

Mineral Products Association Response to the Electricity Market Reform: Eligibility for an exemption from the costs of Contract for Difference Consultation

Introduction

The Mineral Products Association (MPA) is the trade association for the aggregates, asphalt, cement, concrete, dimension stone, lime, mortar and silica sand industries. With the recent addition of The British Precast Concrete Federation (BPCF) and the British Association of Reinforcement (BAR), it has a growing membership of 450 companies and is the sectoral voice for mineral products. MPA membership is made up of the vast majority of independent SME companies throughout the UK, as well as the 9 major international and global companies. It covers 100% of GB cement production, 90% of aggregates production and 95% of asphalt and ready-mixed concrete production and 70% of precast concrete production. Each year the industry supplies £9 billion of materials and services to the £120 billion construction and other sectors. Industry production represents the largest materials flow in the UK economy and is also one of the largest manufacturing sectors.

This response relates principally to the energy intensive product groups MPA Cement and the British Lime Association which are part of the MPA.

Consultation Questions

Do you agree with the principles for evaluating exemption eligibility options?

Principle one - an exemption should be targeted at companies whose competitiveness is at risk from rising electricity policy costs - i.e. we should exempt only those companies that are both electricity intensive and trade intensive.

MPA agrees that Energy Intensive Industries (EII's) are likely to face higher costs than in other countries. Indeed, the evidence that MPA Cement and BLA (British Lime Association) has provided to BIS in response to the CPS compensation clearly shows that the cumulative burden of climate change and energy policy costs is increasing at a rate that threatens the domestic production of these essential construction and societally important materials. Importantly, it is the cumulative burden of energy and climate change costs that should be taken into consideration when assessing the need for compensation. In evaluating the need for compensation it is important to focus on the energy intensive activities of the economy. For this reason the appropriate aspects are products derived from energy intensive processes; company measurement is too broad and the compensation scheme needs to allow for the compensation of energy intensive activities within multi activity companies. To account for different company structures compensation needs to be provided to the whole sub-sector e.g. cement or lime, so that one company failing the indirect CO₂ cost threshold simply because of company structure is not disadvantaged compared to its competitors.

The use of trade intensity as a historic measure is not ideal and MPA prefers a 'trade exposure' metric that takes account of the potential trade risk from the new policy.

Principle two - eligibility should be designed to minimise distortions within the UK economy.

MPA agrees that economic distortions should be minimised. To fulfil this principle the Government should ensure that all energy intensive production processes are compensated and not simply compensate some companies that meet the compensation threshold.

Principle three - the exemption should avoid perverse incentives, e.g. discouraging take-up of energy efficiency measures.

MPA agrees with this principle and does not believe there is any risk that energy intensive companies e.g. cement and lime, would not continue to minimise energy consumption and cost.

Principle four - the exemption should minimise administrative burden for all parties - EIs, electricity suppliers and Government.

MPA agrees, but administrative simplifications e.g. a business/company level eligibility test should not override the policy objective and the necessity for companies with multi-activities to gain compensation for their energy intensive and trade exposed operations.

Principle five - the exemption should minimise the costs to consumers outside of the scope of the exemption (both business and household) whilst meeting the policy objective

MPA agrees but the additional cost to the numerous consumers is a lesser impact than the large costs faced by EI's so the primary focus should be to ensure that all energy intensive production processes are compensated.

Taking account of all of the principles, do you agree with the preferred option, 1A?

Using the indirect ETS list and the CPS assessment criteria for exempting from a third policy is on the face of it illogical. At present Option 1A (the compensation mirror) does not meet the policy objective to compensate EI's from the additional cost. Only if cement and lime are on the CPS list could MPA agree with the Government preferred option.

What percentage of costs would an exemption need to be set at to deal with the competitiveness issues raised by EMR CfDs?

100% of the cost impact.

Are there advantages or disadvantages of any of these options which we have not included?

No further comment.

Do you have a preferred option? What factors lead you to prefer that option?

MPA does not have visibility of the list of sectors eligible for CPS compensation and despite clearly being electro-intensive the UK cement and lime industries are not on the list of European sectors developed for the provision of State Aid in relation to indirect EU ETS costs by the European Commission. This places UK and EU cement and lime manufacturers at a disadvantage. If the cement and lime sectors are approved by the Commission for compensation for the added costs of the CPS then MPA may be minded to support the compensation mirror option (Option 1a). However, until this confirmation is provided MPA has no choice other than to prefer Option 2a.

Do you anticipate that the redistributive impact of any of the options will cause your household or your business difficulties? Please provide details when responding.

If cement and lime production do not receive compensation then the impact on these energy intensive processes could be compounded by the redistributive impacts.