

Minister Sarah Jones
Department for Business and Trade
Old Admiralty Building, Admiralty Place
London SW1A 2DY

London, 27 January 2025

Re: Policy impacts on UK energy-intensive industries

Dear Minister,

As representatives of Britain's energy-intensive industries – from steel and metals to glass and ceramics, chemicals and refineries to paper and mineral products – we support the Government's ambitions to boost economic growth and meet the Net Zero target. As large employers in our industrial communities, our sectors will play a critical role in those ambitions as we look to invest in decarbonisation technologies. Our ability to do this, however, is held back by relatively high electricity costs, policy uncertainty and risk of carbon leakage that has often made investment in the UK uncompetitive.

Energy costs

The UK currently has higher industrial energy costs than in Europe, the U.S. and Asia. Whilst the British Industry Supercharger package and other existing measures have helped to reduce the electricity price differential for many of our sectors, a substantial gap still remains. In Europe, for example, many countries have special network charging arrangements for their most electricity-intensive industries that provide close to full relief from these charges. Increasing the rate of compensation for network charges from 60% to 90% would bring UK network charges closer to those in key European countries

British gas prices are still competitive compared to Europe – though not compared to the U.S., China or Middle East – but there are policy commitments to introduce more levies or charges on electricity and gas prices and/or shift some levies from electricity to gas. This could risk undermining the competitiveness of more gas-intensive industries. Those sectors need a commitment that no new levies or transfer of existing levies will be made without exemptions for gas-intensive industries similar to those for electricity-intensive industries.

Security of supply

Security of energy supply is critical for energy-intensive industries. Yet, with more intermittent technologies generating electricity and changes in geo-political circumstances, the risk to security of energy supply has increased. The Government's 2030 Clean Power Action Plan will see a substantial shift towards an intermittent, weather-dependent energy system with firm, dispatchable energy only available from nuclear, with unabated natural gas reduced to only 5% of total energy demand, which will be concentrated in short periods of wind drought when a very high proportion of short-term energy needs will be met by gas.

The reliance within the 2030 Plan on electricity interconnectors to Europe, in order to respond to domestic intermittency or alternatively absorb excess production economically, does not take into account the increasing exposure of those markets to weather-dependent, intermittent energy. As other European markets similarly move towards low-carbon energy systems, this increases the likelihood of supply disruptions without recourse to firm, dispatchable energy. The recent experiences

of Norway and Sweden with high electricity costs as a result of wind droughts in Germany is an example of future energy supply risks in the UK.

Industrial decarbonisation

In order for energy intensive industries to decarbonise, they need a combination of access to carbon capture usage and storage (CCUS), hydrogen, electrification and energy efficiency.

Therefore, the commitment from the Government to the development of CCUS demonstration projects is very positive, and we welcome the advances towards industrial decarbonisation. However, the availability of continued funding for CCUS, hydrogen and electrification technologies across all UK industries – whether in Clusters or not – is still unclear.

This is a barrier to unlocking the private investment that is essential to achieve widespread industrial decarbonisation across the whole of the UK economy. Most technologies to decarbonise hard-to-abate industrial processes are still nascent industries so government support for leveraging private investment is needed, making Government funding key to leveraging private investment. Certain industrial areas of the UK also face natural barriers to their ability to store captured carbon emissions, further impacting their ability to invest in these technologies. Whilst we welcome the commitment to consult later this year on non-pipeline transport for CCS, we believe greater urgency and certainty are needed on future CCUS funding to ensure the UK attracts that investment instead of other countries and regions.

As the Skidmore Review pointed 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”*. Electrification of industrial processes is likely to become more important to deliver on the Government’s carbon budgets and meet Net Zero. It has published a summary of responses to its call for evidence on enabling industrial electrification and we urge the Government to act on the responses and publish proposals to drive industrial electrification.

The cancellation of the second IETF competition was disappointing and, together with the CBI, MakeUK and the MEUC, the Energy Intensive Users Group have written to Lord Livermore about the lack of future financial support to help industry to decarbonise, including via electrification.

