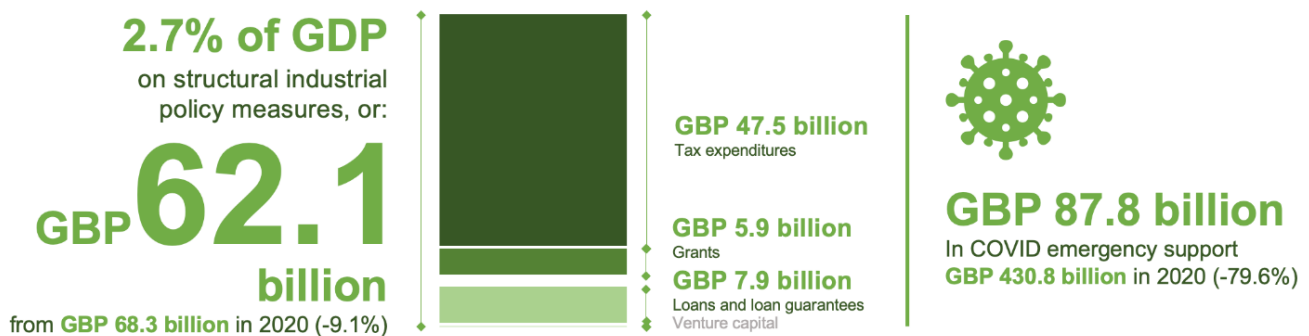


Quantifying Industrial Strategy: United Kingdom Factsheet

Highlights

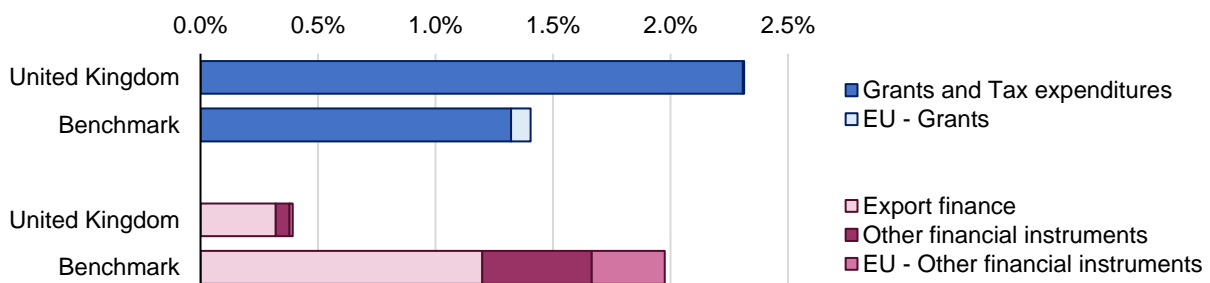
- Compared to other countries, the United Kingdom is spending more on industrial policy grants and tax expenditures (and mostly through tax expenditures) as a share of GDP and much less on financial instruments.
- British grants and tax expenditures have a strong focus on Jobs/skills policies, particularly towards reducing the national insurance contributions of the self-employed, and to a lower extent on R&D as well as SMEs and young firms, while spending is lower than the benchmark for other criteria.
- British industrial strategy does not have a strong sectoral component, and support is almost evenly spread between Energy, Mining, Information, Manufacturing and Transport.
- The United Kingdom offered significant amounts of COVID emergency support to firms in 2020, 2.5 times the average support in benchmark countries, both through grants and tax expenditures as well as financial instruments.

UK INDUSTRIAL STRATEGY EXPENDITURES - 2021 NUMBERS



The United Kingdom spends significantly more than the benchmark on grants and tax expenditures (2.3% vs 1.4% of GDP in the benchmark, **Figure 1**, of which 89% are tax expenditures vs 62% in the benchmark) and much less on financial instruments (0.4% vs 1.9% of GDP). On financial instruments, the United Kingdom is among the lowest spenders on both export support (0.3% vs 1.2% of GDP) and other financial instruments (0.1% vs 0.5% of GDP, including EU support for the benchmark). The United Kingdom offered very large amounts of COVID support to firms both in 2020 across all instrument types, although this support dropped to be in line with the benchmark in 2021.

Figure 1. British industrial policy expenditures by instrument type in 2021, % of GDP



Note: Includes EU support, EU support to the UK is going down and is driven by ongoing pre-Brexit support measures Source: OECD calculations based on the QuIS database.

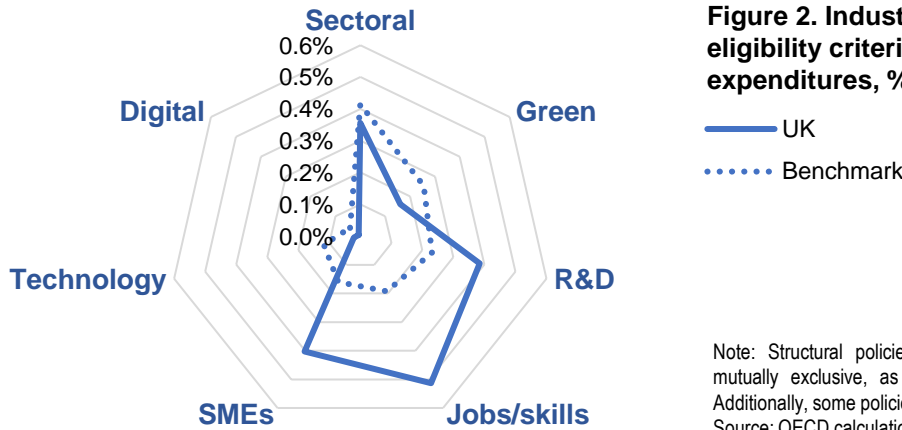


Figure 2. Industrial policy expenditures by eligibility criteria in 2021, grants and tax expenditures, % of GDP

