British Glass

An open letter to UK Government

To: The Prime Minister Boris Johnson;
Chancellor of the Exchequer Rishi Sunak;
Secretary of State for Business, Energy and Industrial Strategy Kwasi Kwarteng MP;
and Minister of State for Business, Energy and Clean Growth Greg Hands MP.

Tuesday, 11 January 2022

Dear Prime Minister and Ministers,

Energy and carbon cost crisis

On behalf of the UK glass industry, British Glass is calling on government to support UK manufacturers to address spiralling energy and carbon costs, and the current price disparity between UK and EU markets.

Glass is a relatively low-price material and due to high sunk costs, tight margins and limited ability to change operations in the short term, the rapid increase in energy prices means that production costs will soon outstrip the product value. We believe government does not appreciate the severity of this situation, which currently leaves UK businesses in an impossible position.

At present, there is a real risk to decarbonisation, inward investment and UK jobs in deprived areas if government do not take immediate action – we are asking for immediate policy to support longevity and create a level playing field for our industry. We are not asking for a government bailout.

Our members have spoken directly with BEIS and Ofgem officials about high energy and carbon costs, the impact to industry, and the longer-term need to address the price disparity to ensure UK manufactures have a level playing field to compete internationally.

British Glass, alongside the Energy Intensive User Group (EIUG), have discussed with BEIS the four measures proposed to the Rt Hon Kwasi Kwarteng in October 2021 but have yet to see action some three months on. We have also highlighted our concerns regarding the energy crisis, and the threat this adds to our ability to decarbonise, to the Rt Hon Greg Hands in November 2021 to which we have received no response.

The UK glass industry contributes around £1.3bn to the UK economy each year, providing more than 120,000 jobs across the supply chain, as well as offering employment in some of the most deprived areas of the North – our sector is valuable to the UK economy and deserves backing from government. Sustained high energy and carbon costs threaten the inward investment to the sector required to future-proof the industry by working towards and achieving net zero carbon emissions.

environment and energy

Energy and carbon crisis and price disparity

Prior to the current energy crisis, energy costs accounted for around 20-30% of manufacturing operating costs. With wholesale energy prices now at least three times higher than in January 2021 (see table below), average operating costs have greatly increased and are unsustainable longer term.

The figures in the table below, based on sector energy use and average wholesale and energy costs, illustrate the extent of the issue. Our manufacturers are experiencing energy costs increasing by several tens of £millions with significant increases set to continue.

	January 2021	December 2021
Wholesale natural gas cost	£9,229,000	£35,599,000
Wholesale electricity cost	£6,692,000	£20,375,000
UK ETS carbon cost	£1,244,000	£3,322,000
Total wholesale energy and carbon costs	£17,165,000	£59,296,000

Impact on decarbonisation

As a sector we are committed to reaching net zero by 2050 but we cannot achieve this in the current market conditions/policy landscape and without significant investment in the UK energy infrastructure.

Glass sector companies are unable to absorb all the costs. And while they feel pressure, so too does the glass supply chain as costs are passed on, later impacting the consumer with rising costs associated with glass products such as food and drink packaging and glazing. This may mean popular consumer products become too expensive, leading to the UK seeing increased imports from EU countries, Turkey, Oman, Egypt and Russia, where energy and carbon costs are significantly lower than the UK – resulting in carbon leakage and having a negative net effect on global CO_2 emissions.

We are proud to be the first mover in trailing alternative fuel sources as part of the BEIS funded fuel switching project and our involvement in Hydrogen trials with the HyNet project in the North West. Further investment into projects such as these and other decarbonisation routes such as electrification may not be possible due to financial viability associated with electricity costs. We are already seeing manufacturers in countries such as France with lower electricity costs switching from gas-fired to electric furnaces. This puts UK manufacturers at a competitive disadvantage as markets for low carbon products develop.

UK ETS

The UK ETS has been tracking above the EU ETS price throughout the majority of 2021 and in December 2021 the Cost Containment Mechanism (CCM) was triggered and the decision was taken by government to not intervene to control the price disparity.

This decision was very disappointing considering the immense pressure from energy costs already on UK glass sector. The CCM was also triggered at the end of December and our sector is very concerned that without government intervention we will see sharp rises in carbon prices as we approach the deadline for surrender of allowances to comply with the first year of the UK ETS.

The UK government received around £4.3 billion from the sale of UK ETS sales in 2021 and yet seems unwilling to support the UK industry.

Higher Carbon costs further exacerbate the high energy costs as the glass industry face pass through carbon costs from energy suppliers.

Current exemptions

Many ministers continue to quote that energy intensive industries receive compensation from some of the policy costs for CCL and RO/FIT/CFD which is true, but so do all our European competitors and we still pay significantly more for our electricity. The current exemptions have different eligibility criteria which means that not all companies are eligible for this compensation:

- CCL – all members eligible under mineralogical exemption
- RO/FIT/CFD – some members are eligible but not all
- Indirect cost compensation – none are currently eligible

What are our asks of government?

1. Take action on UK ETS to stop the disparity between UK ETS and EU ETS in Jan 2022.
2. Immediate cessation of uncompetitive policy 'oncosts' such as Carbon Price Support.
3. Immediate action by Ofgem to reduce EII network costs: Ofgem must replicate the network tariff discounts offered to competitor industries in the EU.
4. Ensure the £1bn+ Supplier of *Last Resort Costs* do not land on EIIs.
5. Indirect cost compensation – Expedite decision on the consultation (closed July 21) for indirect compensation against CPS and UK ETS costs.
6. Reduce industrial electricity prices to make the UK competitive and able to decarbonise through electrification.

Further delay will be vastly detrimental to our sector, and we are calling on government to open an immediate dialogue with British Glass and take real action now.

Yours sincerely,

Dave Dalton, CEO British Glass on behalf of the UK glass industry.