

Y12 Microeconomics Transition Task for September

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Britain 25

Industrial policy

Green with envy

TILBURY

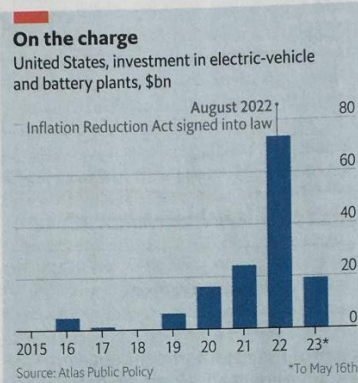
The Inflation Reduction Act is turning heads among British businesses

THE PHONE hasn't stopped ringing for Asher Bennett, the founder of Tevva, a manufacturer of hydrogen- and battery-powered trucks near Tilbury, a run-down port town in Essex. For months he has been fielding calls from officials across America competing to lure clean-energy businesses across the Atlantic. Armed with hundreds of billions in subsidies and tax breaks courtesy of Joe Biden's Inflation Reduction Act (IRA), many states are wooing entrepreneurs over lunches or arranging visits to potential sites. By next year, Mr Bennett hopes to start production of Tevva's zero-emission trucks in America as well.

He is not alone. Manufacturers of everything from electric-car batteries to wind turbines are lining up for cash handouts available under the IRA. Goodies are also on offer in the EU, where countries are using the bloc's loosened state-aid rules to lure investment in green tech. For each truck it builds, Tevva says it could receive up to £90,000 (\$113,000) more in subsidies in Germany than in Britain. Andy Palmer, the chairman of InoBat, a Slovakian battery firm, says it is deciding between Britain and Spain for its next plant. Europe's counter to Mr Biden's green push makes it harder to justify a move to Britain, he adds.

This subsidy war is putting a strain on several cornerstones of Britain's green economy. Energy is one. Ørsted, a Danish energy company hoping to build the world's largest wind farm off Britain's coast, says it might place some plans on hold without more government support. Johnson Matthey, an industrial group which manufactures hydrogen fuel-cell components, has said it may shift more investment to America. Drax, a power company which is planning to build the world's biggest carbon-capture power station in Yorkshire, has been issuing warnings that the project is at risk because of incentives on offer across the Atlantic.

Britain's car industry is another pressure-point. Britain is home to just one large battery plant, or gigafactory, a facility in Sunderland run by China's Envision. There are more than 100 planned gigafactories in China and around 40 either already running or in the works in Europe. In America, which is offering subsidies worth up to half of a battery plant's operating expenses, investment into electric-vehicle and battery plants surged to more than \$73bn in 2022 alone, up from \$6.2bn in



2019 (see chart). Tata Motors, the owner of Jaguar Land Rover (JLR), a luxury carmaker, is demanding more than £500m of government support for a new battery factory in Britain. AMTE Power, one of Britain's few surviving battery-makers, is considering shifting manufacturing to America.

Steelmaking is also under strain. The government has offered Tata Steel, an Indian producer behind Britain's biggest steelworks at Port Talbot in Wales, and British Steel, another industry giant, about £300m each to shift to cleaner technologies. But Tata Steel estimates it needs up to £3bn; it says the absence of government funding could force it to shut its plant. Nearly eight



Cleaned tech

out of ten bosses believe that Britain should do more to subsidise green industries, according to a poll of executives by the Institute of Directors, a lobby group.

So far, Britain's response has been muted. The country's experience of nationalisations and industrial subsidies has not been a happy one; the government says it wants to steer clear of protectionism. It is being dragged into the arms race anyway, according to Raoul Ruparel of Boston Consulting Group, a consultancy. "The landscape has shifted," he says.

If Britain is forced to spray more cash around, it will have to do so in a targeted way: it cannot compete with the deep pockets of the world's largest economic powers. That means it will have to rely on non-financial attractions, too. According to a poll by MakeUK, a trade group, seven in ten manufacturers are in favour of an industrial strategy that focuses on skills; over half want the government to focus on boosting research and development.

