PRODUCE AND PROSPER

A policy paper produced by the UKIP Policy Group on

Jobs, Enterprise and the Economy

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JOBS, ENTERPRISE AND THE ECONOMY

1 INTRODUCTION: THE SITUATION NOW

While the ghastly mess which Labour's credit-fuelled economic "growth" has brought about, is plain for all to see, the real underlying problems of our economy are still not grasped by the political class and virtually all economic commentators and editorialists in the national press. The oil price rise and the credit crunch have exacerbated and exposed these disasters, but they haven't created them. The policies, or rather lack of policies, are incontrovertibly the responsibility of the present Labour and previous Conservative governments.

The three looming disasters are**:**

- **The continuing huge deficit in our overseas earnings** (balance of trade account) – already at a record level (£60 billion in 2006) [see Table 1, Section 3.1] and set to get much worse as our oil and gas production shrinks. The current deficit is due, more than anything to the massive shrinkage in our manufacturing industry, which while now fully internationally competitive in most of its remaining markets, is just too small for the credit-fuelled goods appetite of the UK population.

  In round terms, each £1 billion of goods deficit corresponds to 15,000 skilled jobs exported to our competitors.

- **The crisis in our energy supplies.** Over the next 10-15 years our production of North sea oil and gas is set to dwindle to nothing and all but one of our nuclear electricity stations are set to close in this period. If nothing is put in hand very soon, Britain, for the first time ever in its long history, will be almost entirely dependent (85%+) on imported energy from some of the most unpredictable parts of the world even if we could afford to buy it. [See Table 2 page 6]

  This is a terrible threat to the whole economy, not just to electricity generation which accounts for about one-third of the energy used by the United Kingdom (75 million tonnes of oil equivalent (Mtoe)) [although only about 16% of end-user demand] but also to transport, domestic heating and lighting, industry and commerce which account for the other two-thirds (150 Mtoe), in fossil fuel form directly.

- **The continuation of mass immigration** (2 million at least over 10 years) which as low-cost labour, has reduced our normal annual productivity increase significantly below that of our main competitors (quite apart from its effect on congestion, housing, and ethnic balance, factors covered in UKIP's immigration policy paper).

With none of the main parties having any convincing strategies for dealing with these terrifying threats to our national security and well-being, the present government has loaded the productive side of the economy with a massive raft of regulations and measures which constitute a disaster in themselves**:**

- Renewables Obligations Certificates, carbon trading, landfill and other so-called "green" taxes.

- Huge subsidies to wind farms in pursuit of the chimera of renewables as a solution to Britain's looming energy crisis.

- A whole new set of anti-discrimination regulations including the July 2008 White Paper which proposes discrimination against the native male population in favour of females and ethnic minorities. The intrusive enforcement bodies have become a parasitic industry in themselves.

- Equal pay for about one million agency workers after only 12 weeks (as a response to an EU directive which cuts the qualifying period to 6 weeks).

- And linked to its mania for regulation, an expansion of the public sector and its dependent private sector contractors by about 1.5 million people, paying for which is responsible for the rise in Britain's taxes and the resultant erosion of its national competivity.

2 EXECUTIVE SUMMARY: UKIP'S SOLUTIONS

The overarching goal of our policies on jobs, the economy and enterprise is to promote a new vibrant culture of producing goods and the services related to them. Our policies will bring more skilled jobs, more innovation and the elimination of our present massive trade deficit.

The practical measures summarised below will also encourage the financial sector to pay more attention to long-term investment in the economy and reduce its excessive, and dangerous, involvement in short-term complex financial instruments whose effects it barely understands, but which have had devastating effects on the lives of many of our fellow citizens.

To give practical effect to our goal, UKIP proposes a complete change of direction in policies for**:**

- Manufacture

- Energy

- Post-16 training and education

- Business environment

There are some 30 proposals under these headings in the main body of the paper. The principal measures are**:**

2.1 EXPANSION OF MANUFACTURE BY 30% OVER 10 YEARS

At around £50 billion in constant prices, this expansion will add on average over 10 years about 0.6% per annum to GDP growth. It will generate around an additional 1 million skilled jobs – 500,000 in manufacturing itself and a similar number in suppliers of materials and services.

To obtain the investment in physical assets and people, UKIP proposes establishing up to five long-term programmes (LTPs). These programmes, to be carried out by the private sector, will give confidence to *existing* firms and their banks to invest in the machinery and people necessary to achieve our expansion goals. The programmes will also encourage *new* firms to be set up to supply many of the products which cannot at present be sourced in the UK.

The 122,000 small and medium-sized enterprises (SMEs) in manufacture

will be directly assisted by the establishment of a national network of combined design, prototyping, development and marketing " Production Enterprise Centres(PECs)" which would partner SMEs in their endeavours.to enter domestic and export markets from which they are currently excluded or barely represented in .

The new centres, though linked, would each be focussed on a particular industry, permanently staffed with professional marketing managers and design engineers. Over time they would become unique repositories of production know-how and market knowledge and the source of a trained cadre of technically-qualified business leaders for SMEs which the UK has in large measure always lacked.

The PECs will receive most of the funding currently provided to SMEs by the Regional Development Agencies which will be wound down. The PECs will provide the best source of expert information about their industry for potential investors, including the banks, who will be invited to participate in them.

The five LTPs are**:**

2.1.1 An enhanced defence equipment programme

with an additional £4 billion per annum on top of the present budgeted £8 billion per annum to run for 10 years.

2.1.2 A 25 year programme of building nuclear power stations

to provide Britain with about 60% (60 GW) of its future peak load electricity demand under its ownership and control. This would cost on average around £3.5 billion per annum over the life of the programme. This programme needs to start within 2 years (2010) if Britain is not to suffer electricity blackouts as 7 of the 8 remaining nuclears and 9 of our major coal stations are phased out under an EU environmental directive by 2023.

2.1.3 A comprehensive programme of flood protection and coastal defence construction

costing around £30 Bn over 10 years, or £3 Bn per annum, of which about 25% would represent manufactures of highly exportable pumps valves and control equipment.

2.1.4 A programme for *integrated* road and rail freight links

costing around £30 Bn over 10 years, of which about one third would represent rolling stock and signalling equipment manufactured in Britian.

2.1.5 A public sector building programme

with a particular emphasis on modern off-site manufacture of major components.

Each of the LTPs are designed to relate to other UKIP policies – in defence, energy and the environment, the justice system, education and training, and immigration.

Besides their inherent value to Britain's security and well-being, the LTPs will be structured so that new and existing British manufacturing firms would be enabled to obtain at least 85% of the systems and components supplied, as a major contribution towards reaching the £50 Bn per annum expansion goal.

Those companies identified as major contractors would be expected to contribute to the training and new company formation objectives which will be needed to achieve the overall manufacturing expansion goals.

The central point is that in implementing desirable public policies we can also ensure that the economy, jobs and enterprise can all benefit if, unlike the government's private finance initiative (PFI), we structure the programmes correctly.

2.2 NUCLEAR POWER EXPANSION

The looming crisis in Britain's energy supplies is so dire that UKIP believes that environmental policies must take second place to the requirement to reduce our present 90+% dependence on hydrocarbon fuels ultimately to a figure of around 25% after North Sea oil and gas supplies are exhausted during the 2020s. If deep mined indigenous coal is not used, the bulk of the 25% will have to be imported at a cost of around £30 billion[1].

2.2.1 Electricity production accounts for one-third of total primary UK energy consumption

so that even if *all* present electricity were non-hydrocarbon, that would still leave around 65% of total UK energy hydrocarbon based.

To achieve a serious reduction in the 65%, there has to be a major increase in electricity production and usage, irrespective of the means of generation.

2.2.2 For this reason UKIP proposes two fundamental measures:

(a) Building over 25 years to 2033 around 17 nuclear stations[2] with a combined output of about 60 GW (or 60% of possible UK peak load demand in 2033).

(b) A major shift to electricity usage in surface transport, which accounts for about 20% of all current fossil fuel usage.

Measure (a) is the *only* means by which the future UK electricity base load demand can be met. Measure (b) is the only serious candidate for the urgently needed switch from hydrocarbon dependency.

2.2.3 The shift to electric transportation will give

a major opportunity to re-establish a British owned and controlled vehicle manufacturing industry.

2.2.4 UK CO_2 emissions

[1] At an oil price of $150 per barrel, and 1.9$ **:** £1.
[2] The stations would need between 2 and 3 reactors each.

will be massively reduced (by about 25%) by the programme of nuclear generation on the scale proposed. A 50% switch to electric vehicles would more than halve total emissions in towns.

As an emergency measure, to avoid the looming energy disaster, UKIP will not close the 9 coal power stations due to be shut in 2015 under EU environmental targets until nuclear stations are ready to take their place. UKIP will oppose the British government paying any fines which may be imposed by the EU.

2.3 POST-18 EDUCATION & TRAINING FOR JOBS

2.3.1 To improve the responsiveness of our education and training systems

to the needs of our businesses AND to save some billions of pounds on local and central government bureaucracies, UKIP will *denationalise* the universities and further education colleges by replacing the present complex systems of grants by the issue of vouchers to every citizen at the age of 18.

