

Treasury Fails to Retain Stability Necessary to Attract Investment

The EIUG welcomes the Government's decision to continue funding the EII compensation scheme for 2026–2027. However, extending the scheme by only one year falls far short of the stability certain energy-intensive industries (EIIs) need to plan and invest with confidence. It also sits uneasily alongside the Government's own commitments in the Industrial Strategy and the Chancellor's recent statements on the importance of stability for business investment.

The scheme lowers electricity costs for these industries due to UK carbon pricing. It part compensates them for the indirect emission costs from the UK Emissions Trading Scheme and Carbon Price Support mechanism, by avoiding putting them at a competitive disadvantage thereby reducing the risk of carbon leakage and encouraging domestic investment. EIIs need clear visibility of how they will be treated over multiple years to plan major investments, manage exposure to energy price volatility, and maintain international competitiveness. A one-year extension does not provide the level of certainty and stability required for investment cycles that often span a decade or more.

The Industrial Strategy announced that the Government will continue the EII compensation scheme in June last year, following the 3-year Spending Review earlier that month. However, at the time of rapidly increasing electricity prices over the past weeks, HMT has now made the decision to extend the scheme by one year only. This decision flatly contradicts the Chancellor's aim "to deliver stability to create the strong foundations for business to plan an invest", as set out in her Mais lecture earlier. A one-year extension only, after a 3-year Spending Review, comes very close to reneging on a budget commitment, undermines the effectiveness of Treasury's own CBAM and does not give EIIs the confidence to invest in the UK.

Arjan Geveke, Director, Energy Intensive Users' Group, said:

"Extending the EII compensation scheme by only one year gives manufacturers little confidence to invest in the UK. A more long-term budget settlement in accordance with the Spending Review is essential if energy intensive industries are to plan major projects and manage electricity costs.

"The Treasury has designed the UK CBAM on the basis that compensation will remain in place until at least 2029. A one-year extension cuts directly across that logic and leaves a clear gap between CBAM policy design, including leaving some CBAM sectors without compensation or indirect emissions in CBAM, and the support framework industry is expected to rely on.

"If Treasury wants to deliver on its policies and provide stability, it must commit budget according to at least its own spending review period".

ENDS.

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About the EIUG:

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, ensure security of energy supply and cost-effective decarbonisation of British industry so that they can continue to compete internationally.

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 decarbonisation of 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.

Notes to editor:

- The EII compensation scheme part compensation certain energy intensive industries for the indirect emission cost due to the UK Emissions Trading Scheme and the Carbon Price Support. These are Government carbon taxes which affect electricity prices for energy intensive industries.
- In November, the Treasury amended the design of the UK carbon border adjustment mechanism (CBAM) to delay the inclusion of indirect emissions until at least 2029. This change was made to align CBAM with continued support for the compensation scheme.
- The Chancellor used her Mais Lecture to stress that long term policy certainty is essential to unlock business investment. She stated that *“investment, intangible and tangible, is the essential input giving workers the best tools to do their jobs, discovering and applying new ideas, and building the infrastructure on which our whole economy relies”*.
- Providing only two weeks' notice before the new financial year that the compensation scheme will be extended by just one year is inconsistent with those commitments and introduces avoidable uncertainty for manufacturers.