



SPRING BUDGET 2024

EIUG Spring 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 EIIIs 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. In its Energy Security Strategy, the government recognised that UK industrial electricity prices are higher than those of other countries and has acted to reduce this difference with the 'British Industry Supercharger' measures. The EIUG welcomes these measures and encourages government to deliver them as quickly as possible. However, the compensation rate of 60% for network charges means that the measures are still insufficient to close the electricity price gap, since certain EIIIs in Germany and France receive a discount of up to 90%. The EIUG therefore calls on government to bring the compensation rate up to 90%.

4. Serious risks remain to the viability of EILs in the UK though, particularly the risk of carbon leakage. The EIUG welcomes HMT's announcement to introduce carbon border adjustment mechanism (CBAM) in a number of sectors. Designing the UK CBAM for the sectors in scope will be challenging, but it needs to be watertight to ensure it fully mitigates the risk of carbon leakage..
5. With regard to industrial decarbonisation, the Climate Change Committee's decarbonisation pathway for manufacturing and construction, estimates that improvements in resource and energy efficiency 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. [..]"*.
6. Our proposals below will provide a more comprehensive transition support framework to decarbonise EILs.

Risk of Carbon Leakage

7. HMT's Net Zero review recognises the risk of carbon leakage for certain sectors. The EU has now started the process of introducing CBAM to mitigate this risk for a number of sectors and Government has announced it will implement a UK CBAM by 2027 in December.
8. The EIUG welcomes the commitment to introduce a UK CBAM in a number of sectors, as part of a series of announcements around the UK Emission Trading System (ETS). Designing the UK CBAM for the sectors in scope will be challenging, but it needs to be watertight to ensure it fully mitigates the risk of carbon leakage
9. Yet, by not aligning the timetable of its introduction with the EU CBAM in 2026, HMT creates a substantial risk of 'dumping' low-cost, high-

carbon products in the UK, putting UK manufacturing jobs and investments at risk.

10. Moreover, the announcement excludes sectors exposed to the risk of carbon leakage and included in the EU CBAM, whilst at the same time cover sectors not included in the EU CBAM, such as glass and ceramics, without giving a clear justification as to why. Any extension of UK CBAMs to other sectors should be based on sector-specific impact assessments.
11. 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.
12. The Commission for Carbon Competitiveness published a [report](#) with 12 recommendation 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.
13. The EIUG therefore calls on HMT to align its timetable and sectoral scope with the EU CBAM .

Review of the Carbon Price Support Mechanism (CPSM)

14. 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”*.
15. This is disappointing since this unilateral carbon tax on top of the UK ETS increases electricity prices for all consumers, including EIs 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 (£18t/CO₂ x

0.424tCO₂/MWh (= estimated carbon intensity of all non-renewable fuels in electricity supplied)) in 2022, based on the latest [DUKES](#) figures. Furthermore, it does not incentivise the investment in renewable electricity deployment on top of the Contract-for-Difference.

16. The Government has provided compensation to some EIs for the indirect emission cost due to the CPSM – roughly about two-thirds of its indirect costs – 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.
17. 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.
18. The EIUG therefore continues to call for removal of the CPSM.

UK ETS Innovation Fund

19. The EIUG welcomes the announcement on 18 December last year to allocate £410m over three financial years from 2025/2026 to industrial energy efficiency and decarbonisation.
20. 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. 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 not yet come forward and the EIUG calls on HMT 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

21. In order to decarbonise, EII sites need a combination of access to CCUS, hydrogen and electricity networks. 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”*.
22. 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”*.
23. 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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