

EIUG Response to the Consultation on the proposed Gas Shipper Obligation

Introduction

1. The Energy Intensive Users Group (EIUG) is an umbrella organisation that represents the interests of energy intensive industrial (EIIs) consumers. Its objective is to achieve fair and competitive energy prices for British industry. It represents 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 and continue to invest in the UK. To compete globally, EIIs need secure, internationally competitive energy supplies and measures to mitigate the risk of carbon leakage. However, inward investment, growth and competitiveness have been hampered for years by UK energy costs being higher than those abroad. This has increased the risk of carbon leakage and deterred investments in decarbonisation. In some cases, investment, economic activity, emissions and jobs have relocated abroad, leading to a subsequent increase in imports, decrease in productivity and reduction in UK GDP.
3. This response focuses on those questions in the consultation on the proposed Gas Shipper Obligation (GSO) relating to gas-intensive industries.
4. As the GSO is essentially a mechanism to raise finance for the hydrogen production business model, the EIUG believes it would be more appropriate and efficient for this model to be funded directly through the Exchequer, rather than an obligation on gas shippers. Placing the burden on gas shippers represents poor value for money, is inherently regressive, and risks replicating a range of negative unintended consequences, many of which have already been observed under the Renewables Obligation imposed on electricity suppliers. A more equitable and transparent funding approach is essential to ensure broad stakeholder support and long-term policy stability.

33. Do you consider that gas intensive industries would be at risk of carbon leakage due to GSO costs? And if so, should government consider exempting gas quantities shipped to these industries from GSO charges? Please explain your answer and provide supporting evidence.

5. The EIUG considers that the GSO will put gas-intensive industries at risk of carbon leakage and Government must therefore exempt gas quantities shipped to these industries from its charges. The EIUG strongly considers that the GSO poses a serious risk of carbon leakage by increasing energy costs for gas-intensive industries, thereby undermining their global competitiveness. It is essential that gas volumes supplied to such industries are fully exempted from GSO-related charges. Without such an exemption, there is a clear risk of production moving abroad, investments going elsewhere and job losses occurring, which would further weakening the UK's industrial base.

6. HMT's [Net Zero Review](#) (2021) defines carbon leakage as follows: *"climate rules and policies designed to reduce emissions in a given country can increase the costs of production of its businesses (including indirectly because of the impact on the price of inputs, such as [gas]) relative to international competitors if those competitors are subject to weaker climate change mitigation policies. If such rules and policies (...), are not implemented in an equivalent way across jurisdictions, this can result in production and the associated greenhouse gas (GHG) emissions being displaced, undermining the original environmental objective of climate mitigation policies."*

7. There are three main channels by which carbon leakage can occur:

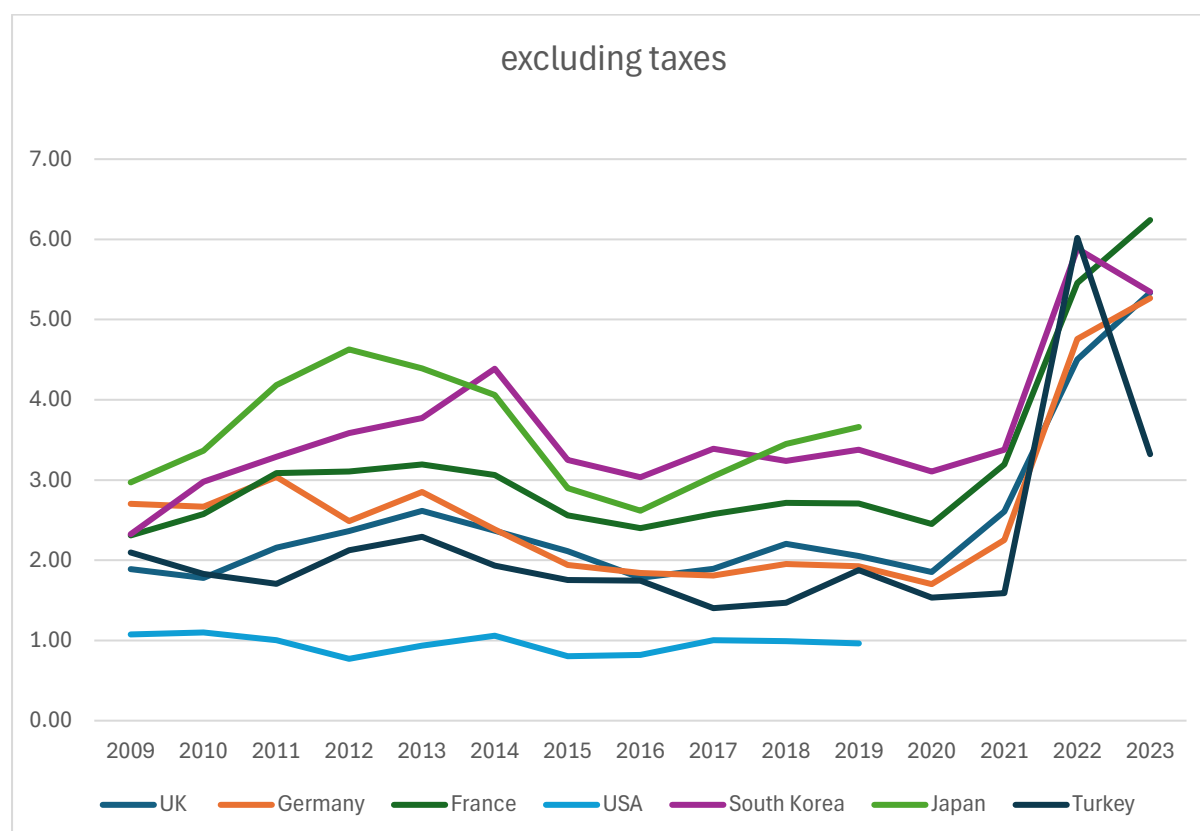
- *Businesses in the jurisdiction with more ambitious emission reduction policies – face higher costs, causing a drop in domestic output, and an expansion elsewhere;*
- *Differences in the strength of emission reduction policies could influence investment decisions, causing a shift in future production to other jurisdictions;*
- *A reduction in demand for fossil fuels due to mitigation policies in some countries could reduce international fossil fuel prices relative to where they would otherwise have been. This could incentivise businesses in other countries to increase fossil fuel consumption".*

