

## **BIS Committee Inquiry into the Government's Industrial Strategy**

### **Submission from the Energy Intensive Users Group**

1. The Energy Intensive Users Group (EIUG) represents the UK's energy intensive industries (EIs) including the manufacturers of steel, chemicals, paper, glass, cement, lime, ceramics, aluminium and industrial gases. 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.

2. EIs operate in highly competitive global markets and therefore require continuous access to secure, internationally competitive energy supplies to remain in business. In order for this to be achieved, and for these industries to continue investing and operating in the UK, it is essential that energy, climate and industrial policies are aligned, so that UK based EIs are not left at a disadvantage with respect to their international competitors both in terms of cost and of security of supply.

3. EIUG has been concerned for many years about the tension between the objectives of industrial policy (including energy security and cost competitiveness) and those of climate policy, with the latter tending to take priority. The creation of BEIS presents an obvious opportunity to bring these policy objectives into a more balanced alignment. We are encouraged by the Prime Minister's recent comments on the need to ensure the reliability of energy supplies with lower costs to users, and hope these objectives will be reflected in the government's industrial strategy.

4. EIUG believes the government should develop a long term industrial strategy that recognises the strategic benefits of maintaining EIs within the UK economy, with the vision of becoming host to the world's most energy and carbon efficient EIs. As part of this strategy, it should also recognise that protection against carbon leakage will need to be maintained unless and until competitor economies are prepared to subject EIs to similar levels of decarbonisation costs as those to which the UK has already committed itself. EIUG believes the government should focus on the need to reduce consumption emissions (i.e. taking account of emissions associated with imported goods) as well as production emissions to ensure climate policy is genuinely resulting in decarbonisation, not deindustrialisation with respect to EIs.

5. As with other aspects of industrial policy, a long term view with stable policy goals is needed, mindful of the fact that EIs (as with much of the energy industry) tend to be capital intensive with long investment cycles, often measured in decades.

6. To be successful, industrial strategy requires a joined up approach involving all government departments, not just BEIS. Relevant departments most obviously include HM Treasury, but also DEFRA, DEEU and International Trade, and possibly others, depending on the specific issues concerned.

7. The need to maintain international cost competitiveness should apply to all aspects of EI energy supply costs including (but not necessarily limited to) wholesale prices, network and balancing costs, carbon costs (whether through taxation or as a result of emissions trading), renewable and other low carbon subsidy costs, capacity charges or other security of supply obligations, and direct energy supply taxation. In addition, the cumulative burden of such costs also needs to remain within international norms. In due course the government will have to decide (subject to negotiation) which if any of these costs will remain influenced or driven by EU policy, and/or constrained by EU state aid rules with respect to any compensation or exemption measures applied to EIs to prevent carbon leakage.

8. The bringing together of UK industrial policy with energy and climate responsibilities within a single government department presents a welcome opportunity to integrate policy for the benefit of industry generally, and EIs in particular.

9. It will also be necessary to develop support policies for development and implementation of a range of industrial decarbonisation technologies (including, but by no means limited to, carbon capture and storage, energy efficiency, heat recovery, fuel switching, electrification of heat) to reduce EI fuel and process emissions if the government's long term decarbonisation goals are to be realised whilst retaining EIs within the UK economy. Ongoing work being carried out by BEIS in conjunction with EI companies and sector associations to develop action plans to deliver sectors' Industrial Decarbonisation and Energy Efficiency Roadmaps to 2050 provides a useful example of the sort of collaborative approach that has proved valuable to industry, and that EIUG would like to see implemented and also replicated in other aspects of industrial policy development.

10. EIUG hopes that the BIS Committee will encourage the government to make a formal commitment to maintain secure, internationally competitive energy supplies for trade exposed EIs, for the reasons outlined above, as a key feature of the new industrial policy.