Energy Intensive Users Group

British Ceramic Confederation
Chemical Industries Association
Mineral Products Association
Major Energy Users Council
UK Steel
British Glass Manufacturers Confederation
EnergyQuote
Confederation of Paper Industries
Alcan; Anglesey Aluminium
BOC; Air Products

Lord Marland of Odstock
Parliamentary Under Secretary of State
Department of Energy & Climate Change
3 Whitehall Place
London
SW1A 2AW

1 July 2010

Dear Lord Marland,

Thank you for your letter regarding your welcome commitment to ensure that the burden of regulation for business is kept to a minimum.

The Energy Intensive Users Group (EIUG) is an umbrella organisation representing intensive industrial energy consumers which campaigns for secure, internationally competitive industrial energy supplies. The intensive sector has a critical role to play in a rebalanced UK economy; intensive industry in the UK directly employs 225,000 workers and contributes over £15 billion to UK GDP. To provide a strong foundation upon which to build a sustainable low carbon future, it is vital that the UK remains a good place for energy intensive manufacturing to do business.

Our role within a Low Carbon Transition

Overall, energy intensive sectors have the biggest incentive to be efficient as controlling energy costs is vital to their long term profitability. Energy intensive manufacturers in sectors such as steel, chemicals, paper, cement, glass, ceramics, aluminium, industrial gases, etc., provide many of the materials and products that are at the heart of a low carbon economy; sustainable, long-life products; recyclable products; and products that go to make the low carbon generation and energy efficient homes for the future. As well as creating the raw materials for wind farms and nuclear reactors, they help UK customers reduce their energy use by providing homes with energy efficient glass, insulation and fertilisers to help grow carbon absorbing trees and crops. UK intensive industry is both energy and carbon-efficient relative to its international competitors. Retaining intensive industry in the UK will avoid carbon leakage and make the supply chain for a low carbon economy sustainable and economically viable.

The Cumulative Burden on Intensive Industry

It is the *cumulative* cost of the UK government's myriad climate policies that is of greatest concern to our members. EIUG and TUC have jointly completed a study of the impact of regulation and policies associated with energy and climate change on a sample of intensive industries in the UK (a copy of which is attached to this letter, in confidence). The increase in total energy bills for the businesses studied is projected to be between **18% and 141%** by 2020. The projected percentage cost increase of current, known climate change policies for these users by 2020 is staggering. There is no doubt that the cumulative effect of the cost burden on this scale has the potential to destroy the manufacturing businesses that we studied.

What Does Intensive Manufacturing Require

1. A fair and equitable share of the transition cost

Intensive manufacturers require policies that achieve an equitable transition to a low carbon economy, with appropriate burden sharing between all sectors of the economy. The Renewable Energy Strategy[i] recognises that costs will be higher for energy intensive customers, but fails to quantify them. The Transition to a Low Carbon Economy document acknowledges that there is a significant risk of leakage within energy intensive industries, but fails to consider the wider implications of this[ii].

2. A cost burden that will enable it continue to compete within and outside the EU

UK intensive industry has demonstrated its ability to compete within a global market by driving cost efficiency and investing in energy efficient technology. However, EU intensive industries frequently receive relief or a discount from the cost burden of climate change policies[iii]. Outside Europe, there are many places where energy costs are subsidised by national governments and cost-raising climate change policies may not exist at all. A unilateral move to increase the 2020 emissions reduction target from 20% to 30% would add even more to this burden and would be catastrophic for UK industry.

3. Greater regulatory certainty

Investment decisions by multinational companies are being made now for projects to be delivered over the next few years. All the participating companies reported increasing reluctance to invest in the UK given a) the scale of climate change costs and b) the uncertainty surrounding the climate change regime and its impact on energy prices. The lack of clarity on the impact of RHI, the discussion about in increased ambition regarding the emission reduction target and lack of certainty with regard to the implementation of a carbon floor price linked to a change within CCL being the key issues cited.

4. Reduced regulatory complexity

The web of overlapping levies and taxes[iv] is becoming ever more complex and impenetrable for industry to understand, assess and manage. A simpler, more transparent and consistent regime would be welcomed by intensive industry and would presumably reduce the bureaucratic burden for UK government.

Proposed Way Forward

In the light of this, we request that the government review the impacts of climate change policies on energy intensive sectors as a specific group to ensure that the burden being place on them is neither excessive nor disproportionate to both other sectors of the UK economy and against their competitors internationally. In future, it must ensure that that all climate change policies are accompanied by impact assessments that look at the *cumulative* effect of related policies on energy intensive users specifically.

There is also a requirement to clarify policies such as the RHI so that intensive users can plan for the future against a more stable economic background.

We would of course be happy to arrange to brief you on the findings of the EIUG/TUC study and discuss in more detail the actions we believe government should take to ensure the burden of policies and regulations associated with energy and climate change is a manageable one for intensive industries.

Yours sincerely,

Jeremy Nicholson
Director - Energy Intensive Users Group

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[i] UK Renewable Energy Strategy, Overall Impact Assessment, DECC, para 63, (July 2009).
[ii] The Low Carbon Transition Plan, DECC, technical annex, (2009).
[iii] Characteristics of RES support schemes in different EU Member States, IFIEC Inquiry, (2007)
[iv] Policies that we would class as being "climate change policies" are:

- Renewables Obligation (RO),
- Climate Change Levy (CCL),
- EU emissions trading scheme (EU ETS),
- Renewable Heat Incentive (RHI),
- Carbon Capture and Storage (CCS) levy,
- Carbon Reduction Commitment (CRC) and
- Feed in tariff (FIT).
- EDCM and CDCM distribution charges