



SPENDING REVIEW 2024

EIUG Spending Review Submission

Introduction

1. The Energy Intensive Users Group (EIUG) is an umbrella organisation that represents the interests of energy intensive industrial (EII) consumers. Its objective is to achieve fair and competitive energy prices and ensure secure energy supplies for British industry. The EIUG represents EII, including manufacturers of steel, chemicals, fertilisers, paper, glass, cement, lime, ceramics, and industrial gases. EIUG members produce materials which are essential inputs to 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.
2. These foundation industries are both energy and trade-intensive, but remaining located & continuing to invest in the UK and competing globally requires secure, internationally competitive energy supplies and freedom to export without tariff barriers.
3. British industry is held back by relatively high electricity prices, which has often made investing in the UK uncompetitive. Previous Governments have taken measures to reduce policy costs and network charges on industrial electricity prices, and the EIUG encourages Government to continue delivering the network charge compensation (NCC) scheme and removal of business-level test to determine eligibility.
4. **Network charges remain relatively high compared to France and Germany even after taking the NCC scheme into account, and**

the EIUG urges Government to match their schemes by increasing the rate from 60% to 90%.

5. If Government increases the NCC rates from 60% to 90%, it will mean that the industrial electricity price differential between the UK and key European trading partners is no longer due to policy cost and network charges, with the remaining differential caused by countries' electricity generation mix and wholesale market design.
6. The Labour Party's manifesto recognised the need to take action on industrial electricity prices, stating that "British industry is also held back by high electricity costs, which has often made investing here uncompetitive. Labour's clean energy mission will drive down those bills, making British businesses internationally competitive while our National Wealth Fund supports the most energy intensive sectors to decarbonise".
7. With regard to industrial decarbonisation, the Climate Change Committee's decarbonisation pathway for manufacturing and construction estimates that improvements in resource and energy efficiency will lead to the largest emissions reductions in the early 2020s, with infrastructures for CCUS and hydrogen being deployed from 2025, starting near industrial clusters, and electricity network connection capacity increased to electrify industrial processes. It recommends that "*the Government must move from the current piecemeal approach to a comprehensive transition support framework. Taxpayer funding will be key in early years to ensure industries stay internationally competitive while reducing emissions*".

Compensation for Indirect Emission Costs

8. The Government recognises that carbon pricing through the UK ETS and CPS has a knock-on effect on the wholesale electricity price and increases retail electricity prices in the short to medium term and that "*a high carbon price can make electricity prices less competitive and increase the risk of carbon leakage for the UK's most electricity-intensive businesses, particularly those which operate in internationally competitive markets and are unable to pass these*

*indirect emission costs through to consumers*¹. Using the Government's latest estimated emission factor from DUKES (= CO₂ emissions per GWh of fossil fuel generated electricity supplied in the UK) of 0.42tCO₂/MWh and its reference price of £45.47/tCO₂ and £18t/CO₂ for the UK ETS and CPS respectively, means that they have a price impact of £26.66/MWh and £7.56/MWh.

9. Government currently provides compensation to certain energy intensive industries for indirect emission costs in industrial electricity prices due to the UK ETS and carbon price support mechanism (CPS). However, the Departmental budget for these schemes will run out at the end of this fiscal year. **The EIUG urges Government to continue providing budget for them until UK EITs and imports face equal indirect emission costs.**

Carbon Border Adjustment Mechanism (CBAM)

10. The EIUG welcomes the commitment to introduce a UK CBAM in a number of sectors in 2027. A CBAM can level the playing field for British industries as the UK decarbonises, prevent other countries from dumping lower-quality goods into British markets, and support the UK in meeting our climate objectives. Designing the UK CBAM for the sectors in scope will be challenging, but it must be watertight and take into account sector-specific circumstances to ensure it fully mitigates the risk of carbon leakage.
11. Yet, by not aligning the timetable of its introduction with the EU CBAM in 2026, HMT creates a substantial risk that high-carbon products will be diverted to the UK as they face a lower cost compared to the EU due to having no CBAM in place, putting UK manufacturing jobs and investments at risk.
12. Moreover, the proposal includes sectors, such as ceramics and glass, that are not included in the EU CBAM. Although they want to be included eventually, they strongly prefer to align any inclusion with the EU CBAM. Any extension of UK CBAMs to other sectors should be based on sector-specific impact assessments.

