Ideas for Economic Growth

Climate Change Act amounting to a commitment to keep intermediate emission reduction targets and interpretations of European directives consistent with our European competitors. This need not require the abandonment of the 80 per cent cut by 2050 target, at least for now, because the EU only has emission reduction targets up till 2020. This measure will assuage business concerns about the UK applying European directives more stringently than our competitors. Secondly, the government should scale back UK carbon costs where they exceed European levels and ensure that any exemptions to European directives are applied to the maximum extent allowed under law. As such, the CPF should be scrapped. EIIs such as cement should be exempted from the CCL in line with the corresponding EU directive, and the government should determine if it is possible to scale back the 2020 renewables target. These three initial suggestions could minimise the harm in the near-term and serve as starting points for a more thorough review of the matter by government. Apart from improving the UK’s cost competitiveness this will simply regulation and reduce compliance costs. Finally, when the European Commission reviews the status of free EUA allocations in 2014, the government should co-operate with its European partners and lobby the commission to ensure that free allocations for EIIs across Europe are maintained. Without all these measures, the government risks pricing cement production in the UK out of the market and exacerbating climate change.

Notes


3 For example, it aims to meet 80 per cent of its electricity needs with renewables by 2050.


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Policies intended to reduce carbon emissions are destroying British jobs without making any difference to climate change. The aluminium smelting industry, for example, has been virtually eliminated by two major closures: in Anglesey and Lynemouth, Northumberland. Here we describe the impact on one of the mundane industries on which the nation depends: cement manufacture. What is true for cement also applies to our other energy-intensive industries, including chemicals, glass, ceramics and steel. In 2011 George Osborne said that we should cut emissions ‘no slower but also no faster’ than our economic rivals, but costs are still being imposed unilaterally on British industry, with new impositions due in 2013. At the very least, the Government should scrap plans for a carbon price floor, exempt all energy-intensive industries from the climate change levy to the maximum extent permitted under EU directives, and abandon the unachievable target of generating 20 per cent of electricity by renewable methods by 2020.

Are our carbon-reduction targets self-defeating?

Kaveh Pourvand

Energy intensive industries (EII) comprise industries such as iron and steelmaking, mineral products and ceramics. They are crucial to the UK economy. The mineral products industry alone, which includes cement, employs 70,000 people and supports £40bn of revenue and 2.5 million jobs in the wider economy.1 EIIs are also among the largest contributors to the UK’s output: their combined gross value added (GVA) was £14bn in 2008, or 11 per cent of the UK manufacturing total. It is accepted across the political spectrum that a manufacturing revival is needed to put the UK economy on a course of sustainable growth. For this to happen, the UK government needs to ensure that UK-based EIIs have an internationally competitive cost base. They currently do not. As the term suggests, energy is a key cost for EIIs but the UK’s current decarbonisation strategy raises these to high levels relative to competitor countries. Indeed, UK regulations only add to already considerable costs created by EU legislation. As a consequence, government policy is likely to be environmentally and economically self-defeating by encouraging mobile EIIs to relocate to less carbon-constrained developing economies.

This problem is known as ‘carbon leakage’ and paradoxically results from the ambition of the government’s decarbonisation strategy. Following David Cameron’s pledge to lead the ‘greenest’ government ever, the coalition has strung firmly to the implementation and continuance of the 2008 Climate Change Act, committing the UK to a unilateral cut in carbon emissions of 80% by 2050.
ideas for economic growth

The cement industry is a very good example of an important UK EII that faces an uncertain future due to high energy costs. The £800m a year government’s £250m relief package, set to flatline since 2008, the volume of imported cement has stayed roughly constant over the period at approximately 1.1 million tonnes a year. This trend is set to intensify as the economy recovers, with increased demand for cement being met by imports.

The role of government

The government’s £250m relief package, set to start in 2013, is of too small a scale to make a significant difference. Its two major components are €110m of relief for EU ETS costs and a further £100m for UK-only CFI costs. Richard Leese points out that cement is not eligible for the former while its eligibility for the latter is yet to be decided. The small size of the support will probably mean that the CFI relief will be prioritised for more prominent EIIs than cement. There is more the government can do.

Firstly, it should insert an amendment into the Industrial Emissions Directive is also an EU mandated legislation set to start from 2013. It is designed to increase energy efficiency for industrial processes, obliging the cement industry to purchase costly emissions abatement technology. The MPA currently forecasts an annual cost of €8.7m but await details of the directive’s precise implementation in the UK. Richard Leese, MPA director of Energy and Climate Change, says ‘history tells us the Environment Agency will be stricter in its interpretation’ than other countries.

Feed-in Tariffs and the general costs of electricity market reform (EMR) are other energy costs passed onto cement producers.

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