EIUG response to BIS Call for Evidence on Compensation for the indirect costs of the Carbon Price Floor and EU Emissions Trading Scheme (ETS)

Do you agree that a combination of an electricity-intensity criteria and trade intensity criteria is the best way to assess who is at risk of indirect carbon leakage? If not, please explain what alternative criteria you would support.

We broadly agree with the focus being on electricity-intensity criteria – but government must also recognise that carbon leakage vulnerability is affected by cumulative impact of climate policies. Historic trade intensity does not necessarily give full picture of future trade exposure. We may shortly reach tipping point for a number of activities within EIUG sectors – a critical issue for intra-EU trade, where historically there has been no carbon-related power price differential of the sort due to arise from CPF. Some intensive sectors report rapidly rising imports in recent years – there is a vital need to assess vulnerability on the basis of the most up to date data available.

Basing eligibility based solely on an assessment of direct sector trade exposure will not however address the issue of CPF/ETS impact on industrial gas production costs passed on to UK steelmakers, chemical processes, etc. – an exception should therefore be considered for such highly electro-intensive processes whose products are essential, and represent a significant cost, to other more highly trade-exposed intensive industries.

At what level should eligibility criteria be applied – at sector level, sub sector level company level, site level, or at 'industrial process' level ? Please support your answer with evidence.

In general, we support installation-based eligibility criteria for assessing electro-intensity, capturing data for UK production in the energy intensive part of these businesses – i.e. lowest practical level – intensive industries where power costs are business-critical will be able to provide good quality data – this is preferable to sector-level assessment for those sectors with 100s of companies / 1000s of products, not all of which will be equally electro-intensive and hence vulnerable to carbon leakage. However it is important to avoid introducing distortions which might cut across same sector products or competing products made from different materials. We recognise trade exposure (or trade intensity as a proxy) may be impractical to assess on anything other than a sector or sub-sector basis – companies may however have robust evidence of circumstances in which trade exposure for certain specific goods differ significantly from sector averages which could legitimately be taken into account.

What level of compensation would be appropriate to offset the impact of policies on international competitiveness? Should there be a sliding

scale of compensation and/or a de minimus threshold to enable compensation to be targeted at those with the greatest exposure? If yes, how should this be determined? Please support your answer with evidence.

Full compensation should be provided for vulnerable processes and installations to ensure a level the playing field with respect to their international competitors. If current budgets are inadequate to allow for this, they must be expanded – this issue will become increasingly critical for all intensive processes, not just the most highly electro-intensive, as indirect costs escalate over the decade ahead. We accept that a de-minimus threshold may need to be applied for reasons of practicality – care must be taken however to minimise the risk of distorting competition within the UK between products and/or processes eligible to receive compensation and those that are not.

At what level of electricity intensity and trade intensity (or your preferred criteria) would you consider a site or installation's current or future operations to be significantly impacted by rising electricity prices. Please explain your answer with evidence.

Eligibility criteria should be set to ensure that, at the very least, UK energy intensive sectors, processes or installations, are not left at a material disadvantage compared with their key competitors within the EU single market. EU ETS carbon leakage criteria would therefore appear to be an appropriate starting point, i.e. where electricity costs exceed 5% of GVA for a process or installation and extra-UK trade intensity is greater than 10%, or where direct plus indirect costs exceed 30% of GVA for a sector, process or installation regardless of trade intensity.

What data collection process could Government put in place to make an assessment of those installations most at risk of indirect carbon leakage that would provide robust data without imposing disproportionate burdens on business?

As BIS is aware from previous data gathering exercises, official data is inadequate for this purpose in a number of areas. Where sectors or companies can provide better data, subject to independent audit, government should use it. Much data is already available at company and/or sector level, and again much of it audited (e.g. for CCAs). This is an area in which discussions with both BIS and DECC have been on-going for several years. We refer to the work of the ETG on this subject.

It is important that data is updated periodically, but also desirable that companies do not move in or out of eligibility as a result of short term fluctuations in their business – we would therefore suggest data be updated annually and reported as an average over (say) three years. Those who qualify against thresholds set to fit the current budgets should remain eligible for compensation until 2020 to ensure they have the predictability for business planning purposes. All energy intensive industries have access to robust data on electricity expenditure on an installation or process basis, so the additional cost (if any) of having this audited and sharing it with government should not prove disproportionate burden for companies that wish to establish the case for compensation.

Is there are any other evidence, information or comments that you wish to make that would support this call for evidence and haven't been covered elsewhere? If so please use the box below

EIUG appreciates the government's recognition of the need for compensation, and other mitigating measures, for industries at risk of carbon leakage. We have endeavoured to provide constructive suggestions, wherever possible, in response to the questions posed in the Call for Evidence.

Nevertheless, we also wish to record our concern that the level of compensation announced for the Spending Review period is inadequate to mitigate the indirect impact of CPF and EU ETS on intensive industries – and, as yet, no compensation or exemption has yet been confirmed to address the equally important, rapidly escalating impact of renewable subsidies on the relative cost of industrial electricity supplies. It is essential therefore that government responds, in due course, with an adequately funded, comprehensive 'phase 2' commitment that recognises the true cumulative impact of climate policies on all energy intensive industries, mitigating the risk of carbon leakage unless and until international agreements, or other developments, mean this is no longer required.

Government may also need to show flexibility in the short term in allocating compensation funds depending on whether there is convergence or divergence between the CPF and the price of EUAs.