

Unfinished Revolution



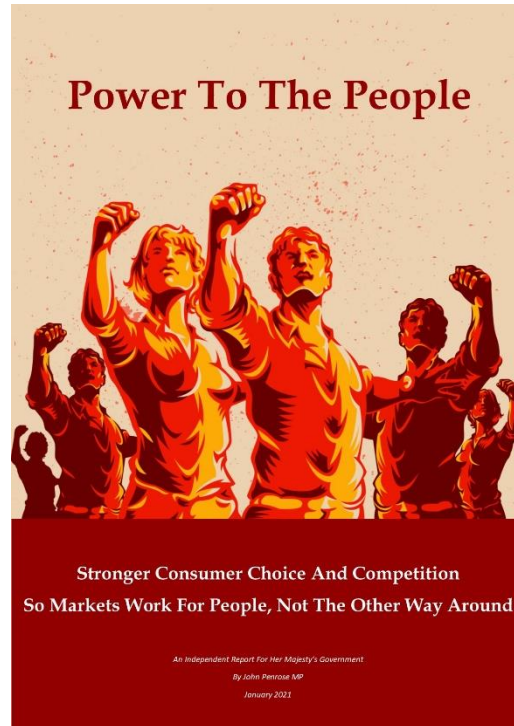
The Penrose Competition Review 18 Months On:
Next Steps For The New Government

By John Penrose MP

November 2022

Foreword

In September 2020 Rishi Sunak (then the Chancellor of the Exchequer) commissioned me to write an independent report on how the UK's approach to competition and consumer issues could be improved in future. The coronavirus pandemic was scarring our economy and the Brexit transition period was about to end, so Britain would need a springboard of renewed energy and dynamism to grasp the opportunities and overcome the challenges of its newly-independent, sovereign status at the end of the year.



My report was called *Power To The People*¹, and outlined how stronger consumer choice and competition could ensure that markets work for people, not the other way around. It was published in February 2021, and made 30 broad recommendations on how to deliver stronger competition and consumer choices which, in turn, would mean more jobs, make exporting firms more likely to win contracts, help with levelling up outside London and the southeast, and give British consumers and business customers a wider range of high-quality goods and services at more competitive prices. It also pointed out that there would be broader benefits from these reforms too, because societies where firms have to compete hard to attract and retain customers are fairer, with less injustice, because rip-offs can't become as serious, or last as long, and because people are confident that the system is on their side.

This is a follow-up to my original Report, to assess what progress has been made so far and what's left to be done. It's called *Unfinished Revolution* because, more than 18 months later, just half of *Power To The People's* recommendations have been implemented or promised. For the first 12 months we

¹ The picture shows the original front cover of the report, from my website on www.johnpenrose.org/wp/PowerToThePeople.pdf. The 'official' version at [Power to the people: stronger consumer choice and competition so markets work for people, not the other way around \(publishing.service.gov.uk\)](https://publishing.service.gov.uk) has a plain red cover, in case a report about free-market competition by a Conservative MP was taken as supporting revolutionary socialism.....

made good progress but, earlier this year, momentum slowed. Now Rishi is back in Government as Prime Minister, we've got to get moving again or we will be leapfrogged or left behind by more competitive international rivals.

There's a lot to do. *Unfinished Revolution* finds the way we have regulated some firms in industries like energy or telecoms has been too soft, letting big, comfy incumbents get away with delivering services that are more expensive and lower quality than they should be; that rules in the energy industry need a radical overhaul because they haven't let falling prices for renewable energy feed through into household bills; that the planned 'bonfire of red tape' is barely smouldering so far; and that stronger rules are needed to stop 'buy to gut' foreign investment in British startups, while still encouraging 'buy to build' deals too.

A steadily-worsening global economic picture since *Power To The People* was published has made its recommendations even more urgent as well. The after-effects of covid on international supply chains are pushing up inflation, stoked by spiralling energy prices from Russia's invasion of Ukraine and rising international interest rates too. Plus the Government's need to balance its books and reduce debt after three major economic shocks² in 14 years mean there's much less fiscal firepower to spend or borrow our way out of trouble. So the kinds of low-cost, pro-competition, supply-side reforms which *Power To The People* recommends to unclog the arteries of our economy and turbocharge growth are the only workable alternatives left. The clock is ticking, and there isn't a moment to lose.

John Penrose MP

November 2022

² The 2008 banking crash; the covid pandemic; the energy price spiral

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Chapter One:

Have We Delivered 'Power to the People'?



1. Have We Delivered *Power To The People*?

This chapter will assess progress on implementing the recommendations in *Power To The People* since it was originally published, and what's still left to be done. The later Chapters of this report focus on areas where things have changed significantly in the 18 months since the Report was originally published, and where additional proposals will be needed as a result.

1.1 The Starting-Point – Progress So Far

The table below is a colour-coded list to show where Ministers have accepted the Report's 30 original recommendations, where they have not, and how far there is to go in implementing the proposals they have pledged to deliver so far:

Penrose Review		Government Response ³	Summary of Progress So Far ⁴
Chapter	Recommendation		
2	CMA to become 'micro-economic sibling' to Bank of England's macro-economic role <ul style="list-style-type: none"> publish an annual 'State of Competition & Consumer Detriment' report to quantify progress on UK micro-economic strengths & weaknesses publish conclusions & findings of meetings it holds with consumer complaints groups, for the same purpose. use published findings to inform & justify its priorities & actions 	Regular 'State of Competition' reports which assess the strength of competition in the UK economy	Recently-published State of Competition Report is a good start, but will need more detailed quantification (eg on regional & sectoral strengths, weaknesses & trends). No announced plans to publish findings of consumer group meetings.
2	Stronger CMA civil consumer enforcement remedies to match anti-trust competition powers	<ul style="list-style-type: none"> Allowing the CMA to decide for itself where consumer protection law has been breached, which is an approach mirroring its abilities in competition law enforcement A suite of civil financial penalties that the civil courts would be able to impose on application from all public consumer enforcers 	Broad agreement in principle. Implementation expected in upcoming Competition Act

³ All responses taken from Reforming Competition & Consumer Policy: Government Response To Consultation April 2022 unless other sources are specified below

⁴ Green = good progress; yellow = accepted in principle but not yet implemented; amber = partial or incomplete acceptance and not yet implemented; red = little or no progress yet

Penrose Review		Government Response ³	Summary of Progress So Far ⁴
Chapter	Recommendation		
2	Stronger CMA powers to punish non-compliance	<ul style="list-style-type: none"> • Business penalties up to 1% of a business' annual worldwide turnover, plus daily penalties of up to 5% of daily worldwide turnover while non-compliance continues • Personal penalties of up to £30,000 plus daily penalties of up to £15,000 while non-compliance continues 	Broad agreement in principle. Implementation expected in upcoming Competition Act
2	CMA power to accept legally-binding undertakings at any stage in a market study/investigation, or Phase One or Phase Two in a merger review	<ul style="list-style-type: none"> • Allow binding commitments to be accepted during market studies and market investigations • Allow commitments during a phase 2 investigation 	Broad agreement in principle. Implementation expected in upcoming Competition Act
2	Permit co-operation arrangements for safe information exchange so international cases can be decided faster	Update information sharing rules between authorities, and stronger CMA powers to gather information for overseas competition authorities	Broad agreement in principle. Implementation expected in upcoming Competition Act
2	All appeals by firms to be simplified by going through the Competition Appeal Tribunal (CAT)		No announced plans to do this
2	End-to-end review and redesign of procedures & case management in CMA & CAT to: <ul style="list-style-type: none"> • resolve most cases in weeks or months rather than years and • fulfil the 'fair trial' requirement of Article 6 of ECHR 	<ul style="list-style-type: none"> • New CMA 'duty of expedition' • Streamlined merger 'fast track' procedure • Update CMA merger investigation notice publication process • Government 'encouragement' of CMA to keep merger processes under review so ensure they are proportionate. • Government will give 'further consideration' of whether reform of the CAT's rules is necessary 	Some progress on easier opportunities, but no comprehensive end-to-end review. Very limited ambition & no firm commitment on speed or standards to be achieved.
3	Cutting red tape with a stronger, automatic better-regulation regime:	The Retained EU Law (Revocation & Reform) Bill has been introduced to Parliament.	Reviewing retained EU laws & treating regulatory costs like tax

Penrose Review		Government Response ³	Summary of Progress So Far ⁴
Chapter	Recommendation		
	<ul style="list-style-type: none"> • Reinstating a Whitehall 'gateway process' so old rules must be removed before new ones can be introduced • Move to '1-in-2-out' target from current '1-in-1-out' • Include all forms of Government laws, regulations & guidelines, with zero exceptions 	There's been no official announcement of other changes but expectations are for a new 'red tape budget' star chamber process, treating regulatory costs like tax spending in similar way to Comprehensive Spending Review process.	<p>revenues are welcome. But important weaknesses still remain to be fixed:</p> <ul style="list-style-type: none"> • No guarantee 'red tape budgets' will be tight enough to reduce overall red tape burdens. • Unclear how budget overspends will be prevented, or what happens when they occur. • Unclear which (if any) of 13 current exceptions & exemptions will be abolished • No dates or deadlines to fix these problems.
3	Implement Procurement Bill as fast as possible	Bill currently in the Lords.	Good
4	Ringfence new Digital Market Unit (DMU) powers to prevent regulatory creep, so they only: <ul style="list-style-type: none"> • Apply to network monopoly firms, not entire industries • Are used to solve problems which existing CMA anti-trust or consumer powers can't fix • Can be extended with parliamentary consent 	Yes- shadow DMU powers and statements align well with this ⁵	Good progress. Full legal implementation expected in upcoming Competition Act
4	DMU needs a legal duty to extend and promote competition in the monopolies it regulates, for example through enhanced data portability; guaranteeing equal network access for all supplies & customers; improved	Yes- shadow DMU powers and statements align well with this. ⁶	Good progress. Full legal implementation expected in upcoming Competition Act

⁵ Government Response to the Consultation on a New Pro-Competition Regime For Digital Markets: May 2022

⁶ Government Response to the Consultation on a New Pro-Competition Regime For Digital Markets ibid