There are other, simpler fixes. More continuity in Whitehall would help. The department in charge of industrial policy has been reorganised five times in the past 15 years. In that time, more than a dozen different secretaries of state responsible for business and industrial strategy have taken the mantle.

Regulatory clarity is another way to encourage investment. Mr Ruparel reckons extra detail on policies such as a proposed ban on the sale of internal-combustion-engine cars by 2030 would jump-start private-sector activity. There are too many unanswered questions—about the timings, about which charging technologies will be the gold standard for electric vehicles and who will pay for the infrastructure. The upheavals of Brexit add to uncertainty: Stellantis, a carmaker, this week warned that it would close its Ellesmere Port plant unless tougher rules-of-origin requirements in the EU withdrawal deal are delayed.

Removing permit bottlenecks is another good idea. It takes far longer to approve a wind farm than to build it. Fast-tracking renewable-energy projects, or automatically approving permit applications if planning authorities take too long to reach a decision, could drastically speed up projects, according to the Energy Transition Commission, a think-tank.

Even then, the incentive of hard cash is pretty hard to beat. Tevva's 7.5-tonne electric lorry is eligible for the British government's plug-in truck grant, which removes up to £16,000 from the vehicle's purchase price. But under Mr Biden's green bonanza, heavy-duty trucks like Tevva's qualify for tax credits of up to \$40,000 (£31,928) per vehicle if they are made locally. The IRA is a game-changer, says Mr Bennett. "It means that [America] is going to be the world leader in these technologies." ■

Studying a subject at A level means learning lots of new words. For example, in column 3 the phrase “taken the mantle” means to take on a job role e.g. becoming the Secretary of State for Business (the govt. minister for business). “Regulatory clarity” also in column 3 means that the rules or laws on something are clear and everyone understands them.

Write a short (max. twenty words) definition of each of the following words in the article. Use an online dictionary or use www.tutor2u/net/economics to help you find the definitions.

1. Lure
2. Subsidies
3. Wooing
4. Entrepreneurs
5. Operating expenses
6. Muted (as in ‘Britain’s response has been muted’)
7. Nationalisation
8. Protectionism
9. Continuity
10. Private sector
11. Infrastructure

Finally, answer the following question, giving reasons for your answer. You should include at least 2 figures or quotes from the article to help support your answer. Your answer should be a maximum of one side of A4 long.

12. In your opinion, should the U.K. government increase the subsidies that it offers to firms that manufacture electric car batteries and wind turbines in the U.K.? Or would that government money be better spent on something else? Justify your answer.

Bring your answers to questions 1 to 12 above to your first lesson in economics in September.

Economics Summer Research Sheet 2024

1. Markets:

- Name a market that has had a surge in demand
- Name a market where supply has been reduced
- Name a pair of goods that are substitutes
- Name a pair of goods that are complements

2. Government:

- Name five types of tax
- Forecast Total UK government revenue for 2024/25 =
- Name five departments in the public sector
- Forecast Total UK Government expenditure 2024/25 =

3. What is the current rate of:

- Inflation
- Unemployment
- The Bank of England base rate
- Exchange between £1 and Euro

4. What do the following initials stand for in Economics and briefly explain what they mean?

- ECB
- HDI
- GDP

1. In 2022, the average house price in the UK was £285,000. If they fell by 9% calculate the average house price for 2023

2. What is the likely impact of a weaker pound on:

a) UK price level

b) UK national output

c) UK jobs

Economics looks at ways of solving problems.

Sometimes the issues relate to a part of the economy e.g. plastics, fuel, education, health. This is called micro economics

Sometimes the issues relate to the whole of the economy on a large scale. This is called macro – economics.

For the issues below choose 3 ways that could be used to address the issue

	Micro issue: Reduce fly-tipping
1	
2	
3	

	Macro Issue: Increase exports
1	
2	
3	