8. The core policy objective of the hydrogen production business model is to reduce greenhouse gas emissions. However, the Government's proposal to fund this model through a GSO will impose additional costs on UK businesses - costs that their international competitors do not face. According to the analytical annex to the consultation, this mechanism is projected to increase gas prices by approximately £0.20–£0.30/MWh between 2028 and 2032, and by £0.20–£0.40/MWh from 2033 to 2037, even when limited to funding HAR1 projects. These cost burdens are expected to rise further under future HAR funding rounds.

9. The graph below illustrates comparative industrial gas prices (£/MWh), excluding taxes, from 2009 onward. It demonstrates that while UK gas prices have generally

tracked closely with those in Europe, they remain significantly higher than prices in the United States, which are consistently several times lower. This persistent disparity has already contributed to a growing competitiveness gap. As Europe increasingly struggles with elevated gas costs, the introduction of the GSO in the UK would further exacerbate the situation - placing UK gas-intensive industries at an even greater competitive disadvantage, not only globally but also relative to their European counterparts.

Table 1. G7 industrial gas prices



Source: Industrial gas prices in the IEA, excluding taxes ([QEP 5.7.1](#))

10. Government should also be aware that, in case of primary steel-making, the move away from blast furnaces / coke oven gas means less own waste gas for reheating and more natural gas supplied by gas suppliers, unless there is a change in technology.

11. Gas intensive industries are uniquely exposed to gas prices due to their gas-intensity and trade intensity and will therefore be disproportionately impacted by the cost of the GSO. These industries cannot simply pass on increased energy costs to customers without risking significant loss of market share or erosion of profit margins. This threatens not only the commercial viability of key UK industries, but also undermines national economic resilience and the ability of these sectors to invest in decarbonisation technologies. The effects would be felt most acutely in the UK's industrial heartlands - regions that are already under economic pressure and where many gas-intensive businesses are concentrated.

12. In light of these risks, the EIUG strongly urges the Government to exempt gas volumes supplied to gas-intensive industries from GSO-related charges. A precedent already exists with certain levies and obligations on electricity suppliers, where the Government has recognised the need to avoid placing the most electricity-intensive sectors at a significant competitive disadvantage by fully exempting them from the costs associated with the Renewables Obligation, Feed-in Tariff, Contract for Difference, and Capacity Market. It is essential that Government introduce a similar exemption framework for gas-intensive industries to avoid putting gas-intensive industries at a significant competitive disadvantage and minimise the risk of carbon leakage.

13. To avoid necessary exemptions from the GSO cost, it would be more appropriate and efficient for this hydrogen business models to be funded directly through the Exchequer. As stated above, placing the burden on gas shippers represents poor value for money, is inherently regressive and risks replicating a range of negative unintended consequences, many of which have already been observed under the Renewables Obligation imposed on electricity suppliers. A more equitable and transparent funding approach is essential to ensure broad stakeholder support and long-term policy stability.

34. Are there any other factors besides carbon leakage that could be considered as grounds for an exemption for gas quantities used by gas intensive industries? Please explain your answer and provide supporting evidence.

