

Energy Intensive Industries Roundtable Series

Session 1: The future for UK energy intensive sectors

Introduction

The aim of this roundtable, held on 17th June 2021, was to give an overview of the challenges the EIIs face as well as solutions that may be taken forward as recommendations. The key series themes will be discussed at a high level with questions from academics, industry partners and MPs in attendance. This roundtable is the first in a series of 4, with the rest continuing post summer recess.

The session was kindly chaired by Jack Dromey MP and is sponsored by the Energy Intensive Users' Group.

Opening remarks – Jack Dromey

Jack Dromey is the Labour MP for Birmingham, Erdington, and has been an MP continuously since 6 May 2010. He currently undertakes the role of Shadow Minister (Cabinet Office) and is the Co-chair for the All Party Manufacturing Group.

Jack opened the session and welcomed all attendees, stating that the UK Energy intensive industries (EIIs) will become even more important as we galvanise and become a more green economy. Expanding renewable generation capacity – which is crucial as the UK seeks to achieve net zero targets - will require key materials including steel and concrete. Government has made welcome investments of £166m investment in green technologies, however EIIs must remain a part of the discussion. In the future, government regulators and industry must share the immediate priority to eliminate high energy pricing as a barrier to competitiveness. At this time, it is key that we turn to action and real policies to deliver ambition, through increased understanding amongst parliamentarians, we can build consensus across the sector.

“THE UK ENERGY INTENSIVE INDUSTRIES ARE VITAL TO THE UK’S FUTURE ECONOMIC SUCCESS ... THEY ARE STRATEGICALLY IMPORTANT IN PRODUCING ESSENTIAL PRODUCTS AS WELL AS BEING MAJOR EMPLOYERS.”

Speaker: Andrew Large

Andrew currently serves as Director General of the Confederation of Paper Industries (CPI), and is also Chair of the UK Energy Intensive Users Group (EIUG) - an umbrella organisation that represents the interests of intensive industrial energy consumers.

Andrew highlighted the importance and value that the UK EIIs provide as well as outlining challenges that will need to be solved in the coming years:

- The UK EIIs are incredibly important, contributing around £15billion in economic value, 200,000 direct jobs and 800,000 indirect jobs through its supply chain. However, at the heart, UK EIIs are uncompetitive due to the high energy costs in comparison to EU counterparts. Under the current review of schemes to supplement the UK industry energy costs, it is found that they are higher than the EU 15, proving the point that energy pricing is a policy issue with undesirable effects that must be reversed as soon as possible.
- UK EIIs are essential for net zero, providing the materials needed for green technologies:

- electric vehicles are sure to require steel, metals and chemicals in their construction
- Ceramics and glass will be required for energy efficient buildings
- Sustainable packaging solutions will be made from paper
- Chemicals will provide the fertilisers to improve agricultural productivity
- Industrial gases and chemicals will be required to produce the likes of silicon chips and components
- If these products come from the UK, they will come from a country that has strong and legally binding carbon targets, where all parties support net zero goals and regulatory infrastructure gives confidence in the delivery of these targets. If these products are procured from other countries where carbon targets are lower and vulnerable to political whims, we push the responsibility for carbon emissions away and risk our purchasing power contributing to increasing emissions elsewhere. Manufacturing is a boost to UK growth and will allow us to eliminate the risk of offshoring.
- Andrew then set out clear **policy priorities and recommendations** from the EIUG
 1. As a policy priority, we must ensure that consumption and territorial emissions align with climate change targets, it is not enough to focus on our own emissions when our purchasing power is supporting carbon emissions from abroad.
 2. We need a just financial transition that provides the financial and regulatory support to allow EIS to make the transition. Similar levels of funding to what is being made in the EU (currently 1.85 trillion between now and 2050) is required
 3. EIS require adequate supply of affordable gas that avoids the inefficient bypass of national grid infrastructure. Short haul gas is a prime example what we should not be doing. Government must also avoid making the same mistake with gas that was made with electricity as this will lead to further deindustrialisation.
 4. The cost of energy usage is complex and often the cumulative cost is much higher than anticipated – transmission charges and frameworks should be made more efficient and effective.
 5. To truly ensure the prosperity of the EIS, Ofgem, industry and government must create a tripartite policy framework to discuss how the three bodies can work more closely together to achieve robust and rapid action in ensuring that through the transition to net zero, EIS can remain competitive.