Penrose Review		Government Response ³	Summary of Progress So Far ⁴
Chapter	Recommendation		
	interoperability between different technical standards; cheaper & more convenient switching processes.		
5	Each economic regulator should publish & execute a multi-year project plan, to turn as much of their sector into a normal, pro-consumer, high-standards competitive market as possible		No announced plans to do this
5	Each sector regulator will be subject to the newly-strengthened Brexit Dividend better regulation target		No announced plans to do this
5	We must audit and amend all the sector regulators' legal duties so that all have a strong, clear 'competition for the benefit of consumers first, regulation only as a last resort' primary legal duty	Review of Regulators Statutory Duties ⁷ & Benefits of Brexit ⁸ paper both included this, but no official conclusions or commitments published so far.	Review announcement was promising but no firm conclusions or commitments yet.
5	Independently-auction contracts to extend or expand the network monopoly infrastructure in each regulated industry	Already happening in some places (eg Thames Tideway or Offshore Wind Transmission Programme) plus Ministers now publicly committed to extend this more generally ⁹ .	Good
5	The sector regulators should share the same mandate as DMU to erode the power and strength of their network monopolies by making pro-competitive interventions, eg through more data sharing, or reducing barriers to new entrants.	Review of Regulators Statutory Duties announced ¹⁰ for 2022 will cover this. No conclusions or commitments published so far.	Review announcement was promising but no firm conclusions or commitments yet.
5	Each sector regulator should publish its workload figures annually and in each year that economic regulation forms less than half of its activity, the regulator's Chair should write a public letter to the CMA's Minister explaining		No announced plans to do this

⁷ Economic Regulation Policy Paper Jan 2022

⁸ Benefits of Brexit: How The UK Is Taking Advantage of Leaving The EU. Jan 2022

⁹ Strategic priorities and cross-sectoral opportunities for the utilities sectors: open letter to regulators: Jan 2022

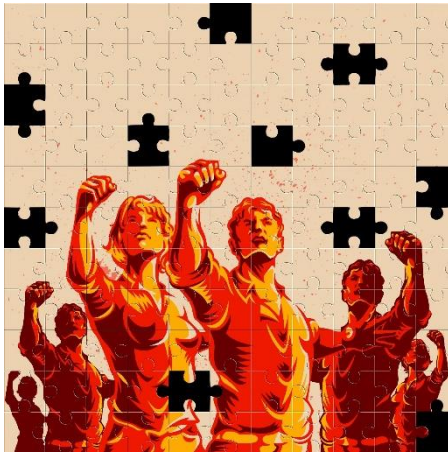
¹⁰ Economic Regulation Policy Paper: ibid

Penrose Review		Government Response ³	Summary of Progress So Far ⁴
Chapter	Recommendation		
	whether their residual economic regulation duties should be transferred to the NDMU or not.		
5	Update statutory power of CMA to allow incremental, partial or transfers of powers as each step of their 'market normalisation' project plans unfold over time.		No announced plans to do this
5	Consumer groups with 'supercomplaint' powers should be able to make a formal, public request for Ministers to transfer economic regulatory powers from sector regulators to CMA if they believe it has gone soft. For fairness, the same request should also be triggered if more than ½ of the regulated firms in a sector (by revenue) write a joint open letter to the same effect.		Existing supercomplaint holders could already do this as a non-statutory but politically-forceful addition to the formal process. Regulated firms could do the same too.
6	Small Claims Courts and ADR services should all become fully 24/7 to match the modern digital economy, and be as easy, cheap and simple as using an app on your phone.	BEIS will work with MofJ, regulators, consumer advocates, ADR providers, consumer enforcement bodies and businesses to: <ul style="list-style-type: none"> • Provide more support to consumers in individual disputes with businesses by increasing dispute resolution services, thus avoiding the need to go to court • Improve the quality and oversight of ADR services 	Some progress on easier opportunities, but far short of a fully 24/7 service to match the modern digital economy. Limited ambition & no firm commitment on speed or standards to be achieved.
6	Create new, cheap, efficient, fast-track Country Competition Courts for local and regional cases with very tight case management, a low cost cap for losing firms and a 1 or 2-day maximum hearing length too.		No announced plans to do this
6	We should create a new statutory duty for minimum standards in Local Authority Trading Standards teams, including the powers to mount antitrust and consumer	Local Authority Trading Standards Teams will not be granted direct consumer enforcement powers. No comments on other points so far.	No announced plans to do this

Penrose Review		Government Response ³	Summary of Progress So Far ⁴
Chapter	Recommendation		
	investigations, and provide ring-fenced resources so they can deliver them well.		
7	We should apply an equivalent rule as the FCA insurance one as a general consumer-protection regulation across the entire economy, so it provides a complete solution that covers energy and any other sectors affected by loyalty penalties.	New Government energy price intervention replaces existing Energy Price Cap, but no confirmation of action against loyalty penalties in other sectors, or in energy once the current intervention ends.	No announced plans to do this
7	CMA should update its guidelines on what treating customers fairly means in practice, including 'transactional fairness' in its work, so it is as easy as possible for businesses, charities and public bodies to identify and avoid problems in advance, and so the guidelines keep up with changing attitudes of what society views as 'fair' in future too.	Tackling subscription traps by: <ul style="list-style-type: none"> • Providing clearer information before entering a subscription contract • Sending reminders before contracts roll over, or free trials & introductory offers are ending • Requiring a straightforward, cost-effective, and timely mechanism to exit a subscription contract 	Some progress on fixing easier & most immediate opportunities, but no firm commitment on answering the broader underlying issue.
7	Track whether DCTs (Digital Comparison Tools) are improving enough for buyers can make reliable and well-informed choices regardless of how vulnerable or short of time they are, or how complicated a particular contract may be. If DCTs aren't improving fast enough, CMA must reopen their 2017 market study and introduce measure to make sure they can.		No announced plans to do this
7	CMA must consider how to improve transparency of the price consumers are paying through their data for digital goods and services, so they can make informed choices about whether each one represents good value or not, and whether they wish to switch to others which might be better.	Tackling subscription traps by: <ul style="list-style-type: none"> • Providing clearer information before entering a subscription contract • Sending reminders before contracts roll over, or free trials & introductory offers are ending 	Some progress on fixing easier & most immediate opportunities, but no firm commitment on answering the broader underlying issue.

Penrose Review		Government Response ³	Summary of Progress So Far ⁴
Chapter	Recommendation		
		<ul style="list-style-type: none"> Requiring a straightforward, cost-effective, and timely mechanism to exit a subscription contract 	
7	CMA to introduce more competition for local digital monopolies or, if it that isn't possible, evaluate whether they should face higher hurdles to protect customers with less choice from being ripped off.		No announced plans to do this
7	CMA to assess how to measure 'sludge' properly, to protect consumers as digital technologies evolve and develop over time.	Government will continue to research this subject to identify specific consumer harm and how it can be tackled.	Promising in principle, but no commitment on deadlines or standards to be achieved.
8	In general, to keep our economy competitive and successful, we should choose not to subsidise particular industries.	New Subsidy Control Act 2022 agreed by Parliament	Complete
8	Ministers should develop new options on how to prevent fast-growing UK-based firms in fast-growing sectors from being poached offshore for non-commercial reasons, without damaging our attractiveness for FDI by creating disproportionate political risks at the same time.	<p>New merger thresholds announced for CMA merger investigations:</p> <ul style="list-style-type: none"> Raising the turnover threshold in line with inflation (>£70m to >£100m UK turnover) Amending thresholds for 'killer acquisitions' to include deals where at least one of the merging businesses has (a) an existing share of supply of goods and services of 33% in the UK and (b) a UK turnover of £350m. 	Some progress on fixing 'killer acquisitions', but no firm commitment on encouraging more 'buy to build' instead of 'buy to gut' deals

1.2 An Unfinished Revolution



This colour-coded list shows a mixed picture: 8 recommendations are fully or partly ‘green’ (good progress), and a further 6 are yellow (accepted in principle but not yet implemented). But that leaves 5 that are amber (partial or incomplete acceptance and not yet implemented) and 15 that are fully or partly red (not much progress to speak of).

The green areas where genuine progress has already been made, like public procurement and subsidy control, and many of the yellow items – like upgrading the CMA’s consumer powers and the design of the new Digital Markets Unit – which have been agreed in principle are very important indeed.

Perhaps inevitably, the 15-20 amber and red proposals are the more institutionally challenging ideas that would require difficult internal reforms, but they are also some of the most valuable too: like reforming the economic regulators that cover big and important sectors of our economy; or redesigning the CMA and CAT processes to give certainty on most decisions in weeks or months rather than years; or local competition courts and better local trading standards to level up by increasing competitive pressures outside the south-east and London.

These unfinished reforms would be cheap too. Most would cost taxpayers nothing at all (or even save money by making internal processes faster and more efficient), and all of them would have very significant economic gains by helping our economy grow faster and work more productively than today. So they can’t and shouldn’t be ignored or delayed just because they are hard.

Most worrying of all, other countries are now upgrading their competition regimes faster than we are. If we don’t press on with these remaining reforms quickly, we risk being leapfrogged by our international competitors at precisely the moment when post-Brexit, post-pandemic Britain needs to be as nimble, productive and dynamic as possible. ***Ministers should revisit these remaining 15-20 ‘difficult-but-valuable’ recommendations from Power To The People, and immediately publish milestones and deadlines by when they will have been achieved.***

Chapter Two:

Lighting the Bonfire of Red Tape



2. Lighting The Bonfire Of Red Tape

The last chapter established where Government has accepted the Report's 30 original recommendations, where it has not, and how far there is to go in implanting the proposals they have pledged to deliver. This chapter will focus on one of those areas – Better Regulation – where progress has been particularly poor in the 18 months since the Report was originally published, and where the original Report's recommendations need to be updated and strengthened as a result.

2.1 Better Regulation Doesn't Happen Naturally

Power To The People pointed out that free market competition isn't the 'law of the jungle' as some people assume. Rather, it sits on a bedrock of pro-competition rules which set standards so contracts can be enforced, staff aren't exploited, our environment is preserved, buildings are safe to live and work in, and food is safe to eat. These rules stop monopolies and cartels from ripping off their customers and suppliers, and create jobs, wealth and economic growth by putting consumers first, rather than politicians, bureaucrats or company bosses. So better regulation isn't about diluting these rules and standards, but delivering them as cheaply, efficiently and unbureaucratically as possible.



Power To The People also explained that every system in Whitehall and Westminster is set up to produce new rules: it's how politicians, civil servants and regulators forge their careers, and it's also why reducing red tape never comes naturally. It pointed out that red tape was cut successfully between 2010 and 2015 with a 'one-in-one-out' and then a 'one-in-two-out' system, even though it had significant loopholes because it didn't cover the EU rules that came from Brussels or the ones created by economic regulators (like Ofgem, Ofwat or Ofcom) either. But then this proven approach was abandoned and things went into reverse: in 2018-19 Whitehall pledged to cut red tape costs by £9bn but they rose by £8bn instead – a £17bn missed target.

