PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fourth Delegated Legislation Committee

FINANCIAL ASSISTANCE TO INDUSTRY

Monday 7 December 2020

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The Committee consisted of the following Members:

Chair: Mark Pritchard

Afolami, Bim *(Hitchin and Harpenden)* (Con)
† Brown, Alan *(Kilmarnock and Loudoun)* (SNP)
† Cartlidge, James *(South Suffolk)* (Con)
† Fletcher, Mark *(Bolsover)* (Con)
† Furniss, Gill *(Sheffield, Brightside and Hillsborough)* (Lab)
Hendrick, Sir Mark *(Preston)* (Lab/Co-op)
† Hollinrake, Kevin *(Thirsk and Malton)* (Con)
† Johnston, David *(Wantage)* (Con)
Keeley, Barbara *(Worsley and Eccles South)* (Lab)
McDonagh, Siobhain *(Mitcham and Morden)* (Lab)
† Mayhew, Jerome *(Broadland)* (Con)
† Pawsey, Mark *(Rugby)* (Con)
† Pennycook, Matthew *(Greenwich and Woolwich)* (Lab)
† Russell, Dean *(Watford)* (Con)
† Solloway, Amanda *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Tarry, Sam *(Ilford South)* (Lab)
† Tomlinson, Michael *(Lord Commissioner of Her Majesty's Treasury)*

Dominic Stockbridge, *Committee Clerk*

† attended the Committee

Fourth Delegated Legislation Committee

Monday 7 December 2020

[MARK PRITCHARD *in the Chair*]

Financial Assistance to Industry

4.30 pm

The Chair: Before we begin, the Chairman of Ways and Means has asked me to remind Members to observe social distancing and to sit only in places that are clearly marked. I think everybody is doing that, so very well done. *Hansard* colleagues to my left would be most grateful if Members could send their speaking notes to hansardnotes@parliament.uk.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Amanda Solloway): I beg to move,

That the Committee has considered the motion, That this House authorises the Secretary of State to undertake to pay, and to pay by way of financial assistance under section 8 of the Industrial Development Act 1982, sums exceeding £30 million and up to a total of £300 million in respect of compensation for indirect costs of the UK Emissions Trading System or the Carbon Emissions Tax and Carbon Price Support mechanism in each case to British Steel Ltd; Celsa Manufacturing (UK) Ltd; CF Fertilisers UK Ltd; DS Smith Paper Ltd; INEOS Chemical Grangemouth Ltd; INEOS ChlorVinyls Ltd; Kimberly Clark Ltd; Outokumpu Stainless Ltd; Palm Paper Ltd; Runcorn MCP Ltd; SABIC UK Petrochemicals Ltd; Tata Steel UK Ltd; and UPM-Kymmene (UK) Ltd.

It is a great pleasure to serve under your chairmanship, Mr Pritchard. The current scheme to compensate certain energy-intensive industries for indirect emissions costs arising from the EU emissions trading scheme expires at the end of 2020. Ministers in the Department for Business, Energy and Industrial Strategy have agreed to extend the compensation schemes in line with the current framework for a further year, to the end of the next financial year. Under section 8 of the Industrial Development Act 1982, we seek the House of Commons' approval to pay compensation in excess of £30 million to individual businesses.

The UK will announce either a United Kingdom emissions trading scheme or a carbon emissions tax as a successor to the EU ETS. That means that the motion agreed by the Commons in 2014, providing approval to spend more than the limit in section 8 of the Industrial Development Act, will no longer be valid. That is because the UK has left the EU and will no longer be part of the EU ETS. We are therefore tabling a motion to seek the Commons' approval to ensure that BEIS can continue to compensate businesses for more than £30 million of indirect costs from the UK ETS or carbon emissions tax and carbon price support mechanism.

Energy-intensive sectors that are eligible for BEIS relief schemes employ around 350,000 workers, and they have a gross value-added of £28.5 billion, or 2% of the UK economy. Their turnover is around £134 billion, and in 2018 their exports totalled around £93 billion, which is 27% of total UK exports. Carbon pricing policies create a cost differential between the UK and other countries, and that increases the risk of carbon leakage. Carbon leakage could occur if, for reasons of cost related to climate policies, businesses were to transfer production or reallocate investment to other countries that have lower carbon pricing policies. That could lead to an increase in global greenhouse gas emissions. The Government have therefore been compensating certain energy-intensive industries for the indirect emissions costs arising from the EU ETS and the carbon price support mechanism since 2013 and 2014 respectively.

