, or are they just doing what they think they ought to do, a bit ad hoc?

Greg Clark: If I take the R&D funding, that is an example where they have gone beyond what I managed to get to, so to that extent we are making greater progress. To the question you asked about the support across Whitehall of different Departments, if you were to truly join this up, it sometimes means budgets from one Department being deployed in a way that might not have been among the narrower priorities of that Department. On the skills side, for example, it was always a struggle to



persuade the Department for Education and its predecessors that joining in a full-hearted way with the agenda that the industrial strategy set out, rather than preserving its autonomy, was in its interest. That was a bit of a struggle.

I hope that, as we come out of the crisis, there will be a renewed focus on the long term. It is not necessary, to address your particular point, to reference everything to a particular page in the industrial strategy. That does not do any harm, but, as we all know, the best test of a strategy is that it has been internalised and that people do not need to look it up. They know that one of the national priorities is, for example, to be more innovative and to invest in that, or to transform our skills system or to improve our infrastructure. The greatest success would be that it is part of the wiring of Whitehall and policymakers, because they have been convinced and it has been embedded, rather than because they feel that they ought to check in whether this is consistent with the industrial strategy.

Q23 Chair: In the context of the levelling up agenda, only seven local industrial strategies have been signed off to underpin the national industrial strategy. Why do you think there has not been further progress on the development of local industrial strategies for how to deliver that in the regions and nations?

Greg Clark: That is a good question. Perhaps going back to the Industrial Strategy Council's analysis, this is an area in which it should go more quickly and more deeply. All of us, as Members of Parliament, know the distinct strengths and, indeed, weaknesses and challenges in our areas. Having, just as we try to do nationally, an accepted analysis of what we need to do to improve that applies to every place in the country. It is not good enough that we have not made the progress across the country with that.

Q24 Mark Pawsey: Good morning, Greg. As you know, this inquiry is about the role of the industrial strategy in achieving post-pandemic economic growth, and so acknowledges the challenges that businesses and industry have faced over the past six months. I was a little bothered in the previous session that we seemed to be sailing on as though these last six months had not happened. I acknowledge your point that the strategy is, by its very nature, long-term and that this period will have gone, but has the strategy been derailed? Is it still relevant after what businesses have faced and are continuing to face?

Greg Clark: I heard your question to the previous panel and it was an important and a right question. As I said to the Chair just now, this is a strategy for the long term. That does not mean to say that you do not need to take measures in the short term as a matter of urgency to respond to the immediate pressures. Do I think that the need for a long-term strategy or this particular one is eclipsed by this? No. In fact, I think the reverse.



In my time as Business Secretary, I talked to businesses around the world. This was a year after the 2016 vote for Brexit, which came as a bit of a surprise to many international businesses. We did not know what the terms of our departure would be, so there was a degree of uncertainty about what it meant to invest in the UK. In going around the world and talking to prospective investors and Governments, I found that having a strategy for the long term was rather reassuring and helpful as an almost countervailing source of stability in an uncertain time.

That uncertainty is even greater in the context of covid, so it is even more important to have the initial, urgent response right, but to have a plan or a vision for the future, so that people, especially overseas investors who might be committing a lot of money for the long term, can see what the UK is going to be about and that it is going to back these directions that it has set out.

There is no alternative to having a response. In my time as Business Secretary, I spent a lot of time trying to, in the short term, persuade individual firms not to close and go away or, conversely, to invest. You have to be an activist and to lean into that, but having a long-term plan that you can credibly commit to can be a source of strength and reassurance.

Q25 Mark Pawsey: Following on from that point, on the basis of what businesses have experienced, is it a dynamic document? Was it always intended that it should be able to respond to change? Nobody could have foreseen the challenges that businesses have faced over the last six months and what they may face over the next six months, but should the strategy adapt to reflect those changed circumstances?

Greg Clark: Yes, it should. What you ask is the essential question for every strategy. If it is there for the long term, do you just revisit it every 10 years or do you look at it again every six months and pull it up by the roots? The right balance is to aspire to, if not permanence, certainly stability for the long term, which is what we tried to do, but to keep going back to it every so often. Three years is quite a reasonable time, especially given what has happened in the world and in the UK since then, to check whether it is still relevant and, if so, whether things need to be added or subtracted.

What would I anticipate being the outcome of that? My take, talking to businesses and people in this country and around the world, is that, if anything, the covid crisis has accelerated the pace of change, which is pretty much in the direction that was set out. Take, for example, the need for more rapid and fundamental research into doing things differently, from life sciences to digital and manufacturing. The pace of that has quickened. Look at the employment challenges we might be facing because of the pandemic. That probably accelerates the need, as some of the witnesses said in the previous session, to have people able to acquire new skills that will be in demand by new businesses.



