

Building our Industrial Strategy – Green Paper January 2017

Response from the Energy Intensive Users Group

General Comments

The Energy Intensive Users Group (EIUG) represents the UK's energy intensive industries (EIIs) including manufacturers of steel, chemicals, fertilisers, paper, cement, lime, glass, ceramics, gypsum, glass, aluminium and industrial gases that compete in global markets and depend on access to secure, internationally competitive energy supplies to remain in business. These foundation industries employ 200,000 people directly, support 800,000 jobs including their supply chains, and make a £15bn pa contribution to UK GDP. They are a key component and enabler for the UK's industrial strategy, and part of the supply chain for green growth.

EIUG believes that ensuring the availability of secure, internationally competitive industrial energy supplies should be a key objective of the government's industrial strategy. This is a business critical issue for the industries listed above as it determines whether they are able to continue investing with confidence in UK production, contributing to UK GDP and tax receipts, and providing skilled employment across the regions of the country. Energy costs have also become an increasingly important factor in the competitiveness of manufacturing generally, including in businesses that are part of the support chain for and/or customers of energy intensive industrial producers.

EIUG supports the government's long term aim of moving towards a low carbon economy, but has consistently argued that this objective should not be pursued at the expense of the UK's international competitiveness. Failure to maintain energy cost competitiveness merely encourages 'carbon leakage' – i.e. driving industrial production out of the UK to other countries that have less expensive climate commitments and/or more comprehensive relief from climate policy costs for vulnerable, trade exposed EIIs – which provides no solution to global climate concerns. EIUG appreciates the steps the government has started to take in providing partial relief from climate policy costs to a limited range of energy intensive companies, although much more will need to be done if UK EIIs are to be able to compete on a level playing field with respect to their international competitors. The long term aim must surely be to find ways of making low carbon energy and industrial emission technologies more affordable, so that it is feasible for them to be deployed globally. EIUG therefore believes that UK climate policy should focus less on costly short term deployment and more on long term R&D and commercialisation to ensure future generations can benefit from affordable and competitive low carbon energy supplies and industries, and trust that this objective will be a clearly stated objective of the government's new industrial strategy.

EIUG welcomes the government's acknowledgement in the Green Paper that security of energy supply is foundational and the recognition that higher priority needs to be given in the years ahead to the affordability of energy for businesses. We appreciate the explicit references to the need to reduce the impact of policy costs on electricity supplies to EIIs, and the frank admission that UK industrial electricity costs have become internationally uncompetitive. We are pleased by the commitment to set out a long-term roadmap to minimise UK business energy costs, and trust that there will be an opportunity for EIUG to participate directly in this process recognising our expertise in this area. We would question however the assertion that 'The difference between UK industrial electricity prices and those of other European countries is now mainly due to higher wholesale and network costs' (wholesale costs are in any case inflated by unilateral UK climate policy costs such as the Carbon Price Floor). We would therefore like the opportunity to discuss this further with BEIS with a view to achieving at a common understanding of the factors driving industrial electricity prices, and what could therefore be done to restore their international competitiveness.

Responses to Energy-Related Consultation Questions

27. What are the most important steps the Government should take to limit energy costs over the long-term?

Energy policy should focus on achievement of decarbonisation at affordable and least cost to energy users. This is most likely to be achieved by abandoning arbitrary, politically driven targets for deployment of specific technologies and allowing maximum flexibility for investors to determine the mix of energy sources, storage, demand management, energy efficiency and carbon reduction technologies consistent with the government's security of supply and decarbonisation objectives.

Specifically, the government should phase out technology specific subsidies for large scale deployment of low carbon generation technologies. To the extent that subsidies will remain necessary over the long term in order to meet carbon targets, these should be technologically neutral, avoiding discrimination between equally secure forms of low carbon energy.

The government must take care to ensure that the UK's carbon targets, and policy interventions required to achieve them (such as carbon pricing) are minimal and do not compromise industrial competitiveness, particularly with respect to industrial energy costs.