In their 2011 autumn statement, the Government announced that, to ensure that manufacturing was able to remain competitive during the shift to a low-carbon economy and to minimise carbon leakage, they would compensate key electricity-intensive businesses to help to offset the indirect emissions cost of the carbon price and the EU ETS. Cost compensation should remain as long as there are differences in low-carbon policy costs between the UK and international competitors. The Government should ensure that businesses can plan on the basis that that will be the case, while keeping the precise coverage level and conditionality of compensation and exemptions under review. The main beneficiaries are certain energy-intensive industries, particularly companies in the steel, paper and pulp chemical sector. The compensation is paid from the BEIS budget.

As I have mentioned, section 8 of the Industrial Development Act requires approval by a resolution of the House of Commons for support in excess of £30 million under any one project. In 2014, the Commons approved a motion to increase that limit to £300 million for 13 companies in respect of compensation for the EU ETS and carbon price floor. As we will move to a new scheme—a UK ETS or carbon emissions tax—from 1 January 2021, we are seeking approval from the Commons again.

Without new approval from the House of Commons, my Department would not be permitted to compensate businesses from 1 January 2021. Given the pressure facing businesses from covid-19, preparations for the end of the transition period and the continuation of relatively high UK industrial electricity prices, Ministers have agreed to the continued operation of the compensation scheme for a further year—until the end of the financial year 2021-22.

We will revise the schemes in early 2021 to assess whether—and if so, how—to continue the compensation scheme for the longer term. By that time, we will have more clarity about our future relationship with the EU carbon pricing policy. The UK's subsidy control regime has broader Government objectives, such as the delivery of the covid-19 response and net zero commitments.

The Government recognise that energy-intensive industries need to play their part in reducing emissions, and we have introduced various policies to help them decarbonise. In the Budget of 2018, the Government announced £315 million for an industrial energy transformation fund to support industrial energy efficiency and decarbonisation projects, to bring energy costs down for industry.

Kevin Hollinrake (Thirsk and Malton) (Con): The Minister is making a very strong case for the motion, but can she set out why some industries in other countries pay less than UK companies for energy? Why is that?

Amanda Solloway: I thank my hon. Friend for that intervention; if I may, I will come to that point in my closing remarks.

As set out in our 10-point plan for a green industrial revolution, our aim is for the UK to develop 5 GW of low-carbon hydrogen production capacity by 2030; that could see the UK benefit from about 8,000 jobs across our industrial heartlands and beyond. It will be supported by a range of measures, including a £240 million net zero hydrogen fund. The financial system outlined in the motion will be of huge benefit to the UK energy-intensive industries most at risk of carbon leakage. It is imperative that we continue to support those industries, which are so vital to the UK economy. I am assured that section 8 of the Industrial Development Act 1982 is the appropriate means by which to make such payments, and I commend the motion to the Committee.

4.37 pm

Matthew Pennycook (Greenwich and Woolwich) (Lab): It is a pleasure to serve under your chairmanship, Mr Pritchard.

Let me say at the outset, for the purposes of clarity, that the Opposition support the objective that underpins this motion—namely, the need to minimise the risk of carbon leakage by taking steps to ensure that energy-intensive industries are not put at a competitive disadvantage as a consequence of the cumulative impact of carbon pricing on industrial electricity prices.

It is obviously important that UK manufacturing should be able to remain competitive during the transition to a low-carbon economy, and we recognise that there is a need to continue to provide compensation for the indirect emissions cost of whatever carbon pricing policy replaces the EU emissions trading system. For that reason, we will not be opposing the motion this afternoon.

I would, however, like to take the opportunity to raise with the Minister two important questions that relate directly to the motion under consideration. The is about what carbon pricing policy will replace the EU emissions trading system. To put it another way: in respect of what arrangement do the energy-intensive industries that we are discussing require compensation during the next financial year?