14. There are other factors beyond carbon leakage that warrant serious consideration as grounds for exempting gas-intensive industries from the GSO;

- **Use of Gas as Feedstock:** In certain gas-intensive sectors, gas is not used for combustion, but as a feedstock in essential industrial processes, such as the production of methanol, ammonia, and formaldehyde in the chemicals sector and carbon refractories in the ceramics industry. In these cases, gas demand is inelastic and process-critical, meaning that consumption cannot be reduced without directly impacting output. These sectors are therefore structurally more exposed to gas price increases than other industries.
- **Support for Decarbonisation Pathways:** Imposing additional costs on gas-intensive sectors risks undermining their ability to invest in low-carbon transition technologies, such as electrification, hydrogen switching, or carbon capture, use and storage (CCUS). Providing exemptions would help preserve their financial ability to invest in these technologies and support the UK's broader net zero objectives by enabling industry-led decarbonisation.

5. Please provide suggestions for metrics that could be used to define ‘gas intensive industries’ (for example gas intensity and trade intensity) and any evidence or data that could be used to support that definition.

15. The EIUG recommends using a methodology similar to the one for defining electricity-intensive industries (EIIs) under the Renewables Obligation exemption framework, adjusted for gas usage. Eligibility for an exemption should focus on gas intensity and trade intensity as core metrics, ensuring a consistent and transparent mechanism for GSO exemptions, using a recognised methodology.

16. The existing framework to exempt certain EIIs from the various renewable charges is based on the European Commission’s 2014 State Aid Guidelines. The revised 2021–2030 EU Guidelines refine exemption criteria for sectors meeting one of these thresholds:

- The product of trade intensity and electro-intensity is at least 2%, with each individual metric at 5% or higher; or
- The product is at least 0.6%, with trade intensity of at least 4% and electro-intensity of at least 5%.

17. A similar approach could define gas-intensive industries, using gas intensity and trade intensity with comparable thresholds, ensuring consistency and transparency in policy design.

18. The EIUG strongly cautions about public sources for its statistics – see also the Cabinet Office’s investigation into the validity of ONS data – as the data can be subject to serious limitations and should not automatically be treated as accurately reflecting reality.

19. Concerns with current public data sources include:

- Trade intensity data may be grossly inaccurate due to aggregation issues or the exclusion of export values at the sectoral level.
- Turnover data can be significantly distorted by factors such as vertical integration, complex supply chain structures, and widespread misclassification under Standard Industrial Classification (SIC) codes, leading to the inclusion of businesses not directly engaged in relevant manufacturing activities, such as importers, distributors, or product users.
- Gross Value Added (GVA) data frequently fails to reflect the operational realities of energy-intensive industries, with inconsistencies in classification further obscuring the sectors’ true economic contribution.

20. As such, the EIUG strongly recommends that any final determination of gas intensity and trade intensity should be based on robust, bottom-up, sector-specific data, developed in close collaboration with industry. This is critical to ensure accuracy, fairness, and legitimacy of the exemption framework.

21. The EIUG and multiple sectors have raised similar data quality concerns in response to the recent DESNZ consultation on the [Carbon Leakage List](#), where the

use of inaccurate, high-level datasets led to significant misclassification risks. A similar issue must be avoided in the context of the GSO to ensure that policy interventions are properly targeted and do not create unintended consequences for UK industries.

36. Please provide suggestions of any additional eligibility criteria that may be needed and any data that could be used/evidence that could be required to determine whether the criteria have been met.

22. The EIUG would also argue for including sectors that are economically similar to gas-intensive sectors that would qualify based on the quantitative methodology above and produce substitutable products. Just as in its response to the recent UK ETS Authority consultation on carbon leakage, the EIUG strongly recommends supplementing any proposed quantitative methodology with a qualitative methodology for those sectors that are on the edge or have certain unique features not captured by the quantitative methodology and/or due to poor data quality.

37. Please provide suggestions for how an exemption for gas-intensive industries could be implemented and the lessons that can be learnt from how existing exemption schemes are delivered, including the British Industry Supercharger.

23. The EIUG envisage that an exemption for gas-intensive industries could be delivered in a similar way as the exemption from the indirect cost due to the Renewables Obligation: Government sets out the scope of eligible sectors for an exemption, individual companies in eligible sectors apply for an exemption and the administrator of the GSO adjusts the obligation on individual gas shippers to reflect the volume of gas exempted from being charged as it is supplied to eligible gas-intensive companies, or so-called “EII exempt volume” for gas.

24. An additional challenge is that gas shippers are not necessarily the same as gas suppliers so Government and administrator need to put a process in places that meters EII exempt volume that suppliers ultimately supply to eligible gas-intensive companies.

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