

## Written Evidence Submitted by the Mineral Products Association to the Energy and Climate Change Committee Inquiry into Low Carbon Innovation

### 1. Executive Summary

- 1.1. Energy and CO<sub>2</sub> targets will not be achieved at lowest cost with the current support programme. Government policies to date have concentrated on adding costs to energy in an attempt to drive low carbon innovation. However, the cumulative burden of this cost, coupled with the absence of Government incentives and funding support for innovation in UK manufacturing, is making the UK less attractive for investment.
- 1.2. Persistence with this unbalanced approach to low carbon innovation has the potential to accelerate carbon leakage and drive production and jobs that are essential to low carbon innovation, abroad.
- 1.3. Low carbon innovation opportunities exist in industry but UK manufacturing requires a certain well-crafted green policy agenda that is synergistic with its manufacturing and industrial policies in order to assist long term investments.
- 1.4. For funding of low carbon innovation to be successful, the UK must ensure that carbon, production and jobs leakage is minimized. By supporting low carbon manufacturing industry the UK Government can achieve the twin benefit to the environment and the economy.
- 1.5. To date the UK Government low carbon support policy has concentrated on giving power generators certainty so that this sector is able to carry out low risk investment in renewable energy via its guaranteed subsidies. Industry is not afforded the same privilege and in addition has to bear the pass through cost of the certainty afforded to the power generators. Government must provide the same balance of incentives and funding across all sectors of the economy.
- 1.6. Sectors like cement and lime where plant lasts around 35-40 years, need long term certainty to attract investment. Up to now industry has been a missed opportunity for UK Government's low carbon benefits. Now would be the ideal time to put some of the low carbon innovation underspend to good use in this sector.
- 1.7. Considerable work is required to make the UK an attractive place to invest. This can only be achieved through the provision of incentives to attract investment and the minimization of the cumulative burden of climate change and energy policies on industry.

### 2. Introduction

- 2.1. 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 over 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<sup>1</sup>.

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<sup>1</sup> "Make the Link: The Mineral Products Industry's Contribution to the UK", 2012, [http://www.mineralproducts.org/documents/MPA\\_MTL\\_Document.pdf](http://www.mineralproducts.org/documents/MPA_MTL_Document.pdf)

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- 2.2. This response relates largely to the MPA Cement and British Lime Association activities which are part of the Mineral Products Association.
3. **Will the Government's current approach towards low carbon innovation help to achieve the UK's legally binding targets at the lowest possible cost?**
- 3.1. Energy and CO<sub>2</sub> targets will not be achieved at lowest cost with the current support programme. Low carbon innovation opportunities exist in industry but the absence of support for manufacturing makes the UK less attractive for investment. The UK Government can achieve the twin benefit of growing the economy and enhancing the environment if it supports low carbon manufacturing industry.
- 3.2. In 2013 the Committee on Climate Change (CCC) published evidence<sup>2</sup> that the UK carbon budgets set in the Climate Change Act are being met by a shift from manufacturing goods in the UK to importing goods manufactured elsewhere (carbon leakage). In doing so, the UK is exporting emission responsibilities to other countries rather than contributing to an overall reduction in global emissions.
- 3.3. The CCC have not quantified production, investment and jobs leakage but MPA would expect this to also show a shift from the UK to other countries. If the absence of support for manufacturing industries continues to drive investment abroad it will be impossible for the UK to innovate as the capital and manufacturing required for growth of a low carbon economy will be exported. Funding for innovation will then no longer be required and the UK will be dependent on the innovations of other countries.
- 3.4. UK manufacturing requires a certain but well-crafted green policy agenda that is synergistic with its manufacturing and industrial policy in order to assist long term investments. For funding of low carbon innovation to be successful, the UK therefore needs to ensure that carbon, production and jobs leakage is minimized.
- 3.5. The renewable energy targets that have been set are going to be difficult to meet. UK Government policy to date has concentrated on giving power generators certainty so that they can carry out low risk investment in renewable energy via guaranteed subsidies and cost pass-through opportunities.
- 3.6. Industry is not afforded the same privilege of low risk investment and in addition is having to bear the ever increasing pass through costs from the power generators. MPA has calculated that the indirect cost of energy and climate change policies faced by the cement sector could reach €80m a year by 2020. This significant cost is further reducing the ability for industry to invest in low carbon innovation.
- 3.7. Recent indications from Government are that domestic consumers will be given relief from green levies and taxes but what has not been made clear is whether this cost will be loaded onto industrial consumers. If this is the case then the cost to cement manufacturers will be even greater than €80m a year. This is not making the UK an attractive place to locate energy intensive manufacturing industry that is essential for low carbon innovation.
4. **Does the Government have the right balance of focus between energy efficiency, renewable energy and other low carbon technologies?**
- 4.1. The balance between energy efficiency, renewable energy and other low carbon technologies will not be right until Government provides the same balance of incentives and funding across all sectors of the economy.
- 4.2. On 4<sup>th</sup> December 2013 the Government announcements relating to strike prices clearly indicated that the Government is favoring renewable energy technology in

