

# Cabinet Office Performance and Innovation Unit Energy Review

## Initial response by Corus

Further to the meeting last week with Jeremy Nicholson and Ian Blakey of EIUG, Corus has taken the opportunity to comment on the project-scoping document for the current PIU energy Review. These views are our own and may not entirely coincide with those of other EIUG members. Our comments are set out below:

### 1. Industrial Competitiveness

We believe that industrial competitiveness in the energy sector should be at least as important a policy objective for Government as security of supply, environmental and other policy objectives.

UK industry requires competitive energy markets and prices over the long term in order that it can compete in global markets and secure its long-term viability.

Unilateral energy taxation initiatives imposed on industry by the UK Government (for example Climate Change Levy) only weaken the wealth creation sectors of the economy and do not, unless imposed at penal rates, reduce energy consumption. UK industry must compete in both domestic and export markets. It is worth noting that even prior to the recent announcement from the USA that it will not ratify the Kyoto agreement, 40% of the world's steel was produced in countries that are not signatories to the Kyoto agreement. In addition, there is little sign that the countries which are signatories to the Kyoto agreement are imposing comparable tax burdens on industry.

UK industry has strong existing incentives to be energy efficient as a result of the high price of energy and existing UK energy taxes (for example Climate Change Levy and Fossil Fuel Levy).

We believe that there is a need for the differential impact of all energy taxation initiatives to be carefully considered by Government. For example, the proposed Renewables Obligation (an increasing obligation on electricity suppliers to purchase from renewable generation sources) will be charged to suppliers (and therefore to customers) on a flat £/MWh basis. As a result, the Renewables Obligation will increase the cost of electricity to energy-intensive consumers by a greater proportion than to other consumers. In contrast, Fossil Fuel Levy, as an *ad valorem* tax, falls proportionately equally on all consumers. Although we believe that the existing energy taxation burden on UK industry is excessive, we consider that energy taxation across all customer sectors on an *ad valorem* basis is more equitable than flat rate energy taxes such as Climate Change Levy or the proposed Renewables Obligation.

### 3. Environment & Security of Supply Policy Objectives

Government environmental and security of supply policy objectives may encourage the Government to seek a contribution from the demand side. As industry has strong existing commercial incentives to use energy efficiently, our view is that Government should look to the domestic sector for this contribution. As new energy taxation initiatives are likely to fail in the domestic sector, we would suggest that the only viable alternative is renewed energy efficiency education programmes targeted at domestic consumers.

On the supply side, the Energy Review may wish to consider the contribution that technology will provide to assist the UK in meeting long-term targets for emission reductions and maintaining diversity and security of energy supplies. Whereas we do not wish to enter the debate on how important technological change will be up to the year 2050, we believe that the Energy Review may wish to consider how technology may, for example, assist the UK to develop its remaining energy resources on the UKOS and how technology will deliver enduring improvements to passenger car engine emissions in future years.

I hope that you find these comments useful and constructive. Please do not hesitate to contact me if you have any queries. I am copying this letter to Jeremy Nicholson of EIUG for his information.

Yours sincerely,

Ian Goldsmith

Public Affairs Manager