Building Low Carbon Industries

Chris Pook

Head of the Green Economy Team - BIS

Government's view

- Coalition Agreement:

  "We need to use a wide range of levers to cut carbon emissions, decarbonise the economy and support the creation of new green jobs and technologies"

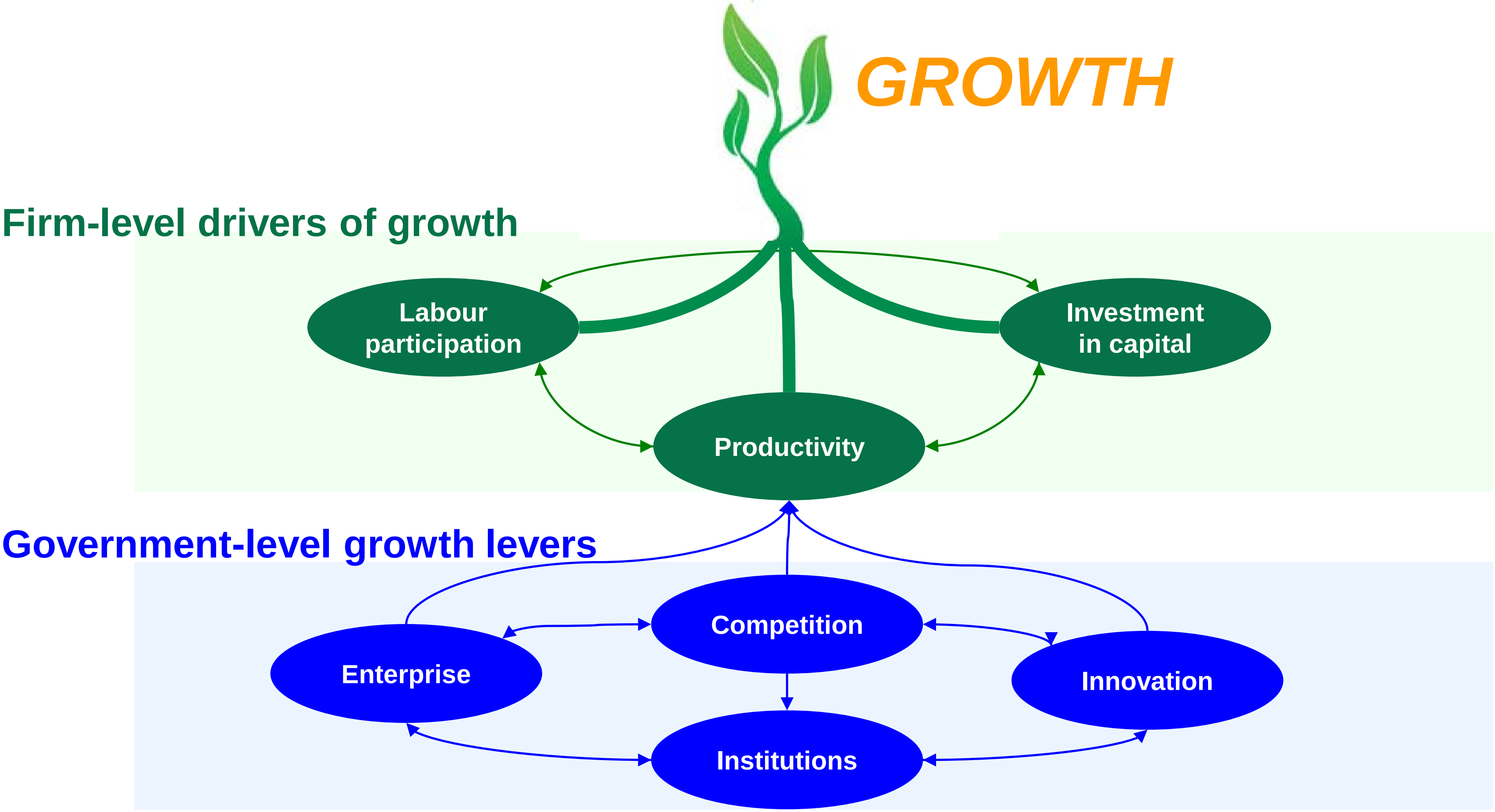
- Plan for Growth:

