TWO

Cutting taxes and liberalising trade to onshore and ally-shore clean energy supply chains

- Sign critical mineral partnerships and targeted trade deals with allied countries.
- Add a premium to the capital allowances for clean energy industries in freeports.

Given our leadership position in the energy transition, and our post-Brexit freedoms in trade and regulatory policy, the UK has the potential to grow its clean energy supply chains. Green industries are the fastest growing sector of the economy, expanding by 10.1%[37] between 2023 and 2024, compared to 0.1%[38] growth in the UK economy as a whole. However, China still has a stranglehold on global supply chains in clean technology, leaving the UK substantially dependent on a hostile state and missing out on some of the economic benefits of the energy transition.

We must recognise that we are not well-placed to be leaders in producing every technology that will be needed for the energy transition - for example, critical mineral mining or solar panel manufacturing. As such, we will continue to be vulnerable to disruptions caused in global supply chains because of issues such as conflicts and the political decisions of authoritarian countries. But this should strengthen the UK's resolve to push forward with the technologies in which we can be leaders.

It is vital we build resilience into the UK's clean energy supply chains through a combination of primarily onshoring, followed by ally-shoring, which can diversify supply chains and reduce reliance on hostile states. Onshoring would create jobs across the UK and support regional economies, whilst ally-shoring utilises supply chains in allied countries that share our geopolitical goals. Diversifying our clean energy supply chains will also increase competition, helping to drive down costs of new infrastructure and ultimately energy prices.

Post-Brexit, the UK has the opportunity to further liberalise trade. The freedom to sign free trade agreements (FTAs) and thereby secure frictionless trade in the components and technologies required for clean energy infrastructure from friendly nations should be utilised where we lack a comparative advantage to make them ourselves. In the short term[39] critical mineral partnerships and deals to expedite trade in specific technologies should be prioritised to diversify supply chains. Critical minerals[40] are a necessity for the energy transition, as they are required in batteries, renewables, and energy networks. Longer term, bespoke FTAs with allied countries should be pursued to remove barriers to trading clean technologies[41], critical minerals, and green services, boosting growth, lowering costs, and strengthening national security. These should be underpinned by appropriate environmental, social, and governance standards, and should be used to diversify our supply chains, rather than entrench reliance on one single state.

When considering allied countries to negotiate FTAs with, Chile has the second largest lithium deposits in the world and processes approximately 40% of global copper concentrates, both of which are vital minerals for the transition. India is third globally in solar manufacturing with a 3% share of the global market but intends to achieve 110 GW[42] capacity by 2026. Meanwhile, the Inflation Reduction Act ramped up solar and wind turbine manufacturing in the USA, and even with Trump cutting subsidies, these sectors are likely to continue to expand due to the favourable economics of clean energy. The UK could also explore upgrading its existing FTA with South Korea to capitalise on low-cost nuclear technologies and cooperate on regulatory approval, as we seek to secure investment in new nuclear capacity.

Freeports were also a central part of the previous Conservative government's plans to boost investment, liberalise trade, and encourage manufacturing in certain parts of the country post-Brexit. Goods imported into freeports benefit from customs and tax breaks, and businesses benefit from reduced administrative and planning burdens. Already, the tax incentives at these freeports have attracted billions of pounds in private investment and boosted the UK's clean energy supply chains.

Enhanced freeports could provide a route for the UK to capture more of the clean energy supply chain, working alongside a stable UK pipeline of infrastructure projects. The UK missed out on significant manufacturing opportunities with the initial rollout of wind power. Between 2008-2022, the UK's wind power capacity went from 3GW to 28.5GW[43], representing 15.2%[44] of wind installations in Europe yet accounting for only 1.4%[45] of production. We have a chance to learn the lessons from this experience as we scale up the nascent floating offshore wind industry. The direct impacts of building floating offshore wind farms domestically and the indirect impacts from activity in the supply chain could add £25 billion to GDP, and create tens of thousands of long-term jobs by 2050[46].

Freeports already provide some tax incentives to encourage inward investment. Businesses operating within freeports receive enhanced capital allowances, relief on Stamp Duty Land Tax (in England), and relief on Land and Buildings Transaction Tax (in Scotland). Within two years of freeports being reintroduced by the Conservative government, they attracted almost £3 billion[47] of investment. It was estimated in April 2024 that freeports had already created 5,600 jobs[48] and had the potential to create approximately 214,000 more. Expansion of the existing reliefs, in particular adding a premium to the capital allowances for clean energy industries, will boost the UK economy and attract international investment in clean energy supply chains to the UK.