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It is right to revisit this and there will be new opportunities. Space and satellites should be being pursued with greater force and activism. It is becoming clear that that is going to be a major contribution. Most of it is an acceleration that we should do more in that direction, but there will be some things that should be added and some that should be subtracted.

Q26 Mark Pawsey: Are you comfortable that it is currently relevant? You spoke about the acceleration of certain trends, and a big area is retail, for example, where we have seen the move online accelerate very substantially. Are the sectors that you anticipated would grow, develop and be the right ones to support still relevant today? Is what we saw three years ago, in the face of the acceleration of those trends, still timely?

Greg Clark: Some of them are. Take life sciences, for example. In the industrial strategy and the life sciences sector deal that was part of it—in fact, it was launched on the same day—one of the things we said was that we are great at making medical discoveries, but we have not been and are not as good at turning them into manufacturing and creating jobs from that. The intellectual property tends to be applied overseas.

In the industrial strategy, we set up a Vaccines Manufacturing and Innovation Centre. That has proved pretty timely. Government have accelerated the development of that, because it is now crucial, as we are searching, and it is a source of pride that Oxford and Imperial are some of the leading candidate vaccines against covid. We are developing the capacity to manufacture at scale here, which we did not have before, and that is a direct piece of industrial strategy. It was literally in the life sciences deal and was part of looking to see what our gaps were. It shows that it is prescient.

There will be other things. Some things will have emerged during the pandemic as being things that were not particularly focused on or that we may not have been aware of. We should be prepared to adjust and add that.

Q27 Mark Pawsey: You referred just then to what you and I have heard described as the valley of death, which is the gap between generating an idea and making a commercial success of it. Since the industrial strategy was launched, have we made fast enough progress in getting across that and getting commercial success from some of the very brilliant ideas that are developed here?

Greg Clark: No. That is another good example and I agree with the Chair that the problem, which was properly identified, is still there. We need to do more. If we are creating companies, and especially if we are doing more R&D, it is even more important that the financing possibilities keep pace with the development of ideas, so that they do not founder or fall into the valley of death, as it is often called.

Q28 Alan Brown: Hi, Greg. In the development of the industrial strategy, in



what way did you seek support from and give support to the devolved Administrations and other local government bodies? In part of their written evidence to the Committee, the Scottish Government said that they felt that they were not always involved in agreeing the sector deals. Do you accept that criticism? Is that something that should be rectified going forward?

Greg Clark: In the development of the industrial strategy, it was always intended to be UK-wide. I had very close collaboration with all the devolved Administrations, including the Scottish Government, right throughout its development. I gave evidence to the Scottish Parliament and we had consultation events across Scotland as part of it, as we did in Wales and Northern Ireland.

Q29 **Alan Brown:** Were there specific asks from any of the devolved Administrations that formed part of the industrial strategy that you can highlight?

Greg Clark: I cannot remember any specific one, but in terms of the overall analysis and priorities, if I take space and satellites, for example, the Scottish satellite industry and the potential that it has, as does the industry in the rest of the UK, was very prominent in our discussions. In the context of the industrial strategy, as you will be aware, we funded the new satellite launch pad that is going to be in Sutherland. I was very pleased to go to the launch—not the launch of the satellites, which has a little way to go, but the choice of that location.

Again, it conforms to this analysis. We are great at building satellites and developing the latest technology, which means that we have a particular advantage in smaller satellites, but we have not had the capacity to launch them. We now will in Scotland. That is a reflection of the work we did with the Scottish Government.

When it comes to sector deals, that is a fair reflection. Conversations that I had with my Scottish counterparts at the time suggested that we could have done a bit better in that. The deals were always proposed by the sector, not initiated by the UK Government. I hope that more will be done. I do not think any more have been done since I left office, but, if we do more sector deals, it is important that the devolved Administrations are part of those conversations from the outset, not just in the latter stages.

Q30 **Alan Brown:** That is interesting. You heard, in the last evidence session, the TUC agree that, on procurement and contracts for difference in energy, more could be done to help create the green industrial revolution in terms of jobs in the supply chain in the UK. Do you agree that that could still be looked at going forward in terms of procurement processes?

Greg Clark: Yes. One of the grand challenges is clean energy. This is based on an assessment that, around the world, virtually every country is going to be investing a lot in green energy, and we have both the history and the current sources of excellence to be prominent in that.



When it comes to procurement, we have the opportunity now to take into account local social and economic factors. That is part of the procurement law. Part of the business environment we committed to in the industrial strategy was that we would be open and international, and look to trade around the world. We have to be judicious there.