2.3.2 The vouchers

will be paid by the student to the colleges to be redeemed by the Treasury at one of four levels, dependent on the higher or further education courses the individual is accepted on. Individuals could use the vouchers at any time in their adult life.

2.3.3 The universities and FE colleges

would henceforth function as independent charities, responsible for their curricula and performance only to their councils and students. Local industry employers would have a statutory right to seats on the councils.

2.4 MEASURES TO REDUCE BUSINESS TAXES AND REGULATION

2.4.1 Employers' national insurance taxes will be abolished,

the cost recouped from the increase in the corporation tax yield at a temporary reduced rate of 15% for manufacturing and farming businesses, and a standard rate of 28% for all other businesses.

2.4.2 UKIP will amend Labour's anti-discrimination legislation,

replacing much of it with a general duty on employers and employees alike to be fair and reasonable and reducing the scope of tribunals to interfere in the conduct of private and public organisations.

2.4.3 UKIP will abolish all "renewables" taxes and subsidies,

including the Renewable Obligations Certificates, CO_2 trading and the special EU instigated landfill taxes.

2.4.4 To bring Britain into line with our major competitors, UKIP will amend the Takeover Code to prevent foreign interests from gaining control of British companies designated as "strategic". It will also charge foreign-registered vehicles for the use of Britain's motorways and designated trunk roads.

Taken together, these measures will swing the economy away from the cheap credit, import fuelled boom of the Brown years towards a more producer-based economy able to fully exploit our scientific and engineering base and the entrepreneurial spirit of our people, and, in the world of huge overseas wealth funds, provide our strategic businesses with proper defences against foreign takeovers.

3 THE TRADE DEFICIT

3.1 THE PRESENT AND PROSPECTIVE SITUATION

The Labour government, with no discernible opposition from the Conservatives or Liberal Democrats, has presided over an enormous ballooning of the trade deficit from zero in 1997 to £44 billion in 2005 and £60 billion in 2006, equivalent to *twice* the net services earnings, and one and a half times net investment income.

While there has been a lot of loose talk (not so much now) about how the country "depends" on financial services, Table 1 below and Appendix 1, Table 1 show that these were only around 7% of export credits in 2005 compared with 65% for goods.

Commentators have confused income and debits from foreign investment with income and debits from trade in services. As can be seen from 1995 to 2005 the net positive income from foreign investment has *accrued to industrial companies*, not to financial ones. Clearly if the UK industrial base continues to be eroded even that favourable position will disappear.

Table 1: UK earnings and investment income (current account) 1995 and 2005 (Appendix 1)

	Credits £ Bn		**Debits £ Bn**		**Balances £ Bn**	
Income Category	**1995**	**2005**	**1995**	**2005**	**1995**	**2005**
A: Goods earnings	135	211*	146	278	-11	-67
B: Services earnings	42	111**	35	88	7	23
A + B: Total Trade	**177**	**322**	**181**	**366**	**-4**	**-44*****
C: Net income from investments	84	186	76	156	8	30****
D: Transfers	3	16	8	28	-5	-12
Net Income: A + B + C + D	**264**	**524**	**265**	**550**	**-1**	**-26**

*	of which oil £32 Bn, pharmaceuticals £29 Bn (Appendix 1, Table 1)
**	of which financial services £23 Bn, technical consultancy £10 Bn (Appendix 1, Table 1)
***	-£60 Bn in 2006
****	industrial companies: £45 Bn, financial institutions: (-£15 Bn) (Appendix 1, Table 1)

Accompanying this balance of trade disaster, the expansion of consumer and mortgage credit has also ballooned, increasing the money supply relative to our chief competitors (Ref 1), chiefly for housing and providing consumers with financial means to import on a huge scale (cars and electronic goods in particular) thus widening the trading earnings deficit still more.

3.1.1 Effect of loss of oil and gas production

If nothing else changes (and the deficit *without* the loss of oil earnings is set to get worse, not better under present policies), the loss of 60% of our oil and gas by 2017 will increase the deficit by £70 billion at a predicted oil price of $150 per barrel (Table 2), taking the trade deficit from £60 billion (2006) to a completely unsustainable £130 billion or so, or over 9% of current GDP at 1.9$ **:** £1.

Table 2: Production and Exports/Imports of Fossil Fuels 2004-2020

If no additional nuclear capacity

2004-2008 average	**Production Mtoes**	**Consumption Mtoes**	**Exports (Imports) Mtoes**	**Net import cost[3] $Bn at $80 per barrel**
Oil and Gas	207	186	21	
Coal	16	40	(24)	
Totals	**223**	**226**	**(3)**	**$1.6Bn**
2015-2020 average				**Import cost at $150 per barrel**
Oil and Gas (60% reduction)	83	186	(103)	
Coal	16	40	(24)	
Totals	**99**	**226**	**(127)**	**$133 Bn**

If the pound should depreciate significantly against the dollar over the next 10 years, the deficit will increase further still.

3.1.2 Trade deficits have to be paid for

It is fantasy to believe, as many commentators up to very recently seem to have assumed, that somehow this void will be filled by the City or that the deficits will always be painlessly

[3] Import costs have been based on a uniform price per Mtoe for each fuel.

financed by foreign loans. As with individuals, so with countries *without exception*, foreign loans (like credit cards) used to finance an earnings deficit have to be paid back either by asset sales or from future net earnings. In the meantime interest payments have to be paid on them. Floating exchange rates, "big bangs" and the like have not altered these harsh realities.

It is a similar fantasy to imagine that a country the size of Britain can depart very far from the First World trade pattern of two thirds goods and one third services[Ref 2]. Table 1, section B above, shows that Financial Services with around 1.1 million employees in many centres across the country made in 2005 a net contribution to our foreign earnings of only about twice that of our pharmaceuticals industry, which employs under 200,000 people [Ref 3].

Of course occasional deficits or surpluses do not matter much, but Britain has been living beyond its earning powers almost continuously since 1985, balancing its earnings deficits by the difference between interest on historic overseas investments and the interest paid to foreign investors or holders of government-backed paper in the UK, a difference which is steadily decreasing as the earnings deficits accumulate year by year[Ref 4].

3.2 DISTINCTION BETWEEN FOREIGN INVESTMENT AND UK ASSET SALES

While the government boasts of the attractiveness of Britain to foreign investors (and in the short term net inward flows of capital do contribute positively to the balance of payments), foreign investments *increase* UK liabilities and therefore in the longer term the outflows of cash as dividends and interest.

3.2.1 Need for clearer data on foreign capital inflows

UKIP of course welcomes genuine investment in the UK in the form of new factories and re-equipment of existing facilities. But a sharp distinction must be made between genuine investments of this kind which *increase* the UK's earning powers, and the acquisition of British companies by foreign firms or investment companies, many of which are foreign-government owned, and which merely exchange one owner for another. Unfortunately the national statistics office does not distinguish between these two types of capital inflow. [Informal estimates suggest that of late the second has dominated the former, see for example Ref 5, Ch 7, which shows that foreign direct investment in 2005, as conventionally recorded, exceeded UK direct investment abroad purely because 'Shell' was re-registered as a Dutch company for balance of payment purposes.] UKIP will press the Statistical Office to make this distinction.

3.2.2 UK Asset sales

Suffice to say that UKIP deprecates assets sales to pay for earnings deficits on two grounds**:**

(1) Every billion pounds of earnings deficit paid for in this way corresponds to around 15,000 jobs lost or not created in the exporting (chiefly manufacturing) sectors of the economy.

(2) Selling assets to pay for current living costs is a rake's progress which, as with individuals, will come to an abrupt end when all the saleable assets have been sold.

Besides the financial folly of continuing along the present path, there is a third reason for direct government action to restrict asset sales. This is the strategic requirement to be able to maintain UK control over those companies whose size means they reach into the very heart of the UK's physical security – energy supplies, military equipment, food, and medicines and medical equipment[Ref 6].

The recent report[Ref 7] that the German energy company E.ON, which owns Powergen, is considering handing over five of Powergen's power stations to its Russian rival Gazprom in return for a stake in Gazprom's Yuzhuo Russkoye gasfield, shows that a key section of UK industry has already become a mere pawn in an international power play.

3.2.3 Takeovers financed by bank lending

Some foreign as well as domestic takeovers exemplify another unwelcome trend in the financial markets**:** that of takeovers financed largely or wholly by bank lending.

Most takeovers, with some exceptions, destroy, not increase value[Ref 8], because egged on by the fee-hungry mergers and acquisitions (M & A) departments of the banks themselves, predators bid up the share price of the target company to levels which managers of the funds holding the shares, who rarely have any long-term knowledge or interest in the target company, will accept. Two or three years after a successful bid, the predator companies almost invariably find they have overpaid, and with huge borrowings to pay for, attempt to recoup their expenditure by sacking staff, closing facilities and transferring brands to other parts of their group. The staff of BAA, owner of Britain's main 'gateway' airports, are only the latest and most visible victims of this lend-to-buy frenzy.

Such developments should prove to those who hitherto have maintained the nonsense that ownership of business assets doesn't matter, that it does matter enormously. UKIP has proposals (below) for safeguarding ownership and promoting the value of British companies.

