**A picture containing text, device

Description automatically generated**

**Looking ahead to a Truss-led government – key points and comment**

Foreign secretary Liz Truss is widely tipped to be announced winner of the Conservative leadership contest and to replace Boris Johnson as prime minister on Monday September 5th. The new government may drive further re-alignment of British politics but there is no clear manifesto.

Kwasi Kwarteng is tipped to be Truss’s chancellor of the exchequer (The Times, Bloomberg, others), moving from the Department for Business, Energy and Industrial Strategy (BEIS); and several pundits suggest that Jacob Rees-Mogg, the Brexit opportunities and government efficiency minister at the Cabinet Office, will take over at BEIS.

Both Kwarteng and Rees-Mogg are leading supporters of Brexit, lower taxes, a smaller state and free market economics – positions that Truss has taken during her leadership campaign. If Truss follows through on what she has said in recent weeks, we are likely to see tax cuts and higher borrowing.

Much of government has been on hold since the revolt against Johnson two months ago. Here are some thoughts on what we might expect from a Truss-led government. It is not intended to be a comprehensive list and carries the caveat that Truss, along with Rishi Sunak, may have been saying primarily what she believed is needed to get elected rather than setting out firms plans for government. We welcome comment.

**Energy crisis -** Truss has said we will have to wait for her plans to address the cost-of-living crisis until after she is PM. There has been speculation that she will suspend her long-held desire for lower taxes and less state interference and adopt a radical support scheme for domestic energy bills – indeed, that her actions on that issue will define her premiership.

Support for firms is more doubtful. As a detail, Kwarteng has opposed windfall taxes on energy firms – but has argued to support for firms. He and Sunak’s Treasury were in a public spat last October about whether there were even talks about supporting businesses over energy, when the Treasury said there was no more money. The gist is in this headline: [Kwasi Kwarteng ‘making things up’, Treasury claims in energy crisis row | News | The Sunday Times (thetimes.co.uk)](https://www.thetimes.co.uk/article/kwasi-kwarteng-making-things-up-treasury-claims-in-energy-crisis-row-ml7hr9wbj)

UK energy costs are aggravated by many factors. One is doubtless the continuing fall in the value of sterling, down against the dollar from 1.37 on June 13th to 1.17 on August 29th. It is running more steadily against the euro.

There is an interesting article on inflation in the UK and other countries from the Financial Times here, without a paywall (unusually): <https://on.ft.com/3pfpdbi>

*Comment:* Energy cost support to industry is difficult but necessary and, perhaps, the number one issue to communicate to government.  There was a structural problem, even before the latest crisis, with businesses here already paying far more for energy than even than our European competitors.  The issue was recognised by the minister for inward investment, former Barclays chairman Lord Grimstone, – but he went in June.

Energy costs are the central issue for many advanced engineering and manufacturing firms and the government needs to set out its position urgently. Uncertainty is a big worry for firms, as they try to plan ahead and to budget. Many firms are anticipating big increases but still not sure how big they will be. Production and even some energy-intensive research work may be moved out of the UK.

Firms, especially SMEs, are likely to cut back on non-essentials, including training. Trends are for firms to become less successful at passing costs on. There are expectations of company failures as a result of rising energy costs – firms have already been hit by wage, material and component inflation, and delays. This will impact on credit given and available.

Much of the media coverage on business has been on pubs and restaurants, insofar as it has been on business at all. But the survival of engineering and manufacturing firms, competing as they do internationally, is more important to the economy, a point that EAMA is making to government.

A complete rethink on energy policy for firms is needed, especially for those competing internationally, to reduce relative costs of energy. A short-term support may well be needed. No otherwise viable advanced engineering/manufacturing business should be lost because of the energy crisis.

Challenges are to get evidence and, even more difficult, to identify what exactly what should be done by government. One suggestion has been energy market reform: a cap on wholesale energy prices, which would hit nuclear, solar and wind – but the focus has been for domestic energy, so far. As a short-term measure, HMRC may have a role to play in supporting firms, plus guarantees to lenders as there was in the CBILS scheme during the Covid crisis and current Recovery Loan Scheme.

Meanwhile, we have been hearing of energy supply contracts being ended by suppliers, early and unilaterally by suppliers and that these actions have been supported by the regulator, Ofgem. We would welcome evidence of that, in strictest confidence.

