In Global Race to Offer Green Subsidies, U.K. Prefers Slow and Steady

Competing against sizable U.S. incentives, Britain is choosing a less expensive route, winning some fans while exasperating others.

By Eshe Nelson
Reporting from London

Oct. 31, 2023

The question of how Britain will respond to President Biden’s Inflation Reduction Act, the $369 billion landmark legislation offering deep subsidies for green investment, has followed Jeremy Hunt, Britain’s finance minister, for most of the past year.

Mr. Hunt urged patience and promised an answer when he updates the country’s budget in a few weeks. But as that speech approaches, expectations that he will offer anything as generous as the American largess have been squashed.

Britain, which is facing strict fiscal constraints, won’t have a “subsidy bowl” like the United States, Mr. Hunt said last month. Regardless of the economic cost, British officials argue that they prefer a more free-market approach but are offering some subsidies on a case-by-case basis or through grants that companies can compete for. They also say Britain, and other countries, will eventually benefit from the technological advances that U.S. subsidies support.

Not everyone is pleased with this laissez-faire attitude. Economists and trade groups have been warning that the government’s approach is too unpredictable, is too complex to navigate and leaves Britain at risk of missing out on potentially huge economic gains in the global race to cut carbon emissions.

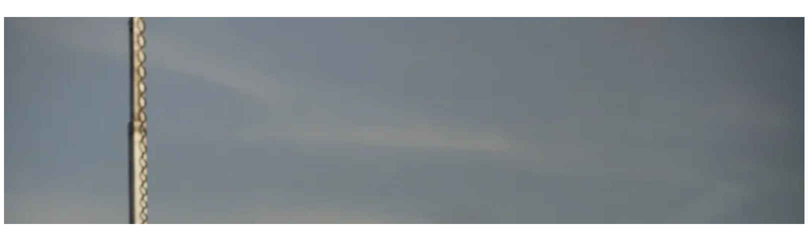
The case-by-case provision of subsidies can put the government at risk of being taken advantage of by companies, said Mariana Mazzucato, a professor in economics of innovation and public value at University College London.

Last month, the government said it would contribute 500 million pounds ($606 million) to Tata Steel’s plan to cut emissions at the giant Port Talbot plant, a few months after it offered reportedly the same amount to its parent company, Tata Group, to build an electric car battery factory in Britain.

These one-on-one agreements are “parasitic” and extract value from the public sector, Professor Mazzucato said, not “symbiotic deals” that would be “good for people, planet and profit.” They are examples of “a subsidy without a vision,” she added.

The Inflation Reduction Act’s subsidies are aimed at not just meeting the climate challenge but also creating jobs and expanding the economy by making many of the tax credits conditional on domestic production in, for example, electric vehicles or hydrogen power. But the legislation has also been praised for bringing together a large, sweeping agenda with relatively clear eligibility requirements for funding.

Outside the United States, the Inflation Reduction Act is seen as both a blessing and a curse. While some governments cheer America’s spending spree on green energy and technology, they have a nervous eye on the companies, money and jobs it might lure away from their countries. The legislation has quickly changed the global landscape for green investments as other governments, including the European Union, draw up incentives.



The exterior of the steelworks in Port Talbot, South Wales. Francesca Jones for The New York Times

Britain is finding its footing in this new race. It has become widely accepted that the country can't compete with the scale of American subsidies, which could eventually exceed $1 trillion, according to some estimates.

Britain's response to the Inflation Reduction Act will be "on an ongoing basis as is appropriate," a Treasury spokesperson said, adding that the government would "continue to monitor" the impact of the legislation.

"The U.K. has a world-leading track record of delivery on decarbonization due to early investment in green industries and a strong and attractive business environment, putting us in a good position to capitalize on the opportunities and mitigate the risks presented by I.R.A.," the spokesperson said.

Britain was the first major economy to enshrine in law its target to meet net-zero greenhouse gas emissions by 2050. And in the past few years, the government has published a series of strategy documents in support of net zero, including ones for the hydrogen sector and transportation, and built up organizations that can provide financial support for companies, including the U.K. Infrastructure Bank.