3.3 REASONS FOR EXPANDING MANUFACTURE

There are four main reasons why expanding manufacturing industry is of vital importance to the United Kingdom:

(1) Table 3 just below shows that industry, of which manufacturing is the principal part, has the highest labour productivity of the three sectors and it has by far the highest exports per person employed.

(2) Exports pay for imports. Any deficit in the trade account has to be made good by a combination of net investment income, sales of UK assets, and borrowing from other countries and organisations.

Net investment income depends ultimately on net foreign assets, which have steadily fallen since 1985[Ref 4]. Continued borrowing from other nations is a rake's progress as it is for individuals – the price (i.e. interest) rising with the size of the borrowings.

(3) Real (i.e. non-inflationary) national growth per person depends directly on labour productivity. Table 3 shows that industry has productivity 50% above that of private services and 75% above public services. This is why the scale of our proposed expansion of manufacturing would add 0.6% to UK economic growth.

Table 3: Value added and Exports per head 1994 and 2005

Sector of Economy	Employed in millions		GVA (Gross Value Added) £ Bn		GVA per person £	
	1994	**2005**	**1994**	**2005**	**1994**	**2005**
Industry	5.7	5.0	201	275	35,300	55,000
Private Services	14.2	16.6	292	594	20,600	36,000
Public Services	5.8	6.9	111	218	19,100	31,500
Totals/Averages	**25.7**	**28.5**	**604**	**1,087**	**23,500**	**38,140**
Sector of Economy	**Exports £ Bn**		**Exports per employee £**		**Labour productivity as GVA per employee relative to economy average**	
	1994	**2005**	**1994**	**2005**	**1994**	**2005**
Industry	135	211	23,700	42,200	1.50	1.44
Private Services	43	111	3,030	6,690	0.87	0.94
Public Services	1	3	-	-	0.81	0.82
Totals/Averages	**179**	**324**	**6,965**	**11,370**	**1.00**	**1.00**

(4) Making things, along with the attendant research and design accounts for the great majority of our investment in trained manpower, and that of our principal competitors. Without industry and particularly manufacturing, there will be little point in our national investment in science and technology beyond the regulatory and medical functions[Ref 9].

Moreover there is a moral dimension to reversing the shrinkage of British manufacture. Up and down the country people bemoan the perceived loss of British manufacture and in the regions principally affected by de-industrialization there is an understandable sense of demoralisation and resignation. UKIP's policy will contribute hugely to reversing this feeling.

4 THE ENERGY CRISIS

Not providing a convincing plan for the nation's energy supplies is, with its failure to institute effective immigration controls, one of the two biggest derelictions of duty by the Labour government. Its attention captured by strident environmental lobbyists, the government's recent 100+ page Energy White Paper[Ref 10] contains no mention of the future cost of imported gas and oil and how it could be paid for. The Energy Act (2003) makes no reference to nuclear power provision at all.

4.1 ECONOMIC EFFECT OF LOSS OF NORTH SEA OIL AND GAS PRODUCTION

The *loss* over the next 10 years of at least 60%[4] of our North Sea oil and gas production (equivalent to 55% of total present day energy requirements) will be followed over another 5 or 6 years by effective exhaustion of the North Sea fields, representing a further loss of 40% making 92% of present day energy requirements. The effect on our import bill depends on the assumed values for the price per barrel and the £**:**$ exchange rate**:** Table 2 above, shows that at $150 per barrel of oil, the bill would be a gigantic $133 billion (£70 billion at 1.9$ **:** £1).

To put this in recent historical context, in 1974 just after the first oil shock, Britain had a traded goods deficit[(Ref 11)] almost entirely accounted for by imported oil (95 million tonnes) which provided around half our fossil fuel needs, the other half being provided by home produced coal (72 million tonnes) and gas (33 millions of tonnes of oil equivalent (Mtoe)). In 2006, with total UK energy usage about 10% greater than in 1974, we had a huge trading earnings deficit of around £60 billion which *includes* UK production of oil and gas, valued (then) at around £50 Bn (£85 billion at 2008 oil prices).

Without a crash nuclear power station construction programme,the predicted loss of 60% of oil and gas production by 2017, will lead by the 2020s to an unsustainable trading deficit and almost certainly electricity blackouts and energy rationing.

4.2 NEED TO GREATLY EXPAND NUCLEAR ELECTRICITY GENERATION

Unless the existing nuclear power stations are at least replaced (and all but one of the 9 are due to be closed by 2023), Britain will be faced with importing virtually *ALL* of its energy requirements, putting us not only at the mercy of price rises in an energy-hungry world, but also at the mercy of governments in the most unstable parts of the world – Latin America, the Middle East and Russia. Indeed, because present electricity production represents only 16% of total UK energy end-user consumption, new nuclear capacity will need to be much greater than current capacity (Appendix 2, Table 1).

Even if steps are put in hand right now to build a new generation of nuclear electricity stations, the effect of the run down of North Sea oil and gas will be increasingly felt from next year as another massive drain on the trade-balance. For those who still cling to the idea that somehow Britain can avoid building a new generation of nuclear power stations by building huge numbers of windmills and solar panels, or sowing fields for biofuels, let them confront the following facts.

4.2.1 Energy intensity

The starting point in the decisions about energy conversion technology should be "energy intensity", how much energy per unit area flows to the user. Table 4 gives some typical figures**:**

[4] This is a conservative estimate of rundown: the government's own estimates envisage complete extinction by 2020.

Table 4: Typical Energy Intensities

	Type of Energy	Watts per square metre
1	Sun's rays at North European surface averaged over 4 middle hours of the day	200
2	Wind passing through blades of a windmill at 10 m/sec	600
3	120 HP engine in medium-sized saloon car	400,000
4	Steam passing through blades of a steam turbine in electricity power station	200 Million

The gigantic differences between (2) and (4) show why windmills have to be so tall (100 m say) and wind-farms occupy so much land to generate the same output as two steam turbines in a power station delivering 1500 MW. There is no magic technology waiting to be discovered to overcome the laws of nature which determine the differences between windmills and steam turbines.

4.2.2 Huge areas needed for Solar, Wind & Bio (SWB)

Likewise, comparing (1) and (3) in Table 4 shows why an enormous solar panel area is needed to provide power on an industrial scale, all the more when allowance is made for the fact that in our latitudes, daylight lasts only for 8 hours in winter time and the conversion efficiency of the sun's rays to electricity is only about 10%. In fact you would need panels the size of the Jodrell Bank radio-telescope (area 4,500 m^2) to provide only four houses with the power to match the now standard installed wiring capacity (22 kW).

The very low solar densities at the earth's surface also explain why the car in Table 4 would require so much land to provide it with bio-fuel, even supposing the highly developed gasoline engines could be adapted without loss of fuel efficiency[5]. But as shown below in 'Measures' there is within our grasp a practical means of meeting at least a third (more in time) of our fossil fuel needs for transport without any CO_2 emissions at all. Those fossil fuel needs for which Britain has a long-term indigenous supply, principally coal, can benefit from clean-up and combined heat and power technologies to increase their attractiveness to the electricity generators, without however reducing their CO_2 emissions.

4.2.3 Where SWB can help

While solar, wind and biofuel are thus completely impracticable for the main energy requirements of modern nations with population densities like Britain's (650 per square mile – England alone is 1,050), there *are* situations where they may be justified – even optimum. These are basically remote districts with locally small population densities where the expense and unsightliness of running power lines or oil distribution networks outweighs the generation cost disadvantages of these systems. Another area is low level lighting or communication systems requiring only low voltages (as seen on motorways in France) and where again because of the low population densities, savings on cabling can consequently be made.

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[5] e.g. whole of the UK sugar beet production, plus all wheat exports, plus all set-aside land, would support about 4% of our vehicles (i.e. 1.6 million out of 40 million predicted for 2013) (Ref 12).

5 ECONOMIC EFFECTS OF IMMIGRATION

As if the impending loss of our oil and gas production, and the growing earnings deficit (itself exacerbated by the oil/gas loss) were not enough, the present Labour government has chosen to permit around 2,000,000 mainly unskilled and non-English-speaking immigrants to enter the country to work mainly in the low added value sectors of the economy such as bars and restaurants and the retail and wholesale trades. This immense and completely unprecedented addition to the population has occurred while there are nearly 3.5 million people of working age[6] claiming either job-seekers' allowance or long-term sickness benefit. The latter category at 2.5 million has grown over 25 years from about 700,000 in 1980, while the health of the population has greatly improved and the number of people formally unemployed has thankfully reduced from its peak of 3 million in 1983. Taken together however these figures strongly suggest that the jobless numbers haven't changed much in 25 years, merely being reclassified into two groups as "available" or "unavailable" for work.

5.1 REDUCTION IN AVERAGE PRODUCTIVITY IN THE ECONOMY

Most people in work and paying taxes deeply resent the spectacle[(Ref 13)] of able-bodied people lounging around on benefits while, as evidenced by the absorption of 2 million foreigners into the jobs market, jobs are there for the taking. Moreover, as shown in a recent paper, immigration over the last 5 years at about 300,000 per annum has *lowered* UK productivity by around 0.4-0.5% per annum, and also retarded innovation, as low-paid labour always will do (Ref. 14).