  "To achieve strong and sustainable growth that is more evenly balanced across the country and between industries"

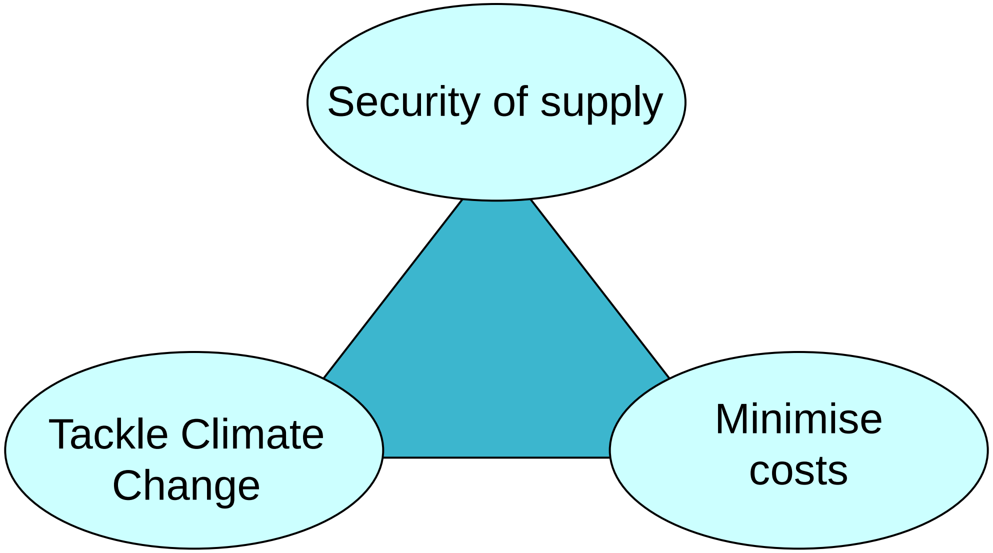
- Energy sector a key 'enabling' sector for UK economy

  (Vince Cable, Industrial Strategy speech, Sept 2012)