— UK
..... Benchmark

Note: Structural policies (i.e., excluding COVID). Categories are not mutually exclusive, as policies can be tagged in several categories. Additionally, some policies do not fulfil any of these eligibility criteria. Source: OECD calculations based on the QuIS database.

Regarding grants and tax expenditures, British industrial strategy is structurally different than in other countries (**Figure 2**). First, it spends more than most countries in the benchmark (2.3% of GDP on grants and tax expenditures, vs 1.3% of GDP), the majority of which through tax expenditures. Secondly, it has a strong focus on Jobs and skills, with 0.51% of GDP in grants and tax expenditures spent on these policies compared to 0.19% for the benchmark. The same focus is observed for grants and tax expenditures focused on R&D or SMEs and young firms (0.38% and 0.40% of GDP vs 0.18% and 0.16%, respectively).

Jobs/Skills support tends to focus on the self-employed

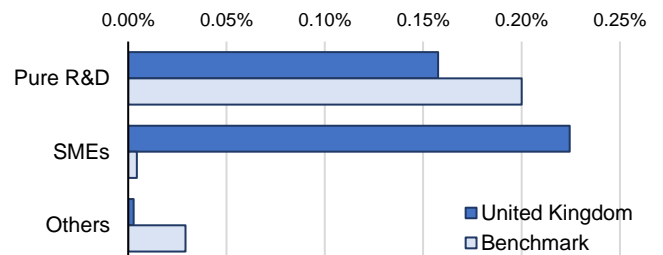
The United Kingdom's large jobs/skills expenditure is driven by three large instruments with tendency toward supporting the self-employed:

- *Reduced contributions for self-employed not attributable to reduced pensions eligibility* (0.20% of GDP): reduced rate of national insurance contribution for the self-employed.
- *Employment Allowance for SMEs* (0.10% of GDP): a reduced rate of national insurance contributions for companies under a certain size.
- *Lower Profits Limit* (0.10% of GDP): tax free allowance for profits under the limit, primarily targeted at the self-employed.

SME and R&D support driven by common instruments

The United Kingdom outspends the benchmark on R&D policies, mostly through two tax expenditures: *R&D tax relief: small and medium companies' scheme* (0.22% of GDP), and the *R&D tax relief: Expenditure Credit* (0.13% of GDP)

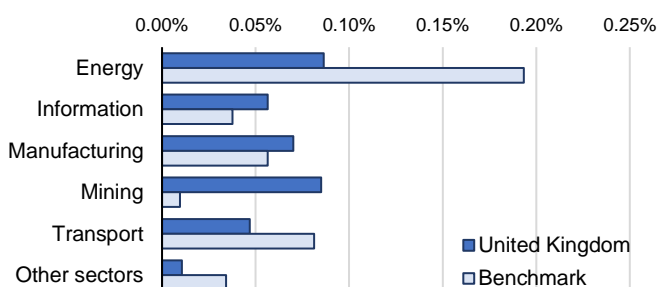
Figure 3. R&D support expenditures, co-occurrence with other criteria, % of GDP, 2021¹



Sectoral support is shared without any stand-outs

An industry-level perspective reveals that sectoral industrial policy in the United Kingdom focuses on multiple sectors (without a single sector standing out).

Figure 4. Sectoral support by sector as a percentage of total GDP - Grants and tax expenditures, 2021²



Green policy highlight: Contracts for Difference (CfD)

The CfD scheme is the United Kingdom's main policy instrument to promote and support renewable electricity generation. Eligible renewable power suppliers can apply for a CfD through auctions; successful bidders enter into a contract with the government-owned Low Carbon Contracts Company (LCCC). The LCCC pays a flat indexed rate for the electricity production of a project over a 15-year period: the difference between the strike price (reflecting the investment cost) and the average UK market price. This protects suppliers from volatile energy prices and public finances from high support costs when prices are high. In 2021 it represented 0.01% of GDP, down from 0.11% of GDP in 2020 because of the increase in energy prices. This is the main driver behind the UK dropping below the benchmark on Green support (0.11% of GDP in 2020 vs 0.01% in 2021)

1: Reading example: In the United Kingdom, the amount of R&D support also directed at SMEs was 0.22% of total GDP, whereas it represents less than 0.01% in the benchmark. Pure R&D points to R&D instruments that do not fit any other of the QuIS criteria. Source: OECD calculations based on the QuIS database.

2: Reading example: In the United Kingdom the amount grants and tax expenditures support specifically directed to the energy sector represents 0.09% of total GDP, vs 0.19% in the benchmark. Note: Includes EU support. Instruments targeting agricultural firms are excluded from the QuIS scope. Source: OECD calculations based on the QuIS database.