2.2 Too Little Progress For Years



Four years later, this failing system is still in place and – while enabling reforms to review retained EU laws and remove legal obstacles to amending them have been announced¹¹ – there have been no other changes so far to fix any of the other flaws which prevent the current Better Regulation regime from working effectively, whether for retained EU rules or the much larger stock of UK-derived laws either.

Current expectations (although these haven't yet been officially confirmed) are for a new process which will treat regulatory costs like any other form of Government spending, governed by the equivalent of a Comprehensive Spending Review process with agreed 'red tape budgets' for each public body.

¹¹ The Retained EU Law (Revocation & Reform) Bill was introduced to Parliament in September 2022

Treating regulatory costs as equivalent to tax revenues would be an important and positive step, because it recognises that the economic costs of a pound spent complying with a regulatory burden is the same as a pound paid in tax, even though the costs are imposed in different ways. But the new approach is – sadly - unlikely to work unless several other problems are dealt with too. Those areas are:

- The ‘red tape budgets’ will need a tight overall total (the equivalent of the Chancellor’s fiscal rules which control all tax-funded Government spending) which puts a ceiling on the total size or growth of regulatory burdens. Otherwise they will simply grow indefinitely.
- The new process must include credible sanctions for any Government Department or other public body which overspends its’ budget, with effective mechanisms for bringing them back under control promptly. Or an effective ‘gateway’ process which makes overspends impossible by demanding savings or reductions upfront, before any additions will be allowed.
- The new process is unclear which (if any) of the 13 loophole exemptions in the current regime¹² will be closed in the new approach. *Power To The People* was clear that any loopholes or exemptions would be a very significant weakness in a replacement system.
- There are no dates or deadlines on when (or if) a new system will be introduced.
- There is no protection to prevent any reformed system from being abandoned or ‘de-fanged’ by the deeply-embedded pro-regulation processes and culture in Whitehall and Westminster, as soon as political attention turns elsewhere in future. This is what happened to the proven ‘1-in-2-out’ system in 2016-17 as soon as the sponsorship provided by David Cameron’s senior Ministers was lost.

The lack of progress over the last 4 years is – at least partly – a symptom of deeply-entrenched concerns that parts of the Government’s legislative programme will be impossible to achieve without imposing huge new regulatory costs and burdens. The correct response to these concerns is, of course, that every Minister in every Government in history has always been told this, and it has never been a valid argument for leaving the economic costs of regulatory burdens to grow unchecked. In the same way as we would never allow any Minister or their officials to ignore normal Government controls on tax-funded spending, we shouldn’t treat controlling the costs of red tape as somehow less important or less valuable either. And yet that is precisely what we have allowed to happen for years.

2.3 Action This Day

So we need immediate changes to make the red tape regime much tougher and more effective. But detailed tinkering with Government’s internal procedures and processes won’t create a sustainable solution to the problem, because those are the kinds of reforms which have been tried before, and which couldn’t resist the culture of Whitehall and Westminster for long. ***To create the kind of fundamental, sustainable reforms which are required, Ministers should use the upcoming***



new Competition Bill (covered in more detail in Chapter 4 of this paper) to create a new legal duty to bind all future Governments and regulators to freeze our current regulatory burden at its’ current level. This would create a permanent anti-red-tape ratchet, because the cost of regulation would be

¹² Business Impact Target, House of Commons written statement, 15 December 2020 <https://questions-statements.parliament.uk/written-statements/detail/2020-12-15/hcws653>

frozen as our economy grew in future, meaning it would shrink as a percentage of our GDP every year, forever.

This approach would give Ministers and Mandarins flexibility over which Whitehall and Westminster processes and cultures to change, and how. They could either fix the weaknesses which are outlined in the potential new Better Regulation process above (in s2.2: Too Little Progress For Years) or reinstate the 'one-in-two-out' system which worked effectively before. Whichever option they choose, they should also remove all loopholes (for example any rules for delivering Net Zero, or the ones created by economic regulators, as outlined above). And, to make sure the process is permanently independent from Government pressure, they should consider moving both the Regulatory Policy Committee and the Better Regulation Executive into a suitable arms-length body such as either the National Audit Office (NAO) or the Competition & Markets Authority (CMA).

Chapter Three:

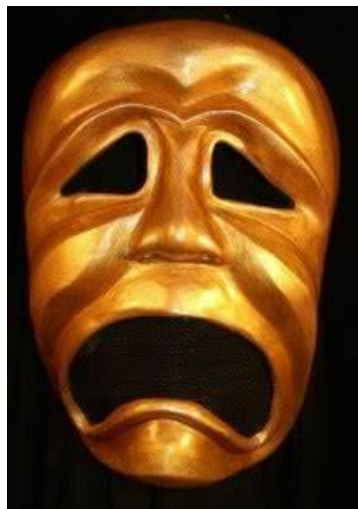
Problems in Economically-Regulated Sectors



3. Problems In Economically-Regulated Sectors

The previous chapter explained how Better Regulation had changed since *Power To The People* was originally published, and how the original recommendations need to be updated and strengthened as a result. This chapter will do the same for another area where things have moved on significantly too: the industries such as energy, water and railways that are covered by economic regulators like Ofgem, Ofwat Ofcom and ORR.

3.1 A Chorus Of Concerns



Power To The People pointed out that our economic regulators cover big and important sectors of our economy, so their performance really matters economically and politically too. But there has been a growing chorus of concern: the broader inflationary pressures (beyond the energy sector) caused by supply-chain disruptions from the covid-19 pandemic; environmental problems like rising sewage overflows, hosepipe bans and river water abstraction during dry spells; prolonged power outages after storms; and hundreds of millions of pounds of costs on customer bills to pay for energy firms that went bust. All these problems have put the profits of economically-regulated firms. and the performance of the regulators that are supposed to make sure consumers and suppliers get good value for money, under ever-closer scrutiny.

Of course, it isn't fair to blame either utility firms or regulators for all of the causes of these problems either: Mr Putin's aggression in Ukraine or the infectiousness of covid-19 are hardly the fault of Ofgem, Ofwat or any of the firms they regulate, for example. But while it isn't fair to blame an architect or builder for the rain that falls on a house they built, it is certainly fair to hold them accountable for whether it leaks when a storm breaks. And in this area, the performance of our longstanding economic regulatory model is looking poor.

3.2 Are Regulated Firms Making Too Much Money?

As *Power To The People* explained, the original reason for creating economic regulators was to prevent firms that owned network monopolies (like electricity grids, water pipes or telecoms networks) from exploiting their customers and suppliers by charging unfair prices or delivering second-rate products or services, because they knew families and businesses didn't have a choice and could be taken for granted. So the regulators have

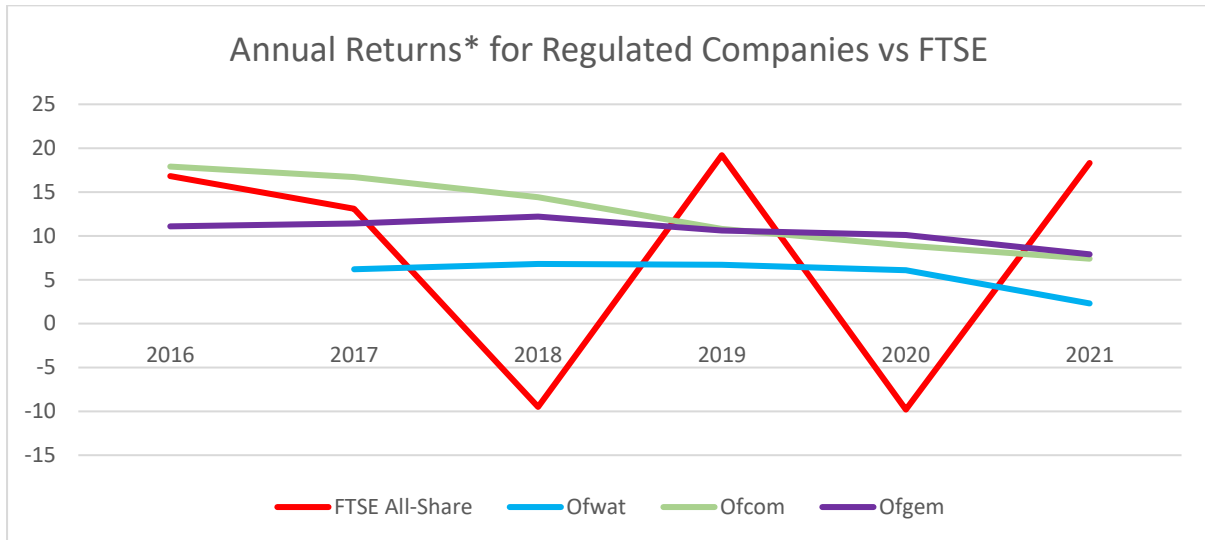


powers to demand good quality standards, and to hold down monopoly prices, on behalf of customers and suppliers alike: if they do their job well, families and businesses get good-quality and value-for-money products and services, and regulated firms can earn a respectable but unspectacular living in the process.

It's important to realise that those respectable but unspectacular returns for the regulated firms aren't the main aim of what regulators are supposed to do. Their focus is, rightly, on whether customers and suppliers are getting good quality, value for money products and services when they buy or sell something from or to a monopoly-owning firm. If the regulators get this right, then those respectable

but unspectacular profits ought to be one of the outcomes of their work: the sign of a job well done or an easily-visible way of keeping score, rather than the goal itself.

