

# Industrial strategy: recommendations

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## Summary

The UK is in urgent need of an industrial strategy to overcome sluggish growth and a lack of business investment. Green technologies should be at the heart of the strategy to futureproof the UK's economy and ensure the country is seizing some of the biggest opportunities for growth.

The new industrial strategy should take a sector-based approach, focusing on industries which can offer a comparative advantage, boost regional prosperity and secure supply chains. It should look to boost cross sector competitiveness before supporting individual companies. Good governance, mapping emerging risks and a suite of horizontal measures, including support for improved energy and resource efficiency and urgent solutions to skills gaps, are also vital.

In this briefing we set out our initial recommendations on the sectoral focus for the industrial strategy, and the horizontal and governance structures needed to make it work.

## Introduction and context

The UK has lacked a clear, co-ordinated and consistent industrial strategy for over a decade and the result has been the longest period of sub-par productivity growth in 250 years and the lowest rate of business investment in the G7.

The lack of strategic planning has been felt across the economy. Some of the biggest opportunities waiting to be seized are around green technologies and infrastructure.

According to the CBI, in 2020, the UK's green economy grew four times faster than the rest of the UK economy and, in 2023, grew nine per cent, compared to just 0.1 per cent across the wider economy. Markets around the world are increasingly looking to buy greener products and services, and investors are

screening companies to ensure they are futureproofed and ready for a low carbon world.

The US, EU and China have recognised this and have ambitious plans to lead on the low carbon technologies of the future. The UK risks being left on the starting blocks in the global race for investment.

The UK is unable to match the finances of the US Inflation Reduction Act, the EU's regulatory heft, or China's vast economies of scale and cost advantages.

The UK does, however, have major assets, including strong universities, pools of excellence in advanced manufacturing, biotechnology and renewables, and expertise in finance and professional services. The UK does not face the political gridlock of the US, or the need to seek agreement from 27 EU members, or the drawbacks of China's command-and-control economy.

## **Developing and successfully implementing a strategy**

The terrain has shifted since previous industrial strategies. Besides identifying opportunities for growth and how to nurture them, the government needs to factor in new geopolitical tensions and the need for resilience.

It should also learn lessons from the rushed intervention at Port Talbot, spotting years in advance where local economies and jobs are at risk and working with local communities to develop new place-based strategies and industrial clusters.

Focusing on green technologies can help here too. As our previous identification of [regional comparative advantage](#) has shown, any potential green growth opportunities are located outside the southeast. Other cities and regions can provide useful models, for instance, the US's 'innovation stars' such as Boston and Silicon Valley and Germany's [managed move away](#) from coal mining.

When developing the new strategy, early consideration should be given to the environmental principles policy statement which aims to embed environmental considerations into policy making from the outset. The department should also ensure there are synergistic links with other important government processes and strategies, including those expected on the circular economy and industrial decarbonisation. In addition, it should

establish an interdepartmental programme board to oversee the implementation of the strategy, supported by a shadow board comprising key external experts and practitioners.

How it is done is also important. Economic governance in the UK is too often conducted remotely from Whitehall, and even where powers over economic policy making are devolved, these do not always effectively map onto regional strengths and specialisms.

It is vital that the planned Industrial Strategy Council (ISC) liaises effectively with mayoral and combined authorities, business representatives, trade unions and local chambers of commerce as they absorb the functions of Local Enterprise Partnerships. These should be given enhanced responsibilities over growth and skills strategies, with funding awarded on a five-year rolling basis and allocated according to local strengths and needs.

Later, we set out horizontal measures needed across the economy, but the critical question in any industrial strategy is first how a government approaches the question of sector-specific support.

## Picking winners?

The reality is that the UK economy is a medium-sized, primarily services-based economy suffering from executive over centralisation and a chequered record on industrial strategy. The UK cannot do everything and must not try to.

To choose between competing objectives and avoid sectoral special pleading, there should be clear criteria for support. At least two of these should be met in every case:

- **Comparative advantage.** There should be a focus on sectors where the UK has significant existing competitive strengths or export success, or latent opportunities. This is particularly likely in frontier technologies that play to UK strengths in basic and applied science, or where we have strengths in adjacent technologies we can build out from.

**Example:** the UK's aerospace industry is a world leader, and the UK is well placed to develop zero emission flight technology. It is a highly skilled, export focused industry perfectly positioned to develop and manufacture frontier zero emission flight technologies and services that will dominate the global aviation industry for decades.

**Example:** the global alternative proteins industry is expanding rapidly. The UK has [several sources of competitive advantage](#), including some of the world's highest food quality and safety standards, significant consumer demand and a burgeoning domestic industry.

