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The United Kingdom: A Centrally Designed Clean Economy

Aleksandra Gawlikowska-Fyk

The United Kingdom treats climate policy as an opportunity to accelerate economic growth. This approach is becoming more common both in the EU and globally, and the British strategy combining interventionism with market forces can be a model for regulatory policies in other countries. Poland, which is struggling with the decision to base industrial policy on clean technologies, can benefit from the UK's experience in combining climate regulations with supporting growth.

In the UK, the second-largest economy in the EU and the fifth biggest in the world, services have been a key growth factor for years. They account for 79% of British GDP, compared to just 10% from industrial production. This latter figure puts Britain at the lower end of the EU table, far behind Germany (23%) and Poland (20%), and close to France (11%) and Greece (9%), and translates into a negative trade balance in exchange of goods (£136 billion in 2017). Thus, the British Industrial Strategy, adopted last year, aims to increase the role of industry. Clean, green technologies, which are innovative, resource-efficient and promise to deliver the benefits of growing export markets, are crucial to this. The approach is intended to enable the UK to combine an ambitious climate policy with an active economic one.

Decarbonisation as an Opportunity. In 2008, the UK was the first country in the world to adopt binding targets for the reduction of greenhouse gas emissions (Climate Change Act). At that time, the British assumed that, by 2020, emissions would drop by at least 34% compared to 1990, and by 2050 by at least 80%. So far, they have been able to reduce them by 42%, while GDP is up by two thirds. In the last five years, British emissions in the power generation sector alone have fallen by half, thanks to cutting the use of coal from 40% to 7%, among other things. But progress in decarbonising the economy is becoming increasingly challenging, because the transport, construction, industry and agriculture sectors must also be taken into account, and reducing emissions reduction in these fields is more difficult and expensive.

The trend of moving to low-emission technologies is global. Therefore, the UK government intends to treat the need to switch the economy to clean technologies as an opportunity to strengthen British industry and gain first-mover advantage in foreign markets. In 2017, global spending in this area amounted to $333 billion. It is estimated that investment in solar and wind energy generation alone will amount to $10 trillion by 2040. In turn, the British hope that the low-carbon sectors could (by 2015 to 2030) increase by 11%, four times faster than the rest of the economy. Thanks to this, export revenues would increase by at least £60 billion (potentially up to £170 billion), creating a chance for the UK to earn a surplus in trade of goods.

Clean Growth Strategy. Further reduction in greenhouse gas emissions and promotion of domestic industry is to be facilitated by the set of new regulatory proposals contained in the Clean Growth Strategy, published at the end of 2017. This is a document that can be qualified as a climate, energy and industrial strategy.

The British government wants to support these technologies, which are necessary to further reduce the emissions of the British economy and at the same time have global potential. In the electricity sector,

efforts are to focus on increasing the share of renewable sources (RES). In the RES sector, the UK has been very successful, increasing the share of RES in the power mix from 11% to 29% since 2012. Thanks to the consistent promotion of offshore wind, the UK has not only the biggest installed capacity in the world (6.8GW), but above all a significant competitive advantage. Other technologies are to be supported too, with promises of generous public financing for nuclear energy (£460 million), energy storage (£265 million) and technologies that are not yet commercially available (£2.5 billion).

The low-carbon transformation of heating and transport remains a greater challenge. British homes (despite programmes such as Green Deal) are not energy-efficient. This is a key area in British debate, because it may hinder the implementation of reduction targets (divided into five-year carbon budgets) as early as 2023 to 27. That is why the government has proposed further measures (£3.6 billion), also counting on global investments in this area. There are even greater expectations for the development of the global electric car market. Currently, there are slightly more than 100,000 e-cars on British roads (only 0.3% of the total number of automobiles), but the government has already decided to ban the sale of new petrol and diesel cars from 2040. On the one hand, this is about reducing the consumption of oil, half of which is already imported (contributing to the expansion of the trade deficit) and which is listed as the second most carbon-emitting fuel. On the other hand, this policy aims to help the British automotive industry benefit from the trends of electrification and the development of autonomous vehicles for transport.

A Centrally Planned Clean Economy. The key importance of the clean technology sector for the British economy is clear from the high level of involvement of the public sector. The government not only intends to create regulations conducive to the development of prospective industries and technologies, but also to finance them. This is another manifestation of British economic interventionism, which has been growing for several years, including on the energy market.[1] And this is from a government formed by the Conservative Party, for years opposed to the active role of the state in market management and, in the past, also to climate policy.

However, it is characteristic of the British approach that the largest possible area is left to the free market. Therefore, it is already clear that market adjustments different from those expected by the government have materialised. In the power sector, the most advanced in terms of decarbonisation, the announcement that the abandonment of coal would require an increased role of gas did not prove accurate. Instead the RES and imported energy shares have increased. This is important for a country that produces less and less blue fuel (in 2017, the UK's dependence on gas imports stood at 57%).

Conclusions. Clean technologies are to become the driving force behind the UK's economic growth. The British government intends to make the country globally competitive in this area as soon as possible. It counts on having a free hand to decide which EU regulations to apply and which to ignore (for example, in relation to state aid and the promotion of specific technologies) after the end of the Brexit transition period in 2020. This may be accompanied by regulations that improve the competitiveness of low-emission technologies, for example, those regarding financing or the price of carbon dioxide (or even tax on this). Despite the UK's withdrawal from the EU, British ideas may still be an inspiration for EU regulations due to the introduction of climate objectives to specific energy market regulations and financial services. The active shaping of the new green economic agenda is also an idea for the post-Brexit reality, a positive signal for entrepreneurs in the face of uncertainty regarding future trade relations between the EU and the UK.[2]

When considering prospective directions of Polish industrial policy, it is worth paying attention to Britain's pioneering approach to low-carbon transformation, treating climate protection as an irreversible trend, focusing on technical progress, and government commitment to overcoming key long-term challenges. However difficult a similar decision may be for Poland, choosing clean technologies as an essential element of development policy could bring positive effects in the form of comparative advantage and early (thus permanent) integration into global supply chains.

In many areas, such as electromobility, efficient buildings and the development of offshore wind energy, Polish goals closely resemble the UK's Clean Growth Strategy. Cooperation and an attempt to find a place on the British market will help to maintain strong relationships in the trade of goods and services between Poland and the UK, even after Brexit. This could benefit Polish industry, as the country has great potential among innovative companies, for example in the fields of energy efficiency and offshore energy.

[1] A. Gawlikowska-Fyk, Z. Nowak, "The UK as a Pioneer in Energy Market Reform," *PISM Bulletin*, no. 89 (542), 28 August 2013.

[2] P. Biskup, "Prospects for a Brexit Agreement with the Clock Ticking," *PISM Bulletin*, no. 82 (1153), 20 June 2018.