But recently, many feel that Britain has been backsliding on its green commitments. "The U.K. has lost its clear global climate leadership," the Climate Change Committee, an independent body that advises the government, said this summer. That feeling was cemented last month when Mr. Sunak announced a rollback on some net-zero targets. Ahead of an election next year, Mr. Sunak justified the changes, citing the plans' cost to consumers.

"The government has done a great job of making some exciting announcements, doing a million strategies, but that's part of the problem," said Sarah Mackintosh, the director of Cleantech for UK, a lobby group set up partly in response to the fact the Inflation Reduction Act is an incentive to shift investments to the United States. "There isn't actually a clear delivery plan."

And the recent changes, such as delaying the ban on sales of petrol and diesel cars, were "just an inconsistency that investors then need to deal with," Ms. Mackintosh said.

The Inflation Reduction Act has revived the debate about the advantages of having an industrial strategy, in which governments actively seek to shape an economy. Make UK, a trade group that represents manufacturers, said the lack of a "proper, planned, industrial strategy is the U.K.'s Achilles' heel."

It's one of the dividing lines between Britain's two largest political parties before the election set to take place next year. The opposition Labour Party has sketched out an industrial strategy, one of the things that drew corporate executives, for the first time, to the party's annual conference this month.

Some investors, however, agreed with the government's restrained approach to subsidies.

"The U.K.'s probably been quite canny, quite smart, in not promising enormous tax breaks across the whole economy," said Ian Simm, the founder of Impax Asset Management, a sustainability-focused investor with $50 billion under management. That "has the potential for inefficiency and wastage, which I think the U.S. is facing, to some degree, with the I.R.A."

Britain has shown that the doors are open to international companies that want to invest, Mr. Simm said, and the case-by-case analysis determines what might work. This is a smarter approach, he added, because Britain's debt levels are at their highest since the 1960s and the government is confronted with a cost-of-living crisis made worse by stubbornly high inflation.

Dan Wells, a partner at Foresight Group, an alternative investment firm focused on decarbonization with about $15 billion under management, also said that the case-by-case approach suited Britain and that it was better for the country to focus on a few specific areas.

“It’s pragmatic, it’s British — not too flashy,” Mr. Wells said.

Nonetheless, “it would be much more helpful if there was positive intent and language” from the government about the commitment to net-zero goals, he said.

Drax, the third-largest polluting power station in Europe, near Selby, England. Edward Crawford/Sipa USA, via Reuters

Even though the Inflation Reduction Act and another major U.S. spending plan, the CHIPS Act, are only about a year old, there is evidence that they’re succeeding in drawing investments to the United States.

This year, the Cambridge-based Pragmatic Semiconductor set up an entity in the United States, attracted by the CHIPS Act. Johnson Matthey, a British firm investing in hydrogen, said it was looking to take advantage of the Inflation Reduction Act. And Drax, a power generator, paused a multibillion-dollar carbon capture investment in Britain, and later noted in filings the opportunities that the Inflation Reduction Act has created.

The risk of departure is something Britain is particularly anxious about. This year, Mr. Hunt commissioned a review into how to attract foreign direct investment. The study followed some high-profile moves by British companies, such as the pharmaceutical giant AstraZeneca’s plan to build a plant in Ireland and the chip designer Arm’s decision to publicly list its shares in New York.

The hydrogen industry has been particularly concerned. Britain was an early mover in committing to increasing production of this alternative energy, and set ambitious targets, but has stalled, said Clare Jackson, chief executive of Hydrogen UK, an industry group. And then the United States swept in with generous grants and tax credits, prompting others, such as Canada and the European Union, to enter the race. Now, she said, some companies are focusing on the United States or de-prioritizing British projects.

This race is “ours to lose,” she added. “But if we don’t respond, if we don’t move quickly enough, we will lose it.”

Eshe Nelson is a reporter in London, where she writes about the British and European economies. More about Eshe Nelson

A version of this article appears in print on , Section B, Page 4 of the New York edition with the headline: U.K. Prefers Slow and Steady in the Green Global Race