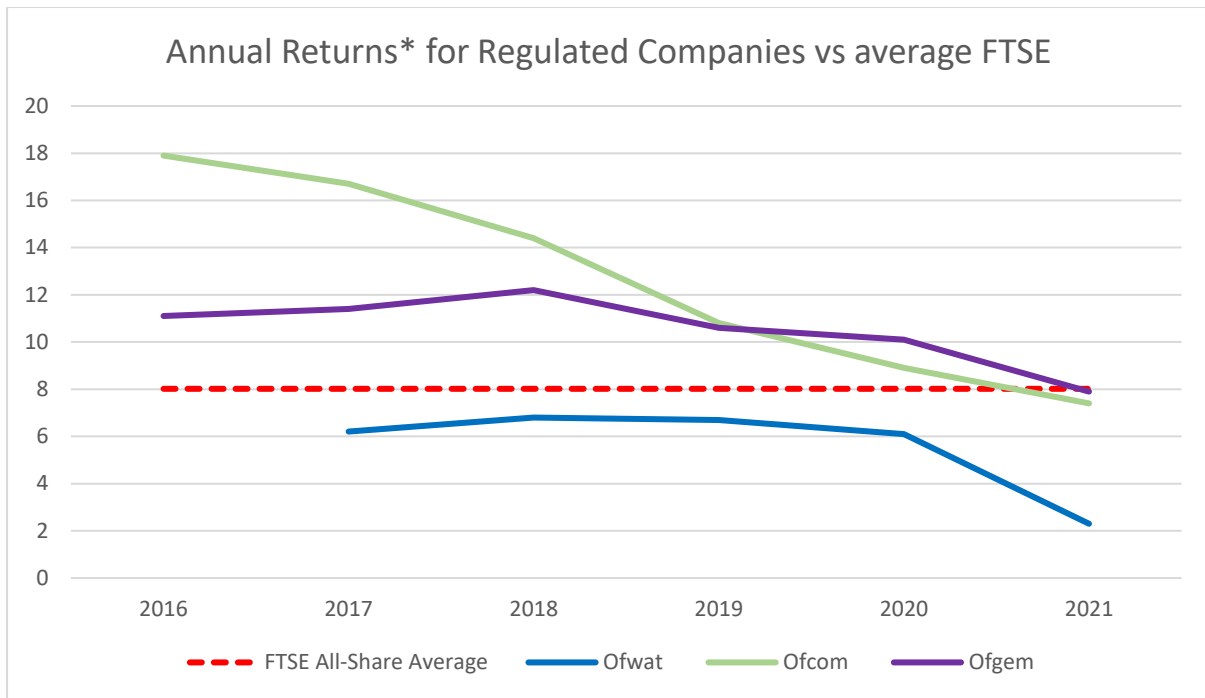
This means that, if the regulators get it right, monopoly-owning regulated businesses should be a bit less profitable overall than firms in the rest of the UK economy but, in exchange, their profits should be less volatile and more predictable too. The graph below shows that this volatility measure looks about right: the red line indicates that shareholder returns for the economy overall are a lot more variable than they are for the regulated monopoly firms, using the regulators' own figures¹³.



*Ofwat & Ofgem Return on Regulated Equity; FTSE total shareholder return; Ofcom return on mean capital employed for markets where BT has significant market power

But when we strip out the variability of the shareholder returns for the economy overall, to check whether monopoly utility businesses are making a bit less money on average than everybody else in exchange for their ultra-stable profits, the scorecard doesn't look anything like as good. The graph below shows that, until the pandemic, firms regulated by Ofgem and Ofcom (but not Ofwat) made a lot more money than the average for the rest of the economy. Their shareholders earned monopoly profits that were both very high and extremely stable too, which meant customers and suppliers were being ripped off by having to pay too much for what they were getting.

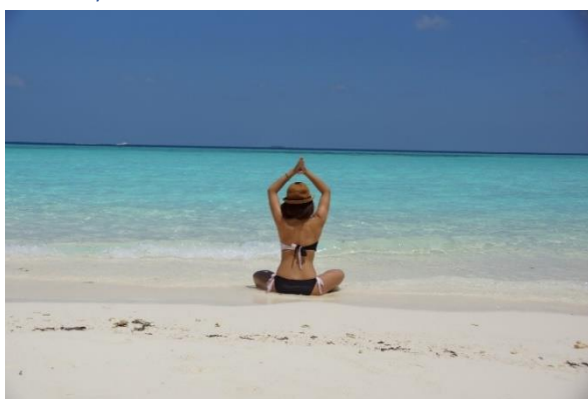
¹³ The Returns for Regulated Companies only include figures for the regulated network monopoly parts of each firm. There are lots of other firms in these sectors, as well as other divisions in the network monopoly firms too, which the regulators in industries like aviation or telecoms have – rightly – freed up to face strong, normal competition like anybody else.



*Ofwat & Ofgem Return on Regulated Equity; FTSE total shareholder return (six year average); Ofcom return on mean capital employed for markets where BT has significant market power

The other half of giving customers and suppliers good value for money is to make sure monopoly-owning firms aren't providing second-rate products or services in exchange for any given price. In other words, if regulators could argue that the firms they cover had dramatically cut the amount of sewage going into rivers; or reduced hosepipe bans and river water abstraction in dry spells; or got power back in hours rather than days after winter storms; or prevented hundreds of millions of pounds being added to customer bills from bailing out bankrupt energy firms; then they might be able to argue that the prices which utility firms had been charging were worth it. But of course they haven't delivered these things, so this argument doesn't apply.

3.3 A System That's Too Soft



This performance shows large parts (although not all) of our economic regulation system isn't working properly. It has been too soft, giving monopoly-owning firms an overly-easy ride on prices and quality with suppliers and customers paying the price of this failure. If the system had worked better then, while energy prices would still have gone up after Putin invaded Ukraine, they would nonetheless be lower than they have turned out today, and the quality of what they are providing would be better too.

The recommendations in *Power To The People* will fix these underlying problems, in contrast to proposals for renationalising utilities firms, which would make things worse by recreating monopolies which could then take their customers for granted no matter how badly they performed. As a reminder, the recommendations in *Power To The People* are:

- 1) **Get each economic regulator to publish & execute a multi-year project plan to turn as much of their industry into a ‘normal’ pro-consumer, high-standards, competitive market as fast as possible.** That way it wouldn’t matter if regulators went soft again in future, because tough and relentless competition from rival firms would make it far harder for incumbents to raise prices or cut quality if they did. **Then get the regulators to transfer responsibility for regulating each piece that they have normalised across to the Competition and Markets Authority in a series of waves, so they can’t fall back into bad habits through creeping re-regulation in future either.**
- 2) **Make each economic regulator subject to the ‘1-in-2-out’ better regulation rule, so the cost of any new red tape they impose has to be offset by reductions that cut twice as much cost elsewhere in the industry they control, without diluting or reducing standards.** Achieving this target should be relatively straightforward once they begin introducing the multi-year project plan in [1] above, and the result will be lower costs and improved efficiencies which can then be passed on to consumers and suppliers. This better regulation target should apply to all the rules the regulators impose, including the non-economic ones.
- 3) For the remaining bits of each economically-regulated sector that can’t be normalised (because they are monopolies, so competition is inherently weaker) the regulators need to get a lot tougher. That means **updating the regulators’ legal duties so they have not only a strong, clear, ‘competition for the benefit of consumer first, regulation only as a last resort’ primary legal duty, but also a permanent legal mandate to erode the power and strength of the monopolies they control by making pro-competitive interventions** (for example by mandating data-sharing, or by demanding that different technical standards should become interoperable).
- 4) Once these initial three reforms are complete, Ministers and Parliamentary Select Committees should keep a much closer eye on whether any of the economic regulators are going soft again in future. **If they are, their economic regulation responsibilities should be transferred to the (by then well-established) Digital Markets Unit in the Competition and Markets Authority (CMA), which would then be renamed the Network Monopolies Unit instead.**

3.4 Energy Shock

Since *Power To The People* was published, international wholesale gas prices have spiralled upwards. The Government published proposals in September 2022 to hold those prices down through a huge programme of publicly-funded subsidies, along with a big increase in commissioning new generating capacity to make the UK an energy exporter by 2040. But while these interventions form a powerful backdrop to any reforms of our economic regulators, the subsidies are short-



term sticking-plasters to deal with the worst and most immediate effects of the crisis. The costs of these subsidies for taxpayers are so enormous (about as much as the entire NHS each year) that they won’t be affordable for long, and commissioning extra capacity won’t be enough (or arrive soon enough) on its own to solve the fundamental underlying problems either.

The proposals to reform Economic Regulators in *Power To The People* are all essential to provide an answer that’s affordable for taxpayers over more than a few months, and to deliver cheap, reliable energy supplies for households and businesses in future too. Plus there are four further energy-sector-specific proposals which will now be needed as well. They are:

- 5) The Government's recent energy proposals include a big increase in auction-based 'Contract For Difference' commissioning of new generating capacity to make the UK an energy exporter by 2040. This is sensible, necessary and should improve competition by improving supply, but won't solve the equally-important problem of very slow, uncertain, expensive and bureaucratically-cumbersome planning approvals after the much-needed commissioning decisions have been taken. These processes mean each newly-commissioned generating plant, power-transmission line or energy storage facility is much riskier and less certain than it should be, will cost significantly more than it could, and will take 5-10 years from the moment it has been commissioned before it is actually built and available to use. These inefficiencies don't just make energy (and other utilities like water) bills more expensive than they need to be: they delay our path to energy independence and leave us more exposed to international gas prices for longer too. ***We need a new Infrastructure Bill to redesign our infrastructure planning approval process to reduce the time, uncertainty and expense which it currently requires, but without eroding the democratic consent of local residents, so final decisions can be reached in weeks or months rather than years.***
- 6) It will be far easier to take planning decisions in weeks or months if we ***upgrade and modernise the electricity grid so local residents can be offered discounted electricity as part of the community consent for agreeing to one of the newly-commissioned pieces of energy generating, transmission or storage infrastructure.*** Not all communities will accept the offer, of course – that's democracy – but the benefits of this new 'local pricing' ability wouldn't just be felt in improved levels of democratic consent and lower bills for those that agree to one of the newly-built plants; it would reduce the total running costs of the entire system as well, cutting billions off the country's overall energy bills every year. And it would equip the grid to cope with the coming surge in the numbers of electric cars and small local renewable electricity generators too.
- 7) Because the energy subsidies are short-term sticking plasters which aren't financially affordable by taxpayers for long, and also because the energy sector won't get the huge, multi-billion-pound investments it needs to upgrade and modernise energy storage, generation and the electricity grid unless the long-term rules of the sector are clear, ***we need an immediate update to the Energy Bill which lays out a sustainable long-term future for the industry as well as a clear timetable with investable deadlines and milestones to outline the transition from today's highly-distorted, politicised and bureaucratic sector to the new vision.*** The revised Bill should:
- a) Introduce all the relevant Penrose Review proposals for reforming utility regulators immediately.
 - b) Allow energy retailers to compete freely for customers, offering prices which depend on the quality of the deals they have done with their supply chains of energy generators and storage firms, in the same way as grocery retailers build supply chains with farmers and food producers too. This will ensure falling renewable energy prices always feed through to customer bills in future, unlike today.
 - c) Charge energy retailers for using National Grid's electricity transmission network in a way which fairly and transparently reflects both the distance their power is transmitted to reach their customers and, where necessary, their share of constraint payments if their supply contracts don't match what their customers are using too.
 - d) Commission enough new, low-carbon electricity generating capacity through the Contracts for Difference (CfD) process to make the UK an energy exporter by 2040, and then close the CfD process after that because the industry will be able to renew and expand the generating fleet itself from then on, without needing taxpayer subsidies.
 - e) When energy prices have fallen far enough, abolish both the unsustainable current Energy Price Guarantee and the old Energy Retail Price Cap, and replace both with a 'Relative Price Cap' (similar to the one which has already been successfully introduced for insurance) to protect customers against loyalty penalties; and a narrow Social Energy Tariff which would support specific, vulnerable groups of benefits claimants.