As I have said to the Minister on previous occasions, we cannot run the risk of a dysfunctional carbon pricing system in the year we host the critical COP26 UN climate summit. As the Committee will know, only 24 days—eight sitting days—of this parliamentary term now remain until the transition period ends, and with it the UK's participation in the EU ETS. Yet the Government have still not announced whether a stand-alone UK ETS or a carbon emissions tax will operate from 1 January should a linking agreement with the EU ETS not be negotiated and put in place by that date. Surely, the Minister cannot believe it is fair that the emitters in question still have no idea what arrangements they will be operating under in just three and a half weeks' time. My understanding is that a decision has been on the Prime Minister's desk since late last month. If that is the case, what on earth is stopping the Government making clear to those affected what fall-back carbon pricing arrangement will operate in the UK from 1 January should the linked UK-EU scheme not materialise from the negotiations in the coming days and weeks?

In all candour, I have no expectation of getting an answer today from the Minister, but I would be grateful if she could at least acknowledge that the Government recognise that they owe those operators clarity on this issue as a matter of some urgency. I would also be grateful if she could clarify how her Department has been able to estimate that the compensation budget for the next financial year will stand at £140.6 million. Although we know that we have a carbon price floor in place from 1 January, we still have absolutely no confirmation of what will replace the EU ETS.

The second issue I want to raise concerns the long-term arrangements for addressing carbon leakage and ensuring that our energy-intensive industries remain competitive as we accelerate the pace of emissions reduction. We accept that compensation of the kind we are authorising today is necessary, but to avoid the cost of such compensation spiralling over the long term, as the price of carbon is increased, there must be sufficient long-term support to green the industries in question. After all, as the Minister will know, many if not all of the energy-intensive industries covered by the motion will not only benefit from compensation for the indirect emissions cost of carbon pricing, but will continue to benefit from reduced costs in respect of climate levies. They are, in short, in a relatively privileged position relative to other less energy-intensive industries. Therefore, as we accelerate efforts to achieve net zero, there will have to be greater use of conditionality to ensure that the financial support provided to compensate these industries is balanced by measures to ensure that their carbon intensity is steadily reduced.

I note that a review and a consultation in early 2021 in relation to the compensation scheme have been mentioned, and the Minister touched on that in her remarks, but I would be grateful if she could reassure the Committee that the Government recognise the limits of the compensation mechanism in question over the long term as the price of carbon rises, and that they accept that more will need to be done beyond the schemes she touched on to accelerate the pace of decarbonisation in these industries, not least to manage the costs of the current scheme going forward.

Alan Brown (Kilmarnock and Loudoun) (SNP) *rose—*

The Chair: The hon. Gentleman arrived literally 30 seconds ago—11 minutes into the discussion.

Alan Brown: I apologise, Chair; I was in the main Chamber.

The Chair: I understand that, but on this occasion I am going to call the Minister.

4.42 pm

Amanda Solloway: I thank hon. Members for their contributions to the debate. The discussions we have had highlight the value of energy-intensive industries such as steel, chemicals, plastic and cement to the UK.

In response to my hon. Friend the Member for Thirsk and Malton, we do recognise that the UK's industrial electricity costs are currently higher than those of our competitors. That partly reflects how the costs of electricity systems are distributed across household and industrial

[Amanda Solloway]

customers. For example, German industrial users pay lower electricity prices than UK industrial users, but German households pay higher electricity prices than UK households.

In response to the hon. Member for Greenwich and Woolwich, the operations are under negotiation. Of course we have a long-term commitment to climate change, as indicated in our 10-point plan. The Government are determined to continue to minimise the risk of carbon leakage to help businesses improve their productivity and competitiveness as part of our industrial strategy. Furthermore, we will work with our partners in industry to start deploying hydrogen and carbon capture usage and storage technologies.

At the same time, it is important that we continue to mitigate the cumulative impact of energy and climate change policy costs on energy prices for energy-intensive industries as we make the transition to the low-carbon economy. The Government have taken steps to reduce the impact of energy and climate change policies on industrial electricity prices for key energy-intensive industries in sectors such as steel, chemicals, cement, paper and glass. Between 2013 and 2019, total relief to energy-intensive industries for electrical policy costs was around £1.5 billion to over 220 businesses across the UK. We therefore seek approval to pay sums exceeding £30 million and up to a total of £300 million in respect of compensation for indirect costs of the UK emissions trading system, or the carbon emissions tax and carbon price support mechanism, in each case to 13 companies. I commend the motion to the Committee.

Mark Pawsey (Rugby) (Con): Will the Minister give way?

The Chair: The Minister has sat down and has not given way, so I have to move on.

Question put and agreed to.

4.45 pm

Committee rose.