Growth depends on a complex system of mutually reinforcing drivers



But government also has specific objectives in the energy sector



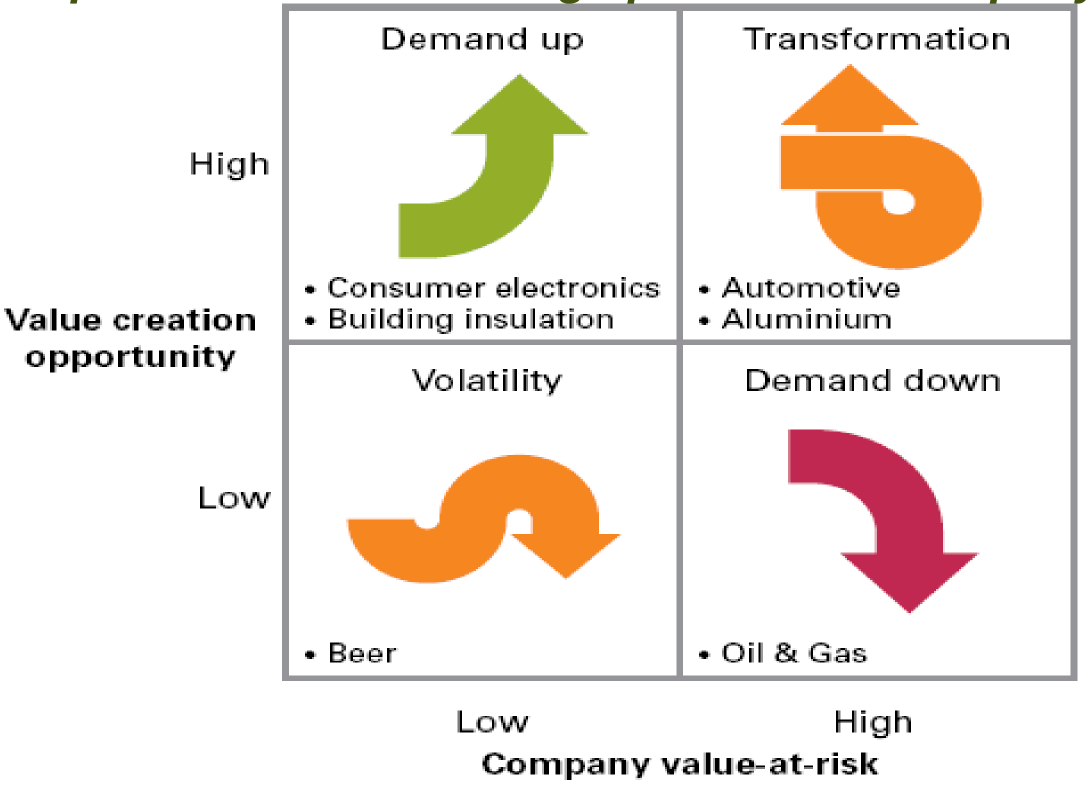
Security of supply

Tackle Climate Change

Minimise costs

… which leads to a complex picture of impacts across the economy

Potential impacts of climate change policies on company value



Demand up

- Consumer electronics
- Building insulation

Transformation

- Automotive
- Aluminium

Volatility

- Beer

Demand down

- Oil & Gas

High

Low

Value creation opportunity

Low

High

Company value-at-risk

Source: Carbon Trust and McKinsey & Co. analysis.

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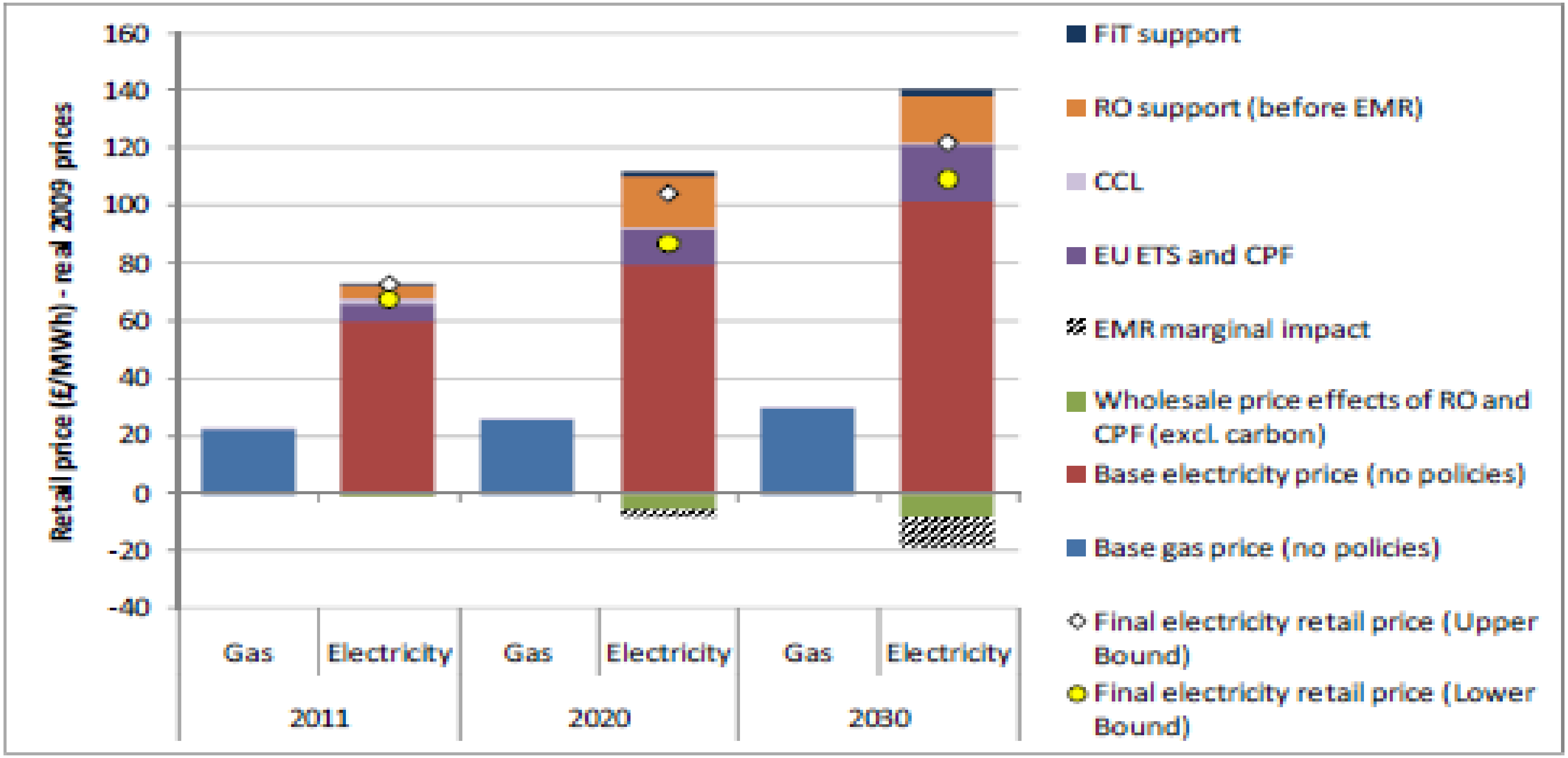
And in some sectors the costs of GHG regulations impacting on large energy users are significant