5.2 NEED FOR MORE BRITISH CITIZENS IN JOBS

UKIP's taxes and Workfare policies are designed to change the benefits dependency culture by reversing three pernicious concepts**:**

(a) benefits are to be had irrespective of what someone has contributed or is doing;

(b) that jobs which can be physically performed by someone can be turned down while benefit is retained.

(c) that benefit should be paid to single people when there are jobs available in other parts of the country.

At the same time UKIP's policy of restricting immigration to strictly limited categories principally carers and short-term seasonal farming jobs for which there is established need, will ensure that wages will rise in the low-paid sectors and there will thus be better-paid jobs for those displaced from the benefits register.

It is demoralising and in fact a disaster for the goal of a high productivity economy if the importation of low-paid labour is allowed to persist.

6 UKIP'S SOLUTIONS: A COMPLETE CHANGE OF DIRECTION

UKIP believes that only a complete change of direction in economic and social welfare policy will enable the United Kingdom – free of the entanglement with the European Union – to avert the

[6] 16-64 male, 16-59 female.

looming catastrophe of an unsustainable earnings deficit with all that it will bring – a crime-ridden shortage and regulation dominated society, the central zone of its capital city dominated by foreigners and foreign money, its depreciated currency eventually collapsed into the Euro system, removing the last vestige of a sovereign state.

UKIP believes that the single most important, indeed over-arching policy should be to arrest and reverse the dramatic shrinkage of manufacturing over the last 10 years of Labour government as the main means of securing our economic future with all that implies.

There is time, just, to achieve this change of direction as the UK's oil and gas production declines, if all ranks of our society, including banks, universities and schools, as well as the government itself, see this as the top national priority informing all their policies.

6.1 MEASURES TO EXPAND MANUFACTURING, SECURE OUR ENERGY SUPPLIES, AND PROVIDE MUCH NEEDED NEW INFRASTRUCTURE

These fall into four categories**:**

(A) National goals for increasing the production of goods and associated jobs.

(B) Projects to expand the domestic markets for manufacturing.

(C) Supply-side changes to facilitate achievement of the goals.

(D) Changes to the regulatory and tax environments to help all businesses.

While UKIP believes that market solutions are generally best, it recognises as its opponents manifestly do not, that certain long-term projects are sufficiently important in their scope as to require the national government to design the framework of stable objectives and to facilitate the supply-side changes in education and training to achieve them.

Our proposals for the three fields of manufacturing, energy and infrastructure are *designed* to be mutually reinforcing.

UKIP will face-down the expected chorus of disapproval from the financial press by referring to a long list of government programmes undertaken by our competitors such as the US space programme, the US and French defence programmes, the French "plan informatique", the German chain of Fraunhöffer Institutes, which have all created huge additional resources in the mechanical, electrical and software engineering industries.

A policy of manufacturing expansion will, on the other hand, have huge voter appeal, especially among the technically qualified UK population which probably comprises about 5 million people, when mechanical and electrical skills are included. It will also offer a more secure basis for economic growth than reliance on the overblown credit expansion we have seen in recent years.

6.2 OVERSEAS COMPARISONS: GERMANY AND IRELAND

For those defeatists who say that manufacturing decline is inevitable (even desirable!) let them contemplate the figures in the next two paragraphs for Germany and the Republic of Ireland.

In 2005 Germany (population 83 million) overtook the USA (population 300 million) as the world's largest trading nation. This has entirely come about by continued expansion in the exports of manufactured goods. Within that surge, Germany is now far and away the largest exporter of machinery, being responsible for around 25% of the world's supply – in China, India, Europe and the Americas. Germany has achieved this surge by (a) support of German manufacturing industry in all its trade negotiations, (b) by a comprehensive system of education and training, particularly at technician level, (c) an industry-supporting culture in the financial and economics media.

In just under 30 years the Republic of Ireland has increased its industrial output per capita (mainly manufacturing) from two-thirds of the 1979 UK figure to 70% more than the 2005 UK figure (£3,500). At the same time Ireland's GDP per capita has increased from about 50% of the UK's in 1979 to approximately 20% greater than the UK's ($32,500 in 2005), while its exports of goods has risen to about 30% of Britain's with a population of about 6.5% of Britain's. While Ireland is currently experiencing the effects of overblown credit expansion as in Britain, the basic facts of its achievement relative to Britain are unaffected.

7 BENEFITS OF ACHIEVING A £50 Bn p.a. (constant price) EXPANSION OF MANUFACTURE

On the conservative assumption that the combined UK oil and gas production in millions of tonnes of oil equivalent declines to *40%* of its 2006 figure by 2017 (Table 2 above) at projected oil prices of 150$ per barrel, this corresponds to a net loss of production of tradeable goods of around £70 Bn per year compared with 2006[7]. This output loss corresponds quite closely to the output of the one million workers displaced in effect from manufacturing into the public sector during 10 years of Labour government. Our manufacturing expansion policy will go a long way to rectifying this loss.

7.1 THE SEVEN MAJOR BENEFITS OF MANUFACTURING EXPANSION

Based on current export-import and sales-to-added value ratios for manufacturing, and projecting current trends in these over the next 10 years, a £50 Bn increase in manufacturing net output (at 2006 prices) would generate (all figures approximate)[Ref 15]**:**

(1) an increase in manufactured goods export sales of £110 Bn per annum (equivalent to about 60% growth over 10 years).

(2) net benefit to the balance of payments of £55 Bn

(3) an increase of domestic sales of £55 Bn per annum

(4) an increase of Gross Domestic Product of £80 Bn per annum or about 0.6% p.a. additional growth each year.

(5) at the end of 10 years will have generated 500,000 jobs in manufacture and,

(6) a further 500,000 jobs in utilities, materials supply and related services.

(7) within the 500,000 manufacturing jobs, around 50,000 additional qualified scientist and engineer (QSE) jobs and about 100,000 more skilled technician jobs or a net 5,000 and 10,000 per annum increase for 10 years.

For manufacture, with its long lead times for the design and construction of plant and equipment, 10 years is just long enough for the 30% expansion envisaged. In (8) below we indicate how the

[7] At 1.9$ to £1.

government can pump prime this expansion through five programmes which in themselves will be of lasting benefit to the country.

7.2 BASIS OF POLICIES FOR EDUCATION, TRAINING AND RESEARCH

UKIP's policy towards education and training will be focussed on ensuring that the additional numbers of QSEs and technicians needed are available (for the QSEs this is not a big requirement)[Ref 15]; for the technicians special effort will be needed in the schools because of the low take-up of available apprenticeships or equivalent training places in certain sectors of engineering and construction (see Section 9.1.1 below).

UKIP's policy towards research and design is based on the fact that R & D employment in private industry fell along with general industrial employment by about 15% over the 10 years to 2002 (and has continued to fall since).

In the same period, publicly funded R & D in higher education rose by over 50% to around 50,000 QSEs, approaching if not now exceeding the total in private manufacturing industry[8]. UKIP's policy is to reverse this trend in order that R & D directly assists the expansion of manufacturing (see (9.2) below).

8 PROGRAMMES TO EXPAND DOMESTIC MARKETS FOR MANUFACTURE

Markets have to come before production. The centre-piece of UKIP's economic strategy is therefore the establishment of a set of long-term industry programmes (LTP) which will give confidence to existing firms to invest in the machinery and people to achieve our goal of the £50 Bn expansion in manufacturing. An LTP will need to meet four criteria**:**

- Sufficient size to engage the competitive energies of major firms.
- Sufficient duration to make the training and investment worthwhile.
- Timeliness - to start work within 3 years.
- Importance to the UK economy and security over the next 20 years.

There are at least five which meet all four criteria**:**

- Defence procurement
- Nuclear power station construction and operation
- Flood and coastal defences
- New integrated road-rail freight systems
- Some public sector building programmes, such as hospitals and prisons

[8] The UK has a higher ratio of public (i.e. mainly university) to private (i.e. industry) expenditure on R & D than any of our Continental competitors.

8.1 DEFENCE PROCUREMENT

UKIP proposes a significant increase in our Defence budget from its present completely inadequate level (lower as a proportion (2.4%) of GDP than in the early 1930s)[Ref 16].

Increasing our defence expenditure to £45 Bn per annum (from the present £32 Bn) over a 5 year period, would give well-equipped Armed Forces *and* boost our manufacturing industry by up to £5 Bn per annum, even without redirecting some of the existing capital defence budget of £8 Bn towards British manufacture[Ref 17].

Over a ten-year period we could reasonably expect that overseas sales of defence and related goods would increase this output to around £15 Bn per annum (i.e. about one third of the £50 Bn p.a. goal).

Britain's leading defence equipment manufacturer, BAe systems, with sales of £12 Bn per annum is the largest in Europe and fourth in the world after the three leading US companies. BAe's close involvement with the government through the Ministry of Defence Procurement Agency's Integrated Project team approach[Ref 17] offers a clear lesson to ensure that even in a normal competitive tendering environment, the lion's share of the contracts go to firms located in Britain.

