Briefing for LEPs

UK Industrial Decarbonisation Strategy[1]

Summary

The UK Industrial Decarbonisation strategy was published by BEIS on Wednesday 17 March. It sets out a policy framework for the next 30 years for decarbonising UK industry. The essence of this is to get the right infrastructure in place during the 2020s with a view to supporting market development for low carbon products (including intermediates) from the 2030s onwards largely using demand side policies and attracting private sector investment.

The strategy provides a direction for over £20Bn of government funding and support schemes for the period up to 2030[2]. These include:

- significant direct government investment in industrial infrastructure over the next 10 years, focusing on support for large scale carbon capture and storage (CCUS) and hydrogen projects in the North and Irish Sea (£2Bn)
- continued subsidy for resource and energy efficiency and substantial financial relief for large energy intense industries in the same coastal regions (circa £5Bn)
- cautious exploration and development of potential demand side incentives and policies to build markets for low and zero carbon products with a view to voluntary introduction of schemes such as product labelling and standards from 2025 onwards
- continuation of existing schemes such as the Climate Change Levy, UK Emissions Trading Scheme (ETS) and heat networks programmes (HNIP)[3] (£9Bn).
- innovation and demonstration funding earmarked for specific heavy industrial sectors such as steelmaking (£250M) nuclear, CCS, hydrogen (£1Bn) coastal clusters (£200M)
- more general innovation funding to support industrial heat recovery and 'foundation industries' (~£100M)

In addition to these specific actions, a large number of calls for evidence and policy reviews are flagged[4]. These indicate openness to further engagement. In particular:

- there is a recognition that UK electricity costs are higher for industry than in competitor economies[5] and a call for evidence on this will be published in April 2021
- there is a commitment to review policies needed to achieve net zero across the 'less-energy -intensive' sites[6,7].

The chapter on levelling up sees a role for places in supporting skills and infrastructure activities and commits to working with regions to overcome barriers to implementation of the national strategy[8].

---

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970149/6.7279_BEIS_CP399_Industrial_Decarbonisation_Strategy_FINAL_PRINT_FULL_NO_BLEED.pdf

[2] p21.

[3] HNIP is not specifically an industrial scheme and is most commonly deployed in public buildings, commercial offices etc. Renewable Heat Incentive is included as a policy in the summary of spend because it has ongoing commitments, but closes to new applicants on 31 March 2021.

[4] pp100-106.

[5] p52, p32

[6] All industrial sites in the West Midlands are in this category, as BEIS's definition of energy-intense in this document is actually size related and even our largest manufacturing sites do not count (p87).

[7] p56

[8] p90

Implications for the West Midlands

Although the West Midlands is mentioned in the ministerial foreword and the Black Country is identified as a key industrial cluster[9], all the tangible actions and funding in the document are directed at heavy industry and large industrial sites. The government is essentially taking a pareto approach and focusing efforts on the largest carbon emitters (steelworks and oil refineries) and appear unaware of the implications and risks of this approach for the bulk of UK manufacturing.

The first mention of SMEs is on page 61, and actions to support decarbonisation of 'dispersed industrial sites' (i.e., the entirety of the West Midlands industrial sector) are in the form of policy reviews and calls for evidence. Dispersed sites are very clearly positioned as second best and assumed to follow leads set by the heavy industry clusters[10]. A decision on whether or not to extend hydrogen infrastructure outside the coastal regions (necessary for competitive energy-intense manufacturing in a decarbonising world) will not be taken until the mid-2020s[11].

While these calls for evidence and reviews are on-going over the next 5-10 years, the government will be subsidising the coastal industrial regions with around £10Bn of direct support, and actively promoting these regions for foreign investment[12]. The implication is that the West Midlands is not really seen as an industrial region by BEIS[13], and this strategy will make it harder to attract global industrial investors to this region, particularly given the uncertainty as to whether we will have access to economic green hydrogen or be committed to electricity. In this context, the likelihood of this region still having a substantial industrial base by the 2030s seems quite low.

Opportunities and proposed next steps

The positive elements of the strategy from a West Midlands perspective are:

1. Recognition of the Black Country as a key industrial cluster.
2. Recognition that UK electricity prices disadvantage UK manufacturing in general.
3. Recognition that government support is necessary for industrial decarbonisation[14] and awareness of the barriers and market failures that need to be addressed[15] (but lack of recognition of the value of flexible, smaller manufacturing operations to a modern, low carbon economy.)
4. Openness to engagement.

In this context, there would appear to be the basis for a proactive approach to government by West Midlands' industry pointing out the unintended consequences and economic risks in this strategy and making a case for a partnership to accelerate the design, development and implementation of decarbonisation programmes and policies tailored to our advanced manufacturing industrial base.

Matthew Rhodes
Chair, Energy Capital; Programme Director, Repowering the Black Country.

---

[9] p87.
[10] p54.
[11] p54.
[12] pp88-89.
[13] Note that one of the largest industrial carbon emitters in the UK is in Scunthorpe, Lincolnshire (British Steel) and the two references to the Midlands Engine reflect this.
[14] p60.
[15] pp60-61