**Tax –** The biggest area of disagreement between Truss and Sunak. Truss suggests radical tax cuts, despite the increase in borrowing that would almost certainly be needed in the short term. Changes to the increase in corporation tax from 19% to 25% are mooted, along with cuts to VAT. Truss has also talked about changes to IR35 to make self-employment more attractive, although it is unclear to tax experts what she means.

Truss has also talked about axing the health and social care levy, currently charged as a 10% increase in National Insurance.

**Reversing the decline in UK manufacturing** – Manufacturing appears not to have been mentioned by either Truss or Rishi Sunak in the leadership campaign, although both are known to have visited manufacturing firms. It remains open as to whether the new government will revive the imperative to “reverse the historic decline in UK manufacturing” and put some flesh on that bone. During the campaign, Truss has been identified with retired economist Patrick Minford, a retired professor and ardent Brexiteer who ten years ago said that it would be good for the economy to let manufacturing go but more recently suggests that the sector will benefit from the slide in the value of the pound.

*Comment:* The Westminster government needs a plan to reverse the decline, focused on targeted incentives for investment, support for advice, a more integrated and coherent suite of support for innovation and adoption. It is notable that NI, Scotland and Wales all have coherent plans for manufacturing; only England does not.

Trade associations, including those in EAMA, would be a valuable partner for government in developing and implementing such a plan.

**Levelling Up** – Future policy is up in the air. There was little money for levelling up under Sunak but Truss appears more willing to borrow more. Former chancellor George Osborne said of his period in office that he cut infrastructure investment too much.

Levelling up’s main champion, Michael Gove, was sacked by Johnson in almost his last action before announcing his resignation as Conservative leader and has since announced he is leaving front bench politics. It will be interesting to see if Greg Clark, the centrist former BEIS secretary who is Gove’s successor at the Department for Levelling Up, Housing and Communities, keeps that job under Truss or is sent back to the political wilderness.

Levelling up is a complex issue. People were left more confused than before when Boris Johnson gave a speech to explain what it was. EAMA should highlight that advanced manufacturing and engineering takes place throughout the UK, including the South-east, and that national capability is important. Trade associations represent national clusters of capability.

**Net Zero** – An uncertain future, complicated by UK law and the varying levels of commitment of large companies. Net zero has hardly been mentioned in the leadership campaign, although that is unsurprising as it is thought to be unpopular with Conservative Party members who will vote in the new PM. More significantly, it is reported that Truss will grant new licences to drill for oil in the North Sea.

Sentiment was already changing, before the energy crisis became acute. In the US, the federal government has just passed a law allowing for the release of federal land for oil exploration and Texas has passed a law banning public sector pension funds for state employees from holding shares in companies that it, the state, deems to be against oil and gas. Texas is one of the Department for International Trade’s prime target states for a memorandum of understanding on trade.

*Comment:* A detail is whether UK Export Finance will continue to be banned from supporting UK exporters in oil and gas, markets in which it has been effective. That ban was imposed in April 2021, weeks after a new round of licences were issued for the North Sea and will look perverse if Truss grants new licences. (EAMA said the decision was premature, in evidence to the international trade committee.)

Policy changes related to Net Zero would be difficult, as the objective is in UK law and it is likely that policies contrary to Net Zero objectives – such as the granting of new licences in the North Sea - would be challenged in the courts.

**Trade (other than with EU) –** The government has already shown a willingness to agree trade deals that upset some. The UK’s first agreement that were not mostly roll-overs from the EU have been with Australia and New Zealand and have upset farmers. More relevant for the machinery and component supply chain are talks with India, which could be concluded within the next few weeks. There are fears that India may gain much more than the UK from a trade agreement, not least in intellectual property.

China is a huge issue for foreign policy and trade. As foreign secretary, Truss has spoken of the threat from China and the UK and US have issued joint statements on the subject. Trade talks due to take place this year were called off after a backlash from Conservative MPs and others. However, we import more goods from China than anywhere else, including £63.6 billion-worth last year of which £27.5 bn was machinery and transport equipment (source: ONS).

Brexit remains to be done. There is a sense that the hard-line Brexiteers may gain influence from Truss, who has already shifted well away from her “Remain” position of 2016.

The Northern Ireland Protocol crisis and the UK’s exclusion from Horizon Europe and other programmes remain top of the in tray. Both are now subject to legal proceedings (from the EU on the NIP, the UK on HE). There is already keen debate within government as to the extent to which Europe matters, as we seek to “pivot” towards Indo-Pacific.

(The EU has its own, huge internal problems, as member states grapple with inflation and economic downturn. The EU has still to resolve the stand-off with Poland over payment of Euro 35 billion in recovery grants and loans.)