If we want to take advantage, which I think we can, of the huge market for exports in green energy technology—for example, I remember having discussions with my Indian counterpart when I was in office, and in the Far East, about some big opportunities—we have to be open ourselves. I would rather ensure that our industry was sufficiently competitive that we would win those tenders domestically, as well as internationally. We would lose out if all procurement by every nation on earth was so strongly weighted to domestic suppliers that we never got a look-in for our technology. Net, that would be bad for the UK.

Q31 Alan Brown: Is there not a balance between complete protectionism and helping to grow jobs in the UK, allowing them to be competitive?

Greg Clark: There is, absolutely. These things are not completely mechanistic. They are aspects of judgment. We need to be open and we want countries to be open. But should we be completely blind to the fact that jobs can be created within the UK? No. One reason that the commitment to offshore wind was given in this country was the sense that many ports and coastal towns across the UK could benefit from being part of what was going to be a huge global opportunity in offshore wind. I had the privilege of opening the Siemens blade factory in Hull, and the advantages for Hull and the areas around the Humber were uppermost in my mind during that time. We need to try to bring both of those together.

Q32 Alan Brown: How imperative is it that the national infrastructure strategy is published and we see the energy White Paper, given the delays there have been to these and the fact that, again, business and industry are looking for some sort of certainty and investment to help post-covid recovery?

Greg Clark: It conforms to the analysis that I have shared with the Committee: especially in turbulent times and times of certainty, having, where you can, a long-term forward look can give confidence to investors, which means they can give confidence to their workforce. It is one of the foundations of the industrial strategy that we should be investing in infrastructure. We should be catching up on the underinvestment in infrastructure that we have suffered from over many decades. Now would be a particularly good time to give that forward plan, because, again, it would be a countervailing force of stability against the instability that is there.

The same goes for the energy White Paper, which was ready to be published when I left office. It was deemed not to be appropriate to publish the energy White Paper that I had developed with my officials



because it might bind the hands of the Government that were about to come in, and they needed a chance to reconsider it. It has been over a year now, nearly 18 months, and it would be hugely beneficial to the energy industry across the UK, which is very important in Scotland, that that is there, and that we can benefit from it and get jobs created as a result of it.

- Q33 **Paul Howell:** I would like to go back, Greg, to something that Mark Pawsey touched on and what he referred to as the valley of death, the situation for SMEs and the like. Would more progress on payment terms and things like that have been a better situation for us to get to? What sort of help should we be giving to that sector in particular when it comes to exports, just to try to motivate the whole SME sector?

Greg Clark: We know that, for obvious reasons, the smaller the company, often the more vulnerable it is to turbulence, which can include the late payment of a bill by a big client. That can either knock it out or stop it investing in something that could make it more prosperous in the future. Late payment is part of the business environment—one of the pillars of the strategy—that we should address. This is an excellent example of that. It is not all or even mostly about spending Government money, but about the framework in which businesses operate. Prompt payment, especially for small businesses, is something that people who work in the UK should know they can depend on.

- Q34 **Paul Howell:** I would absolutely endorse that. As an FD in a medium-sized business for a number of years, I saw both ends of that spectrum. I would like to come to the main point, though. I agree that a strategy is a long-term situation. It is what it is, but covid has been a big shock to the paradigms that were in place at the time when that strategy was being developed. I would like to ask these questions particularly in the context of Government intervention or investment in sectors.

If you were constructing that strategy now, what about the position we find ourselves in with the resilience of supply chains? There are key strategic businesses that we are concerned about because of offshoring. What is a key strategic business for the UK in the situation that we find ourselves in now? It is easy to use steel or something like that as an example, but there are many.

Greg Clark: Paul, that is an excellent question. It helps answer, probably in a way that I did not, the questions we had earlier about how you would change the industrial strategy if you were refreshing it. If you were to look at it again, given the experience of the pandemic, resilience of supply chains is probably a factor that you would want to consider in a way that did not seem to be as pressing at the time. The example I gave to Mark about the manufacturing of vaccines is now a piece of resilience. One of the reasons it has been accelerated is so that, if we do have a vaccine, we can lay our hands on it and vaccinate people in this country. The reason it was included was as an opportunity. We were having the



ideas, the manufacturing was being done elsewhere, and that seemed a loss of value. Now there is a resilience aspect.

This would be a superficial answer. We took a year to develop the strategy and it needs consideration, but, if you were to add that resilience test or filter, that would be a good one, looking at where we need to make sure that we can be confident that we are not going to be disadvantaged or endangered in the event of some future global disruption to supply chains in the way that we have at the moment.

