



SPRING BUDGET 2023

EIUG Budget 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's 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. The current energy crisis is the biggest issue faced by manufacturers today. The latest crisis threatens to shut down 13% of manufacturers in the UK¹. The Government recognised this threat and has introduced the Energy Bill Relief Scheme until April and the Energy Bill Discount Scheme from April to April 2024, with particular provisions for the most energy intensive industries. The EIUG has welcomed the latter, though pointed out that it falls short of relief schemes offered by some other European countries.

¹ Make UK/PwC, Executive Survey 2023: Cost, Competitiveness and Confidence, 2023

4. In its Energy Security Strategy, the government recognised that UK industrial electricity prices are higher than those of other countries and that will act to address this. The EIUG therefore calls on Government to introduce other measures, besides compensation for the indirect emission cost due the carbon pricing announced in the Strategy, to support EIs including;
- publishing the Government response to the review of the EI renewable exemption scheme and implement to proposal to increase the renewable obligation exemption to 100%;
 - introducing a similar network charge reductions for EIs in the UK as some other European countries offer;
 - removing the carbon price support mechanism – a unilateral carbon tax on top of the UK ETS – through the review as announced in the Autumn Statement last year.
 - supporting the Skidmore Review’s recommendation to extend the Industrial Energy Transformation Fund (IETF) with £185 million to bring it in line with the Conservative Manifesto;
 - calling on Government to develop a similar business model for industrial electrification as it has been developing for hydrogen and CCUS deployment.

Government Response to the Review of the Energy Intensive Industries Exemption Schemes

5. The Government published a review of the schemes to provide relief to EIs for a proportion of the indirect costs of funding renewable electricity policies on 22nd of August last year. This review follows a commitment in the Energy Security Strategy 2022, in which Government recognised that UK industrial electricity prices are higher than those in other countries, to address this price differential. One of the specific commitments in this Strategy was to consider increasing the renewable obligation exemption to 100%. The review proposes the policy detail of increasing the exemption.
6. The review closed for responses on 16 September last year and Government should publish its response, committing to its proposal to increase the rate of the exemption.

Network Charge Reduction

7. BEIS published a research report last year into how selected other countries allocate electricity network charges to different consumers groups. The report showed that some other countries apply discounts to their most electro-intensive industries. These discounts also explain the electricity price differential with other countries.

Discounts for specific network users

Country	Discount level	Reduction base	Groups eligible for discounts
Germany	80-90%	Network charges	Atypical network users Intensive network users
Netherlands	Up to 90%	Volume drivers of network charges	Large energy users
France	5-90%	Network charges	Stable users Counter-cyclical users Large network users
Norway	Up to 75%	Capacity charge rate	Large energy users

In addition, Ireland has reduced tariffs for large energy user groups as a whole by shifting a portion of network costs onto domestic consumers, rather than applying discounts to individual consumers.

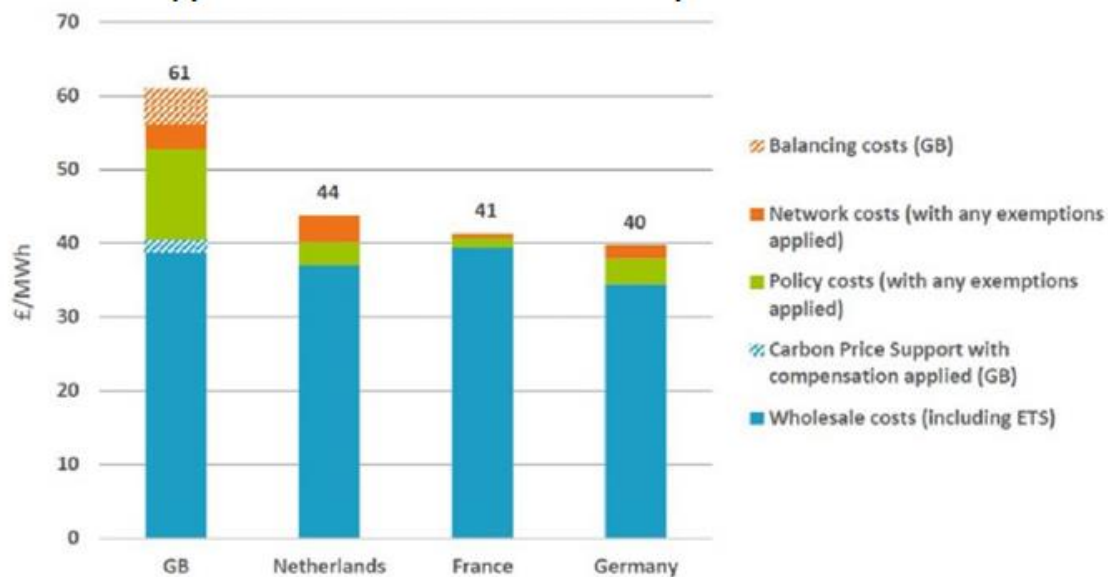
CEPA (2019), *Allocation of Electricity Network Charges to Different Consumer Groups in Selected Countries*, [report](#) for Department of Business, Energy and Industrial Strategy, London: 2019

