

## **The MCCG AND EIUG CAUTIOUSLY WELCOME CHRIS SKIDMORE'S NET ZERO REVIEW AND CALL ON GOVERNMENT TO MITIGATE THE RISK OF CARBON LEAKAGE AND OFFSHORING OF INDUSTRY**

**London, 17 January 2023** – The MCCG and EIUG cautiously welcome Chris Skidmore's Net Zero Review. It provides practical recommendations to maximise economic investment, minimise the cost of decarbonisation and create the necessary low carbon skills. Both organisations call on Government not to ignore his recommendations to;

- consider the risk of production moving abroad as a result of climate action (i.e. carbon leakage) and ensure that sufficient mitigation measures are in place;
- extend the Industrial Energy Transformation Fund further and increase its budget by £185 million, in line with the Conservative Manifesto;
- develop and implement an ambitious and pragmatic '10 year' delivery roadmap for the scaling up of hydrogen production and act quickly to re-envisage and implement a clear CCUS roadmap, by the end of 2023.

Ignoring these recommendations in Chris Skidmore's review risks decarbonisation of industry by deindustrialisation and carbon leakage.

Arjan Geveke, EIUG Director, comments:

*"Now is the time for the Government to act. Meeting the UK's climate change objectives can be an opportunity for industry, but only if Government introduces new funding, provides mitigation measures against the risk of carbon leakage, and works with industry to create a supportive business environment with competitive energy and carbon prices to enable investment in decarbonisation."*

*"As Chris Skidmore points out, carbon leakage poses a risk to UK growth through forgone investment in UK industry, offshoring of production and jobs, and greater impacts from climate change associated with higher global emissions".*

*"Other governments across Europe are providing substantial support to their energy intensive manufacturers, while also providing competitive energy prices. The UK Government needs to at least match this, or risk further carbon leakage and deindustrialisation."*

### *Risk of Carbon Leakage*

The review states that 'carbon leakage poses a risk to UK growth through forgone investment in UK industry, offshoring of production and jobs, and greater impacts from climate change associated with higher global emissions' and it calls on Government to progress its consultation on carbon leakage measures, including a carbon border



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adjustment mechanism (CBAM) and mandatory product standards by 2023. It also highlights that *'any development of the UK ETS carbon pricing regime should consider the risk of carbon leakage and ensure that sufficient mitigation measures are in place'*.

The MCCG and EIUG call on Government not to ignore Chris Skidmore's recommendation and properly consider to what extent industries are at risk of deindustrialisation due to climate action. It should also publish its assessment and propose policies to ensure that sufficient measures are in place to mitigate this risk before it makes any decisions on a Net Zero consistent UK ETS cap and allocation of free allowances. The EIUG and MCCG would welcome Government's engagement on this, as he recommends.

### *Energy Efficiency*

The MCCG and EIUG support the review's recommendation to accelerate and unlock the potential of energy efficiency to decarbonise the manufacturing sector. This should be done by delivering on the plans set out in the Industrial Decarbonisation Strategy by 2024, including extending the Industrial Energy Transformation Fund, increasing its budget by £185 million (in line with the Conservative Manifesto) and improving its accessibility. Improving the business environment and addressing barriers to investment for interested foreign and domestic energy intensive companies will unlock more investment in energy efficiency.

### *Hydrogen and Carbon Capture Use & Storage (CCUS)*

The MCCG and EIUG also welcome his recommendations for the Government to develop and implement an ambitious and pragmatic '10 year' delivery roadmap for the scaling up of hydrogen production and act quickly to re-envisage and implement a clear CCUS roadmap by the end of 2023. It supports his recommendations to introduce hydrogen business models as soon as legislation allows, provide public funding for hydrogen production – not via a levy on energy prices – and start awarding contracts to producers in order to rapidly scale production. It also agrees with him that the Government should take a pragmatic approach to cluster selection, allowing the most advanced clusters to progress more quickly, without leaving those outside clusters behind.

Finally, Chris Skidmore rightly points out that, *'in order to remain competitive, the UK must quickly match the long-term funding certainty that the Inflation Reduction Act has brought'* to the US.

**END**

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### **About the EIUG:**

The EIUG represents the UK's Energy Intensive Industries (EII) including manufacturers of steel, chemicals, fertilisers, paper, glass, cement, lime, ceramics, and industrial gases. EIUG members produce materials that are essential inputs to the UK manufacturing supply chains, including materials that support climate solutions in the energy, transport, construction, agriculture, and household sectors. They add an annual contribution of £29bn GVA to the UK economy and support 210,000 jobs directly and 800,000 jobs indirectly around the country.



These foundation industries are both energy and trade intensive – remaining located & continuing to invest in the UK and competing globally requires secure, internationally competitive energy supplies and freedom to export without tariff barriers. However, inward investment, growth and competitiveness have been hampered for years by UK energy costs higher than those of international competitors. In some cases, investment, economic activity & jobs have relocated abroad, leading to a subsequent increase in imports.