

Energy Crisis – CPI seeks urgent Government action



Background

The energy cost impact of the Russian invasion of Ukraine, and the concerted International response, comes on top of an existing inflation surge, an ongoing energy cost crisis and the unanswered questions linked to the regulatory driven transition to a Net Zero economy irrespective of practicality or affordability.

The UK's Paper-based Industries stand ready to assist the UK in its changed economic security imperative through the support our products and services provide to society as a whole. But in order to do so to the maximum effectiveness, we need a supportive policy framework now. The situation is serious for all companies and desperate for some, to the extent that their viability is threatened without immediate action.

CPI has long highlighted that a combination of factors make the UK an expensive location for energy intensive manufacturing and while the war in Ukraine is making matters worse, the Government must not overlook that the situation before the war was already perilous for UK manufacturing. Without urgent action, the UK risks becoming ever more dependent on imported goods, just as the risks of that strategy become ever clearer. Sadly, the lack of announcements within the 2022 Spring Statement adds to the broken promises made to the UK's Energy Intensive Industries.

Broken Promises?

The Government needs to act swiftly to deliver promises made to the UK Energy Intensive Industries:

1. The Conservative Manifesto Commitment to lower industrial energy prices.
2. The establishment of an innovation fund paid for by the £5Billion (to date) UK ETS allowance auction receipts.
3. Measures to curb excessive rises in carbon taxes, through the cost containment mechanism of the UK ETS.
4. A coherent UK industrial strategy, rebalancing the economy and promoting UK industrial growth as a desirable outcome.

Immediate Actions Needed

- **Immediate confirmation of the continuation of the Carbon Price Floor Compensation Scheme** – the value of this support to UK Paper Mills is in excess of £22m per annum.
- **Allocate at least part of the £5Billion raised by Treasury from industry via the auction of UK ETS allowances** – to be reinvested to support UK Energy Intensive Industries on their decarbonisation journey.
- **A Cost Containment Measure on gas, electricity and carbon prices** – to ensure that all those exposed to high costs can continue to operate. These measures must genuinely reduce costs to business, and not merely push them into the future through loans. The potential to pass these costs through the supply chain has now been reached without destroying UK industrial competitiveness or hugely adding to inflation pressures.
- **Suspension of some of the non-commodity costs applied to supply bills** – these non-commodity costs need to be socialised more broadly.
- **Modification of the Gas Emergency Measures** – so that industry can have confidence that sufficient gas will be available and there are no emergency or sudden supply disruptions that can damage equipment.
- **Supplier of last resort and credit support** – there are increasing reports of hugely onerous pre-payment requirements being required by energy supply companies that threaten the future of a number of companies. Government must step in to offer a supplier of last resort mechanism and guarantee payments to remove the pre-payment requirement.
- **Gazprom** – with Gazprom being such a major supplier of UK industrial energy, support must be offered to companies seeking or forced, whether

by policy or public pressure, to change suppliers that may be impacted by contract penalties and prevent immediate exposure to massively uncompetitive spot pricing from a new supplier.

- **Energy Intensive Furlough Scheme** – the immediate re-introduction of a furlough scheme would help support companies in retaining employees when they are forced to suspend production due to high energy costs.
- **Reassessment of the red diesel tax increase instigated at the start of April** – it is the worst possible time to increase energy costs, especially when a number of firms are looking to use these type of oils as a short term alternative to gas.
- **Energy security is now a critical issue for the UK**
 - we urge the Government to establish an energy security task force, modelled on the vaccine task force, to deliver energy security objectives at pace. The task force should include within its consideration the following issues:
 - o Maximising UK energy production in the short term to enhance supply. This should include all possible energy sources including coal, oil, gas, nuclear as well as renewables
 - o Ensuring that the UK electricity generation mix is balanced so that we have sufficient dispatchable power at any given time.

Confederation of Paper Industries

- The Confederation of Paper Industries (CPI) is the leading trade association representing the UK's Paper-based Industries, comprising recovered paper merchants, paper and board manufacturers and converters, corrugated packaging producers, and makers of soft tissue papers.
- CPI represents an industry with an aggregate annual turnover of £12 billion, 56,000 employees, which supports a further 93,000 jobs in the wider economy.
- For facts on the UK's Paper-based Industries please visit: www.paper.org.uk.