UKIP proposes that where firms share in government contracts on a 5-10 year basis they contribute proportionately to the supply-side changes needed to underpin manufacturing (Section 9). In particular, where a complete lack of UK production is identified in the second or third tier suppliers, steps will be taken by the individual first or second tier suppliers to set up appropriate firms to make up the deficiency, probably in conjunction with one or more of our proposed Leopard Centres (see 9.2).

8.2 NUCLEAR POWER GENERATION

Even if present nuclear capacity were totally replaced, it would still only represent about 8% of Britain's total energy needs and not reduce our dependence on imported fossil fuels (Appendix 2, table 1).

UKIP's policy is therefore to replace all of the existing nuclear stations and about half of the gas and coal-burning power stations with nuclear stations over a 25 year period, to provide approximately the same nuclear based electricity generation as France has now. This represents a net expansion of UK electricity capacity by about 25%, of which approximately 70% would be nuclear (Appendix 3). This corresponds to around seventeen 3,000 MW stations and a CO_2 reduction of 200 million tonnes of UK emissions, two huge prizes to go for**:** a major new indigenous energy supply and massive emissions reduction.

8.2.1 Nuclear Power: pay off in terms of jobs and manufacture

£1,500 per kW for say two series of 8 or 9 identical 3,500 MW nuclear stations, would give a programme of £90 Bn over 25 years or say £2 Bn per annum at start, rising to £8 Bn in the latter years. While much of this will be concrete, machinery plus metal fabrication would account for an average of around £1 Bn per annum of this and create in the order of 10,000 jobs. The importance of Britain's retaining control of its one third of URENCO, the Anglo-German-Dutch fuel manufacturing business, and reversing the rundown of British Nuclear Fuels Reprocessing capacity, cannot be overstated.

8.2.2 Pay off in electricity-based land transport

Electric batteries for cars and vans is a proven technology with further developments in power density and light-weighting still to come. LandRover has recently announced that it intends to manufacture battery driven versions of the Freelander and Range Rover at Solihull. Some 800 cars using lead acid batteries are already on the streets of London where they are excused the congestion charge[9]. Superior lithium batteries are almost ready to be launched. Unlike some of the other transport nostrums being touted, such as hydrogen-based fuel cells for cars, which require hydrogen first to be made in special plants by electrolysis of water or by the hydrocarbon reforming process, itself generating CO_2, and then distributed around the country, electric batteries are safe[10]. The fuel (i.e. electricity) distribution network is already in place as 240 volt 100 amp mains supply in most British homes. Moreover the demand for battery recharging will come mainly at night, nicely balancing the peak day-time demands, ideal for electricity generation.

If at the end of the 25 year programme, only a half of current car and light van mileage were driven by electric batteries, this would correspond to two-thirds of the shift from hydrocarbon fuels to electricity predicated by our nuclear-build, CO_2 reduction, programme, the other third being accounted for by increased consumption by the railway network and in the home (Appendix 2, table 2). This will go in parallel with further improvements in the fuel efficiencies of internal combustion engines, including battery-storage-gasoline hybrid types, for longer journeys.

The design and manufacture of the electric cars with an eventual market of perhaps 1 million cars per annum, if organised under the UKIP principles, can be the means to re-establish the British car industry as an international force.

8.3 FLOOD AND COASTAL DEFENCES

- This project was formulated in 2006, but the flooding of 2007 gives added timeliness. An overall programme of less than £30 Bn over 10 years is unlikely to make much impression on the problem. (The government has promised £7 Bn.)

- The main mechanical and electrical equipment costs will be in pumps, valves, pipe-lines, signalling equipment – all of which will be in huge demand all over the world, so the export demand will be very large *so long as companies can be assured of a firm base of home demand* which could be £500 million per annum under this programme.

8.4 INTEGRATED ROAD-RAIL FREIGHT SYSTEMS

- While ‘transport’ is the subject of a separate UKIP policy paper, the movement of goods, to the ports especially, is highly relevant to the policy of manufacturing expansion. UKIP sees a vital need for *integrating* new road and rail facilities in the light of their respective costs and carrying capacities. Key data are**:** six-lane motorway costs around £15-20 million per mile (M6 Toll); high-speed line £86 million per mile (Folkestone to St Pancras). With these costs it is unlikely that a high speed line can be cost-effective compared with roads, but dedicated freight lines certainly can.

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[9] The National Travel Survey for 2006 shows that nearly a quarter of all journeys were less than 2 miles, and the average commuting distance was 10 miles.

[10] Hydrogen is the most flammable and the most leak prone of all gaseous fuels.

- Compared with the old West Germany with a similar vehicle population and area, the UK is hugely under resourced in motorways (2,100 miles compared with 4,000) and railways (10,000 miles compared with 20,000) and also has the further disadvantage of a railway system which is centred on London in the South-east corner of the country.

- UKIP proposes a £30 Bn ten-year programme to selectively improve the freight moving capacity of the combined road-rail system. As with the other LTPs, this will place heavy emphasis on ensuring that the manufactured element is 85% supplied by domestic manufacturers.

8.5 PUBLIC SECTOR BUILDING PROGRAMMES

The most modern method of construction is essentially a combination of offsite manufacturing processes (making components such as walls, roofs, windows, bathrooms, kitchens) and on-site assembly accomplished rapidly. This radically reduces the exposure of the whole operation to adverse weather conditions and takes maximum advantage of the economies of manufacturing scale. Germany and the USA are the outstanding exponents of this approach. The large public sector building programmes for new prisons and hospitals would, using UKIP's defence procurement model (8.1), enhance both the speed and efficiency of the construction process as well as greatly expanding the construction components sector's ability to export. The private finance initiative (PFI) would be revised to ensure long-term value for the tax payer.

9 SUPPLY-SIDE CHANGES

UKIP's proposed supply-side changes fall under two headings**:**

- Post 18 Education and Training

- Help for Enterprise

9.1 POST-18 EDUCATION AND TRAINING: CITIZEN'S VOUCHER

Education and training are two linked areas which have had more organisational changes, more costly initiatives by this Labour government than any other area of British national life with the possible exception of health. In 2007 the government divided the previous department for Education and Skills (DfES) into two**:** the department for Children, Schools and Families, and for post-school education and training, the department for Innovation, Universities and Skills (DIUS). The conduit for funding Further Education (FE) is (still) the Learning and Skills Council (LSC), while the conduit for state University funding is (still) the Higher Education Funding Council for England (HEFCE) with similar bodies in the rest of the UK. Bothe the LSC and HEFCE obtain their funding via the DIUS.

On past form, these arrangements will create another organisational hiatus consuming vast amounts of time throughout the system and achieve no measurable result.

While employers' organisations, notably the Federation of Small Businesses (FSB), the Engineering Employers' Federation (EEF) and the Confederation of British Industry (CBI) are often quoted as complaining about the education system in general (e.g. Ref 9), when questioned closely they generally complain about faulty writing and the poor arithmetic capabilities of school leavers (and many intending graduates in the non-scientific subjects too!)

Correcting this massive basic defect is a matter for the schools, not the employers, or universities or FE colleges.

9.1.1 Skills Shortages

Besides their concerns with basic literacy and numeracy standards, employers often point to skills shortages and the lack of marketability of some university graduates. In general terms, there is clearly a need to further improve the responsiveness of the education and training systems to the jobs market(Ref 18) which will be achieved by UKIP's policies on state benefits and lifelong learning vouchers.

9.1.2 Responsiveness of UK Education & Training Systems

While shortages of graduates in particular fields appear from time to time as technology and fashions change, the evidence is that parents and universities respond rapidly and the shortage is only temporary. Thus while there was a shortage of software engineers 10 years ago, in the meantime graduate numbers have quintupled and there is now a glut. On the other hand complaints of poor or practically non-existent training in mechanical and electrical skills among others, are persistent and have themselves been the source of many changes in training course provision(Ref 18).

9.1.3 Reduction in Availability of State Benefits

UKIP's policy(Ref 17) is to provide a Workfare system for those physically capable of performing one or more tasks on a comprehensive list. It is a fact though that in the present benefits culture, created by the present government and its predecessor, many young people are not motivated to take on many of the carefully crafted work-orientated courses on offer. It is therefore a major plank in UKIP's welfare policy that state benefits will not be made available to under 18s and will only be available to those over 18 who have shown that they are prepared to work and/or train for a worthwhile job. In particular able-bodied single people will be expected to travel to areas where jobs are available, for example to districts where there is an acute shortage of horticultural seasonal labour, currently supplied by East European immigrants(Ref 19).

9.1.4 Independence of universities & FE colleges: the Citizen's Voucher

On the supply side of Education and Training, it is UKIP's view that the single most effective way of increasing responsiveness in both the Further and Higher Education sectors is to put the power of the purse into the hands of the individual student. We propose therefore to introduce a citizen's voucher for post- school education and training, which can be spent on any validated course. An annual voucher would be redeemable by the Treasury at one of four values, dependent on the course the student is accepted on to, subject to acceptable progress reports. The voucher would be available to *every* citizen over 18 and renewable for a maximum of 3 years, but valid at any time in an individual's life (over the age of 18). The total cost of the vouchers would be controlled at a sum equal to the grants paid to English universities by the Higher Education Funding Council for England (HEFCE) and by the Learning and Skills Funding Council (LSCFE) to colleges in England in the year preceding the start of the scheme (currently about £5,000 per student) with an allowance for inflation in future years. The two Councils, the Office for Fair Admissions to universities (OFFA), and the Department for Innovation, Universities and Skills would all be abolished. Similar arrangements would apply in Scotland, Wales and Northern Ireland.