“WHAT WE NEED IS ROBUST RAPID ACTION TO REDUCE THE ENERGY COST DISPARITY BETWEEN US AND NEAREST NEIGHBOURS SO THAT WE CAN ACHIEVE THE POLICY GOALS THAT EVERYBODY WANTS WHICH IS A THRIVING, GROWING FOUNDATION INDUSTRY SECTOR THAT IS COMPATIBLE WITH AND MEETS THE NEEDS OF NET ZERO IN 2050.”

Speaker: Bruce Adderley

Bruce is the challenge director of the Transforming Foundation Industries challenge at UKRI. He has over 20 years' experience of executing R&D and business development programmes within the Steel Industry.

Bruce began by reemphasising the importance of the Energy Intensive Industries:

- It is hard to imagine that the billions of tonnes of materials that are used annually will be replaced by 2050, and so it is key that the materials we need are manufactured competitively in the UK as we will be needing them for decades to come.
- The key question is how we can step up our production to meet growing demand. Often, capacity increase comes in investment lumps and often are separated by decades. This means that business models and the wider policy landscape need to be evolving and adapting to lead the demand, working with both private and public sector base to make sure that the demand curve increases consistently.
- On the technology side, investment in continuous development of processes will only get us part of the way to our long term goals - these technologies will need to be upgraded and improved faster than they ever have been before. The significant increase in supporting infrastructure (renewable energy, carbon captures storage and hydrogen) will also be scaled to match the demand and capacity of the industry.
- Additionally, without the right people and without the right skills at the right time we will not succeed in this endeavour. What this means for InnovateUK is that these EILs (and foundation industries as well) need to demonstrate a vision of just important these industries are for achieving net zero to create attractive employment opportunity for the talented people we need to deliver this transformation.
- UKRI through Innovate UK are supporting businesses to ensure that innovation is embedded in these industries as they transition. These programmes ensure that the industries work together around energy efficiency, creating diversity in the workforce and catalyses the step up in scale and breadth of innovation.

“I WOULD BE WILLING TO PUT A SUBSTANTIAL AMOUNT OF MONEY ON THE FACT THAT WHEREVER YOU ARE SAT NOW, WHETHER AN OFFICE AT HOME, YOUR OFFICE OFFICE OR LOOKING OUT OF THE WINDOW THAT MORE THAN 70% OF WHAT YOU CAN SEE IN FRONT OF YOU HAS BEEN MANUFACTURED BY ONE OF THE INDUSTRIES WE ARE TALKING ABOUT TODAY.”

Speaker: Minister Grimstone

Lord Gerry Grimstone was appointed on 18 March 2020 as the Minister for Investment jointly at the Department for International Trade (DIT) and the Department for Business, Energy and Industrial Strategy (BEIS). He also has Ministerial responsibility for the Office for Investment in 10 Downing St.

Minister Grimstone began by agreeing with both Andrew and Bruce, acknowledging common ground that the challenges of achieving net zero is ever more present in our world leading EILs.

- As one of the global beacons in this race to net zero, achieving net zero required decisive action and investment by both public and private sectors. Government is committed to ensuring that the transition is affordable and fair to all consumers including EILs. BEIS recognise that manufacturers in the UK operate in highly competitive international markets on very tight margins. The UK industrial sector clearly needs government support to decarbonise particularly in the initial phase when costs are higher and investing in critical infrastructure stimulates change.
- The IDS set out major steps to support the EILs, laying out caps for ETS, and avoiding carbon leakage. BEIS recognise that the cost of energy is impacting the competitiveness of UK industry, clearly gas

prices compare favourable and the UK industrial electricity pricing ranks highest amongst the EI 14 despite the exemption and compensation schemes.

- Evidence for carbon leakage is limited, however without sufficient international and domestic mitigation there is a risk this could increase. More analysis on carbon leakage and mitigation action will be published by BEIS in due course.
- Government does provide relief to reduce cumulative costs, certain eligible EIs in steel, glass, chemicals are eligible for this relief, up to 60% of the UK ETS – currently 60 businesses receive around £140 million in support. Government also provides a reduction of up to 85% from indirect costs due to renewable policies around 230 companies at around £400 million year. But there is still of course a disparity.
- Recently, BEIS launched a consultation as part of a review into the schemes and businesses are encouraged to respond. In Treasury, the net zero review will consider how the transition to net zero will be funded which will be an important debate.