Impact of GHG policies on energy prices for large energy users



Source: DECC 2011

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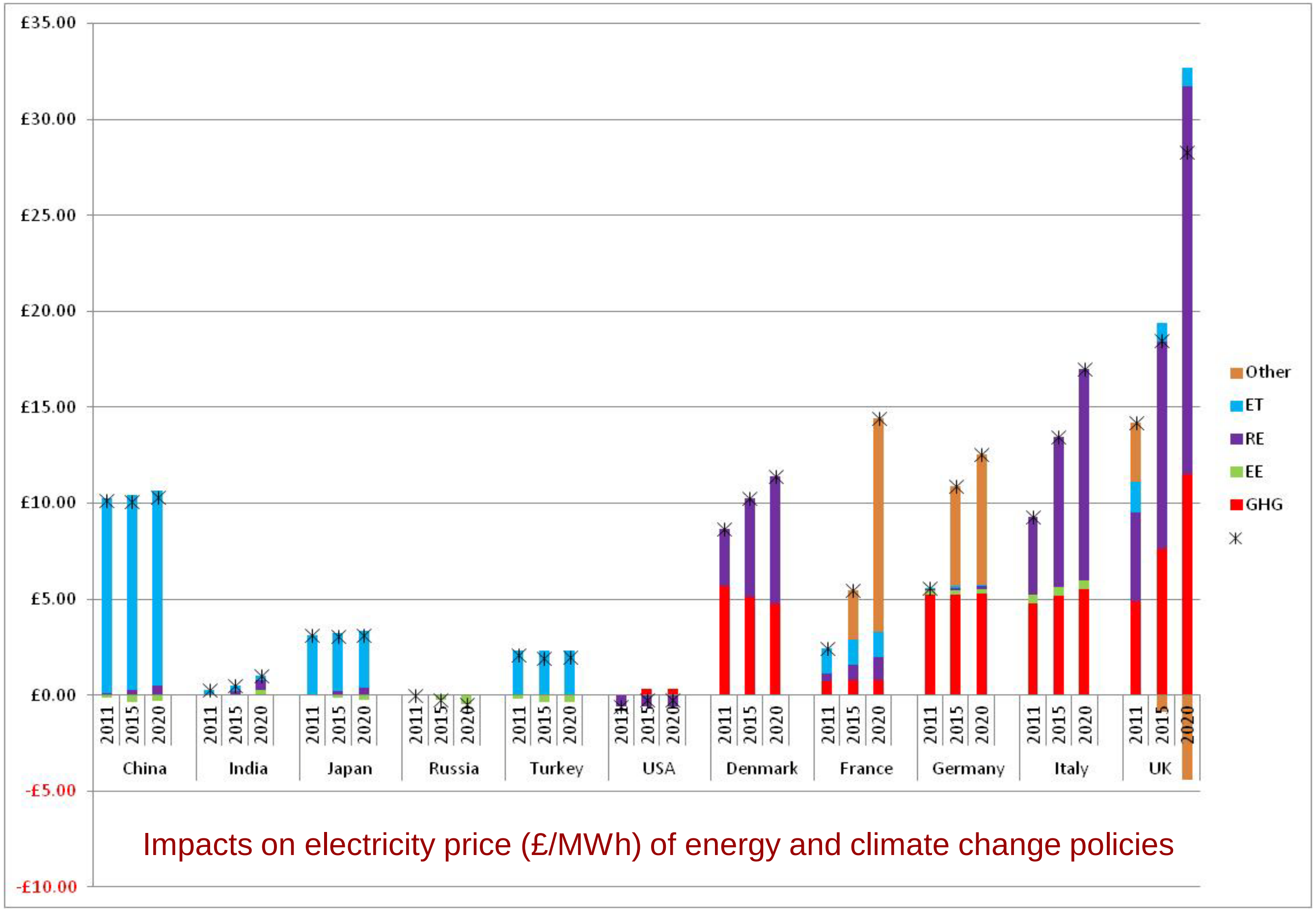
... especially when compared to other countries