EIUG believes BEIS should take care to ensure regulatory drivers for the energy markets are more explicitly aligned with the new industrial policy, e.g. by reviewing relevant guidance to Ofgem, and checking that governance arrangements to ensure industrial user interests are properly represented. One specific area of concern is the need to control network costs, both overall and in terms of cost allocation. As BEIS has acknowledged, UK industrial users bear a higher proportion of network costs than EU competitors. This is another element of UK industrial electricity pricing, in addition to high wholesale and climate policy costs, that is out of line with international practice.

EIUG also believes BEIS should commit to reinstating annual energy statements. As a minimum, these should include assessments of the individual and cumulative impact of climate policies on energy prices to all categories of user, including EIIs, both before and after any relevant compensation or exemption measures are applied.

EIUG would also welcome greater clarity on how cross cutting issues such as industrial energy prices could best be dealt with in respect to sector deals.

28. How can we move towards a position in which energy is supplied by competitive markets without the requirement for on-going subsidy?

This can best be achieved by phasing out technology specific deployment subsidies (as mentioned above) in order to allow the energy and carbon markets to work efficiently. There is no reason in principle why this should not occur naturally in energy markets where externalities are appropriately priced (e.g. for social carbon costs, through taxation or emissions trading). There are limits to the extent that external costs can be fully internalised and borne by UK EII manufacturers given the need to remain internationally competitive, at least until such time as competing economies are subject to similar carbon constraints as the UK.

It should be noted that externalities are not limited to environmental impacts of energy production and use – they also include impacts on security of supply, including backup, network and other integration costs that result from the enforced or otherwise artificially stimulated deployment of

intermittent energy generation technologies such as onshore and offshore wind, solar, etc. These externalities need to be internalised too, if the energy market is to be economically efficient. This requires costs and benefits of each technology to be appropriately reflected in the trading and charging arrangements to which they are exposed.

29. How can the Government, business and researchers work together to develop the competitive opportunities from innovation in energy and our existing industrial strengths?

EIUG believes lessons can be drawn from recent collaborative working between BEIS, heat intensive industry sector organisations and companies in the development of ‘Decarbonisation and energy efficiency sector roadmaps and action plans’, which are due to be published later this year. We hope BEIS will review the findings of this project to inform future thinking about energy and energy efficiency policy, and how this might contribute to the success of industrial policy with respect to EIs specifically as well as industry in general.

Sector associations will be commenting on this in more detail, but EIUG would draw BEIS’ attention to general themes that have emerged from the decarbonisation roadmap process – such as the need for UK Government to establish research and demonstration funding streams to support the sustainable development of EIs, for better communication and knowledge transfer to support uptake of new opportunities, and promotion of cross sector working groups where necessary to complement the work of trade sector associations and/or other representative organisations. There is also potential value in collaborative work to develop more sophisticated metrics to monitor resource and energy efficiency that adequately take into account life cycle impacts of industrial products, including durable materials and other products that contribute to energy savings in other sectors of the economy.

30. How can the Government support businesses in realising cost savings through greater resource and energy efficiency?

Government can support industrial energy efficiency by allowing businesses to benefit from instruments to encourage financing of more investment in this area such as capital allowances. Targeted government funding for enhanced energy efficiency is also an option for certain industries where relief is required to prevent carbon leakage but it is impractical or inappropriate to provide this in the form of compensation or exemption from the impact of climate policy costs. Energy taxation can also support industrial energy efficiency – e.g. the substantially reduced rate of Climate Change Levy available for EI bound by negotiated agreements for energy efficiency improvements in their sectors.

Sector associations and companies will be able to comment on the technical potential for deployment of enhanced energy efficiency measures that go beyond what is currently commercially viable in the absence of government support, as well as options for maintaining access to European funding programmes (e.g. LIFE, Horizon 2020) after Brexit or developing UK Government funded alternatives that offer similar levels of support.