

## 1. HOW SHOULD ENVIRONMENTAL RULES AND REGULATIONS BE ADAPTED FOR THE FUTURE?

Make UK's members take their responsibilities to the environment and public health seriously. They do not want standards eroded as a result of Brexit and endorse the current government's commitment to leave the environment in a better state than it found it. As an organisation, we have a long history of working with UK and EU policymakers to try and achieve their aims and ambitions in this area while facilitating a healthy economy.

The decision to leave the EU has naturally stimulated considerable debate about current and future environmental regulation, especially the sizeable portion of it stemming from the EU, as well as replacement governance structures.

As set out in our paper on Brexit and Environmental Regulation<sup>1</sup>, manufacturers are principally concerned with ensuring frictionless trade with the EU and a stable policy environment, allowing them to invest.

This should start in the short-term with effective transposition of the EU acquis to the UK statute book wherever practical, while also undertaking negotiations as quickly as possible where there is need for cooperative action.

Beyond that, there may be changes that could be made to streamline UK legislation in some areas over the longer term without weakening its overall aims. However this should be approached in a systematic and transparent manner and only once the UK has left the EU. When it comes to product-related regulations, manufacturers see no benefit in deviating from the EU and are keen to avoid producing multiple products for multiple markets.

Other action taken outside the EU regulatory framework should focus on similar principles, ensuring that the competitiveness of UK industry is not threatened by costs added unilaterally, especially for companies exposed to international competition who cannot pass them on again to their consumers. Administrative burdens need to be considered and kept as low as possible, and there also need to be consistent signals for investors. There is no benefit to simply driving environmental issues overseas, especially in the case of greenhouse gas emissions.

This is relevant at the moment in the context of Defra's Air Quality Strategy, and how it treats industrial emissions and the suggestion by some that the forthcoming Resources & Waste Strategy might impose taxes on the use of virgin raw materials. It also continues to be very important in the context of electricity prices and how the costs of decarbonising our electricity system are passed on to consumers.

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<sup>1</sup> EEF, 2018, Brexit & Environmental Regulation: Update on the Manufacturer's Perspective, <https://www.eef.org.uk/campaigning/campaigns-and-issues/current-campaigns/post-brexite-environmental-regulation>

Clearly it is also important to take a lifecycle approach and consider where in the value chain the key drivers are to reducing environmental impact. There are also areas, for instance in waste, product and chemicals policy, or in resources and climate change policy, where there are opportunities for greater coordination.

## 2. WHAT STEPS NEED TO BE TAKEN FOR THE UK TO PUT ITSELF ON COURSE TO MEET CLIMATE TARGETS?

From an industrial perspective, there are several things to consider, including a more effective approach to achieving energy efficiency, support for carbon capture and storage, and the impact of decarbonising the electricity system (addressed by next question).

When it comes to energy efficiency, it is clear that there is more that can be achieved. Our own research conducted in late 2016,<sup>2</sup> estimated a 14% improvement in electricity efficiency was still possible through cost-effective measures within the manufacturing sector. If this potential was realised, it could lead to a 12 TWh reduction in annual electricity consumption, equivalent to 4% of the UK's annual total.

This untapped potential exists despite a number of overlapping policies in this area that add considerably to costs and administrative burdens within the sector.

We have long argued for a more supportive approach to energy efficiency that recognises the barriers to greater uptake, including, for instance, rebates from the Climate Change Levy for individual energy efficiency projects.<sup>3</sup>

The situation is more complicated for energy intensive industries such as steel, where the low-hanging fruit has been adopted. Indeed, surveys across our whole membership, show that pay-back periods over the usual accepted norms of two to four years are the main barrier to energy efficiency projects. Similar barriers were also identified in the joint Decarbonisation and Energy Efficiency Roadmaps energy intensive industries compiled with some optimism with government and academia in 2015 but resulted in little tangible action from government. We were delighted at the

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<sup>2</sup> EEF, 2016, Upgrading Power <https://www.eef.org.uk/resources-and-knowledge/research-and-intelligence/industry-reports/upgrading-power-report>

<sup>3</sup> EEF, 2015, The Low-Carbon Economy: Moving from Stick to Carrot, <https://www.eef.org.uk/resources-and-knowledge/research-and-intelligence/industry-reports/the-low-carbon-economy-moving-from-stick-to-carrot>

promise in the Conservative Manifesto for an Energy Efficiency Scheme for large emitters and disappointed that this has not come to light.