- 8) ***The Government should also speed up the processes for approving new energy technologies – everything from new nuclear to carbon capture gas or coal – which, like the planning decisions in (5) above, take years at present. Contingent deals, where firms with new technologies could bid against established generators for the same contracts to provide power at a pre-set price from a particular date, providing they could satisfy the same environmental and safety standards as everybody else, would be far faster, cheaper, less bureaucratic and more nimble than the current multi-step approvals process¹⁴.*** It would then be up to the new technology firms that won the contracts to deliver the promised power on time and on budget, but their shareholders and backers would carry the commercial risks if they failed, rather than taxpayers or bill-payers.

3.5 Getting Rail Back On Track



The other sector where the Government has published proposals for reform since *Power To The People* is in rail. The Williams Report was published in May 2021, after timetable meltdowns, strikes that made life miserable for passengers, and Ministers having to step in and rescue collapsing franchises. Then the pandemic struck and people switched to online meetings in droves, leaving empty trains that needed billions of pounds of taxpayer subsidies to keep going.

Since the Williams Report review was published, things have changed even more. Lots of us are back using trains for leisure travel: trips to the seaside, music festivals or visiting friends or family, and rail freight has kept going too. But business journeys are still a fraction of their pre-covid levels, and few of us will shed a tear if we don't have to commute quite so much in future either.

Against this fast-changing background, the Williams Report plans look increasingly out of date. Some of the proposals are still valid, of course, like using contactless payment to touch in and out for the cheapest available fare on most routes, but others have been left behind.

A Return To Central Planning

The oddest anomaly is a return to Government central planning, with a huge new 'Fat Controller' Quango called 'Great British Railways' (GBR) deciding everything from timetables and ticketing, right down to the colour of the trains. Plus, most of the timetable will be made up of politically-commissioned services on contracts from central, devolved or local Government. The services will be local monopolies set by political barons and bureaucrats, subjected to short-term electoral pressures and constrained by limited public sector investment funds. There will be little opportunity to offer passengers the choice of prices, quality or styles of service which they expect in other walks of life.

What's the alternative?

- 9) ***We should put the Fat Controller on a diet***, turning GBR into a slimline system operator rather than a central planner, with the minimum powers needed to minimise delays and use capacity as efficiently as possible, but nothing more. It may eventually be possible to automate most of this, in the same way as the network management protocols on the internet (which is a far more complex system) handle traffic in real time with very high levels of reliability and efficiency too.

¹⁴ Such as the Best Available Techniques (BAT) process, for example.

- 10) ***We should make sure GBR stays neutral.*** The current proposals to combine GBR with the network owner (Network Rail) creates a permanent risk that the voices of network engineers will be louder than passengers and freight customers. This will be less fair and efficient than it should be, because it won't be putting customers first, so the system operator must be independent and equidistant from not just the train operators, rolling stock firms and ticketing services, but from the network owner too.
- 11) ***For most passenger services, we should let lots of different rail firms compete every day to win passengers with a variety of competing prices, quality and styles of service, because they know customers can switch to a rival's service at any time if it is better.*** Freight has already done this successfully for years, with no subsidies or political issues, so all it would need is simple, transparent route auctions, so rival firms can add new or different services on the same tracks if they think they can attract enough passengers.
- 12) If enough of us want to go back to commuting, ***local Mayors and Councils should still be able to take part in the route auctions, to commission extra services that got traffic off the roads or which connect isolated rural communities. But these politically-commissioned, socially-valuable services should be a last resort rather than the industry's core process, to be used only where loss-making services need public subsidy.*** The contracts should be broken down to allow as many different providers on each route as possible, rather than a single monopoly firm to ensure strong and sustainable passenger choice and competition; they should include as many commercial incentives to minimize costs and build revenues as possible; they should be simple, flexible and standardized to allow more space for innovation and creativity in how the service is delivered; and should be regularly, publicly and cheaply auctioned rather than expensively tendered too.
- 13) ***Network Rail's money would mainly come from keeping the proceeds of the route auctions, with taxpayer subsidies reduced steadily over time as the auctions grow,*** creating strong commercial incentives to maximise economically-valuable capacity. Ultimately, Network Rail should reach the point where it needs no Government money at all, for running costs or maintenance either. The only subsidies would be from local Mayors and Councils paying train operators to run socially-valuable but loss-making services, and perhaps Government capital if new lines need to be built in future too

Giving passengers more choices in this way would have a series of important benefits. It would be less bureaucratic and more nimble, because GBR would be a lot thinner. It would be future-proof, because route auctions will allow Train Operators to change their services, and Network Rail to know which potential capacity-improving investments will add the most value, as our travel habits keep adjusting to a post-covid world. It would cost taxpayers far less, because the new commercial incentives would progressively build revenues as entrepreneurial firms attract more fare-paying passengers back onto rail; and also reduce costs by rewarding efficiency too. It would be more resilient when things go wrong, like when a timetable melts down, or a train breaks down, or there's a strike, because there would be multiple other operators on the same route to provide an alternative, rather than a single point of failure in a monopoly. It would be greener, because competitive, customer-focused trains will persuade passengers to swap short-haul flights for cheaper, lower-carbon trains between cities as Lumo has already done between London and Edinburgh. It would slash red tape because regulators would no longer set track access or other charges; they would be replaced by auction market prices instead. And the current service specifications (hundreds of pages of highly complex technical and legal specifications) would be replaced by a few pages specifying standards to be delivered (eg safety, rolling stock performance, passenger comfort) with the 'how' left up to the provider.

Chapter Four:

A New Competition Act



4. A New Competition Act

The previous chapter explained how things have changed in industries like energy, water and railways that are covered by economic regulators like Ofgem, Ofwat Ofcom and ORR, and how the original recommendations in *Power To The People* should be updated and extended as a result. This chapter will look at our progress towards the promised new Competition Act, and why we now need to move much faster than was originally envisaged when *Power To The People* was published in early 2021.

4.1 The Draft Competition Bill Promises Plenty.....

Power To The People called for several key extensions and upgrades of the CMA's powers, most of which are expected to be included in the upcoming new Competition Bill¹⁵. They include:

- Stronger civil consumer enforcement remedies to match the CMA's existing anti-trust competition powers
- Stronger powers to punish non-compliance
- Broader powers to accept legally-binding commitments during market studies and investigations.
- Updated information sharing and data-gathering powers for international cases
- Formal upfront regulatory powers for the new Digital Markets Unit (DMU), but strongly ringfenced to prevent 'regulatory creep'.
- A legal duty to extend and improve competition to erode monopoly powers over time, rather than just accepting and regulating them indefinitely.



4.2But Is Moving Too Slowly



All of these changes are essential and welcome (although there are important gaps and omissions as well, which are outlined in Chapter 1: Have We Delivered Power To The People above). But unless the current legislative timetable speeds up significantly, they will arrive too slowly. This matters for three important reasons:

- a) Given the (understandable but nonetheless real) delays caused by the pandemic and then Conservative Party leadership changes and associated Ministerial churn, the current Parliamentary session could easily last longer than was originally intended. And since the list of planned new laws is fairly big already, there is now a significant risk that the Draft Competition Bill will not become law before the next General Election is called. This would create huge political uncertainty and regulatory risks, and condemn our previously-well-regarded competition authorities and regulators to working with one hand tied behind their backs, because they would have to continue using outdated and inadequate legal powers for years longer than planned.
- b) As was already explained in s3.4: Energy Shock above, the Government's new energy proposals include an urgent review of energy regulation which – given the urgency and size of the price

¹⁵ For example the Chancellor Jeremy Hunt confirmed in his 2022 Autumn Statement that the formal powers for the Digital Markets Unit (DMU) will be delivered 'within the next calendar year'

spirals – needs to be completed quickly for implementation as fast as possible after that. It is highly likely that several of the changes that will be urgently needed to uncouple energy bills from the spot price of wholesale international gas markets, so lower renewable energy costs can feed through into household and business bills promptly, will either require a new Energy Bill that will introduce at least some of the same changes that are expected to feature in the promised Competition Bill, or will simply introduce an emergency Competition Bill instead. Either way, as much as possible of the Competition Bill needs to be ready as soon as possible, rather than later in 2023 or 2024.

- c) The EU is moving faster than UK to pass its new Digital Markets Act. Given that one of the key benefits of Brexit is supposed to be that UK can legislate more flexibly and nimbly than our stodgier and more bureaucratic European neighbours who have to forge consensus between many different member states, this is not only embarrassing but also means we lose the – potentially very valuable – first mover advantage of setting the global regulatory standards in this area, and will end up following the EU’s regulatory lead on the industries of the future.

As a result, the inescapable and urgent conclusion is that, ***no matter whether Ministers decide to introduce all the necessary reforms in a single omnibus new Competition Bill or a series of smaller pieces of legislation instead, they need to be introduced immediately rather than in late 2023 or early 2024.*** Otherwise the benefits will arrive too late to help reduce spiralling energy bills for consumers and businesses alike (prolonging the period when taxpayers and borrowings will have to provide expensive subsidies as well), and will potentially be lost altogether in the hurly-burly of an approaching General Election campaign too.

Chapter Five:

Smart Data & 'Open Everything'



5. Smart Data & ‘Open Everything’

The previous chapter explained why we need to introduce a new Competition Act much faster than was originally envisaged when *Power To The People* was published 18 months ago. This next chapter will extend the Report’s proposals for pro-competition reforms in digital markets with a single, very high value recommendation to extend our highly-successful ‘Open Banking’ reforms to cover much more of our economy in future.

5.1 Pro- Competition Reforms Create Wealth & Jobs

Power To The People argued that we shouldn’t simply aim to limit and regulate the damage which all monopolies – including the enormous newly-emerged digital network monopolies which underpin firms like Google or Facebook – inflict on their customers and suppliers. That would condemn us to treating the symptoms of consumer rip-offs forever, rather than tackling the problem at its source. Instead, we should erode and destroy monopoly power wherever possible, through pro-competition reforms such as requiring rival technical standards (like Apple and Android) to be interoperable; making switching cheaper and more convenient; and mandating data portability schemes to reduce barriers to switching and choice.



Power To The People highlighted a particular example where this approach had already been used to establish a world-leading position for the UK: the Open Banking Implementation Entity (OBIE) had created a set of standards and trusted infrastructure to allow customers to move their data safely out of their incumbent UK retail bank, so it could be used by challenger firms that wanted to offer better-value deals instead. The result has been electric: the reforms have spawned hundreds of new fintech firms, unlocked up to £18bn in benefits for household and business customers, and established the UK as a global leader in the area too.

