Briefing **The Industrial Strategy white paper** June 2025



Summary

The government's long promised and much delayed industrial strategy has set out a group of eight 'growth sectors', including clean energy and advanced manufacturing (covering automotive and sustainable aviation), for targeted support to help deliver its growth mission. The strategy focuses on improving finance, reducing barriers to business and encouraging R&D and technology development for each of these sectors. It supplements this with a range of other, cross cutting policies to encourage more private investment in growth industries, and to reduce uncompetitive power prices for some UK businesses. Considerable attention is also devoted to skills and place-based growth, and stimulating exports. Overall, it is encouraging to see this attempt at providing long term certainty for businesses and investors, and the links made between climate action and growth, but we are concerned about the very limited financial resources made available to deliver the strategy.

What the strategy covers and what we wanted to see

The industrial strategy, the first since 2017, sets out a ten year plan backing eight high growth industries (dubbed the IS-8) and supporting the places, foundations and key inputs into these sectors. It is extremely broad and expansive, covering skills, finance, trade and place-based growth alongside conventional, sector specific, policy measures.

Prior to its publication, we <u>called</u> on the government to adopt the broadest possible definition of green growth and clean energy industries by including technologies like heat pumps in the strategy, as well as emerging sectors like sustainable aviation. We also called for the strategy to embed green growth in a long term vision for the economy and recognise its important role in meeting the growing challenge of energy and supply chain security.

The strategy largely supplied this. The urgency of delivering green growth is prominent throughout the strategy, in a clear recognition that the net zero

economy is already growing three times faster than the overall economy. 'Net zero' is mentioned 30 times and described as "the economic opportunity of the century".

Although only one of the IS-8 sectors, clean energy, is directly related to the environment and net zero, attention is also paid to the importance of futureproofing the foundational sectors of the UK economy, such as steel, given they are vital to sectors like automotive, which will have to move to lower carbon production.

With security high up the political agenda and the impact of the climate crisis featuring prominently in the <u>National Security Strategy</u>, published this alongside the strategy, there is an overdue emphasis on the importance of energy security, with acknowledgment that climate change: "creates new threats amidst shifting energy geopolitics, putting pressure on supply chains, necessitating climate adaptation measures, and accelerating the need for secure homegrown clean energy". The strategy nods towards promoting greater resource efficiency via a circular economy and public procurement directed at supporting domestic clean energy, although the links could have been made much more explicit.

There is relatively little new money to support the growth sectors, however. Nor is there much indication of how progress in carrying out the strategy will be monitored. This will presumably be a task for the proposed Industrial Strategy Council (ISC), although how this will operate is still to be set out. It includes a strong focus on how Artificial Intelligence can improve productivity in IS-8 sectors, for example improving clean energy rollout, but says little about the high energy demands of AI.

The rest of this briefing examines first what the strategy says about the key growth sectors: clean power and advanced manufacturing. We then go on to consider cross sectoral themes within the strategy, and finally we look at horizontal measures affecting green industries.

Green growth sectors: clean power and advanced manufacturing

Given finite resources, industrial strategy inevitably involves sifting different priorities and making hard choices about which technologies and sectors to focus on. The industrial strategy makes this explicit by designating eight growth sectors (the IS-8) which together represent a third of the economy, but which the government believes have the greatest potential to raise GDP, employment and productivity over the next ten years. Several of these sector plans are still to be finalised. Of those already published, the most significant for climate and the environment are on clean energy and advanced manufacturing. Still to come is financial services, covering the important sustainable finance sector.

Clean energy sector plan

The government sees <u>development of clean energy industries</u> and the supply chains to support them as both an export opportunity and a draw to encourage inward investment in domestic energy capacity. With the Climate Change Committee <u>projecting</u> that low carbon investment each year will need to increase from £10 billion in 2020 to over £60 billion annually by the mid-2030s, this is a welcome ambition. <u>McKinsey</u> estimates that supplying goods and services for the global clean energy transition could be worth £1 trillion to UK businesses by 2030.

The strategy sets a target to double investment in 'frontier' clean energy industries to over $\pounds 30$ billion a year in wind (offshore, onshore and floating offshore), nuclear fission, fusion energy, carbon capture, utilisation and storage (CCUS), hydrogen and heat pumps. Notable by their omission are solar, bioenergy, power storage, heat networks and smart technologies, although the government claims it will continue to support them.

Although there is relatively little new money for the industrial strategy overall, much of what is available appears to have been allocated to clean energy in an effort to leverage private capital, including a new £1 billion Clean Energy Supply Chain Fund delivered through Great British Energy, and an additional £4 billion in growth capital for the British Business Bank to support small startups in scaling up, although firms in clean industries will have to compete with other sectors for it. UK Export Finance has earmarked £10 billion out of a total finance capacity of £80 billion to support UK exporters in clean growth sectors.