- **Place based prosperity.** The wide geographical distribution of green industries offers the chance to spread growth across the country, including in areas that have [previously deindustrialised](#).

**Example:** the UK's steel plants pay wages well above local averages in the economically disadvantaged areas where they tend to be located. They also support other local businesses. [UK demand for steel](#) has the potential to grow by up to 26 per cent by 2030, with two thirds of the growth from new net zero needs. A futureproofed industry would not just continue to meet demand for crude steel but match steel processing capacities to future UK needs and offer a range of employment opportunities.

- **Resilient supply chains.** Government [mapping](#) of the supply chain for renewable power shows there are significant gaps that create delivery risks and [an industry task and finish group on industrial resilience](#) confirmed that supply, environmental and social risks are considerable. Sectors critical to the development of new markets and industries should be identified and supported to maximise upstream opportunities and improve economic resilience. An example is chemicals, a foundational industry with inputs into almost every other industry (itself supporting over 140,000 jobs).

**Example:** transitioning the UK's automotive sector to electric vehicle (EV) production has got off to a slow start because of difficulties in developing gigafactories, owing to a shortage of secure finance and [critical raw materials \(CRMs\)](#). We have [outlined a strategy](#) for resolving this and, in further work, we will look at wider supply chain and human capital issues for EVs.

**Example:** as a nation with high demand for materials and few geological reserves, two key areas of strength for the UK, according to the [industrial task and finish group](#) are: the midstream processing of CRM value chains (material refining and component manufacturing are neglected globally), as well as the opportunity to increase material circularity. Analysis for the Coalition for Wind Industry Circularity, for instance, has shown that remanufacturing just ten wind turbine components with well-

established supply chains over the next ten years could create a [UK market worth £9.6 billion](#).

## Scaled interventions

Where possible, support should be given to sectors, not individual firms. The first step should be to develop a shared roadmap for a sector then put in place regulatory and other sector wide measures, over and above the horizontal measures (listed later) that increase the competitiveness of the sector as a whole, with the aim of stimulating private investment and minimising government spending.

**Example:** [underwriting](#) ten- or fifteen-year power purchase agreements (PPAs) between generators and industrial users could provide important industries like steel with access to cheap renewable power at a fixed price. In the case of [steel](#), this could be accompanied by other cross sector interventions, such as improving scrap steel quality to minimise the need for payments to individual companies.

If dedicated funding is still needed this should be designed and disbursed via arm's length institutions, such as the Faraday Institute or combined local authorities through local growth plans.

## Horizontal measures

A range of upstream and more sector-neutral policies are also needed to raise productivity and deal with supply-side bottlenecks. Again, attention should be focused on upstream interventions with important downstream impacts.

- **Energy and resource efficiency.** [Previous analysis](#) suggested that moving just halfway towards best practice on resource use in manufacturing industries could lead to 12 per cent higher profit, 15 per cent more jobs and a five per cent reduction in greenhouse gas emissions for the average manufacturer. Much more assessment is needed of the [economic benefits of resource efficiency](#) but materials and components are typically 40 to 60 per cent of manufacturing costs in Europe and can be up to 80 per cent of construction project costs in the UK. The one macroeconomic study of potential resource productivity policies in the UK shows these would increase GDP by almost one per cent by 2035, i.e. nearly £25 billion.

- **Skills.** The UK is currently experiencing a tight labour market and acute skills gaps are already emerging across sectors of the economy that most urgently need to decarbonise. It is important that Skills England can liaise effectively with the Industrial Strategy Council to tackle this, and that the Growth and Skills Levy which replaces the Apprenticeship Levy does not further reduce the number of Level 2 and 3 trainees, as this will squeeze the number of people available to train in green skills like heat pump installation. There are problems with enticing young people to consider careers in green sectors, notwithstanding continuing difficulties in defining and communicating what these are, which could be resolved by offering more traineeships.
- **Research and development.** Basic and applied science is a key UK strength. Most economic sectors still have a large environmental footprint, so greater innovation in green technologies and business models is necessary across all parts of the economy. This should be done within an [overarching framework](#) to boost investment in R&D and create demand for better technologies through public procurement and process innovation; for example, the use of regulatory sandboxes to pioneer regulation for emerging processes.
- **Finance.** Securing dependable long-term finance for the green industrial transition is essential. Sectoral investment roadmaps should set out the full toolkit of policy, regulation and strategic public investment needed for development of green industries. The government should work with the City of London to develop new investment vehicles, and the government should be prepared to underwrite risky and unproven developments with high potential.
- **Procurement.** With the public sector spending over £300 billion annually on goods and services, the government has a major influence over demand for green products. It should use this to support the industries and sectors it prioritises in the industrial strategy by adding requirements on monitoring supply chain emissions and promoting resource efficiency.

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