5.2 (More) Action This Day



Since then Ministers have – rightly – been trying to build on this lead. They launched a consultation¹⁶ in September 2021 with an official Government Response¹⁷ in June 2022 that set out plans to create a pro-growth and trusted data regime.

But strategies and announcements aren’t a substitute for action, because competition never stands still. Other countries are trying not only to copy our successful reforms, but also to leapfrog our lead by applying the new standards and infrastructure in other sectors and industries beyond retail banking before we do. We’re making this easier for them, because the OBIE

¹⁶ *Data: a new direction* 10th September 2021

¹⁷ *Data: a new direction* Government Response To Consultation June 2022

has reached the end of its lifespan and Ministers haven't yet taken the necessary steps to create a bigger, broader-based successor with the legal powers to extend our world-leading position into other industries like online retailing, energy or insurance.

At present the most likely next step is for the Financial Conduct Authority to extend Open Banking to cover the rest of the financial services sector (things like insurance and pensions). That will certainly be valuable and should go ahead in any event, but will leave millions of customers (both domestic households and businesses too) in other large and important sectors of our economy (like energy and other utilities, or online retailing) missing out on £billions in benefits which won't be unlocked if they are left out of the reforms. And it will mean that the market-leading new challenger firms which will be spawned in those industries, along with the jobs, wealth and expertise which they will create, will be born and grow in other countries rather than the UK too.

5.3 The Biggest Win

To realise these potentially-huge benefits not only in the financial services sector but across the entire economy as a whole, and to prevent other countries from leapfrogging us and stealing our lead as well, ***we should immediately establish a new 'Open Economy Implementation Entity' (OEIE) to repeat the same exercise that has already been so successfully completed in retail banking for the rest of our economy too.*** It should have the same powers as the OBIE but on a wider scale so they apply to the entire economy, and the same arms-length independent Governance relationship with the Competition And Markets Authority as the OBIE had too. The OEIE should have a fixed lifespan (probably 5 years) to complete its work and, where its' remit overlaps with economic regulators in individual sectors, they must deliver a consistent set of standards and trusted infrastructure which will work seamlessly to free up all parts of the economy, so no incumbents are shielded from these important pro-competition reforms.



Chapter Six:

Foreign Acquisitions



6. Foreign Acquisitions

The previous chapter proposed extending our highly-successful ‘Open Banking’ reforms to cover much more of our economy in future. This next chapter explains how we can solve a long-standing criticism of the UK’s economic performance: that we are excellent at inventing exciting new products, but dreadful at building them into world-beating industries which create high-tech, high-skill British jobs, exports and wealth rather than being poached away to bloom and flourish abroad

6.1 ‘Buy To Build’, or ‘Buy To Gut’?



Power To The People pointed out that foreign acquisitions of UK companies are usually healthy, because they can create jobs and help firms grow faster by improving investment and export opportunities, and Britain should be proud of our status as the second-most-popular destination for Foreign Direct Investment on the planet (after USA, a much larger economy).

But the benefits of these ‘buy to build’ deals are in strong contrast to the problems that are created when a foreign firm buys a UK business and then moves everything that makes it competitively successful abroad. If these

offshoring deals are happening because Britain isn’t an internationally-attractive place to do business, then we should ask why the UK isn’t competitive and fix the underlying and fundamental problem rather than protecting sleepy UK firms from competitive pressures that would give British consumers and suppliers better deals. But in some cases these deals happen for other, anti-competitive or non-commercial reasons such as:

- a) To take out or absorb a rival technology that will threaten a big incumbent’s dominant position (‘killer’ acquisitions).
- b) To acquire key security-related technologies which will give the acquiring firm (or the country in which it is based) a strategic or tactical edge in future conflicts.
- c) Because a foreign Government wants to acquire and relocate know-how, jobs and supply chains in promising new industries as part of a national industrial strategy
- d) Because of corporate chauvinism and cultural assumptions if the acquiring firm’s headquarters, Board members and other operations are all based somewhere else than the UK.

These types of ‘buy to gut’ acquisitions hollow out Britain’s economy, prevent supply chains and industry clusters from becoming established here instead of in rival locations abroad, and mean British inventions never blossom or prosper at home, but only bear fruit abroad.

6.2 A Difficult Problem

Spotting these types of acquisitions is difficult. It is extremely hard to pick out particular types of deal from all the others, so trying to enshrine legal powers to identify or modify specific transactions creates a dangerously-slippery slope towards unpredictable and damaging political interference in all the others, which would frighten off sensible and legitimate investment in British jobs and growth, and allow the ‘losers paradox’ (that politicians are terrible at picking winners, but losers are brilliant at picking politicians) to run riot.



No country has found a credible answer to this problem so far, which was why *Power To The People* called on Ministers to ***develop new options on how to prevent fast-growing UK-based firms in fast-growing sectors from being poached offshore for non-commercial reasons, without damaging our attractiveness for FDI by creating disproportionate political risks at the same time.***

So far Ministers have taken steps to deal with ‘killer acquisitions’ through new thresholds for merger size and market share¹⁸ to trigger CMA involvement in approving deals. And Parliament passed the National Investment & Security Act to prevent poaching of key security technologies too. But that still leaves the last two types of ‘buy to gut’ deals (listed above) without a solution.

6.3 Four New Ideas



For these last two types of ‘buy to gut’ deal, how can we square the circle of not losing our attractiveness to Foreign Direct Investment while, at the same time, making it more likely that acquisitions of fast growing British companies in the industries of the future will be ‘buy to build’ transactions that create cutting-edge new industry clusters and supply

chains in the UK, rather than ‘buy to gut’ deals that ship everything overseas? There are several potential answers to this question, which Ministers should examine. They are:

1. We need ***objective and predictable criteria*** to pick out the small number of deals which might cause concerns from the much-commoner examples of desirable Foreign Direct Investment. The criteria could, for example, involve checking if the speed of growth of the target firm, or the sector it is in, are above a minimum threshold level; or gauging the rarity of the product or service by checking if alternatives or substitutes exist elsewhere; or assessing the degree of cutting-edge

¹⁸ Reforming Competition & Consumer Policy: Government Response To Consultation, ibid

research embedded in the product or service itself. Either way, the criteria should be as objective, transparent and predictable as possible for investors and vendors alike.

2. Once these transparently objective and predictable criteria have been developed and published, they should be **assessed and applied by politically-independent, technocratic regulators** rather than by politicians or civil servants.
3. Once it was clear that a transaction qualified under these criteria, the **politically-independent, technocratic regulator's remedies should focus on ensuring it goes ahead providing specific 'buy to build' conditions were satisfied, rather than on stopping it**. Examples of 'buy to build' conditions could include requiring an investor to base or relocate the management and HQ of the acquiring unit into the UK; to commit to preset levels of investment and jobs growth; or to base design capabilities and production here rather than abroad.
4. The 'buy to build' **remedies must be legally enforceable rather than voluntary (otherwise the process will have no teeth) and allow officials to prevent breaches in advance** because unpicking decisions in the courts after a condition has been breached is often impractical: you cannot unscramble eggs once they have been broken.

None of this would dilute or amend the CMA's existing, long-established duty to block any deals which are fundamentally anti-competitive in the first place. But introducing this new regime would have several important benefits:

- It would help innovative and successful British firms, new-industry clusters and supply chains to be launched and grow here rather than being poached overseas
- It would reassure foreign investors that not only will most UK acquisitions continue to be approved as usual, but also that – for the few deals where this new approach applies – our rules-based system will still behave objectively and predictably so they can have confidence that goalposts won't be moved unexpectedly or on a political whim in future either.
- It would also reassure every entrepreneur starting, growing or relocating their business in the UK that they will still be able to sell it easily for an excellent price when the time comes, because international investors won't be excluded.

More broadly, these proposals answer one of the biggest and most long-standing criticisms of the UK's economic performance since the Second World War: that we are excellent at inventing exciting new products which have the world beating a path to our door, but dreadful at building them into world-beating industries. Solving this problem would mean clusters of fast-growing firms and their suppliers, and entire industries of the future using technologies few people have heard of yet, will be born, grow and take root in the UK, creating high-tech, high-skill British jobs, exports and wealth rather than being poached away to bloom and flourish abroad.

Chapter Seven:

Summary



7. Summary

7.1 Have We Delivered 'Power To The People'?

In September 2020 Rishi Sunak (then Chancellor of the Exchequer) commissioned me to write an independent report on how to make the UK more competitive. My report was called *Power To The People*, and outlined 30 broad recommendations to deliver stronger competition and consumer choices which, in turn, would mean more jobs, make exporting firms more likely to win contracts, and give British consumers and business customers a wider range of high-quality goods and services at more competitive prices. And there would be broader benefits too, because societies where firms have to compete hard to attract and retain customers are fairer, with less injustice, because rip-offs can't become as serious, or last as long, and because people are confident that the system is on their side.



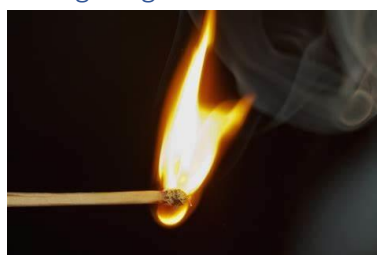
In the 18 months since the Report was published there has been good progress on all or part of 8 out of the 30 recommendations, with a further 6 which have been accepted in principle but not yet implemented. But that leaves 5 where there has only been partial agreement in principle and no implementation, and another 15 where there has been little or no progress on all or part so far.

Unfinished Revolution finds that the way we regulate some firms in sectors like energy and telecoms has been too soft, letting big, comfy incumbents get away with delivering services that are more expensive and lower quality than they should be; that rules in the energy industry need a radical overhaul because they haven't let falling prices for renewable energy feed through into household bills; that the planned 'bonfire of red tape' is barely smouldering so far; and that stronger rules are needed to stop 'buy to gut' foreign investment in British startups, while still encouraging 'buy to build' deals too.

A steadily-worsening global economic picture since *Power To The People* was published has made it's recommendations even more urgent as well. The after-effects of covid on international supply chains are pushing up inflation, stoked by spiralling energy prices from Russia's invasion of Ukraine and rising international interest rates too. Plus the Government's need to balance its books and reduce debt after three major economic shocks in 14 years mean there's much less fiscal firepower to spend or borrow our way out of trouble. So the kinds of low-cost, pro-competition, supply-side reforms which *Power To The People* recommends to unclog the arteries of our economy and turbocharge growth are the only workable alternatives left.