Impacts on electricity price (£/MWh) of energy and climate change policies

The imperative is not to let uncertainty stall "no regrets" policies

Schematic categorisation of policies

Contribution to growth

	Negative	Positive
Positive	Need to balance positive growth against higher GHG **e.g. exemptions for EIIs**	Need to support on win wins **e.g. low cost, no cost energy efficiency**
Negative	Need to limit anti-growth and anti-green policies **e.g. fossil fuel subsidies**	Need to balance GHG benefits with any negative growth impacts **e.g. non-global carbon pricing / taxes**

Contribution to GHG reduction

Source: CCC, DECC, McKinsey, BIS analysis

And to take action to support those sectors most at risk

- At the Autumn statement, Government announced that it would:
  - compensate key electricity-intensive businesses to help offset the indirect cost of the carbon price floor and the EU Emissions Trading System, subject to state aid guidelines
  - increase the level of relief from the climate change levy on electricity for Climate Change Agreement participants to 90 per cent.
  - explore options for reducing the impact of electricity costs on electricity-intensive industries as a result of EMR policies where this has a significant impact on their competitiveness.

- In March, BIS & DECC published its call for evidence and discussed with business stakeholders. Used to develop case for state aids exemption and detailed design.

- Now consulting on detailed criteria for eligibility (consultation closes 21 December 2012)

EII package

- £250m package – consultation in autumn and announcement next year *(subject to state aid clearance).*
- Will address policy costs which will be passed through to EIIs via their electricity bills.
- Targeted at those most at competitive risk (electricity intensive and trade exposed)
- Objective is to allow UK industries to remain competitive and reduce emissions where possible, whilst innovations (e.g. CCS) become available to more fully decarbonise.

