



# Bitcoin: A strategic imperative for nation states and their citizens

*Freddie New, Head of Policy, BPUK*



***Not having a Bitcoin policy today is as negligent as not having an internet policy in 1994.***

We stand at the cusp of a revolution in digital money and digital payments. For all the supportive words we have heard from previous governments, the reality for the Bitcoin industry in the UK has proven very different.

Other nations are not standing idly by. In July 2024, Republican Presidential Candidate Donald Trump will speak at the largest Bitcoin conference in the world<sup>1</sup>. He will be joined by the Independent Presidential Candidate Robert F Kennedy Jr, and the former Presidential Candidate, Vivek Ramaswamy<sup>2</sup>. State legislatures in the United States are passing legislation to protect the right to self custody and the right to mine Bitcoin<sup>3</sup>. Nation states, among them Bhutan, the UAE and El Salvador, are beginning to mine Bitcoin at a state level<sup>4</sup>. Yet the United Kingdom is nowhere in this conversation. Bitcoin is a neutral, apolitical and non-partisan asset. We should not choose voluntarily to exclude ourselves from its network and its benefits.

In this manifesto, we set out matters of crucial importance for the UK and for its citizens in relation to Bitcoin - where the nation currently has a first mover advantage, which may nevertheless be very easily lost<sup>5</sup>. The UK is currently the third largest nation state holder of Bitcoin in the world. Its 61,000 Bitcoin have a current market value in excess of three billion pounds.<sup>6</sup> HMRC research shows that millions of UK citizens currently hold Bitcoin<sup>7</sup>. HM Government is duty bound not to pursue policies that will diminish the value of these holdings, and should on the contrary take steps to preserve and enhance the value of the Bitcoin that it holds on the nation's behalf.

The Free State of Saxony in Germany recently sold its Bitcoin, against the advice of Joana Cotar MP<sup>8</sup>. The amount sold by Germany is now worth c. 270 million dollars more than at the time of sale. Similarly, Gordon Brown famously sold close to 400 tonnes of the United Kingdom's gold reserves, crystallising colossal losses that now exceed twenty billion pounds. The new Labour government should take care not to make the same mistake.

## **POLICY RECOMMENDATIONS**

- 1. Ensure that Bitcoin businesses and holders are able to operate freely in the UK, with access to bank accounts and in a welcoming regulatory environment.**
- 2. Conduct feasibility studies relating to the opportunities Bitcoin mining offers in achieving the UK's net zero goals.**
- 3. Capitalise on the UK's current position as the third largest nation state holder of Bitcoin and include Bitcoin as well as gold as a Treasury reserve asset.**

<sup>1</sup> <https://www.reuters.com/technology/donald-trump-address-bitcoin-2024-conference-july-27-2024-07-11/>

<sup>2</sup> <https://bitcoin2024.b.tc/2024/speakers>

<sup>3</sup> <https://www.satoshiaction.io/work>

<sup>4</sup> <https://d-central.tech/the-seismic-shift-why-nation-states-are-turning-to-bitcoin-mining/>

<sup>5</sup> <https://bitcoin-im-bundestag.de/bitcoin-strategies-for-nation-states/>

<sup>6</sup> <https://platform.arkhamintelligence.com/explorer/entity/uk>

<sup>7</sup> <https://www.gov.uk/government/publications/individuals-holding-cryptoassets-uptake-and-understanding>

<sup>8</sup> <https://www.forbes.com/sites/digital-assets/2024/07/07/german-lawmaker-demands-strategic-overhaul-amid-bitcoin-sell-off-chaos/>

- 1. It is imperative that the United Kingdom preserves and protects the value of its Bitcoin holdings on behalf of the nation. The Government must ensure that its policies - whether in relation to trading, access to banking services, or to exchange traded funds tracking the price of Bitcoin - do not jeopardise the value of its 61,000 coins.**

Bitcoin represents an asymmetric opportunity for the nation. Creating the right conditions for Bitcoin businesses and investors can be done at relatively low cost, with disproportionately significant benefits. Simply by (i) changing the way in which the UK treats Bitcoin for tax and regulatory purposes, and (ii) providing the right environment for Bitcoin miners to support and complement our electricity grid as it becomes increasingly sustainable, this government can undo many of the mistakes of the previous government that have driven the industry offshore.

The UK is one of the largest nation state holders of Bitcoin, with roughly 61,000 coins - currently only behind the United States and China in terms of size and value<sup>9</sup>. In 2023 alone, this reserve increased in value by nearly 1.4 billion dollars.<sup>10</sup> Today, the value of the UK's holdings is close to three billion pounds.

Nearly five million adults in the UK hold Bitcoin or other cryptoassets, representing a significant portion of the population.<sup>11</sup>

However, the UK currently does very little to safeguard or preserve the value of this strategic reserve held by the state, and the value held by many of its citizens in the digital currency. The policy of the FCA towards Bitcoin has driven business and jobs away, and the attitude of the Treasury under the previous administration, classing Bitcoin as gambling, demonstrated that the UK fundamentally misunderstood the industry and the asset.<sup>12</sup>

**POLICY RECOMMENDATION 1: The government must ensure that Bitcoin businesses are able to operate freely in the UK, with access to bank accounts and in a welcoming regulatory environment, not least by ensuring that the FCA's ban on retail access to ETN products is lifted. The government should also develop a favourable tax regime both for Bitcoin companies and individuals holding Bitcoin (looking at Germany and the Lummis/Gillibrand Bill in the US as comparative examples), that will encourage inbound direct investment and simplify the circular Bitcoin economy, enabling holders to spend their Bitcoin easily and with minimal friction at any UK retailer who wishes to accept the currency. We also recommend an assessment of the Bitcoin Lightning network as a faster, cheaper and more efficient payment rail that could benefit both consumers and merchants as well as simplifying cross border transactions.**