Paul Howell: Thank you for that, Greg. I endorse a lot of what you have said. This is not a hindsight observation, but a “where we are now” conversation, and, therefore, there is a need to review the resilience platforms that we see.

Q35 **Richard Fuller:** Greg, hello. Thank you for sitting in during the earlier session. You will have listened to the witnesses try to put together where we are now with the industrial strategy, calling for more resources on green, on skills and on automobiles. There was never really any commentary about affordability. I know you said that the strategy was all about framework, not money, but Government debt is now at £2 trillion and growing. The deficit is at about £300 billion. I am also very conscious that the Chancellor is standing up right now and likely to be announcing more public spending. Is the industrial strategy not defunct now, essentially, given that public expenditure is just so great? We can talk about it, but we cannot spend more money on it.

Greg Clark: Part of the business environment is that prospective investors need to have confidence that this is a country that exercises fiscal discipline. That is absolutely right. You cannot pursue a strategy and forget about that, so I am the first to acknowledge and agree that what you can invest has to be in the context of what is affordable.

Does that mean the strategy is, therefore, defunct? No, it does not, for two reasons. First, if money is going to be tight, because you have had to, for reasons we all understand, spend a lot of money to cope with the crisis, it is even more important that any public money you do spend has the maximum strategic benefit: you do not spend it randomly, but for a particular purpose. The analysis we made, which is subject to challenge and review, was that, if we are to do better in the future, we need to be more technically skilled, and that has to be a priority.

Perhaps the other aspect is that sometimes, just as in business, spending and investment are evaluated differently. If we were to scale back or reduce our investment in research and development, and if we were to decide we needed to save money and were going to cut it by half, say, rather than double it, as is the proposal, would we be, economically and financially, let alone in a broader sense, better off as a country in 10 or 20 years? No, I think the opposite: if we give up, for reasons of financial stringency, some of the advantages that we have, we will lose out because other countries are investing more in R&D. It is hard to think of



a world in which innovation is not going to be a source of strength, in a defensive way as well as in reaching opportunities.

They are hard judgments and you have to exercise discipline. The role of the Chancellor and the Treasury is important on that. But you should have a public conversation about what your priorities are, which is what the strategy is designed to do, and you have to remember that sometimes you need to invest to correct deficiencies and to build on strengths.

Q36 Richard Fuller: We can both agree that having a conversation around some purpose—you mentioned Brexit, which I will come to in a minute—is valuable. Even for those who might be described as sceptical about the industrial strategy, there can be a role for it. As my old boss, Jim Lawrence, the founder of LEK, said many years ago, strategy is what happens, not what is planned to happen.

The Chancellor of the Duchy of Lancaster made some very interesting comments in his Ditchley lecture about the reform of the civil service, focusing on better implementation, making sure that, at the centre of Government, they made greater use of AI and data in policy formulation, and then looking at how they could improve implementation so that the strategy gets done. Do you feel the Government are moving quickly enough on the implementation side of the contents of the industrial strategy? Are they making enough progress and being effective in getting the strategy done?

Greg Clark: No, it can be faster; you are absolutely right. To design and develop a strategy, with all the thought and support that it might have around the country, is, frankly, a waste of time if it is just going to be a document that sits on a shelf and is not implemented in practice. We need to be better at implementing, at pace, recommendations that we have made. For example, on the skills side, there is nothing very original about the observation that our technical skills attainments have been lagging behind those of our competitors and need to catch up, but it has been very frustrating that we have not really been able to crack that in practice, so we need to be better at that.

I am not aware that this is a uniquely British problem. In all the Departments in which I served as a Minister, I always felt very well supported by the civil servants I had. Quite often now, and certainly in BEIS, we had a deliberate programme to bring in people from industry for, as it were, a tour of duty. It is not that it is disconnected or that we do not have people who are good at project management and implementation, but historically this is something that we should be better at and do more on as a Government.

Q37 Richard Fuller: That is very helpful and I certainly concur with you. If I took the other side, you set up the Industrial Strategy Council to monitor progress. Of course, one of the criticisms—fairly or unfairly—is that, when Governments, and not just the UK Government, decide industrial



strategies, it is always the bigger, well-connected companies that can influence. The entrepreneurs and small businesspeople are left in the cold; they do not have the lobbying power. As you look at the membership of that, there are seven chairs of companies, two chief executive officers, two MPs, and one valiant person who is described as an entrepreneur. There are no self-employed people, no freelancers, and nobody from the shop floor. To sceptics who say that it is just the biggest snouts that get the ear of the Government, what would you say?