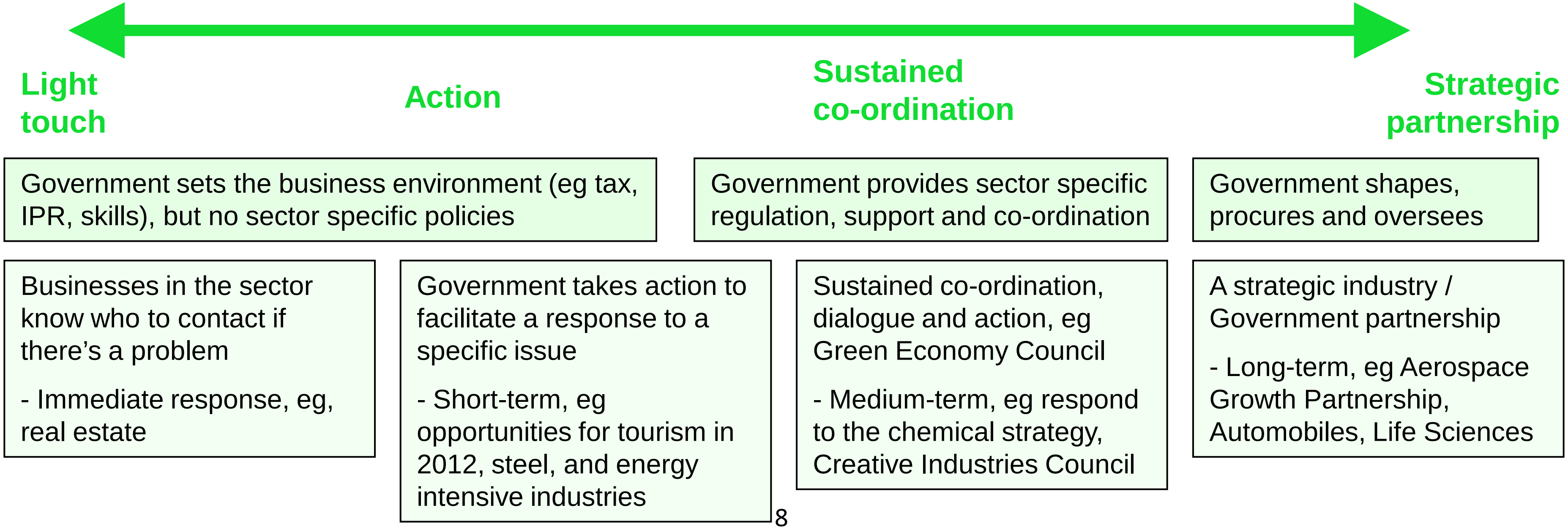
Next steps

- State aid – engagement with the Commission. This drives the timetable.
- Administration – team will be putting in place administrative arrangements.
- Final guidance out in Spring 2013.

- And will also be looking at other options available, such as mineralogical and metallurgical exemptions, and support for energy efficiency measures in EIIs

Industrial Strategy

- Partnership strategies will be co-created with industry, engaging across the sector landscape and focusing on developing long-term capability.
- Government will continue to support all sectors, but the extent and nature of engagement will depend on the needs of the sector. The type of activity we undertake will depend on their potential contribution to growth and the scope for us to make a difference



Light touch

Action

Sustained co-ordination

Strategic partnership

Government sets the business environment (eg tax, IPR, skills), but no sector specific policies

Government provides sector specific regulation, support and co-ordination

Government shapes, procures and oversees

Businesses in the sector know who to contact if there's a problem

- Immediate response, eg, real estate

Government takes action to facilitate a response to a specific issue

- Short-term, eg opportunities for tourism in 2012, steel, and energy intensive industries