Now Rishi is back in Government as Prime Minister, we've got to get moving again or we risk being leapfrogged by our international competitors at precisely the moment when post-Brexit, post-pandemic Britain needs to be as nimble, productive and dynamic as possible. **Ministers should revisit these remaining 15-20 'difficult-but-valuable' recommendations from Power To The People, and immediately publish milestones and deadlines by when they will have been achieved.**

7.2 Lighting The Bonfire Of Red Tape



Free market competition isn't the 'law of the jungle': it needs rules and standards to make it work properly, so contracts can be enforced, staff aren't exploited, the environment is preserved, food is safe to eat, buildings are safe to live and work in, and monopolies or cartels can't rip off their customers. Better regulation isn't about diluting or abolishing these rules and standards, but delivering them as cheaply, efficiently and unbureaucratically as possible instead.

But every system in Whitehall and Westminster is set up to produce new rules: it's how politicians, civil servants and regulators forge their careers, and why reducing red tape never comes naturally. Red tape was cut successfully between 2010 and 2016 with a 'one-in-one-out' and then a 'one-in-two-out' system, even though it had significant loopholes because it didn't cover the EU rules that came from Brussels or the ones created by economic regulators (like Ofgem, Ofwat or Ofcom) either. But then this proven approach was abandoned and red tape costs have risen steadily ever since. Ministers have recently announced enabling reforms to review retained EU laws and remove legal obstacles to amending them, but not to fix any of the other flaws.

The rumoured solution is for a new process which will treat regulatory costs like any other form of Government spending, governed by the equivalent of a Comprehensive Spending Review process with agreed 'red tape budgets' for each public body. Treating red tape costs like spending tax revenues would be positive, but won't be enough on its own. Several further reforms will be needed too:

- The 'red tape budgets' will need tight control (the equivalent of the Chancellor's fiscal rules for tax-funded Government spending) otherwise they will simply grow indefinitely.
- There must be credible sanctions or prevention mechanisms to stop any public body overspending its' budget.
- All 13 of the current regime's loophole exemptions must be closed, and no new ones added.
- There must be tough deadlines for when the new, tougher regime will take effect.
- There must be stronger protection to prevent any reforms from being abandoned or 'de-fanged' by the deeply-embedded pro-regulation processes and culture in Whitehall and Westminster.

We need immediate changes to make the red tape regime much tougher and more effective. Detailed tinkering with Government's internal procedures and processes won't create a sustainable solution which can resist the culture of Whitehall and Westminster for long, so **Ministers should use the upcoming new Competition Bill to create a new legal duty to bind all future Governments and regulators to freeze our current regulatory burden at its' current level.** This would create a permanent anti-red-tape ratchet, because the cost of regulation would be frozen as our economy grew in future, meaning it would shrink as a percentage of our GDP every year, forever.

7.3. Problems In Economically-Regulated Sectors

The economic regulators cover big and important sectors of our economy, like telecoms, energy, banking, travel and water. The original reason for creating them was to stop firms that owned network monopolies (like electricity grids, water pipes or telecoms networks) from exploiting their customers and suppliers by charging unfair prices or delivering second-rate products or services, because they knew families and businesses didn't have a choice and could be taken for granted. If the Regulators do their job well, families and businesses get good-quality and value-for-money products and services, and regulated firms can earn a respectable but unspectacular living where they are a bit less profitable than firms in the rest of the UK economy overall, but their earnings are less volatile and more predictable in return.



The problem is that – using the regulators' own figures – while the regulated businesses' profits are indeed a lot less volatile than the rest of the market, they are often higher than everybody else's rather than lower as well. Firms regulated by Ofgem and Ofcom (but not Ofwat) have been allowed to earn monopoly profits that were both very high and extremely stable. And since these returns coincided

with sewage overflows; hosepipe bans; prolonged power outages after storms; and hundreds of millions of pounds of costs on customer bills to pay for energy firms that went bust, it is hard to avoid the conclusion that customers and suppliers were being ripped off by having to pay too much for a poor service.

In other words, large parts (although certainly not all) of our economic regulation system has been too soft, giving monopoly-owning firms an overly-easy ride on prices and quality with suppliers and customers paying the price of this failure. The recommendations in *Power To The People* will fix these underlying problems, in contrast to proposals for renationalising utilities firms which would make things worse by recreating monopolies which could then take their customers for granted no matter how badly they performed. But almost all of *Power To The People's* recommendations in this area are in the 15-20 'difficult-but-valuable' group of proposals mentioned above, which means there isn't much progress towards stopping these rip-offs yet. **Ministers should announce implementation plans and deadlines for these outstanding proposals immediately.**

7.4 Energy Shock



Since *Power To The People* was published, international wholesale gas prices have spiralled upwards. The Government has announced a huge programme of publicly-funded subsidies (an expensive but necessary – and financially unaffordable for taxpayers over anything more than a few months – fix for the short-term symptoms of the crisis) and will commission big increases in generating capacity (which is also necessary, but which will take years to build) too.

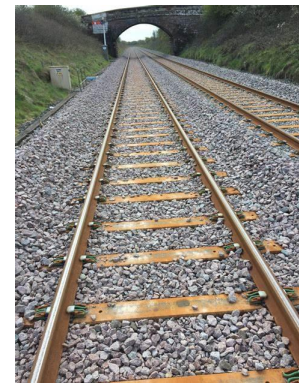
The proposals to reform Economic Regulators in *Power To The People* will solve many of the fundamental underlying economic problems in the energy sector if they are introduced promptly, plus there are four further energy-sector-specific proposals which will now be needed as well. They are:

- a) The extra generating capacity (like power plants, power-transmission lines or energy storage facilities) will take years to get through the current slow, uncertain, expensive and bureaucratically-cumbersome planning approvals process. This makes bills more expensive, delays our path to energy independence and leaves us exposed to international gas prices for longer too. **We need a new Infrastructure Bill which redesigns the process to reduce time, uncertainty and costs, without eroding democratic consent from local residents, so most decisions can be reached in weeks or months rather than years.**
- b) The new planning processes will work much better if we **upgrade and modernise the electricity grid so local residents can be offered discounted electricity as part of the community consent for agreeing to one of the newly-commissioned pieces of energy generating, transmission or storage infrastructure.** Not all communities will accept the offer, of course – that's democracy – but it would reduce the total running costs of the entire system as well, cutting billions off the country's overall energy bills every year. And it would equip the grid to cope with the coming surge in the numbers of electric cars and small local renewable electricity generators too.
- c) Because energy subsidies are short-term sticking plasters which aren't financially affordable by taxpayers for long, and also because the energy sector won't get the huge, multi-billion-pound investments it needs to upgrade and modernise energy storage, generation and the electricity grid unless the long-term rules of the sector are clear, **we need an immediate update to the Energy Bill which lays out a sustainable long-term future for the industry as well as a clear timetable with investable deadlines and milestones to outline the transition from today's highly-distorted, politicised and bureaucratic sector to the new vision.** The revised Bill should:

- Introduce all the relevant Penrose Review proposals for reforming utility regulators immediately.
 - Allow energy retailers to compete for customers by offering prices which depend on the quality of the deals they have done with their supply chains of energy generators and storage firms, in the same way as grocery retailers build supply chains with farmers and food producers too. This will ensure falling renewable energy prices always feed through to customer bills in future, unlike today.
 - Charge energy retailers for using National Grid's electricity transmission network in a way which fairly and transparently reflects both the distance their power is transmitted to reach their customers and, where necessary, their share of constraint payments if their supply contracts don't match what their customers are using too.
 - Commission enough new, low-carbon electricity generating capacity through the Contracts for Difference (CfD) process to make the UK an energy exporter by 2040, and then close the CfD process after that because the industry will be able to renew and expand the generating fleet itself from then on, without needing taxpayer subsidies.
 - When energy prices have fallen far enough, abolish both the unsustainable current Energy Price Guarantee and the old Energy Retail Price Cap, and replace both with a 'Relative Price Cap' (similar to the one which has already been successfully introduced for insurance) to protect customers against loyalty penalties; and a narrow Social Energy Tariff which would support specific, vulnerable groups of benefits claimants.
- d) **Government should get out of the way in approving new energy technologies, which can take years at present.** Contingent deals, where firms with new technologies could bid against established generators for the same contracts to provide power at a pre-set price from a particular date, providing they could satisfy the same environmental and safety standards as everybody else, would be far faster, cheaper, less bureaucratic and more nimble, and leave shareholders (rather than taxpayers or bill-payers) to carry the commercial risks if they failed.

7.5 Getting Rail Back On Track

The other sector where the Government has published proposals for reform since *Power To The People* is in rail, where the Williams Report was produced in May 2021. But the pandemic has meant railway use has changed dramatically: passengers are back using trains for leisure travel, and rail freight has done well too, but business journeys (particularly commuting) are a fraction of their pre-covid levels. And rail journeys are getting enormous subsidies which simply won't be affordable for taxpayers in future either.



As a result, many of the Williams Report plans look out of date, particularly the recommendation of a return to Government central planning, with a huge new 'Fat Controller' Quango called 'Great British Railways' (GBR) deciding everything from timetables and ticketing, right down to the colour of the trains. Plus most of the timetable will be made up of politically-commissioned services on contracts from central, devolved or local Government. The services will be local monopolies set by political barons and bureaucrats, driven by short-term electoral pressures and constrained by limited public sector investment funds, with little or no opportunity for creative or entrepreneurial firms to offer customers the choice of different prices, quality or styles of service which they expect in every other walk of life. And these new monopolies will be brittle, because if a timetable melts down, or a train breaks down, or there's a strike, there won't be an alternative train firm's service which passengers can board in a few minutes instead.

