9 July 2020

Darren Jones MP
Chair of the Business, Energy and Industrial Strategy Committee

EIUG
Energy Intensive Users' Group

6th Floor
Kings Buildings,
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London SW1P 3JJ

Dear Darren,

Thank you for the opportunity for the Energy Intensive Users Group (EIUG) to give evidence on 2nd July concerning the Committee on Climate Change's (CCC's) 2020 Progress Report.

The EIUG represents the UK's Energy Intensive Industries (EIIs) including manufacturers of steel, chemicals, fertilisers, paper, glass, cement, lime, ceramics and industrial gases. Our members produce materials which are essential inputs to UK manufacturing supply chains. This includes materials which support climate solutions in the energy, transport, agriculture and household sectors and are therefore essential for the construction of the new net zero UK economy. They make an annual contribution of £15bn to the UK economy, supporting 200,000 jobs directly and 800,000 jobs indirectly.

The UK's EIIs want to work with the Government help them achieve their Net Zero targets and to reduce global carbon emissions, but this starts with competitive energy pricing for UK industry.

Competitive energy prices

EIIs based in the UK are already at a financial disadvantage to many of their global competitors as a result of the high electricity costs and the UK only Carbon Prices Support. The UK's EII's face some of the highest electricity prices in Europe, with prices being as much as 80% higher than key competitors because of the policies that place the burden of funding decarbonisation mostly upon intensive energy consumers.

If future costs are placed on EII's for new nuclear, decarbonising heat, CCUS and electricity network reinforcement (for the electrification of transport), EII's will eventually be priced out of the UK, only for their products to be replaced by imports, which will contain embedded carbon.

Besides the impact on direct competition, there is also an impact on long-term investment. Many of the UK's EIIs are internationally owned and there is evidence that investment is being withheld from the UK until clear policies are in place for the decarbonisation pathway. A clear energy strategy will enable industry to understand the risks and invest in the decarbonisation technology accordingly.

There is much in the CCCs report that we welcome. Specifically, the EIUG welcomes the reports mention of a hydrogen strategy, CCS investment, the support for investment in industry and acknowledging that offshoring equals failure of UK policy.

The EIUG believes that it is the right time for a green recovery in the UK because of the opportunity created by Brexit, the global economic drivers and COP26. However, the UK needs to focus its efforts into 4 key area's:

- effective energy and environmental policies,
- appropriate funding mechanisms to not disadvantage UK industry
- understanding and funding of the Just Transition framework and
- hardwiring Net zero into long term planning.

The EIUG would support a just transition commission for the UK as it would help focus attention on the levelling up agenda and help ensure that regional development and decarbonisation progresses. This would effectively provide an insulation against de-industrialisation.

Consumption Vs Production emissions

The EIUG believes that the CCC's mandate is biased against territorial emissions and implicitly supports de-industrialisation and the importation of embedded carbon in goods produced overseas. The mandate needs to be amended to take a balanced view of both territorial and consumption emissions and to set carbon budgets for both.

We do not agree with the CCC's conclusions on offshoring of industries as there is ample evidence that offshoring and carbon leakage are a clear and imminent danger to the UKs manufacturing economy. Reducing carbon emissions from UK production achieves nothing from a global perspective if the UK is simply increasing imports and the associated emissions. The UK accounts for only 1% of global carbon emissions so we will not resolve the global carbon challenge on our own. COP26 could provide the platform to get the commitment from all countries that will be needed to reduce global carbon emissions. It is crucial to the success of the UK's current strategy of "carbon leadership" that other countries exhibit "carbon followership" in reducing their own emissions. The UK should take a realistic view of whether that is happening or not to inform its future decision making on policy for within the UK.

Decarbonisation funding

The UKs EIIs have already invested heavily in decarbonising their production. To achieve the next level of decarbonisation though, major investment in infrastructure development such as electricity network reinforcement, hydrogen networks and CCUS is needed. This is not achievable for EII's individually (either financially or technically) but will need the co-operation of multiple organisations and will take time to implement.

All energy intensive industries with trade exposure are at risk if we do not get the financing of the green recovery right. The EU has announced €1.1 trillion of investment, over 30 years for its Green Deal, as well as a further €750 billion for post COVID recovery (and also a separate €540 billion for immediate pandemic support). Currently committed levels of UK funding are orders of magnitude smaller. Overall, the UK carbon transition needs to be funded at around 20% of the level of EU27 funding.

If the UK gets the policies that support net zero right, we could become a world leader in the industrial decarbonisation policies and processes that will attract industry to the UK. Get this wrong, and the financial burden of decarbonisation will result in UK industry becoming uncompetitive in the global marketplace. British businesses will be forced to close or relocate to other parts of the world which will do nothing to achieve the global decarbonisation targets, and will only exacerbate the economic hardship felt in many parts of the UK today

Yours sincerely,

Andrew Large
Chair, Energy Intensive Users' Group