Sustained co-ordination, dialogue and action, eg Green Economy Council

- Medium-term, eg respond to the chemical strategy, Creative Industries Council

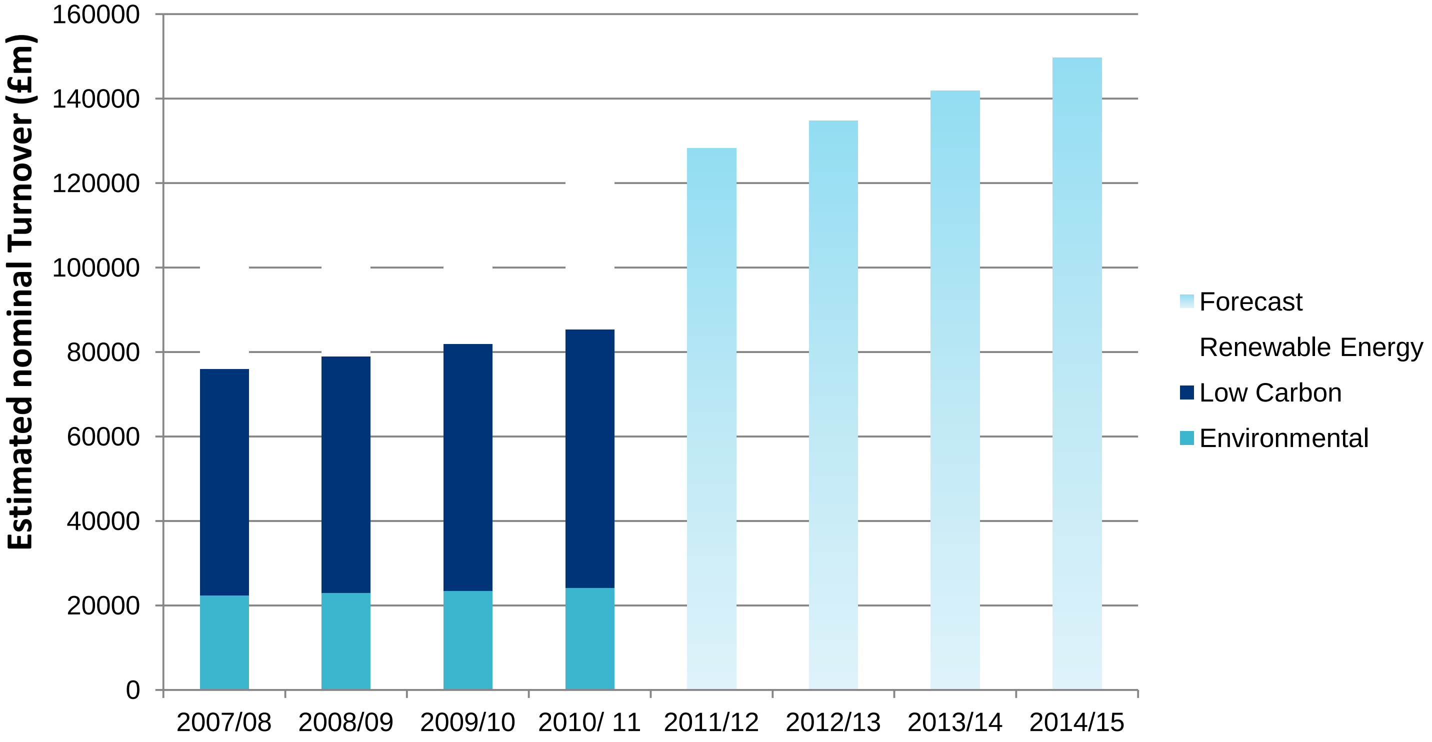
A strategic industry / Government partnership

- Long-term, eg Aerospace Growth Partnership, Automobiles, Life Sciences

So what is government doing?

- Firstly, it is essential to get the business environment right, providing
  - Policy stability and long term certainty
  - Clarity and investability
  - Reduction of capital costs
- And secondly government is provide underlying support to address a range of needs at national and regional levels:
  - Support growth of supply chains
    - Funding programmes (RGF, AMSCI etc).
    - Sectoral and regional activities – ORE Catapult, NAMRC, COREs
  - Skills system
    - Demand-led, flexible system
    - Address gaps: Growth and Innovation Fund, National Skills Academies
  - Support Innovation
    - Research Councils, Technology Strategy Board, Energy Technologies Institute
    - Catapult Centres
  - Stimulate Investment
    - Green Investment Bank
    - Supply Chain Finance

LCEGS Growth



- Growth forecasts for the UK LCEGS sector suggest that turnover could reach over £140bn in 2014/15.

