

E&CCC Inquiry – Leaving the EU: implications for UK climate policy

Written submission from the **Energy Intensive Users Group**

General Comments

The Energy Intensive Users Group (EIUG) represents manufacturing industries such as steel, chemicals, paper, glass, cement, lime, ceramics and industrial gases that are highly exposed to international competition and depend on access to secure, internationally competitive energy supplies to remain in business. These foundation industries directly employ around 200,000 people and including their supply chains support around 800,000 jobs across the country, often in economically challenged areas, whilst making a £15bn pa contribution to UK GDP

- What role has the UK played within the EU in terms of driving the bloc's international climate change ambitions?

The UK has chosen to make significantly deeper and hence more expensive emissions cuts relative to 1990 levels than its EU competitors, and unilaterally committed itself to a highly ambitious legally binding emissions target for 2050 regardless of whether any other country in the EU or elsewhere in the world is prepared to make a similar commitment. It is less clear how successful this has been in persuading other countries, inside or outside the EU, to follow suit. It should be noted that the apparent success in driving down UK and EU *production* emissions has not been matched by a reduction in *consumption* emissions – i.e. when taking account of emissions associated with imported goods which are currently rising, according to government data. Should investment in UK manufacturing decline after Brexit this would further accelerate the rise in consumption emissions, although production emissions would fall faster as the UK economy de-industrialises.

- What should be the Government's priorities on the EU Emissions Trading System when negotiating the UK's exit from the EU? What would a successful negotiation outcome look like?

A successful outcome would be one that does not leave UK energy intensive industries (EIIs) at a competitive disadvantage in global markets either in terms of the direct costs of production emissions or the indirect cost increase in energy prices, relative to their global competitors. Failure to achieve this would simply increase the risk of carbon leakage from the UK, for no benefit in terms of global emissions.

- What are the implications of the UK's exit from the EU on both the UK's and the EU's COP21 pledges? What will be the UK's future role within the United Nations climate change processes?

The EU's collective pledge for 2030 is likely to have to be reviewed, since most EU competitors were unprepared to match the scale of UK's unilateral commitment. It is likely that the EU ambition will have to be reduced, unless other EU members with large economies (e.g. Germany, France) are prepared to commit themselves to even more costly level of decarbonisation to avoid additionally burdening economically weaker member states.

- What should be the Government's priorities in deciding which EU-led climate policies and legislation to retain?

Integration of Climate, Energy and Industrial Policy

The government must take an integrated approach to climate, energy and industrial policy so the UK EIs can compete on a level playing field – an approach that should fit well with the remit of the Department of Business, Energy and Industrial Strategy.

The government should adopt a pragmatic approach that balances emission reduction with the need for sustainable industrial growth. EU targets are unilateral, arbitrary, and absolute. The UK should instead pursue an approach that encourages carbon-efficient production growth. If we can create this type of framework, we have a much better chance of reducing emissions on a global basis and preventing carbon leakage.

The strategy should include a formal commitment to ensure that vulnerable, trade-exposed UK EIs will bear no higher climate burden in terms of energy prices or other carbon emissions costs than their European competitors, as a minimum, with the long term aim of achieving parity with their global competitors. This principle should apply regardless of whether the UK retains formal membership of the single European market.

The government should re-visit the UK's intention of attempting to meet the EU 2020 renewable target, which would require a near doubling of renewable energy consumption in the next four years in order to be achieved – something that is neither technically feasible nor. It should similarly reject the EU's illogical approach to the promotion of energy 'efficiency', which instead of being focussed on energy *productivity* (which would be desirable) is instead driven by arbitrary targets for reduction in energy *use*, regardless of whether such reductions are economically or environmentally beneficial.

The government should instead prioritise the reduction of carbon emissions at *least cost*, across all sectors (electricity generation, industry, transport or the domestic sector) in line with our international obligations under the UN Framework Convention on Climate Change.

Alternatives to the EU Emission Trading Scheme

There is a risk that Brexit negotiations could lead to the UK remaining bound by EU climate change and energy legislation and targets but without a meaningful way of influencing their development. Given the severity of the risk to UK industry, the government should consider carefully whether UK EIs should remain subject to the EU ETS at all, and explore alternative options that could enable long term climate objectives to be met with significantly lower risk of industrial carbon leakage.

Access to Research and Development Funds Associated with Climate Change Mitigation

The government should also consider how UK companies might continue to have access to EU research funds to support industrial decarbonisation (e.g. Horizon 2020 and Life), and any funding for investments that may be supported through the EU ETS, where this is of mutual benefit to UK and EU industry. Irrespective of whether EU research funds remain available, it would seem appropriate for the government to continue to support research into energy storage, efficiency, and related technologies as a valuable potential export market.

Climate Change and Energy Taxation

The UK's unilateral Carbon Price Floor should be abolished at the earliest opportunity, and in any case by 2025 when coal fired power generation will have ceased to be part of the UK generation mix. It should also be noted that EU state aid rules currently prevent a number of vulnerable, trade-exposed EILs from receiving the compensation they need to mitigate the impact of carbon pricing on their electricity costs, and limit compensation to 85% or less of the impact of carbon and renewable subsidy costs to those relatively few companies and industries that are fortunate enough to qualify for such relief. If in the UK does not have to comply with EU state aid rules after Brexit, these restrictions should be removed.

In due course, the government will need to clarify whether UK power generation and energy intensive manufacturing processes will remain subject to the EU emissions trading scheme, some analogous mechanism, or a completely different alternative approach (such as a consumption based approach highlighted in Q1). This may be determined by the nature of the exit and trade agreement with the EU. The government should use the departure from the EU as an opportunity to review how to reduce emissions from EILs.

During the period ahead of Brexit the government should ensure outstanding issues such as the second state aid case for relief from RO/FIT costs are satisfactorily resolved as swiftly as possible, so that fewer UK EIL companies are left at a disadvantage with respect to their EU competitors as they are at present. Post Brexit, depending on trading arrangements agreed, the government may or may not remain constrained by EU state aid regulations with respect to relief to EILs from climate policy costs. Either way, the government should ensure that unilateral UK/EU climate policies do not result in UK EILs being left at a competitive disadvantage in global markets, and hence at risk of carbon leakage, after Brexit has taken place.