¹ [Compensation for the indirect costs of the UK ETS and the CPS mechanism: guidance for applicants - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/guidance/compensation-for-the-indirect-costs-of-the-uk-ets-and-the-cps-mechanism)

13. Furthermore, considerations need more focus on exports. Without an exemption from the cost of carbon pricing for manufacturing products for export, which companies in other countries do not face, a CBAM will only offer a partial answer to the risk of carbon leakage.
14. The Commission for Carbon Competitiveness published a [report](#) with 12 recommendations to introduce a CBAM last year, including aligning with the EU CBAM where practical [...]. The report is the culmination of months of discussions with industry, trade unions, academics, think tanks and Members of Parliament and provides timely recommendations for Government on how the UK can reach net zero without undermining the competitiveness of British industry.
15. **The EIUG therefore calls on HMT to align its timetable and sectoral scope with the EU CBAM.**

Withdrawal of the Carbon Price Support Mechanism (CPSM)

16. The Autumn Statement 2023 announced that “*Government will maintain Carbon Price Support rates in Great Britain at a level equivalent to £18 per tonne of carbon dioxide in 2025-26. The Government will continue to engage with industry and review CPS beyond the announced rates*”.
17. This is disappointing since this unilateral carbon tax on top of the UK ETS increases electricity prices for all consumers, including EILs and households in fuel poverty. Assuming that fossil fuel still set the marginal wholesale electricity, withdrawal of the CPSM would have decreased the wholesale price by £7.6/MWh ($£18\text{t}/\text{CO}_2 \times 0.42\text{tCO}_2/\text{MWh}$, based on the latest [DUKES](#) figures. Furthermore, it does not incentivise the investment in renewable electricity deployment on top of the Contract-for-Difference.
18. The Government has provided part compensation to some EILs for the indirect emission cost due to the CPSM – see above – but it remains one of the key drivers for the industrial electricity price differential since no other country has a carbon tax on top of its emission trading system.

19. Furthermore, Government's announcements from last year relating to the UK ETS cap mean it will move to a target-consistent carbon price, making a top-up carbon price via the CPSM redundant.
20. **Since there is no good economic rationale for the CPSM anymore, contributes to higher electricity prices, and is not value-for-money, the EIUG calls for its withdrawal.**

UK ETS Innovation Fund

21. The EIUG welcomes the announcement from last year to allocate £410m over three financial years from 2025/2026 to industrial energy efficiency and decarbonisation.
22. Yet, as the CCC has stated, "*the Government must move from the current piecemeal approach to a comprehensive transition support framework. Taxpayer funding will be key in early years to ensure industries stay internationally competitive while reducing emissions*". Moreover, Government is set to receive between £5.5bn and £6bn in revenue annually from auctioning UK ETS allowances, including from EIs, according to the OBR.
23. When it established the UK ETS, it promised to allocate part of the auction revenue to establishing an Innovation Fund to match the similar fund established by the EU. However, such a fund has never come forward, and **the EIUG calls on HMT to keep its commitment to allocate part of UK ETS auctioning revenue to increase the budget for this industrial energy efficiency and decarbonisation programme.**

Business Model of Industrial Electrification

24. The EIUG welcomes the establishment of the National Wealth Fund. The Labour Manifesto states that the National Wealth Fund will support the most energy intensive sectors to decarbonise. It welcomes the plan to allocate £2.5 billion to rebuild the UK steel industry, £1 billion to accelerate the deployment of carbon capture and £500 million to support the manufacturing of green hydrogen.

25. In order to decarbonise, EII sites need a combination of access to carbon capture usage and storage (CCUS), hydrogen and electrification. Government is developing business models to financially support deployment of hydrogen and CCUS technologies, yet, as the Skidmore Review points out, *“For smaller dispersed [EII] sites there are more specific challenges, due to the high costs of decarbonisation, the lack of tailored policy given the heterogeneity of sites and the lack of specific funding for these sites. There are high costs of decarbonising dispersed sites due to the need to expand networks and high operational costs of technology, particularly electrification”*.
26. The Industrial Decarbonisation Strategy committed to working *“with industry to proactively accelerate the potential of fuel switching technologies, seeking out potential electrification projects and ensure we are progressing this technology alongside hydrogen and biomass fuel switching”*.
- 27. The EIUG therefore calls on Government to develop a similar business model for electrification as it has been doing for hydrogen and CCUS.**

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