The future of the Industrial Energy Transformation Fund

The UK's chemical sector is one of the UK's largest exporters of manufactured goods, with annual exports of £61bn. We employ 138,000 people in areas of the country that are in need of investment, paying 27% higher wages than the overall economy. We represent 18% of total business R&D spend and are highly productive, with a GVA per employee of >£200k. But the sector is in crisis. High energy and carbon costs are leading to site closures and an inability to attract new investment, which is undermining the entire manufacturing supply chain. UK production is being replaced with imports.

The hollowing out of the chemical sector does not just affect our plants. Chemicals are essential components in almost all products and processes across industries, including all the manufacturing sectors targeted for growth in the Government's industrial strategy. In fact, 96% of all manufactured products rely on chemical sector input. This makes us critical to security and to growth. Continued carbon and investment leakage leaves us increasingly reliant on trade for input to critical sectors like health, energy and defence.

The Government's modern industrial strategy, Invest 2035, is the perfect opportunity to re-evaluate the Government's approach to industrial decarbonisation. A realistic and holistic approach is required to ensure a change in direction towards decarbonisation and away from deindustrialisation. A key pillar of this should be a new industrial decarbonisation funding scheme, announced as part of the 2025 Spending Review, to help foster growth, stability, and innovation in key sectors like chemicals.

The chemical industry is one of the most energy-intensive sectors, and is currently reliant on fossil fuels for both energy and feedstock, making it a significant source of greenhouse gas emissions. But these emissions can be mitigated. The sector will always need energy to drive chemical reactions but, with the right investment conditions, the sector could source heat from clean electricity and hydrogen, and feedstock from circular sources like biomass, unrecyclable waste, and captured carbon.

Because of our position at the root of the supply chain, decarbonising the chemical industry can have a ripple effect, reducing emissions across all sectors and enhancing the overall sustainability of industrial value chains. Moreover, our sector is pivotal in developing and supplying the materials necessary for low-carbon technologies - like batteries, wind turbines, CCS, solar panels and heat pumps - that we will all rely on to reach net zero. Innovation in the chemical sector supports decarbonisation throughout the economy.

Below CIA outline our key recommendations for the structuring of a new funding scheme for industrial decarbonisation, that would maximise impact and ensure the UK's industrial heartlands can transition to a low-carbon future.

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Key recommendations

1. **Target energy intensive sectors exposed to carbon leakage.** Support should be directed towards energy-intensive sectors like chemicals, that have significant emission footprints and are at risk of carbon leakage. The chemicals sector faces significant competitive pressures from regions with less stringent carbon regulations. Targeted funding will help us to invest in decarbonisation technologies without compromising our global competitiveness.
2. **Increase funding availability.** The overall funding available for industrial decarbonisation must be significantly increased if the UK is going to compete in the global race for green industries. Furthermore, the upper limit on funding for individual projects must also be significantly increased, from the £30m that was made available under the IETF. Internationally competitive levels of funding would signal the Government's commitment to a stake in the low-carbon industrial future and will be crucial to attracting the scale of investment required to achieve meaningful emissions reductions in the UK.
3. **Extend funding into the future.** Funding for industrial decarbonisation should be extended as far into the future as possible. Long-term funding commitments will provide industries with the assurance and continuity needed to plan and invest in decarbonisation projects confidently. This stability is essential for fostering innovation and sustained progress towards a low-carbon economy. In the EU, for example, the Innovation Fund was established to provide access to significant levels of funding, from 2021 until 2030. Our members would like to see funding schemes which would be established for the next 5-10 years.
4. **Focus on high TRL energy efficiency and decarbonisation technologies.**[1] Funding should prioritise technologies that are close to commercial deployment but should otherwise be technology neutral. High TRL technologies offer the most immediate potential for reducing emissions and improving energy efficiency. By supporting these technologies, the UK can accelerate the transition to a low-carbon economy and demonstrate leadership in industrial decarbonisation.
5. **Ensure internationally competitive grant ratios.** To attract and retain investment in decarbonisation projects, grant ratios must be internationally competitive. The UK should benchmark support against competing countries to ensure that potential UK investments are not disadvantaged when compared with overseas opportunities. In the IETF, SMEs were offered 70% of the funds for deep decarbonisation projects, whereas larger firms could only apply for much less. Competitive grant ratios will incentivise companies to undertake ambitious decarbonisation projects here in the UK, preserving jobs, revenue and capability.
6. **Provide continuous access to support.** Access to funding should not be restricted to temporary, short application windows. Continuous access to support will allow companies to plan and implement decarbonisation projects more effectively. For example, UK sites within large multinational businesses will often need to follow a lengthy process to make the business case and secure sign off from overseas parents. Short windows, launched or cancelled with little notice, effectively exclude investment from these larger businesses, whilst making it difficult for less well-resourced SMEs to apply. If windows are necessary, then a one or two-year window would better allow business to engage with the process.
7. **Extend the spending period.** The time frame over which funding can be spent should be extended from the current four years to at least seven years. Longer spending periods will provide companies with the flexibility to undertake comprehensive decarbonisation projects that may require extended timelines for planning, implementation, and optimisation, even where there are no delays.
8. **Award projects based on cost/carbon savings.** Funding decisions should be based on the cost-effectiveness of projects in terms of carbon savings. This criterion ensures that resources are allocated to projects that deliver the greatest environmental benefits. Arbitrary evaluation criteria, such as collaboration between stakeholders, should not overshadow the primary goal of maximising carbon reductions.

[1] This paper is focussed on the immediate deployment of net zero transition projects for emission reduction. Separately, it is important to note that there has been a gap in funding for lower TRL projects since the closure of the Industrial Energy Efficiency Accelerator.

Key recommendations (cont.)

9. **Simplify the application process.** The application process for funding should be simple and quick. A streamlined process will encourage more companies to apply and reduce the administrative burden. The Government should also provide feedback on unsuccessful applications, to help applicants improve future submissions and increase their chances of success.
10. **A single route to funding.** A single route to Government funding would remove knowledge barriers surrounding what funding is available to businesses, for which project. A 'one-stop-shop' could help by referring applicants to all relevant sources of funding for a given project, ensuring businesses do not miss out.

Conclusion

The recently announced loss of the IETF has meant that active emission reduction projects have been put on pause, with the risk that some may not now be taken forward. We urgently need confirmation from the Government about how and when this funding will be replaced, in order to secure inward investment and unlock frozen projects. We call on the Government to announce a new and improved IETF at the launch of their Industrial Strategy, to secure the momentum needed to rebuild the UK's industrial heartlands.

By implementing CIA's recommendations, the UK can create a robust funding framework that effectively supports industrial decarbonisation, positions the UK as a leader in the global transition, and ultimately drives the growth of a modern, low-carbon economy.

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