Source: K-Matrix 2012

Thank You

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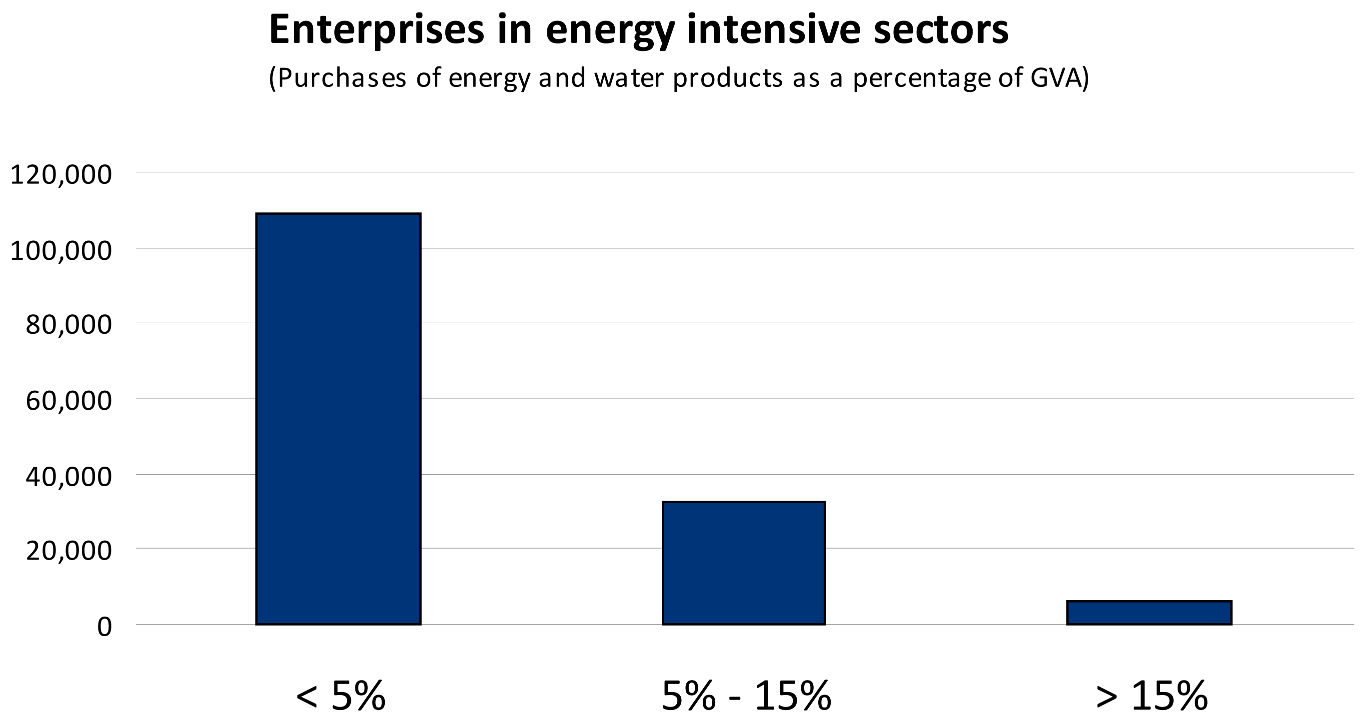
Energy intensity of manufacturing firms



- 2007 data collected as part of ONS Annual Business Survey
- Energy intensive sector defined by purchases of energy and water products as a percentage of GVA

Eligibility - ETS

Description
Aluminium production
Mining of chemical and fertilizer minerals
Manufacture of other inorganic basic chemicals
Lead, zinc and tin production
Manufacture of leather clothes
Manufacture of basic iron and steel and of ferro-alloys
Manufacture of paper and paperboard
Manufacture of fertilizers and nitrogen compounds
Copper production
Manufacture of other organic basic chemicals
Preparation and spinning of cotton-type fibres
Manufacture of man-made fibres
Mining of iron ores
The following sub-sectors within manufacture of plastics in primary forms 24161039 – Low-density polyethylene 24161035 – Linear low-density polyethylene 24161050 – High-density polyethylene 24165130 – Polypropylene 24163010 – Polyvinyl chloride 24164040 - Polycarbonate
The following sub-sectors within manufacture of pulp 21111400 – Mechanical pulp

Eligibility - CPF

Description
Aluminium production
Mining of chemical and fertilizer minerals
Manufacture of other inorganic basic chemicals
Lead, zinc and tin production
Manufacture of leather clothes
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- **For CPF compensation** - Govt will consider putting a case to the Commission for other sectors / sub-sectors which can demonstrate that carbon costs in 2020 will amount to at least 5% of GVA.
- This needs to be demonstrated as part of this consultation.