“TRANSITION TO NET ZERO WILL INVOLVE SIGNIFICANT STRUCTURAL CHANGE IN UK ECONOMY, BUT THIS GOVERNMENT IS COMMITTED TO MINIMISING ENERGY COSTS FOR BUSINESSES TO ENSURE THAT IT REMAINS STRONG FOR UK INDUSTRY..... IT IS IMPORTANT THAT AS WE TRANSIT TO NET ZERO THAT THE COSTS DO NOT LEAD TO CARBON LEAKAGE.”

Discussion

Resource and Energy Efficiency

- Industry must question with energy costs being so high, whether EIs use electricity efficiently and whether there is action taking place to ensure resources are used better
- In terms of UK usage it is clear that short term all EIs are minimising efficiency however this can only be done through investment. Global capital providers are often searching for locations that provide the best return and UK's uncompetitive energy pricing deters investment
- Low hanging fruit opportunities have already been taken, and so a significant step change in electricity efficiency will require a significant step change in investment. Industrial Energy transformation fund is good as it gets companies using technology that is already in the market.

Industrial clusters and support for SMEs

- There is a potential competitive disadvantage in the UK between industrial clusters and businesses outside of these sites. There is a question around whether they will have access to lower energy sources such as hydrogen, particularly with carbon labelling as a proposal.
- Opportunities to decarbonise need to spread as broad as possible, therefore investment can be spread sufficiently evenly whilst ensuring it is not being stretched across increasingly small clusters. A just transition will require changes in industrial structure. The steps in the IDS are limited and there is a need to look at the regions in terms of the options they will have for new technologies and energy sources.

Volatility in gas and carbon pricing

- Businesses often face volatility in gas and carbon pricing which has an impact on investments. The additional UK ETS Costs and add on bills could be used as a credit for investment in decarbonisation.

- There has been resistance in the past to hypothecation from treasury and so the viability of this proposal in the new context of decarbonisation should be reviewed.
- Although gas prices are lower than electricity, they are still comparatively high to our competitors such as Belgium.

Government investment and investment/carbon leakage

- Australian and Canadian governments are partnering with industrial sector to implement net zero. Is the magnitude of investment that the UK government offering enough to ensure that net zero goals are achieved?
- We must benchmark the volume of change against our competitors to avoid the risk of products being made elsewhere and imported into the UK.
- There are examples of investment leakage occurring, for example in a US parent Hydrogen manufacturer investment in the UK has been reduced until such a point that electricity pricing becomes competitive in comparisons its US counterpart. However, there is a concern that in reducing electricity pricing, gas pricing will be increased to offset.
- We need to enlarge the scope of the discussion and bring together all relevant bodies – Climate Change Committee, BEIS, UKRI, and Department for International Trade, so that the challenges facing the EIs can be addressed in a concerted fashion and work collectively.
- It is also key for the sector to identify what exactly it needs and how it will be achieved. With the cross party support behind the net zero target, we should be able to acquire the multi parliament investment.
- Scope and quantum of schemes are not universal and do not necessarily cover all the companies vastly affected by the energy pricing issues.

**“WE MUST WORK TOGETHER TO ACHIEVE THE OVERALL GOAL OF NET ZERO WHILST PROTECTING BRITISH INTERESTS” -
JACK DROMEY MP**

About the APMG

The APMG is at the forefront of the policy debate, parliamentary engagement and research related to manufacturing and industry. By holding regular events & seminars in Parliament the APMG seeks to bring parliamentarians together with industry and the commercial sector to better understand the sector challenges. The APMG publish a monthly newsletter to Parliament and its members, with summaries of manufacturing policy stories, industry news, and other political developments, along with research-based briefing papers on topical legislation. The arms-length Manufacturing Commission produce research reports with evidence-based recommendations for government informed by our members.

For more information on our activities, please visit: www.policyconnect.org.uk/apmg



Follow the All Party Manufacturing Group via @theAPMG to engage in the conversation.

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