The universities would thus become independent, governed by their charters and individual councils[Ref 20]. The Further Education Colleges will likewise be liberated from government control. They will need charters and councils solely responsible to their staff and students, and thus be fully able to respond to the curriculum needs of their local economies.

Following this act of liberation for the post-18s, UKIP will be well placed to denationalise the state schools in the same way, starting with vouchers for the secondary schools[Ref 21], abolishing the Qualifications and Curriculum Authority, and Ofsted along the way. Her Majesty's Inspectorate will resume its occasional inspection function as in the days before Ofsted, altogether removing a huge burden from teachers[Ref 22].

9.1.5 Independence of qualifications-awarding bodies

The basic feature of all qualifications is that they should be from chartered bodies and administered by the people from the industries chiefly concerned, completely independent of the government of the day. Thus as now the universities as chartered bodies will continue to issue degrees, but also be responsible for a single national school examination system at 16 and 18. The existing exam boards will be abolished.

UKIP proposes that the long-established teaching and qualifications-awarding institutions in other fields, the City and Guilds, the London CC Institutes, the Royal Society of Arts (RSA), the 40 or so Engineering and Science Institutions be encouraged to extend their range to cover every single occupation in the economy, so that literally everyone will obtain a certificate to practise in one or more occupations during their lifetime.

9.2 SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

This section proposes measures specifically for the small and medium-sized enterprises (SMEs), including start-ups, and in particular for manufacturing where many innovations first occur or are deployed. Section (10) below proposes measures affecting all business.

9.2.1 Innovation and SMEs

Innovation means the *conception* of a new idea, *trials* on the small-scale, *pilot marketing*, *assessment of technical and financial viability*, *pilot production* (or roll-out of a service), *sales* of product, *reinvestment in design*, further investment in marketing and production and thence *establishment* in the market. Innovation thus means both the harnessing of a wide range of expertises, and also long-term financial commitment, the totality of which is not always to be found in small companies (less than 50 employees) or even medium-sized ones (50-249 employees). Improvement means continual effort to increase efficiency, production rates and product quality. Where medicines are concerned, extensive field trials and national approvals are required, involving procedures likely to be out of reach for all but £1 Bn corporations.

Overall the SME sector is responsible for 55% of *total* employment. In manufacturing, the SMEs are responsible for 50%[Ref 23] of all employment. UKIP's policies are therefore directed at providing means by which SMEs can access those components of the innovation process which they may lack, in particular**:** on-going research and design; marketing; financial support.

9.2.2 Current government support of innovation

Over the last 20 years the Department of Trade and Industry and the Scientific Research Councils have jointly or separately launched, replaced, re-launched a plethora of schemes to provide the research and design component of innovation. The most enduring and successful scheme has been the Teaching Company Scheme (TCS) now renamed the Knowledge Transfer Partnership (KTP). All companies can participate in KTP, irrespective of size.

The regional Development Agencies also administer the European Regional Social Funds (amounting in all to about £1 Bn) and the European Regional Development Funds (£1.8 Bn). These are soon to be sharply reduced or cease altogether.

The tax system provides tax allowances for companies performing significant amounts of R & D, such that for every £1,000 spent above £10,000, £1,500 may be claimed as an allowance against taxable profits for SMEs (£1,250 for other companies). The annual cost of this allowance is approximately £1 billion[Ref 24]. Most of this allowance will have been claimed by the 2,340 manufacturing companies outside the SME definition. Very little is seen by the 122,000 SMEs.

9.2.3 Simplification of government schemes of support: Production Enterprise Centres

UKIP proposes to simplify all this complex, ever-changing, and overlapping provision, by establishing a network of permanently staffed production enterprise centres (PECs) in which the successful KTP schemes would be based along with permanent scientific and business staff. The centres would specialise to a degree, reflecting local industries, but would develop the character of a national resource for fostering improvement and enterprise. Some centres could be located in universities to take advantage of their expertise and equipment[Ref 15], but unlike the general pattern of existing university-based centres they would **explicitly engage with the complete innovation and improvement process as defined above, right through to marketing and sales.** Intellectual property would be shared between the progenitors of an idea and the Centres. Process and product improvement would be specifically within the Centres' remit.

The centres would be financed by the abolition of the present R & D allowance (with a saving of around £1 billion) and *all other schemes of DTI support* except the Knowledge Transfer Partnerships (KTP) which would be located in the centres. The money released will be provided in the form of vouchers which would be awarded to SMEs at year-end on a sliding scale related to added-value generated by an SME during the year. The vouchers would only be spent in the PE Centres in an exact parallel with our voucher schemes for Further and Higher Education. The PEC system would see a major reduction in the cost of the DTI, now running at £5.6 Bn per annum. Regional development agencies would be abolished, and some of the permanent staff redeployed to the new centres. Banks would be encouraged to locate staff in the PECs to enable them to acquire expert close-up knowledge of business needs.

9.2.4 Corporation tax reductions for SMEs

Because of manufacturing's and farming's absolutely central role in eliminating the Trade deficit (see Table 3, Section 3.3), and the extremely stiff international competition not faced in the same degree by other sectors, UKIP proposes to temporarily halve Corporation Tax at all levels for manufacturing firms and for farming.

9.2.5 Increasing SME exports

Increasing exports is a major goal of UKIP's economic policy, but as with the innovation process, scale is important for exporting. While SMEs employ 50% of manufacturing staff, their contribution to exports is disproportionately small as a result of their size and range of product and also their fears of trading in countries speaking foreign languages and using different legal systems.

UKIP proposes to include within its proposed network of Leopard centres a set of export units with the remit and budget to increase exports from SMEs. The units will include foreign language specialists (e.g. Chinese and Japanese as well as the European languages). They will ultimately be financed by commission on the sales of goods and services as with any selling agent. Set-up costs will come out of the present DTI budget. The Foreign and Commonwealth office (FCO) will see the promotion of sales of British goods and services as one of their two prime jobs[11]. Liaison between the DTI and the FCO, for example in the arrangements for foreign advertising and attendance at trade fairs, will therefore be required to be very close.

10 CHANGES TO THE BUSINESS ENVIRONMENT

UKIP proposes changes under three headings which will apply to all UK domiciled businesses, namely Regulation, Taxation and Takeovers. There are also some proposals affecting foreign businesses trading in the United Kingdom.

10.1 REDUCTION OF REGULATION

Consistent with its general policy of freeing employers from burdens which are not to do with their job of creating value and in particular do not apply to our international competitors, UKIP proposes**:**

- to amend the Race Relations Amendment Act (2000) so that it is much less intrusive into the affairs of companies and organisations, in particular, by removing the need to positively promote "diversity" in the workforce which many see as divisive. The Employment Equality (Religion or Belief) Regulations (2003) and the Employment Equality (Sexual Orientation Regulations) (2003), which each implement EC directives imposing duties on employers to positively promote social engineering policies[12], will be repealed as a natural consequence of leaving the EU. Contract compliance as practised by the Greater London Council among others will be outlawed. UKIP will oppose proposals in the 2008 "Equality" White Paper to force employers in the public sector to discriminate against the indigenous male population and to apply contract compliance to enforce such treatment on staff in private firms bidding for public sector contracts.

- The scope of claims which can be heard by Industrial Tribunals will be greatly reduced. In particular, limits on unfair dismissal and discrimination claims will be re-instated and no unfair dismissal or discrimination claims would be admitted by the Tribunals in respect of employees with less than two years continuous employment.

- UKIP proposes that the in-out sunset (IOS) principle applies to trade regulations[(Ref 25)]. Every new regulation would only come into force if accompanied by the repeal of a substantive

[11] The other being the protection of British citizens abroad.
[12] Many of the most onerous regulations derive from Britain's membership of the EU and from the Human Rights Act 1998, which UKIP is committed to repealing.

regulation then in force for the products or services cited in the proposed new regulation. This is of particular importance in the building industry.

- UKIP proposes that where the "trading while insolvent" offence does not apply, the disqualification provisions of the Companies Act 1985 be extended explicitly to those directors who recklessly endanger the viability of their companies by, for example, excessive salary and dividend payments.

10.2 REDUCTION OF BUSINESS TAXATION

This is mainly dealt with under UKIP's Taxation & Welfare policy, but the relevant business taxation changes are given here to underline the fit with our jobs and enterprise policies above. The basic principle is simplification for employers and employees alike**:**

- Employers' national insurance will be abolished and the cost, net of bureaucratic saving, to be recouped by a rise in the corporation tax yield paid at a standard rate of 30%. (This change will give the biggest conceivable boost to small companies with small profits trying to grow their businesses and employment.)

- Employees' national insurance will be abolished and the cost met from the increased yield of income tax paid at the standard rate of 31% and the higher rate of 41%.

