

# Energy Crisis

## Continued Government inaction

### Background

International energy markets continue to be in turmoil due to reduced flows of gas and oil from Russia, with prices massively above traditional norms. These energy cost pressures come on-top of an existing inflation surge caused by a global rebound post-COVID lockdowns and unanswered questions linked to the regulatory driven transition to a Net Zero economy irrespective of practicality or affordability.

One of the lessons from COVID was the importance of local manufacturing and the danger of over-reliance on the import of goods critical to the economy. The UK's Paper-based Industries stand ready to assist the UK in this changed security situation through the provision our products and services to society as a whole. However to do so, we need a supportive policy framework now.

The energy cost 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 can't 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, a lack of Government action adds to the broken promises made to the UK's Energy Intensive Industries.

### Broken Promises?

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

1. The Government's commitment through the British Energy Security Strategy to lower industrial energy prices compared to costs in competitor nations.
  2. The establishment of an innovation fund paid for by the £10 Billion (to date) UK ETS allowance auction receipts.
  3. Measures to curb excessive rises in carbon taxes.
  4. A coherent UK industrial strategy, rebalancing the economy and promoting UK industrial growth as a desirable outcome.
- Immediate actions needed:**
- **A cost containment measure to cap the cost of industrial gas and electricity.** It's critical 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.
  - **The allocation of at least part of the £10 Billion raised by Treasury from industry via the auction of UK ETS allowances.** This should be reinvested to support UK Energy Intensive Industries on their decarbonisation journey.
  - **A suspension of some of the non-commodity costs applied to supply bills.** These non-commodity costs need to be socialised more broadly.
  - **A modification of the Gas Emergency Measures.** Industry needs confidence that sufficient gas will be available and there will be no emergency or sudden supply disruptions that can damage equipment and disrupt efficient operations.
  - **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 (now rebranded as SEFE) being such a major supplier of UK industrial energy, the long-term future of the company (and existing supply contracts) remains critical. In case of commercial issues, support must be offered to companies seeking (or forced) 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 in the event that 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 has proven to be the worst possible time to choose 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. This change should be reversed at least as an interim measure.
- **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:
  - 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;
  - 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](http://www.paper.org.uk).

REVISED: SEPTEMBER 2022