There are five amendments which will update the Williams-Shapps proposals to reflect today's new, post-pandemic world. They are:

- a) ***Put the Fat Controller on a diet***, turning GBR into a slimline system operator rather than a central planner, with the minimum powers needed to minimise delays and use capacity as efficiently as possible, but nothing more. It may eventually be possible to automate most of this, in the same way as the network management protocols on the internet (which is a far more complex system) handle traffic in real time with very high levels of reliability and efficiency too.
- b) ***Make sure GBR stays neutral***. The current proposals to combine GBR with the network owner (Network Rail) creates a permanent risk that the voices of network engineers will be louder than passengers and freight customers. This will be less fair and efficient than it should be, because it won't be putting customers first, so the system operator must be independent and equidistant from not just the train operators, rolling stock firms and ticketing services, but from the network owner too.
- c) ***For most passenger services, we should let lots of different rail firms compete every day to win passengers with a variety of competing prices, quality and styles of service, because they know customers can switch to a rival's service at any time if it is better***. Freight has already done this successfully for years, with no subsidies or political issues, so all it would need is simple, transparent route auctions so rival firms can add new or different services on the same tracks if they think they can attract enough passengers.
- d) If enough of us want to go back to commuting, ***local Mayors and Councils should still be able to take part in the route auctions, to commission extra services that got traffic off the roads or which connect isolated rural communities. But these politically-commissioned, socially-valuable services should be a last resort rather than the industry's core process, to be used only where loss-making services need public subsidy***. The contracts should be broken down to allow as many different providers on each route as possible, rather than a single monopoly firm to ensure strong and sustainable passenger choice and competition; they should include as many commercial incentives to minimize costs and build revenues as possible; they should be simple, flexible and standardized to allow more space for innovation and creativity in how the service is delivered; and should be regularly, publicly and cheaply auctioned rather than expensively tendered too.
- e) ***Network Rail's money would mainly come from keeping the proceeds of the route auctions, with taxpayer subsidies reduced steadily over time as the auctions grow***, creating strong commercial incentives to maximise economically-valuable capacity. Ultimately, Network Rail should reach the point where it needs no Government money at all, for running costs or maintenance either. The only subsidies would be from local Mayors and Councils paying train operators to run socially-valuable but loss-making services, and perhaps Government capital if new lines need to be built in future too

Giving passengers more choices in this way would have a series of important benefits. It would be less bureaucratic and more nimble, because GBR would be a lot thinner. It would be future-proof, because route auctions will allow Train Operators to change their services, and Network Rail to know which potential capacity-improving investments will add the most value, as our travel habits keep adjusting to a post-covid world. It would cost taxpayers far less, because the new commercial incentives would progressively build revenues as entrepreneurial firms attract more fare-paying passengers back onto rail; and also reduce costs by rewarding efficiency too. It would be more resilient when things go wrong, like when a timetable melts down, or a train breaks down, or there's a strike, because there would be multiple other operators on the same route to provide an alternative, rather than a single point of failure in a monopoly. It would be greener, because competitive, customer-focused trains will persuade passengers to swap short-haul flights for cheaper, lower-carbon trains between cities as

Lumo has already done between London and Edinburgh. It would slash red tape because regulators would no longer set track access or other charges; they would be replaced by auction market prices instead. And the current service specifications (hundreds of pages of highly complex technical and legal specifications) would be replaced by a few pages specifying standards to be delivered (eg safety, rolling stock performance, passenger comfort) with the 'how' left up to the provider.

7.6 A New Competition Act



Power To The People recommended a new Competition Act (the UK's first since digital-era firms like Google, Facebook and Amazon were born) to upgrade our competition enforcement regime so watchdogs like the Competition & Markets Authority (CMA) have up-to-date powers to cope with modern challenges. Ministers have already agreed in principle to most of these recommendations, but announcements aren't implementation and, unless the current legislative timetable speeds

up significantly, these reforms will arrive too slowly. This matters for three important reasons:

- a) There is no firm date for the new Competition Bill to go through Parliament, so there is a growing risk it will not be law before the next General Election is called. This would create huge political uncertainty and regulatory risks, and condemn our previously-well-regarded competition authorities and regulators to working with one hand tied behind their backs, using outdated and inadequate pre-digital legal powers.
- b) It is highly likely that urgent energy market reforms will either require an emergency Energy Bill (which would include many of the planned Competition Bill reforms) or accelerate the Competition Bill itself instead. Either way, as much as possible of the Competition Bill needs to be ready for autumn 2022, rather than 2023 or 2024.
- c) The EU is about to leapfrog the UK by passing its new Digital Markets Act. Given that one of the key benefits of Brexit is supposed to be that UK can legislate more flexibly and nimbly than our stodgier and more bureaucratic European neighbours who have to forge consensus between many different member states, this is not only embarrassing but also means we lose the – potentially very valuable – first mover advantage of setting the global regulatory standards in this area, and will end up following the EU's regulatory lead on the industries of the future.

Whether Ministers decide to upgrade our Competition and Consumer rules for the digital era in a single, large Act of Parliament or several smaller ones, they need to move much faster than today and should announce clear plans with dates and deadlines immediately. Otherwise the benefits will arrive too late to help reduce spiralling energy bills for consumers and businesses this winter, prolonging the period when taxpayers and borrowings will have to provide expensive subsidies, and will potentially be lost altogether in the hurly-burly of an approaching General Election campaign too.

7.7 Smart Data & ‘Open Everything’

Power To The People argued we shouldn’t just regulate the damage which all monopolies – including the enormous newly-emerged digital network monopolies which underpin firms like Google or Facebook – inflict on their customers and suppliers. That would condemn us to treating the symptoms of consumer rip-offs forever, rather than tackling the problem at its source. Instead, we should erode and destroy monopoly power wherever possible, through pro-competition reforms such as requiring rival technical standards (like Apple and Android) to be interoperable; making switching cheaper and more convenient; and mandating data portability schemes to reduce barriers to switching and choice.



Power To The People highlighted a particular example where this approach had already been used to establish a world-leading position for the UK: the Open Banking Implementation Entity (OBIE) created a set of standards and trusted infrastructure to allow customers to move their data safely out of their incumbent UK retail bank, so it could be used by challenger firms that wanted to offer better-value deals instead. The result has been electric: the reforms have spawned hundreds of new fintech firms, unlocked up to £18bn in benefits for household and business customers, and established the UK as a global leader in the area too.

But other countries are trying to leapfrog our lead by applying the new standards and infrastructure in other sectors and industries beyond retail banking before we do. We’re making this easier for them, because the OBIE has reached the end of its lifespan and Ministers haven’t taken the necessary steps to create a bigger, broader-based successor which can extend our world-leading position into other industries like online retailing, energy or insurance.

To prevent this, ***we should immediately establish a new ‘Open Economy Implementation Entity’ (OEIE) to repeat the same exercise that has already been so successfully completed in retail banking for the rest of our economy too.*** It should have the same powers as the OBIE but on a wider scale so they apply to the entire economy, and the same arms-length independent Governance relationship with the Competition And Markets Authority as the OBIE had too. The OEIE should have a fixed lifespan (probably 5 years) to complete its work and, where its’ remit overlaps with economic regulators in individual sectors, they must deliver a consistent set of standards and trusted infrastructure which will work seamlessly to free up all parts of the economy, so no incumbents are shielded from these important pro-competition reforms.

7.8 Foreign Acquisitions

Power To The People pointed out that foreign acquisitions of UK companies are usually healthy, because they can create jobs and help firms grow faster by improving investment and export opportunities, and Britain should be proud of our status as the second-most-popular destination for Foreign Direct Investment on the planet (after USA, a much larger economy).



But the benefits of these ‘buy to build’ deals are in strong contrast to the problems that are created when a foreign firm buys a UK business and then moves everything that makes it competitively successful abroad. If these offshoring deals are happening because Britain isn’t an internationally-

attractive place to do business, then we should ask why the UK isn't competitive and fix the underlying and fundamental problem. But in some cases these deals happen for other, anti-competitive or non-commercial reasons such as:

- e) To take out or absorb a rival technology that will threaten a big incumbent's dominant position ('killer' acquisitions).
- f) To acquire key security-related technologies which will give the acquiring firm (or the country in which it is based) a strategic or tactical edge in future conflicts.
- g) Because a foreign Government wants to acquire and relocate know-how, jobs and supply chains in promising new industries as part of a national industrial strategy
- h) Because of corporate chauvinism and cultural assumptions if the acquiring firm's headquarters, Board members and other operations are all based somewhere else than the UK.

These types of 'buy to gut' acquisitions hollow out Britain's economy, prevent supply chains and industry clusters from becoming established here instead of in rival locations abroad, and mean British inventions never blossom at home, but only bear fruit offshore. But identifying or modifying specific transactions creates a dangerously-slippery slope towards damaging political interference in all the others, which would frighten off sensible and legitimate investment in British jobs and growth, and allow the 'losers paradox' (that politicians are terrible at picking winners, but losers are brilliant at picking politicians) to run riot.

So far Ministers have announced ways to deal with 'killer acquisitions' and to protect key security-related technologies too. But that still leaves the last two types of 'buy to gut' deals without a solution. For these two remaining types of deal, how can we maintain our attractiveness for Foreign Direct Investment while, at the same time, making it more likely that acquisitions of fast growing British companies in the industries of the future will be 'buy to build' transactions that create cutting-edge new industry clusters and supply chains in the UK, rather than 'buy to gut' deals that ship everything overseas?

- a) We need **objective, transparent and predictable criteria** to pick out the small number of deals which might cause concerns from the much-commoner examples of desirable Foreign Direct Investment. The criteria could, for example, involve checking if the speed of growth of the target firm, or the sector it is in, are above a minimum threshold level; or gauging the rarity of the product or service by checking if alternatives or substitutes exist elsewhere; or assessing the degree of cutting-edge research embedded in the product or service itself.
- b) Once these transparently objective and predictable criteria have been developed and published, they should be **assessed and applied by politically-independent, technocratic regulators**, rather than by politicians or civil servants.
- c) Once it was clear that a transaction qualified under these criteria, the **politically-independent, technocratic regulator's remedies should focus on ensuring it goes ahead providing specific 'buy to build' conditions were satisfied, rather than on stopping it**. Examples of 'buy to build' conditions could include requiring an investor to base or relocate the management and HQ of the acquiring unit into the UK; to commit to preset levels of investment and jobs growth; or to base design capabilities and production here rather than abroad.
- d) The 'buy to build' **remedies must be legally enforceable rather than voluntary (otherwise the process will have no teeth) and allow officials to prevent breaches in advance** because unpicking decisions in the courts after a condition has been breached is often impractical: you cannot unscramble eggs once they have been broken.

None of this would dilute or amend the CMA's existing, long-established duty to block any deals which are fundamentally anti-competitive in the first place. But introducing this new regime would have several important benefits:

- I. It would help innovative and successful British firms, new-industry clusters and supply chains to be launched and grow here rather than being poached overseas
- II. It would reassure foreign investors that not only will most UK acquisitions continue to be approved as usual, but also that – for the few deals where this new approach applies – our rules-based system will still behave objectively and predictably so they can have confidence that goalposts won't be moved unexpectedly or on a political whim in future either.
- III. It would also reassure every entrepreneur starting, growing or relocating their business in the UK that they will still be able to sell it easily for an excellent price when the time comes, because international investors won't be excluded.

More broadly, these proposals answer one of the biggest criticisms of the UK's economic performance since the Second World War: that we are excellent at inventing exciting new products, but dreadful at building them into world-beating industries. Solving this problem would mean clusters of fast-growing firms and their suppliers, and entire industries of the future, will be born, grow and take root in the UK, creating high-tech, high-skill British jobs, exports and wealth rather than being poached away to flourish abroad.

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