- For the reasons noted above, Corporation Tax rate on manufacturing firms (SIC-D) and farming, fishing and forestry firms (SIC-A) will be reduced temporarily to half the standard 30%, the approximate £4 Bn per annum cost offset by an increase in VAT and taxable profits from the expanded manufacturing sector itself (Section 7.1).

10.3 ABOLITION OF "GREEN" BUSINESS TAXES

UKIP would not allow UK industry to be handicapped by participation in either the national or international carbon-trading schemes which Labour has signed us up to. UKIP would abolish the Renewables Obligations Certificates and the special subsidies[13] to renewable energy companies imposed on the electricity supply industry in pursuit of EU objectives.

Likewise UKIP would abolish the special landfill taxes on industry, reverting to VAT (or equivalent) on licensed commercial landfill operations.

10.4 REFORM OF TAXATION OF FOREIGN BUSINESSES AND INDIVIDUALS

UKIP's policy is to eliminate the special tax provisions for foreign companies and individuals which give them a privileged position in competition with British companies and people. In particular**:**

- Foreign-registered vehicles using Britain's motorways and designated trunk roads will be charged by means of a sticker to be purchased at the port of entry and displayed, like a tax disc, on their windscreens. This is the system which is employed by Switzerland, Austria and the Czech Republic.

- The so-called 90-day residence rule for the avoidance of personal taxation will be abolished, and individuals (both foreign and British) will simply be liable for UK tax on their world-

[13] All of the excessive profit derived by wind farm companies comes from these subsidies.

wide income in proportion to the number of days spent in the UK up to 180 days. Above 180 days tax will be due on the same basis as for any UK resident. In all cases the standard provisions of double taxation agreements between jurisdictions would apply.

10.5 TAKEOVERS AND PROPERTY ACQUISITION REFORM

Mergers and Acquisitions (M&A) mostly funded by prodigious borrowings from banks, have been a prolific source of City fees and bonuses, but as noted in Ref. 8, have rarely been of benefit to the UK economy. Moreover, the so-called Sovereign Wealth Funds (SWF) have huge liquid assets quite capable of buying up all the FTSE 100 companies and by 2015, according to one estimate, all the other European stock-markets as well[(Ref 6)].

These two money sources**:** prodigious, not to say *reckless* lending by UK banks; and the SWFs, who at least have built up their funds from producing things that people want, have caused managements to be fearful of being taken over and to focus exclusively on their share price[14] at the expense of organic growth. Moreover, in the British case, there is a clear risk that key industrial assets affecting our very sovereign existence will pass into foreign hands[15]. Matching this, on a local scale, there is a growing trend of incoming cash increasing the property price levels beyond the reach of the indigenous population.

For these reasons UKIP proposes the following five measures in this field**:**

10.5.1 to prevent absolutely the foreign takeover of, as distinct from investment in, British companies designated as strategic businesses. Norway shows one possible way to secure this[(Ref 26)]. France and Germany employ ‘informal’ means to obstruct foreign takeovers. The USA is considering new legislation in the field.

10.5.2 to amend the Takeover code so that as condition of approval all proposed mergers and acquisitions above £100 million are required to deposit with the Mergers and Monopolies Commission (MMC), a statement detailing how they will increase UK added value above the combined value of the original companies, and to report to the MMC their success or otherwise after four years.

10.5.3 to prohibit the transfer of brands owned by a British company to a foreign based company within the four years under the revised Takeover Code.

10.5.4 to reinstate the banking ‘corset’. The Financial Services Authority would require banks and other authorised lenders to make non-interest bearing deposits at the Bank of England when lending beyond approved limits.

10.5.5 to provide local authorities, as in Switzerland for instance, with the power to restrict property sales to people on the electoral rolls in particular districts where property sales to outsiders are deemed to either (a) change the character of the designated district, or (b) drive up property more than 20% above that in comparable districts, the restrictions being subject to approval by the population in the particular districts.

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[14] By over generous dividend and share buy-back arrangements, for instance.

[15] The insouciance of the British authorities in this matter is all of a piece with Labour’s determination to sell Britain’s stake in URENCO (see Section 8.2.1).

10.6 REFORM OF THE FINANCIAL SYSTEM

The run on the Northern Rock bank in August 2007 may be seen by many as the moment when the financial crisis, which originated in the USA (the sub-prime mortgages problem) first became visible in Britain. That said, it is essential to see that the troubles which have led to the full or partial nationalisation of five banks and one building society are almost entirely due to two things – both domestic**:**

(a) the reckless behaviour of the managements of those banks, and

(b) the encouragement given by the Labour government under Gordon Brown to extend lending in order to produce "growth" which he could boast about[16].

Irrespective of the lending behaviour of Fanny Mae and Freddie Mac in the USA, the British banks' lending frenzy would have come to an end before the autumn of 2008 as many consumers ran out of money to reply their debts, if the banks in their turn had not increased their borrowing from each-other and from foreign credit institutions.

Many British people, particularly the older generation brought up with a more prudent borrowing ethic, were aware of the aggressive lending, but not the banks' reckless short-term borrowing in the money markets and their negligent purchase of assets both of which it is now clear broke every rule of responsible banking . It is apparent that their actions had far more to do with vanity and personal greed fuelled by a monstrous bonus culture than ever they had to do with " benefit to the members of the companies" nor did any of their directors exercise "reasonable care, skill and **diligence''** both of which injunctions they are called to pay heed to under the 2006 Companies Act which came into legal force on the 1st. October 2007.

UKIP has little confidence that either the present Labour government or the Conservative opposition will put in place sufficiently stringent measures to prevent such abuses ever happening again not just in the banks but in public companies generally. Accordingly the measures listed below are aimed at repairing the British financial system so that British people and foreigners investing in British enterprises can have confidence that their assets will not be hazarded by the banks engaging in what is essentially gambling, e.g. trades in derivatives, currency transactions divorced from genuine investment and providing loans for these purposes. Short selling will be outlawed permanently. We do not expect to hear any more talk of the City or financial services being the "engine room" of the British economy.

10.6.1 Restore the Bank of England's responsibility for overseeing the banking system

Labour's obsession with governing through "authorities" and "commissions" has led to the inexperienced Financial Services Authority being given this duty. This has been a major contributor to the crisis in Britain, as has the plethora of regulatory bodies divorced from the Federal (central) bank in the USA. Likewise UKIP is opposed to British participation in any EU-wide supervisory authority as mooted in the recent Turner report which would inevitably diminish the Bank of England's power and authority.

[16] The Clinton administration in its final years (1998-2000) similarly sowed the seeds of the USA's sub-prime disaster by the heavy encouragement to US banks to lend to mainly ethnic minorities, who could not afford to repay.

10.6.2 The Bank of England with its newly restored authority, will be expected to require the banks' capital to loan book ratio to be increased very substantially from the existing 4% to around 12%.

10.6.3 The Bank of England will also enforce a rigid division between retail (High Street) banks and investment banks, where all the trouble has occurred. Retail banks will be allowed only to take deposits from private and commercial customers and advance loans to that same group up to the limit of their deposits[17]. These deposits will be guaranteed by the Bank of England. Inv estment banks will be free to raise money by bonds and shares, but will not be allowed to be deposit-takers.

10.6.4 **T**he Financial Services Authority will have two primary duties (i) protecting consumers in their dealings with the financial system generally**:** banks, insurance companies, pension funds and investment and unit trust providers. Fees charged will be a prime concern, particularly in the light of the more than 10,000 quoted trust funds, many fishing in the same pool of a few hundred companies.

10.6.5 The financial system has come to rely on computer-based trading where buy/sell instructions are replicated in micro-seconds all round the world. This reinforces the "herd" effect, causing major share price changes on the strength often of rumours and has been in itself a major source of instability.

This tendency can be greatly reduced if the selling of a security or commodity, which is not actually owned by the seller, is outlawed. This would automatically make short-selling unprofitable.

10.7 CHANGES TO THE REWARD SYSTEMS IN BOTH THE PRIVATE AND PUBLIC SECTORS

Major public companies typically devote, in their annual reports, more pages to the directors' rewards systems than to any other subject – even including the accounts themselves. These complex rewards systems – made complex by expensive "compensation consultants" – will be abolished for all companies whose directors are protected from personal liability and which rely on publicly subscribed share capital. There is also a growing culture of bonuses and extravagant salaries for senior staff in the public sector - local government, NHS management, quangos, and other government agencies. UKIP's policy is to replace this culture with a system which is clearly subject to the will of Parliament representing the taxpayer who pays for the public sector.

10.7.1 The complex systems of bonuses and share options for directors and other senior employees will no longer be allowed under the Companies Act or treated as a legitimate expense under Company taxation provisions.

Instead public companies will be required to operate "profit sharing schemes" which will be paid to all staff of more than a year's continuous service at a common percentage of salary for all staff. This percentage will be decided by the directors and paid out of taxed income, exactly as dividends to shareholders are. Where their shares are regularly traded the company will be encouraged to pay the profit-sharing as shares, additional to those held by

[17] E.g. pretty much as they did before 1986's "big bang" explosion in lending engineered by Nigel Lawson, the Tory chancellor of the day.

the body of existing shareholders (which as the years go by will thus include a substantial holding by the employees themselves).