Of particular note is a suggestion that the domestic production of heat pumps could be ramped up to meet greater domestic demand, following the announcement of £13.2 billion of support for the Warm Homes Plan, unveiled in the spring 2025 <u>spending review</u>. Rather than seeing these sourced from overseas (and lose the jobs and the contribution to growth), the strategy points to the presence in the UK of one of the largest domestic markets in Europe and a skilled domestic heating workforce as potential reasons to develop domestic manufacturing capacity. Previously, there was a fear that the domestic mass production of heat pumps was uneconomic and might derail progress on home decarbonisation. But recent evidence suggests the UK may enjoy a <u>comparative advantage</u> in the production of certain types of heat pump.

The strategy confirms a new round of the competition for further funding for manufacturers through the Heat Pump Investment Accelerator Competition, reductions in planning and regulatory barriers and training grants. It suggests that, as well as meeting domestic demand, a UK heat pump manufacturing base could help to meet a projected undersupply in the global market and contribute £500 million to exports by 2050.

The strategy also singles out hydrogen technology as an export opportunity. It proposes a clean industry bonus for Hydrogen Allocation Rounds, further investment rounds and launch of a new Hydrogen to Power business model to launch in 2026. To catalyse public investment, projects will be eligible for the Public Financial Institutions offer, and the government is considering expanding the Clean Industry Bonus scheme to include hydrogen. Hydrogen will play a critical role in some sectors – zero emission flights, for example – but is not the most efficient solution in others, and the government should carefully consider its usage.

Advanced manufacturing sector plan

Industries that will form part of the green transition also feature prominently in the sector plan for advanced manufacturing, including automotive, batteries, aerospace, and agri-tech. Ten geographical regions will form the basis of a set of future advanced manufacturing clusters.

The automotive sector has suffered from high energy costs, excess capacity and stiff competition from cheap Chinese brands. Manufacturers have complained about the lack of a long term strategy from the government (while also lobbying against the Zero Emissions Vehicle mandate).

The strategy earmarks £2 billion of capital and R&D funding to 2030, with an additional £500 million to extend support under a new DRIVE35 programme to support electrification. It also promises National Wealth Fund support across the electric vehicle (EV) supply chain and claims the government is committed to investing £5.8 billion in the supply chain by the end of this parliament.

An Automotive Technology Strategy will be announced in 2026. The industry <u>welcomed</u> these interventions, and the drive to reduce energy costs,

although there was disappointment that more was not done to drive consumer demand for electric vehicles.

Much attention is also paid in the strategy to developing autonomous vehicles and regulating Low-Speed Zero Emission Vehicles (LZEVs), including pavement delivery robots, e-scooters and 'last mile' delivery vehicles.

The strategy is a good opportunity to turn the UK into a leader in sustainable aviation. The government will extend the Aerospace Technology Institute (ATI) Programme, previously funded on a five year basis, with £975 million for the period 2025-2030. Now it has an additional £1.325 billion and a confirmed ten years of funding, which we <u>called for</u> and welcome.

However, the emphasis is on improved fossil fuel engine efficiency and sustainable aviation fuel (SAF), as well as zero emission flight. Engine efficiency and SAF will play a limited role in reducing the current level of aviation emissions. The primary goal should instead be to achieve genuine zero carbon flight, with hydrogen powered aircraft a particular focus, given the UK's expertise in wings, fuel tanks and engines.

Cross-cutting themes

Although the central focus of the strategy is the IS-8 sectors, it also recognises a number of cross cutting themes that require attention.

Energy costs

Manufacturers have long been concerned that UK industrial power prices have been higher than for many international competitors. Extending and strengthening existing support for the most energy intensive industries, and then introducing more limited reductions in policy levies for another swathe of IS8 and foundation sector firms, will go some way to addressing that. But this support, being introduced in 2027, will be too late for those businesses struggling to make it to the end of the year under the highest energy costs seen for a long time.

Importantly, by improving the price differential between gas and power it will also help encourage industrial electrification, the cleanest most efficient way to decarbonise and build a thriving and resilient domestic <u>industry</u>.

However, the measures do nothing to address high gas prices for energy intensive industries unable to immediately switch to electrified processes, or to bring down wholesale electricity costs which are also driven by gas.

Clearly, the government hopes this and other elements of power prices will fall as renewables continue to supply more electricity, and as a result of electricity market reform efforts, but more detail is needed on how the scheme will avoid imposing costs on other power consumers.