<sup>9</sup> <https://news.bitcoin.com/us-uk-germany-among-countries-with-largest-government-crypto-holdings-arkhams-data-shows/>

<sup>10</sup> <https://www.chainalysis.com/blog/cryptocurrency-gains-by-country-2023/>

<sup>11</sup> <https://www.gov.uk/government/publications/individuals-holding-cryptoassets-uptake-and-understanding>

<sup>12</sup> <https://committees.parliament.uk/committee/158/treasury-committee/news/195246/consumer-cryptocurrency-trading-should-be-regulated-as-gambling-treasury-committee-says-in-new-report/>

2. **The government should conduct feasibility studies relating to the opportunities Bitcoin mining offers in achieving its net zero goals, including methane mitigation technologies, integration into sustainable grid infrastructure, heat recycling industries, and even home heating solutions as a cost mitigator. Useful synergies also exist between mining and nuclear electricity generation, which should be the subject of a separate study in conjunction with the government's plans in this area.**

Bitcoin mining has the potential to monetise new renewable energy plants from the earliest stages of their life cycle, and to stabilise renewable energy grids as a buyer of stranded and wasted energy, providing the highly flexible demand response that is required by sustainable energy grids, in conjunction with storage solutions.<sup>13</sup>

The UK has a tiny proportion of the global share of Bitcoin mining – roughly 0.1% of the hash rate. Even the Republic of Ireland has a greater share, with 2%.<sup>14</sup> Our press repeatedly recycles stories about the currency using too much energy (when in fact TVs and fridges in the US alone consume more power<sup>15</sup>), or being only used by criminals (when the data shows that in 2023 only 0.34% of on-chain transactions were for illicit purposes<sup>16</sup>). These stories harm the country's ability to capitalise on the value of its holdings and the advantages that our sustainable energy efforts could present.

The latest research shows that Bitcoin mining, when coupled with renewable electricity generation, can monetise new sustainable energy plants from day one, providing not only a buyer of electricity while plants wait for a grid connection, but also a flexible load demand response buyer<sup>17</sup> to ensure these grids remain stable. Miners can be located near landfills, to mitigate methane gas emissions and reduce their harmful greenhouse effect<sup>18</sup>. These plants can then provide jobs to local communities, and tax revenue to HMRC.

Grid constraints mean that the UK wastes a billion pounds a year of wind energy that cannot currently be used<sup>19</sup>. Instead, we recommend investment in an industry that will buy that wasted power from the generators, and deliver jobs, tax revenue, and businesses to the UK.

**POLICY RECOMMENDATION 2: The government should conduct (i) a review of UK landfill and farm biogas/methane sources to determine the total methane mitigation potential of building out the mining industry in the UK and (ii) feasibility studies using mining as a flexible load demand response buyer and as a buyer of curtailed wind energy, addressing relevant planning and mixed use issues.**

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<sup>13</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4899244](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4899244)

<sup>14</sup> <https://buybitcoinworldwide.com/mining/by-country/>

<sup>15</sup> <https://ccaf.io/cbnsi/cbeci/comparisons>

<sup>16</sup> <https://www.chainalysis.com/blog/2024-crypto-crime-report-introduction/>

<sup>17</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4634256](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4634256)

<sup>18</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4810964](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4810964)

<sup>19</sup> <https://www.windpowermonthly.com/article/1860633/grid-constraints-cost-uk-1-billion-per-year-wasted-wind-power-generation>

**3. Bitcoin is becoming an asset with strategic geopolitical importance. The United Kingdom has an opportunity to be a leader, not a follower, in this race, but the chance to do so is receding.**

Tulsi Gabbard, former Democratic congresswoman, has recently stated that there is value in the United States having its own strategic Bitcoin reserve. We agree - and furthermore affirm that having such a reserve is just as valuable for the United Kingdom.

Bitcoin is an uncensorable monetary asset that cannot be co-opted or confiscated by any other nation state, and would enable the United Kingdom to continue to transact with its trading partners even in the event that all other channels of transaction were closed.

Additionally, it is a hard non-liability money, which like gold requires no backing by any other asset. Holding Bitcoin in the United Kingdom's reserves as a Treasury reserve asset would digitally complement the nation's physical gold reserves, themselves sadly diminished following the disposals made by the first Blair administration as noted above.

**POLICY RECOMMENDATION 3: The UK has already positioned itself in an advantageous position as the third largest nation state holder of Bitcoin, behind only the United States and the People's Republic of China. HMG should now consider how best to develop this first-mover advantage into a longer term approach, both maintaining as a Treasury reserve this strategically important holding of a transparent, uncensorable and highly liquid asset and also implementing other policies to cement the UK's position as a global leader in an emerging industry associated with this new asset class.**

"As you know, I was a sceptic. And I studied it, learned about it and I came away saying 'OK, my opinion five years ago was wrong'. Here's my opinion: I believe Bitcoin is legitimate.

It is a legitimate financial instrument that allows you to have uncorrelated types of returns. I believe it is an instrument that you invest in when you believe that countries are debasing their currency ... by excess deficits.

'And so, I'm a major believer that there is a role for Bitcoin in portfolios.

'I believe you're going to see it as one of the asset classes that we all look at. I look at it as digital gold, as I said before... and I believe there's a great industrial use for it, and I think a lot of people are missing that"

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*Larry Fink, Co-Founder, Chairman and CEO of BlackRock, CNBC interview 15 July 2024.*