10.7.2 Senior appointments in the public sector including chief executives and heads of departments will be remunerated by reference to an appropriate grade in the home Civil Service. Bonuses will be abolished.

10.7.3 Expenses paid to, or on behalf of individual employees (including directors), above a certain amount each year, will be required to be identified in the annual report, and in any event subject to an annual limit. The costs of personal drivers, office fittings and private dining rooms above an annual limit will also be required to be identified in the annual report.

10.8 CHANGES TO THE RESPONSIBILITIES OF DIRECTORS UNDER THE 2006 COMPANIES ACT

This Act updates the 1985 Act in a number of important respects, the most important from the point of view of this section being to clarify and extend the duties which directors must carry out, in place of relying on the rather vague duty of care in Common Law.

The key provisions which UKIP would like particularly to see enforced are:

(i) Directors must exercise all reasonable care, skill, and diligence in carrying out their duties

(ii) Their primary duty is to promote success for the **benefit** of all its members, which means its shareholders and employees.

While the Act does not define what it means by "success" the Attorney -General at the time of the passage of the Bill through Parliament (Lord Goldsmith) opined that it meant "long-term increase in value of the company. UKIP would endorse that definition.

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Appendix 1: The UK Trading Economy

Table 1: UK earnings and investment income (current account) 1995 and 2005(Ref 5)

	Credits £ Bn		Debits £ Bn		Balances £ Bn	
Income Category	**1995**	**2005**	**1995**	**2005**	**1995**	**2005**
A: Goods earnings	**135**	**211**	**146**	**278**	**-11**	**-67**
(of which: oil	9	32	4	22	5	10
pharmaceuticals)	5	29	3	21	2	8
B: Services earnings	**42**	**111**	**35**	**88**	**7**	**23**
(of which: transport & tourism	12	35	15	53	-3	-18
financial services	6	23	1	5	5	18
technical consultancy)	4	10	2	4	2	6
A + B: Total Trade	**177**	**322**	**181**	**366**	**-4**	**-44***
C: Net income from investments	**84**	**186**	**76**	**156**	**8**	**30**
(of which: direct investments by companies[18]	21	80	11	35	10	45
by financial institutions)[19]	63	106	65	121	-2	-15
D: Transfers	**3**	**16**	**8**	**28**	**-5**	**-12**
(of which: Government, mainly EU)	3	4	8	13	-5	-9
Net Income: A + B + C + D	**177**	**524**	**181**	**550**	**-1**	**-26**

* -£60 Bn in 2006

[18] E.g. BP, Rolls Royce (credits); Toyota, Honda (debits)
[19] E.g. Unit trusts; interest on bank deposits and loans.

Appendix 2: The UK Energy Economy

This sets out for the purposes of the Jobs, Enterprise and Economy paper the current UK demand for energy, how it is used and the CO_2 emissions generated. A more complete set of data is given in Ref. 27. The following table uses millions of tonnes of oil equivalent (Mtoe)[20] for all fuels and for electrical outputs to enable easy comparison with fuel inputs to be made.

Table 1: Energy Supply and CO_2 emissions in the UK economy averaged over 2000-2004

Sources	**Millions of tonnes of oil equivalent (Mtoe)**	**CO_2 emissions in millions of tonnes[21]**
Fossil **:**		
Coal	40	136
Oil	79	245
Gas	107	294
Subtotal all Fossil sources	**226** 92%	**675**
Nuclear	18.5 7.5%	0
Others (chiefly hydro)	1.5	0
Total of all sources	**246*** 100%	**675**

* **Of which:**

A for Electricity Generation**:** 80 Mtoes (33%)

B for Distribution and Conversion to end-use Fuels**:** 166 Mtoes (67%)
(e.g. petrol, derv, gas)

[20] The DTI uses the established million tonnes of thermally equivalent oil (Mtoe) for all fuel inputs to the system whether actually oil or not. Thus nuclear fuel, which is used exclusively for electricity production, is rated at the amount of oil needed to produce a given amount of electricity (usually quoted in giga Watt hours (GWhr)) at the average thermal efficiency of our fossil fuel stations (around 40%).

[21] Various estimates abound. World Bank gives 664 million in 2000 on a declining trend. Blue Book gives 736 million in 2004 for all emissions. The figures above are obtained from the molecular multipliers for each fuel.

Table 2: End-Uses of UK Energy 2004

End User[22]	**A: Fossil Fuels Mtoe**	**B: Electricity Mtoe (GWh 000's)**	**Total Mtoe (% of total for each user**
Industry	41	11 (132)	52 (28%)
Transport of which**:**	54	1 (12)	55 (29%)
Commercial (road)	17		
Private (road)	26		
Aviation	11		
Rail	1		
Housing	39	10 (120)	49 (26%)
General Business plus Public Sector	24	8 (96)	32 (17%)
Total end user	**158** (84%)	**30 (360)** 16%)	**188** (100%)
Conversion and Distribution Losses	8	50	58
Total Energy used	**166** (67%)	80 (33%)	**246** (100%)

Notes

Over 95% of the losses in electricity generation and distribution are *not* due to operational inefficiencies, but to the thermodynamic properties of the steam cycle.

Electricity generated is 16% only of the total energy fed to the UK end-user.

[22] Some interpolation has been necessary to establish the split of electricity and direct fossil fuel between various end-user categories, but the main figures are unlikely to be very far out, though subject to revision at source.

Table 3: Production and Exports/Imports of Fossil Fuels 2004-2020

If no additional nuclear capacity

2004-2008 average	**Production Mtoes**	**Consumption Mtoes**	**Exports (Imports) Mtoes**	**Net import cost[23] $Bn at $80 per barrel**
Oil and Gas	207	186	21	
Coal	16	40	(24)	
Totals	**223**	**226**	**(3)**	**1.6**
2015-2020 average				**Import cost at $150 per barrel**
Oil and Gas (60% reduction)	83	186	(103)	
Coal	16	40	(24)	
Totals	**99**	**226**	**(127)**	**$133 Bn**

Notes

1 If no nuclear capacity *additional* to the present (10 GW) in the period 2015-2020 (say 10 years ahead 2017) and if no increase in that total energy demand, net imports will be $\frac{127}{246}$ = 52% of total UK demand.

[If 4 nuclear stations are closed as planned by 2017, imports will rise to $\frac{135}{246}$ = 55%]

2 By 2027 with complete exhaustion of UK oil and gas supplies, then if no new nuclear stations are commissioned, even at constant energy demand, only coal (16 Mtoe), 1 nuclear station (2Mtoe) and hydro (2 Mtoe) will be left as indigenous supplies, meaning that imported energy will be 92% of UK consumption.

3 At £1 = $2, the additional fossil fuel import cost by 2017 say is £75 Bn, more than doubling the 2006 trade deficit. If the oil price is higher or the pound lower, this figure will be bigger in proportion – in any event a totally insupportable amount.

[23] Import costs have been based on a uniform price per Mtoe for each fuel.

Appendix 3: International Comparisons

Table 1: International Comparisons of Electricity Generation & CO_2 emissions 2004

Country	Installed Electricity generation capacity GWatts	Electricity delivered % by fuel source			Electricity delivered per capita kWh p.a.	CO_2 emissions per capita tonnes p.a. (Ref 28)
		Nuclear	Fossil	Other (mainly hydro)		
Britain	67	22	75	3	6420	11.1
Germany	115	19	77	4	6850	9.7
France	117	74	11	15	7900	6.1
Switzerland	16	35	4	61	8380	5.7

Note

It is no accident that the countries with the highest electricity usage per person have**:**

(a) the least dependence on fossil fuels for electricity generation.

(b) the lowest CO_2 emissions per head of population.

Britain has approximately the energy profile of Germany, but without its ability to pay for our use of fossil fuels in the years ahead (see Appendix 1).

In 2023 Britain will have, on present form, approximately the same level of indigenous energy resources as France has today, but without France's huge nuclear energy based electricity sector.

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3 The principal reason for the exaggeration of the importance of financial services by the press is conflating "financial services earnings" with net investment income, most of which derives from overseas investments of industrial companies, not from financial institutions (Appendix 1, Table 1, section C). British Invisibles, the City's main website for financial services, does not do this.

4 Britain's international investment position (overseas assets minus UK liabilities) has moved from a positive in 1986 of £86 billion to a negative of £170 billion in 2005, a change of -£256 billion, almost identical with the cumulative balance of trade deficits over the same period -£287 billion (National Statistical Office Pink Book 2006).

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6 Recent estimates by the US Treasury authorities give the combined assets of foreign-owned investment companies, so-called "Sovereign Wealth Funds" (SWF) (principally in China, Russia, Saudi Arabia, UAE) as currently in the range £750-1,200 Bn, more than enough to buy up the whole 100 companies in the FTSE index. Bankers, Morgan Stanley, reckon the total of SWFs could reach £6,000 Bn by 2015 (Sunday Times, 26 August, 2007) e.g. the current tussle between two Arab funds to take over the London Stock Exchange itself!

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