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<sup>2</sup> "Reducing the UK's carbon footprint and managing competitiveness risks", CCC, April 2013: <http://www.theccc.org.uk/publication/carbon-footprint-and-competitiveness/>

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- the power generation sector. Government has not shown the same interest in supporting specific technologies for industry.
- 4.3. At the other end of the scale domestic and smaller energy consumers are provided with incentives through schemes like the Renewable Heat Incentive. Industrial processes on the other hand face an ‘all stick and no carrot approach’ with less attractive one-off grants as and when they become available. This provides a less attractive industrial investment opportunity and results in an imbalance of incentives and funding between the power generation, domestic and industrial sectors. Meanwhile, incentives for the use of biomass by both power generators and domestic and smaller consumers pushes the cost of biomass up for industrial sectors that do not receive incentives. This is only going to result in a shift in the use of biomass from one sector to another rather than a net increase as is required to meet the targets set. *Annex I* illustrates this shift as a schematic.
  - 4.4. The Green Investment Bank could have provided industry with funding at low interest rates but it actually provides no additional incentive to invest in renewable energy or low carbon technologies over other bank based loans.
5. **What outcomes, if any, are the LCICG likely to achieve? How should its forthcoming strategy drive more investment into low carbon innovation, and how should it measure success?**
- 5.1. The Renewable Heat Incentive (RHI) funds expensive technologies for small energy users, while industry, which consumes energy on a large scale and more efficiently in directly fired operations rather than boilers, receives no incentive to use biomass. A calculation of the cost of installing a technology per tonne of CO<sub>2</sub> emissions avoided or alternatively the cost of switching fuel per tonne of CO<sub>2</sub> emissions avoided will demonstrate if an investment or incentive is a cost effective success.
  - 5.2. The Government response to the RHI consultation published on 4<sup>th</sup> December 2013 stated that the use of biomass for direct heating would not be included in the scheme in this spending review. The Government needs to ensure that biomass direct heating is included in revisions to RHI for the next spending review period. This will stimulate innovation in industrial sectors, such as asphalt, cement and lime, which use direct heating in their processes. The success of this would be measured in the number of installations switching from fossil fuel use to biomass.
6. **Are the Government & LCICG targeting investment towards the most effective stages of the innovation process, including over the long-term?**
- 6.1. No, investment needs to be targeted across all sectors of the economy and particularly towards industry where there is currently an absence of support for investment in low carbon innovation.
  - 6.2. In addition, many Government incentives such as RHI are only applicable to new build. The maintenance and refurbishment of existing plant could contribute substantially, and at lower cost, to Government targets.
7. **What is the impact of the short-term funding timelines on private sector investment?**
- 7.1. Sectors like cement and lime which have plant with lifetimes of around 35-40 years, need long term certainty in order to attract investment. Short term funding timelines do not provide the certainty required.
  - 7.2. In the cement sector 60% of direct emissions of carbon dioxide arise from the decomposition of limestone (process emissions). To address its climate change

responsibilities the UK cement industry has developed a GHG Strategy for 2050<sup>3</sup>. It outlines where Government support is needed. One of the principle technologies will be carbon capture and storage (CCS) which could address both process emissions and combustion emissions from cement manufacture. Opportunities to develop CCS cannot be achieved on short term funding timelines. The UK should follow the example set by the Norwegian Government by funding a cement industry CCS pilot plant. The Norwegian example is the first of its kind and shows that the UK will be behind other countries in its low carbon development if the current absence of industrial low carbon support is not rectified.

- 8. How should DECC ensure that its remaining capital allocation for low carbon innovation will be spent wisely, after two years of underspend?**
  - 8.1.** There are plenty of investment opportunities in industry that could make a real and lasting contribution to UK renewable energy and emissions targets. Up to now industry has been a missed opportunity for UK Government. Now would be the ideal time to put some of this underspend to good use in this sector.
  - 8.2.** MPA suggests that there should be a sectoral allocation of the low carbon capital allocation.
  
- 9. How is the Government maximising opportunities to learn from and partner with international partners within and beyond the EU?**
  - 9.1.** Currently the UK is not an attractive place to invest and domestic and international companies with operations in the UK are choosing to make investments elsewhere. The consequences are that the UK may lose the production of essential materials like cement and lime to other countries. The subsequent import of products is then further increasing emissions relating to UK consumption. Considerable work is required to make the UK an attractive place to invest. This can only be achieved through the provision of incentives to attract investment and the minimization of the cumulative burden of climate change and energy policies on industry.

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<sup>3</sup> For more information see the UK Cement Industry 2050 GHG strategy: [http://cement.mineralproducts.org/documents/MPA\\_Cement\\_2050\\_Strategy.pdf](http://cement.mineralproducts.org/documents/MPA_Cement_2050_Strategy.pdf)



*Annex I: The biased support for renewable fuel that disadvantages renewable fuel use in directly fired processes e.g. cement, lime and asphalt*

