

Analysis shows Carbon Price Floor to cost manufacturing £1.2 billion annually by 2020

EEF, the manufacturers' organisation has published a compensation package of measures for energy intensive sectors that it believes government must introduce or, risk future investment and job creation in the UK.

The stark warning comes on the back of analysis published by the government on Friday, showing that climate policies could be adding up to 52% to electricity prices paid by energy intensive industry by 2020 – a figure that could still underestimate the costs to industry. EEF analysis shows that one measure alone- the Carbon Price Floor (CPF) - will cost manufacturing £250m a year when it is introduced in 2013, rising to £1.2bbn by 2020. This is equivalent to one third of the sector's entire spend on training at today's prices. (1)

Whilst the cost of the CPF will be most keenly felt by energy-intensive manufacturers, the impact would also be felt widely across manufacturing, including amongst those 'advanced manufacturers' the government is looking at to drive economic growth. For example, fast-growing, non-energy-intensive, small and medium size manufacturers are also likely to see their electricity bills rise significantly by the end of the decade.

Commenting, EEF Director of Policy, Steve Radley, said:

“UK Industry was already facing energy bills which made them uncompetitive before the substantial additional burden of the unilateral carbon price floor. We have now reached a tipping point where the cumulative burden of UK climate change policy will make it uncompetitive for some sectors to invest and create jobs in the UK.

“Government must show that it recognises the impact of its combined policies on manufacturing by swiftly bringing forward measures to ensure these key sectors remain in the UK and continue to invest here.”

Government has committed to introduce a package of measures by the autumn. This is intended to ensure the competitiveness of key energy intensive sectors which its own impact assessment has acknowledged are at risk from the increase in energy prices.

In response EEF has made its own recommendations in four key areas

1. Carbon Price Floor - EEF is seeking direct compensation of the pass through costs within energy prices as a result of the CFP from 2013 for the most electro-intensive sectors.
2. EU Emissions Trading Scheme - The EU ETS Directive allows for Member States to provide compensation to certain sectors from increased energy costs resulting from electricity generators passing on their direct EU ETS costs. EEF is calling on the UK government to exercise this provision for the benefit of these crucial sectors.
3. Exemption from the proposed Feed in Tariffs Consumer Levy - Looking to the future, government must ensure that new additional unilateral costs, such as the consumer levy to pay for the proposed Feed in Tariffs, do not put manufacturing companies at a disadvantage against their EU and global competitors.
4. Additional Climate Change Levy Relief - Government has the ability to increase the rate of relief from the Climate Change Levy to sectors within a Climate Change Agreement to at least 90%, without the need for State Aids approval. The government proposed rate of 80% from 2013 falls significantly short of addressing cost increases resulting from the CFP. Even 90% relief doesn't adequately address this shortfall, but is a measure that government can implement quickly and easily. (2)