Greg Clark: That is a perfectly reasonable challenge. I put together a group of people individually. You will recognise that they are people of independence and authority, and who are the opposite of being the patsies of any Government. That was the key attribute: that you could have people who could really give a completely independent verdict on whether the strategy was being implemented and whether the Government were taking it seriously. You are right that having a greater representation—this is something that can be actioned—of small businesses could be a useful addition.

Q38 Richard Fuller: Finally, can I just draw you to the issue of Brexit? As you mentioned earlier, for many businesses that decision to leave the EU, which I fully supported, although others held different views, was rather surprising. It is going to bring change. In that context, therefore, some sort of shaping of Government for where we are going is helpful. At this stage, we do not know whether the European Union will be able to secure a free trade agreement with the UK. If the EU is not successful in getting a free trade agreement with the UK, what will that mean for our industrial strategy? What advice would you be giving if you were still in a ministerial role now?

Greg Clark: You need to double down on it. Just as I said earlier, given the uncertainty in the run-up to Brexit as to what the UK was going to be like as an environment in which to do business and to invest, it is important to set that out, to communicate it with clarity and confidence, and to back it with credible commitments, and all the more so if we are not able to conclude a free trade agreement. I clearly hope we will, but if we do not people will look to us and ask, "What is going to be like in the UK?" To have a view and to have a plan that people can assess and say whether this attracts them will be even more important.

Richard Fuller: Perhaps by chance, there is a fire alarm in the building as we talk about a no-deal Brexit, so I might leave my questions there.

Q39 Chair: Thank you, Richard. I hope you get out safely. My last question before we wrap up is about the amount of intervention from the state in respect of the industrial strategy. We have seen a few suggestions that the current Government are minded to intervene more in the economy, not just in the context of covid, but we have seen what seems to be a commercial decision to purchase the OneWeb satellite system. There is a debate going on now about the Nvidia bid to take over Arm. Is it right for the Government to be intervening more in the market in terms of owning



companies and having a more interventionist approach to mergers and acquisitions, or do they need to refrain from that type of action?

Greg Clark: The industrial strategy embodies an activist demeanour that this is simply not just left to whatever happens in the market. It is a reflection that, in the modern world, decisions by Governments have a bearing on the prosperity of companies, and one should recognise that. Life sciences is a very good example of that. A lot of the investment that we have in this country in life sciences, creating jobs and prosperity, comes from the fact that we have excellent and often publicly funded research facilities and researchers. The national health service is a public institution that makes us very attractive and we should recognise that and make the most of it.

Generally, I take the view that Governments are not good at running things, so I start from a position of scepticism about ownership. The demeanour of the industrial strategy, if I can describe it as that, is to work alongside businesses, universities and research institutions to try to co-ordinate effort. As a general principle, the Government owning and trying to run commercial ventures is not something that there is much of a heritage of and where there are deep skills around in Government.

Q40 Chair: Is Government intervention in takeovers, to protect, using the language of others, British businesses and British jobs, a good or a bad thing for securing FDI? What is the right balance between foreign investment and protecting British interests?

Greg Clark: We need to keep it under review. There are clearly different dimensions to it, one of which is national security. It is very important that we keep that up to date because, as we know, with the rapid development of innovations in cyber and suchlike, there are ways in which companies that may have been too small to clear the thresholds for public scrutiny of mergers can now be a source of weakness if they are in the hands of hostile actors, so we need to refresh that and keep it up to date.

In general, in terms of the business environment in the UK, we benefit from being an open economy that invests and has UK companies operating around the world, in which we can attract investment from around the world into the UK. In almost every one of our constituencies, we have firms that may be overseas-owned but have been here a long time and made a good contribution, or we are very pleased that they are here now, and ditto companies around the world. I would want the reputation of this country to be one that is open to investment rather than one that puts too many barriers in the way.

Another reason for that is that, for people who are founding businesses or creating new business, especially if we are to be increasingly innovative, as I hope, I would not want it to be in people's minds that, if you were to establish a business in the UK, you could never sell it to anyone in another country—for example, someone based in Silicon Valley—because



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the idea that you might be creating a stranded asset could deter people from investing in the UK in the first place. I would rather have the world's brightest and best coming to the UK from all around the world, founding businesses here, developing new ideas and growing them. If some of them are sold in an international business environment, and the purchasing companies are based overseas, I would rather have that than a reputation that, if you invest in the UK or found a business in the UK, you are cut off from the rest of the world.

Chair: Thank you so much for your time today and for answering all our questions. Apologies that we have overrun a little. Thank you to my colleagues on the Committee, as ever.