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Cabinet Office Performance Innovation Unit Energy Review

Initial Response by BAE SYSTEMS

In common with many other organisations BAE SYSTEMS accepts the need for a far reaching and all encompassing review and so welcomes this present initiative. We do, however, query why a review that is looking forward up to 50 years needs to be completed within 6 months. Our earnest hope is that out of this review will come an ongoing process based on a robust solution that will prevent reoccurrence of panic reactions caused by the likes of the Miner's Strike, OPEC Oil Sanctions and more recently the fuel protests. Whatever policies are arrived at need to have a wide acceptance and contain measures that will prevent the country being held to ransom by pressure groups either internally or externally.

Current Situation

The core activity of BAE SYSTEMS is the design and manufacture of aerospace products. Basically our energy usage is electricity in both design and manufacturing activities, while gas is used for space heating and some process heating and oil products are used in flight activities, transport and back up heating. The majority of the emissions BAB SYSTEMS cause are back at the generation stage and out of its control.

In common with many other industrial organisations environmental issues are not always high the list of priorities but BAE SYSTEMS is committed at least reducing environmental impacts in line with government targets, while this is motivated by a corporate concern, these reductions must be achieved in an economical way such that BAE SYSTEMS are not put at any substantial disadvantage especially to overseas competition.

Energy reduction has been an ongoing activity for some time and reductions achieved so far come either though good housekeeping or though capital investment. BAE SYSTEMS are pursuing both these avenues along with improved efficiency in the use of energy and the reduction of energy wastage.

Because of the continued programme of site rationalisations, increased efficiency in use of energy and increased offshore sourcing, BAE SYSTEMS see energy consumption of both gas and electric reducing over the next 20years

Energy Pricing

BAE SYSTEMS have appreciated the effects achieved by the three elements of policy recently.

- Actively seeking to reduce energy costs and hence prices
- Opening of markets to competition.
- Price regulation of distribution networks.

While the above has had a much appreciated effect in substantially reducing energy costs the latest moves to using taxation in the form of CCL has been less than helpful. We appreciate that urgent action is required but what government need to understand is that industry can not react as quickly as they can pass legislation.

The introduction of taxes is never going to be popular but the timing of the CCL coupled with a doubling of the market prices of gas has had a significant effect on total energy prices. While providing the desired

stimulus to action there is a real danger that some sections of industry will merely pass the increased costs on.

Politically BAE SYSTEMS feel that industry is seen as a soft target, bearing in mind that industry only uses 30% of energy, while accepting the need for industry to take action, action needs to be taken in other areas as well urgently.

Emissions Reduction

BAE SYSTEMS feel that recent environmental improvements have been achieved almost by default chiefly through the 'dash for gas' and the increased use of nuclear power generation.

BAE SYSTEMS basically accept the reductions required by the Kyoto protocol. The government needs to bear in mind that to make the significant changes, that will be required will involve extremely large amounts of capital expenditure. Projects of these scales will have time scales of between 10 and 20 years. For any industrialist to make the sizeable commitments required there will need to be much greater predictability and visibility of governments intentions over this sort of time scale. For example nobody wants to find that say having built a CHP that this then proves to be the wrong decision. Rather than using the stick of taxation BAE SYSTEMS would prefer that industry is given incentives through enhanced capital allowances.

The imminent introduction of 'Emission Trading' could be one way to help achieve the reductions in the most economically effective manner. There is concern in the complexity of proposed scheme.

Security of Supplies

Long term security of electrical supply should be responsibility of government and needs to be achieved through long term strategies that will ensure future secure supplies and means of distribution. There needs to be increased R & D particularly into electric generation technology. Strategies need to include a diverse supply of primary fuel including nuclear. Control and pressure needs to be put on the producers of the primary fuel products.

BAE SYSTEMS accept that there is a need to generate and distribute electricity on a smaller scale but does not want these circumstances to force it into areas that are not core business.

Regulation

There is a view that a contributory cause in the energy crisis in California has been excessive regulation. While BAE SYSTEMS accept the need and benefits of regulation there is a need to achieve a balance. The real danger is should there ever be a similar crisis in this country even for a short duration, this would at least result in increased operating costs and which in turn increases the danger of plant closures.

Longer Term

BAE SYSTEMS have made a start at trying to build energy in as a parameter in our consideration at life cycle costing of products. BAE SYSTEMS realise that because there is little scope for changes during the manufacturing phases it is essential to take energy considerations at the design stage.

Conclusions

BAE SYSTEMS want to see a policy and associated strategies that will result in diverse and competitively priced supplies of energy that are secure while, retaining the protection of distribution networks through regulation.

The policy should advocate the use of incentives rather than taxation as a means of achieving energy reductions.

For any policy to work there needs to be a much higher profile given to energy issues and this will only be achieved through education both within the work place and within society at large.

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