CIA POSITION STATEMENT : JUNE 2017

CIA Chemical Industries Association

Working for chemical and pharmaceutical businesses

Energy and Climate Change Policy

Background

The UK chemical and pharmaceutical industries have a strong record as manufacturing's number one export earner and provider of essential inputs to UK value chains, including climate change solutions. We have a strong contribution to make both to rebalancing and greening the economy

However, the chemical industry is energy intensive, competes globally for product market share and inward investment, and has already done much to improve the energy efficiency of our existing production assets. Our contribution is therefore critically dependent on secure and competitive energy supplies and cost effective carbon reduction schemes which do not leave us internationally exposed.

Current status

For large energy users, UK electricity prices are uncompetitive and around 60% above the EU average and network costs are also higher. Gas prices are up to twice those in the US, where the exploitation of shale gas is a 'game-changer'.

Security of supplies is also a concern. UK energy prices can be volatile when there are supply uncertainties due to our aging electricity generating stock (particularly coal and nuclear). We are also increasingly dependent on imported gas (though we have good import capacities).

Added to this, unilateral UK and EU climate policies are inflicting a rising cumulative impact on our direct carbon costs and electricity prices. Compensation and exemptions are available under the Energy Intensive Industry (EII) package scheme but they are narrow in scope and aid is only partial.

We welcome government work with EIIs, including CIA, on Decarbonisation and Energy Efficiency Roadmaps to consider how industry can decarbonise while remaining competitive, but action plans remain at draft stage. The Industrial Strategy Green Paper also proposes to establish a long term roadmap to minimise business energy costs which we hope to see taken forward.

Our opinions and actions

- There should be early repeal of the UK-only Carbon Price Floor to ensure a level EU playing field.
- We need UK and EU Energy markets to work in an integrated and competitive way. Energy policy should be market based, free from interference in price setting with independent economic regulation of natural monopoly networks.
- A secure and affordable balance needs to be struck in the generating mix to address the high electricity prices faced by consumers. Sources of low carbon energy should be developed at least cost to consumers and compete for market share.
- The UK should maintain its competitive gas market and reduce its import dependency. We should urgently pursue the environmentally safe development of unconventional gas. This could provide a secure, UK source of chemical feedstock (raw material) as well as fuel.
- Energy sources and markets should be connected in a cost effective way and work freely while avoiding policy distortions. Network costs should be reduced to the EU average. We need free and fair access to the EU's single energy market post-Brexit.
- The Energy Intensive Industry (EII) package needs to be maintained and extended to compensate or exempt more businesses from rapidly rising climate policy impacts on electricity prices.
- Decarbonisation targets need to be realistic, recognise investment cycles and avoid caps on energy use that prevent growth.
- Revisions for Phase 4 of the EU Emissions Trading Scheme need to fully address the risk of production and investment leakage from the EU.
- In the light of a hard Brexit, the UK policy mix needs to be rationalised and replace with a single route to 100% exemptions. There should be an effective but lower cost alternative to EU ETS.
- And the Chemical Industry Decarbonisation and Energy Efficiency Roadmap Action Plan should be implemented. This includes actions to: increase clustering, support investment in energy efficient technologies, remove of barriers to harnessing waste and bio-resources, fund development of innovative low carbon technologies and deliver an approach to Industrial carbon capture and storage.

Contacts:
***Nick Sturgeon,** Energy and Competitiveness Director, Chemical Industries Association, UK*
Email: SturgeonN@cia.org.uk
***Simon Marsh,** Director of Employment & Communications, Chemical Industries Association, UK*
Tel: +44 20 7963 6725
Email: MarshS@cia.org.uk