The plan for a new Connections Accelerator Service is also to be welcomed, although it must be made available to all projects, regardless of size, as are efforts to boost the market for corporate power purchase agreements (PPAs). We have called for the government to help underwrite PPAs for energy intensive industries to help them access longer term <u>stable electricity prices</u>.

Shoring up supply chains and improving economic resilience

Resilience is a theme in the strategy but the links to the circular economy in this area are more limited than we would advise.

The strongest recommendations are around critical raw materials like lithium, with the strategy calling for expanded commercial recycling capabilities. It says the UK intends to follow the EU's move to require all EV and industrial batteries to have a battery passport by 2027 and to meet recycled content requirements for critical raw materials including lithium and cobalt. This is something we've called for, but it feels unlikely this, on its own, will "establish a competitive advantage in both recycling and the associated data and systems management", which the strategy says is its goal.

The broader lack of recognition of the role a more circular economy could play in making manufacturing, supply chains and the economy more resilient is also disappointing. Many of the IS-8 could be integrating circular business models, but these opportunities are not considered. For instance, although Rolls Royce gets several nods, there is no mention of its innovative Power by the Hour/Total Care servitisation system, and there's no consideration of how to grow secondary manufacturing sites alongside primary manufacturing, whether for advanced or traditional materials.

Support for foundational sectors

One drawback of championing growth sectors is the impact on other sectors, including those which provide inputs or services to the growth sectors. Ports, for example, provide critical supporting infrastructure, while the steel industry supplies raw materials to build EVs and wind turbines. The strategy says the government will support foundational industries but provides few details beyond reiterating that the National Wealth Fund will commit at least £5.8 billion over this parliament to ports, hydrogen, carbon capture,

gigafactories and green steel. A steel strategy is due shortly which should at least provide more detail in that area.

Electricity networks are also offered reinforcement of a range of existing measures, more rapid planning approval through reforms going through parliament and a new market demand guarantee to build supply chain confidence around future orders of equipment like HVDC power cables and transformers. Further analysis on how to support foundational sectors will be developed by a new Supply Chain Centre.

Horizontal measures to support growth industries

Finance

Access to finance has long been identified as a critical barrier to scaling up successful businesses, particularly in the so-called 'valley of death' in their early development between prototypes and initial market entry. This is particularly a problem for many green businesses developing novel technologies. The strategy earmarks £4 billion more for the IS-8 sectors to be delivered through the British Business Bank £2.6 billion more of investment into city regions, clusters and to entrepreneurs and a £60 million allowance for direct equity investments.

Skills

The emphasis on skills is positive as previous industrial strategies have largely ignored human capital development and the net zero economy faces <u>severe skills shortages</u> in areas like heat pump installation. There is a welcome increase in funding for Further Education colleges, which will be crucial in delivering many vocational skills needed for net zero, but which have seen their <u>budgets</u> fall significantly over the past 15 years. It will be accompanied by the launch of new Technical Excellence Colleges, to address shortfalls in engineering skills in the IS-8 sectors including clean power, and a new Workforce Strategy, addressing skills shortages.

Place-based growth

We have consistently pointed to the need for a <u>regional focus</u> for industrial strategy to make the most of local strengths in green technologies.

The strategy highlights ten regions where frontier technologies will be supported. Promising emerging green technologies feature prominently in these, and they include Edinburgh and Glasgow Central Belt (agri-tech); the North East (automotive, batteries); and Wrexham and Flintshire (automotive and agri-tech). Each cluster will receive £160 million of funding over ten years, as part of Local Growth Plans owned and delivered by relevant local authorities.

The Freeports and Investment Zones (featuring lower taxation and less regulation) introduced under the previous government will be renamed Industrial Strategy Zones and encouraged to collaborate on resource and energy efficiency through 'Net zero networks'.

Governance and longevity

The 2017 industrial strategy was a good strategy which foundered after just two years due to lack of political commitment. The current government recognises that frequent policy churn undermines investor confidence. It proposes overcoming this by setting up an independent Industrial Strategy Council (ISC) to monitor progress and hold ministers to account.

The strategy repeated previous commitments to put the ISC on a statutory footing, which is a good idea as this raises the political costs of its cancellation, but it is still unclear when this will happen. We would like to see this expedited and for the ISC to include a number of experts in green industrial strategy.

The metrics used by the ISC to measure success are important as this will determine its priorities. As well as conventional economic metrics such as employment and gross value added (GVA) we would like to see targets for emissions reduction, nature restoration and increases in the proportion of clean industries in the economy.

The ISC should also monitor the security of supply chains, and the extent to which the industrial strategy will bring jobs and good incomes to low wage areas. We would support inclusion of a specific mission, overseen by the ISC, to grow the size of the green economy at a specific rate year by year.

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