The situation is worsened too by the uncertainty over the UK's future involvement in the EU Emissions Trading System and what might be implemented instead which we know is already affecting investment at some UK industrial sites. It is also worth highlighting the need to find a viable funding mechanism for Carbon Capture and Storage (CCS), a technology which the Committee on Climate Change believes is vital for industrial decarbonisation.

Having said all this, it is important, as Professor Dieter Helm noted in his Cost of Energy Review last year, to look across the economy and see where emissions reductions can be achieved at least cost and ensure those areas really are being targeted. It is also notable that the UK's total carbon footprint is not shrinking nearly as fast as its domestic emissions.<sup>4</sup> Although consumption-based emissions are not captured by the UK's climate targets, we believe there should be greater examination of trends in this area.

### 3. HOW CAN A FUTURE LOW-CARBON ENERGY SYSTEM BE MADE TO WORK FOR CONSUMERS?

UK industrial electricity prices are among the highest in Europe, impacting the competitiveness of businesses participating in international markets and their willingness to invest in the UK. Last year's Cost of Energy Review was clear that prices are higher than necessary. Technological development and the move to auction-based subsidies have helped bring down the costs of low-carbon generation and this increasingly needs to be harnessed in the interests of consumers.

We are very frustrated that eight months on from the publication of Professor Helm's Review and six months after the close of the Call for Evidence that followed it, there is still no formal response from government. That is despite the very welcome commitment in the Conservative Manifesto to trying to achieve the lowest energy prices in Europe. Indeed, energy policy announcements are few and far between, adding to uncertainties for investors.

As highlighted in our response to the Call for Evidence,<sup>5</sup> we support a continued move towards technology-neutral auctioning for subsidies and were pleased to see limits imposed on the total combined impact of these in the last

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<sup>4</sup> Defra, 2018, UK's Carbon Footprint 1997-2015 <https://www.gov.uk/government/statistics/uks-carbon-footprint>

<sup>5</sup> EEF, 2017, Response to the Independent Cost of Energy Review, <https://www.eef.org.uk/~media/a6cf0992b90a4da8b2876e54b0f43410.pdf>

Budget. The proposal to review the Capacity Market in the autumn is also welcome and should include consideration of its future cost to consumers under various different scenarios.

It is also notable that other countries take a much more activist approach to distributing these costs among consumers. We believe the government should both track the impact the UK approach has on the relative competitiveness of our industrial electricity prices and review whether alternatives might achieve a better socio-economic outcome. It is also possible that future State Aid rules may enable other approaches.

Finally, we are concerned about potential changes to the way electricity network charges are distributed being considered by Ofgem. This could add considerably and at relatively short notice to the electricity price disparities experienced by some energy intensive industries and potentially disincentive investment in onsite energy generation and storage.

## **4. HOW CAN JOBS BE CREATED AND EXISTING SKILLS AND WORKFORCES MAINTAINED IN A FUTURE LOW-CARBON ECONOMY**

Our research suggests manufacturers have not tended to see themselves as part of the low-carbon economy unless they operate in the renewables sector and view climate change policy largely as a source of additional costs. Some of the messaging in last year's Clean Growth Strategy helped highlight the broader opportunities that exist but it feels like there is more that can be done to encourage industry to explore these.

However, as discussed above, it is also vital that industrial and electricity decarbonisation policies are designed in a way that reinforces rather than undermines the international competitiveness of manufacturing.

## **5. WHAT ACTION SHOULD BE TAKEN TO ADDRESS POOR AIR QUALITY ACROSS THE COUNTRY**

We are still formulating our response to the Clean Air Strategy but are pleased to see Defra considering all sources of air pollution, including those like domestic woodburners that might be politically sensitive.

From an industrial perspective, we would urge caution around any unilateral measures that go over and above EU best practice standards established under the Industrial Emissions Directive or impose additional costs as this creates competition concerns. Key sectors have already worked hard to reduce pollution levels, focusing especially on the impacts on local populations.

# Labour National Policy Forum 2018: Response to questions in A Greener Britain



## Make UK

Make UK champions British manufacturing. We are a powerful voice at local, national and international level for small and medium sized businesses and corporates in the manufacturing and engineering sectors.

We're determined to create the most supportive environment for UK manufacturing growth and success, and we present the issues that are most important to our members, working hard to ensure UK Manufacturing remains in the government and media spotlight.

Together, we build a platform for the evolution of UK manufacturing.