*Comment:* We need to improve our relations with Europe, not least the tome. There must be question marks over the viability of the Trade and Co-operation Agreement, given present tensions. We should also push for more support for exports and trade shows abroad, beyond the narrow range DIT now supports. Export ambition has significantly lessened with the 2021 Export strategy from the 2019 strategy; we should be more ambitious.

**Deregulation and regulatory divergence from the EU** - Truss is committed to a wholesale review of EU regs, as is Sunak and as in happening anyway, with a “Brexit opportunity dashboard” at the Cabinet Office.

*Comment:* Government dial down the rhetoric and adopt a systematic review, based on the changes business sees as important, and open discussion. Where there are proposals that it considers worthwhile from outside business, these should be discussed. There should be full consideration of benefits and costs. The review should take account of law as it is, whether from the EU or not – its suitability for the UK’s needs should be the test, not its origin. In the machinery and component supply chain, there is little clamour for change in law from the EU – in contrast, perhaps to some other sectors.

Where we detect clamour for change, it tends to be in regulations originating within the UK.

We are keen to encourage debate in these areas with members.

**UKCA** – It seems reasonable to assume that certification of conformity by EU Notified Bodies will become acceptable in the UK, where products are unchanged, should Rees-Mogg take over at BEIS. In February, *The Times* reported Rees-Mogg as saying that the government did not intend to require firms to submit products for new British safety tests if they have been recognised by the European Union CE mark. That position contradicted policy but was, finally, confirmed as an interim position by BEIS several months later.

How much further would Rees-Mogg challenge current BEIS policy? He recommended a report from the Institute for Economic Affairs which said that “British policymakers should recognise the clear advantages of the UK continuing unilaterally to recognise the CE mark and certification by EU CABs [conformity assessment bodies] for goods permitted on the whole of the UK market”.

Rees-Mogg said, welcoming the report: “Non-tariff barriers are the delight of protectionists and should be removed wherever possible.”

The IEA goes on to say that the same approach could be applied to regulations from other countries but it makes most sense to start with the EU, as the regulations are the same in most cases. It would reduce the burden on businesses in the UK and the costs faced by consumers.

The IEA says that the gains outweigh the risks of compromising the autonomy of UK regulators and sacrificing leverage that could be used to the benefit of British exporters. “Some consumers in the UK may prefer CE marked goods if they perceive that they are safer or of better quality, whereas some producers and consumers may wish to take advantage of more innovative or cheaper goods that may become available as the regimes diverge (always assuming that the UK will require baseline standards of safety and quality, in accordance with sound science and good regulatory practice),” it said.

“In the meantime, and most importantly, the approach would realise gains from trade that are available from acting autonomously,” the IEA said.

Unilateral recognition of EU rules would also mitigate some of the issues faced in relation to the Irish border, it added. IEA report: [*https://iea.org.uk/wp-content/uploads/2022/02/IEA-\_Briefing\_Changing-the-rules\_web-1.pdf*](https://iea.org.uk/wp-content/uploads/2022/02/IEA-_Briefing_Changing-the-rules_web-1.pdf)

*Comment:* It seems reasonable that there should be indefinite acceptance of EU certification for goods already on the market; and, further, where the specifications are the same. It would not be a huge surprise if there was a fundamental revisiting of UKCA.

**Criticisms of Truss** - Some commentators have observed that Liz Truss seems no more inclined to be open to scrutiny than Boris Johnson. There is on-going concern over scrutiny of trade negotiations and agreements. She has been criticised this week for cancelling an interview with the BBC, having previously agreed to being interviewed. Last week she said that the BBC got its facts wrong, in contrast to GB News, putting more pressure on the BBC.

Much of the criticism of Truss is from those who were once prominent in the Conservative Party but have left since Brexit. Former Tory MP Matthew Parris has received plaudits for an article he wrote in The Times (August 20): “…government will [quickly] descend into a huge effort to contain and defang an unstable prime minister… She’s crackers. It isn’t going to work.”

That may well prove unfounded. And while Truss has U-turned spectacularly on some issues, such as Brexit, she has been consistent over a long period in her strong dislike of high taxes and increasing state interference. In any case, neither Parris nor anyone else I have read have predicted what would happen after it “didn’t work”.

As ever, EAMA’s role is to be clear, robust, evidence-based and helpful to government where we can be.

We welcome comment.

**Jack Semple**

**Alliance secretary**

**September 2, 2022**