8. The EIUG calls on Government and Ofgem to introduce similar network charge reductions for EIs in the UK.

Energy Levies

9. The EIUG joins several other consumer groups, research institutions and think tanks, such as EnergyUK, MEUC, UKERC, Green Alliance, GMB, Centre for Policy Studies in calling on Government to shift energy levies from energy bills to general taxation. These levies exacerbate both fuel poverty for household and the risk of carbon leakage for business due to the regressive nature of energy bill and progressive nature of the tax system.
10. As the Government's review of the EI Exemption Schemes shows, even the with current exemption of 85% from the indirect cost due to the RO, small-scale FiT and CfD, policy cost in electricity prices were still significantly higher compared to other countries.

Figure 4. Average 2016-2020 electricity price in £/MWh with maximum discounts applied for EIs with annual consumption of 100-500GWh¹²



11. Obviously, if the Government decides to increase the EI renewable exemption from 85% to 100%, this will no longer put EIs at a significant competitive disadvantage. However, the Government should avoid introducing new levies on energy bills to raise funding for low carbon policies that will be less value-for-money than providing funding via general taxation. The EIUG encourages HMT to update the Green Book to reflect this.

Review of the Carbon Price Support (CPS) Mechanism

12. In the Autumn Statement 2022, HMT announced that “*Government will engage with industry and conduct a review of the CPS beyond the announced rates*”. The EIUG is keen to understand more detail of the review and looks forward to engage with it.
13. The EIUG has a long-standing position that HMT should remove the carbon price support mechanism – a unilateral carbon tax on top of the UK ETS carbon price – as it increases the carbon price differential with other countries, thereby increasing the risk of carbon leakage, and does not incentives the investment in renewable deployment as expected (as the RO, FiT and CfD do that).

14. The Government has provided compensation for the indirect emission cost due to the carbon price support mechanism – roughly about two-thirds of these costs – but it remains one of the key drivers for the industrial electricity price differential, as no other country has a carbon tax on top of their emission trading system.

Industrial Energy Transformation Fund

15. The EIUG agrees with the Skidmore Review into the Government's approach to delivering its net zero target that direct funding is required to decarbonise industrial process further. It supports the review's recommendation to extend the Industrial Energy Transformation Fund (IETF) with £185 million to bring it in line with the Conservative Manifesto of allocating £500 million to help energy-intensive industries to move to low-carbon technologies.

UK ETS Innovation Fund

16. 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. The EIUG calls on HMT to allocate part of this revenue to an industrial decarbonisation innovation fund to support EIs to decarbonise.

Business Model of Industrial Electrification

17. In order to decarbonise, EI sites need access to CCUS, hydrogen and electricity networks and Government is developing hydrogen and CCUS business models. As the Skidmore Review points out, *"For smaller dispersed [EI] 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"*.
18. 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”.

19. The EIUG calls on Government to develop a similar business model for electrification as it has been doing for hydrogen and CCUS.

Subsidy Control

20. The US has adopted its Inflation Reduction Act containing \$500 billion in new spending and tax breaks that aim to boost clean energy, reduce healthcare costs, and increase tax revenues, including \$47.7bn to manufacturing. This will attract investment in industrial carbonisation in the US.
21. This has prompted the EU to review its state aid rules and the European Commission is likely to relax these rules to support investment in green sectors, including via the creation of tax benefits.
22. The EIUG calls on the UK Government to review its subsidy control provisions as well to avoid being left out of investments to decarbonise industry.

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