CBAM and export carbon leakage

The commitment to a UK Carbon Border Adjustment Mechanism (CBAM) in December 2023 is a critical step in ensuring many of our British energy-intensive industries can compete on a level playing field with global competitors and help avoid the risk of ‘carbon leakage’ where industry in countries with little or no carbon pricing can access the UK market without facing a carbon price. Nevertheless, UK CBAM needs significant improvement to make it effective and without loopholes if Government wants to avoid potentially negative unintended consequences.

Its implementation in 2027 risks trade barriers and trade diversion with the EU when their CBAM becomes operational in 2026. The 12-month gap will bring about potentially detrimental impacts, as higher-carbon products that would have been imported to the EU risk being diverted to the UK instead. If the Government is determined not to move the implementation of UK CBAM forward to 2026, we therefore ask Government to prepare mitigation measures, particular around trade remedies.

Whilst the UK CBAM will initially apply to a certain number of UK ETS sectors, clarity is needed on the pathway for other sectors that are not within scope – even if that means different sectors have different start dates, depending on their specific circumstances.

The European Commission have been mandated to assess the impact of the EU's CBAM and parallel removal of free allocation in the late 2020s and early 2030s. We think this is a sensible provision and encourage Government to monitor the CBAM for trade distortions and reserve the powers to intervene where the policy is not having the intended effect. Close engagement with industry will be needed to assess the impact of the UK CBAM, in order to improve its application if necessary and when its sectoral scope is expanded.

Additionally, whilst a CBAM will address imported goods, the Government has provided no proposals to address the exposure that exports will have to carbon leakage risk. Retaining free allowances for UK ETS costs incurred for the proportion of exports alongside a CBAM is therefore critical to ensuring British energy-intensive industry remains competitive internationally. Ensuring carbon leakage policy addresses both import and export risks will increase the UK's compliance with World Trade Organisation obligations, making clear these are environmental measures aimed squarely at supporting widespread decarbonisation as opposed to an import-only trade measure.

Future energy and ETS price signals

The NESO Clean Power 2030 report, which underpins the Government's Clean Power 2030 Action Plan, makes a number of assumptions related to natural gas and ETS prices to support the case for expanding renewable consumption to 95% of average power demand by 2030. This includes a central estimate for gas price at 101p/therm and an ETS price assumption of £142/tonne, as well as an additional £25/tonne tariff for fossil-generated power to disincentivise exports of unabated power. Whilst we understand that NESO's figures are not recommendations, it is unclear what the effect such signals from one arm of government will have on real-world prices in the near future. Energy intensive industries will not be able to bear these carbon costs as long as there is no effective UK CBAM without loopholes and there are no commercial decarbonisation technologies available.

The majority of energy-intensive industries are currently exempted from electricity price increases from changes to the Contract for Difference levy and Capacity Market charge, but there will nonetheless be secondary effects for gas-reliant industries should the Government make efforts to do so. The determination of the UK ETS price is even more within the Government's control, with DESNZ a part of the UK ETS Authority that determines ETS policy. Any moves to move ETS prices to such a level, without other policy mitigations, would have damaging potential impacts on many energy-intensive industries.

Furthermore, we are concerned that NESO's proposed approach to fast-tracking grid connection decisions refers solely to Clean Power 2030 and therefore prioritises connecting low carbon power over industrial decarbonisation projects. Many industrial decarbonisation projects rely on changes to behind-the-meter configurations or grid enhancements that under these proposals are likely be disadvantaged. We would therefore like to see the government's 2030 objectives for industrial decarbonisation given the same priority as electricity decarbonisation in terms of network connections.

Our sectors have a clear desire to work with the Government on solutions to these challenges. As foundational industries that have a critical role to play in meeting the net zero transition and achieving

sustainable economic growth across the nations and regions of the UK, it is essential to avoid any further deindustrialisation across our industrial communities, as we have seen over the last few decades. We would strongly welcome a meeting to discuss these points with you and your officials.

In the interests of transparency, a copy of this letter has been published on the EIUG website (www.eiug.co.uk).

Yours sincerely,
Arjan Geveke
Director, Energy Intensive Users Group

Other signatories:

British Glass

Ceramics UK

Chemical Industries Association

Confederation of Paper Industries

Fuels Industry UK (refining member companies)

Mineral Products Association

UK Steel

GMB Union

