

DICIDA-UK

DICIDA-UK is the Development Initiative for Chemical Industry Dependent Areas in the United Kingdom. The DICIDA-UK network provides a forum where all Local Authorities and public sector agencies in areas with a concentration of employment in the chemicals industry can join forces in the work to secure a safe future for their communities. Membership includes local authorities in, Cheshire, Falkirk, Kingston-upon-Hull, North East Lincolnshire, Nottingham and the Tees Valley. Collectively, these areas represent a population of almost 3 million.

The aims of DICIDA-UK are to: (a) ensure that national government and European Union policies and programmes assist the continued growth of the chemicals industry in and across the Member States; and, (b) enable local regions to cope with the economic, social and environmental problems created by the restructuring of the chemicals industry. Further details are available from the DICIDA-UK website: www.teesvalley-jsu.gov.uk/DICIDA.

DICIDA members welcome the Government's review of Energy Policy as securing stable long term energy supplies is particularly important for regions whose economic prosperity is dependent upon the chemical industry.

This paper is focused on the specific problems encountered by the chemical industry based in DICIDA areas. Local Authority members appreciate the problems of climate change and actively support innovative measures to provide more diverse sources of energy. We appreciate the complex wide ranging nature of the review, and that addressing the problems will require a wide mix of solutions. At the same time we are concerned for the continuing global competitiveness of the energy intensive chemical industry based in our regions, and the resultant impact on our local economies. The economic impact of the current energy situation is disproportionate in regions of the UK that have dependency on energy intensive industry.

Competitiveness & Security of Supply

Over the past year, industry has reported to us the types of energy problems they have encountered with rising prices, security of supply, liberalisation and competing in the global market. Companies that have energy costs of over £500k have reported price rises of between 75% and 157%. For one of these businesses this energy bill now equates to 6% of turnover and for another an increase to 8% of turnover has resulted in the company now operating at a loss. These price increases have a domino effect on the supply chain, but with prices that cannot be passed on if the supplier wants to remain competitive. There are already some companies that have reported to us that they are having to source new suppliers as their UK source has ceased production due to spiralling costs.

One large international company that has recently invested in the UK produces the raw materials that provide the basic building blocks for numerous everyday consumer products. They quote a rise in the price for monthly Natural Gas that has risen from below 26 p/therm in January 04 to 60 p/therm in January 2005 and similar premiums for electricity. In their view, market factors do not justify the extent of such significant increases in UK prices and it is obviously putting pressure on their investment. It is also a disincentive for future foreign company investment when prices are significantly higher in the UK than in other EU countries. Gas prices in the US rose to 50p/therm 2 years ago and resulted in the closure of large sections of energy intensive manufacturing and the US economy subsequently suffered enormously. Energy users in the UK are now facing similar threats to their competitiveness. Additional costs cannot be passed onto customers when companies based in the UK are competing in a global marketplace.

A foreign owned company confirmed that energy costs in the UK were part of the consideration to locate a project in Eastern Europe. Another company confirmed that an investment in the UK made in the early part of 2005 would not have been considered had they known the increasing gap between the UK and those of an alternative German site.

Industry requires a stable energy market, not one where prices can increase fourfold in one day (March 2006) or even 40% in an afternoon when a storage facility catches fire. There needs to

be a level playing field across Europe with true liberalisation of markets with guaranteed access to the interconnector. We are informed that the recent lack of import through the interconnector has resulted in spiralling forward market prices. A true arbitrage needs to be established between the UK and European markets. Liberalisation is required to make the futures market viable, as there are some clear distortions of price between the UK and the rest of Europe.

Government must also address the shortcomings in the current emissions trading system for the second emission trading period of 2008-2012. In particular the practice of granting allowances based on historical emissions and not rewarding companies for previous investments to tackle the issue needs to be tackled. Unjustified penalties for previous investment is bad for competitiveness and does not stimulate new investments to reduce emissions. This is notably the case for new state of the art combined heat and power (CHP) plants, which do not receive the incentive they deserve under the present rules. In some cases the only means of reducing emissions is to reduce production.

- Transitional market agreements are required, ahead of the planned EU liberalisation, to ensure interconnector infrastructure is fully utilised and provides arbitrage between the UK and the rest of Europe.
- DICIDA members would welcome Government intervention to create true liberalisation of EU markets that will enable parity of prices and make the futures market in energy viable and address the problems of buying on the spot market.
- To ensure security of supply and prevent vast price fluctuations the UK needs more gas storage facilities.
- The second emission trading period needs to promote efficient use of energy and not penalise companies who have invested previously in state of the art equipment, or force companies to achieve compliance through reducing production levels.

Future Sources of Supply

At the moment in the UK gas is used to generate electricity. The UK still has significant reserves of coal. Technology has advanced to the stage where we would now be able to extract these reserves as a gas and capture the resultant CO₂. This would make use of an existing UK resource without the previous problems with CO₂ emissions associated with coal fired power generation, and would improve our levels of self sufficiency.

The current energy problems will only increase as our current coal and nuclear power stations come to the end of their lives and with our increased dependence on gas imports for gas power stations. Problems of storage of waste need to be addressed before plans are made to build any future nuclear power stations.

It is now possible to use carbon sequestration as a means of enhancing energy recovery. This technology should be promoted and supported to maximise the yield of fossil fuels.

DICIDA consider that a balanced approach that promotes and innovates to maximise efficient use of fossil energy supplies is required.

- Promotion and support is required to maximise the efficient use of our remaining fossil fuels.

In many DICIDA regions the long established skills developed in the chemical sector have been used to innovate in the development of new energy technology.

- There would be increased benefits to both residents and industry if Government was able to channel investment into alternative domestic and transport energy schemes, to relieve some of the pressure of the demand for oil and gas from industry.

Potential exists to benefit from the experience of Scandinavian countries and their use of district heating schemes. This could be linked to increased support for using all types of waste to generate energy and to increase the use of other renewable sources. A whole raft of different measures to introduce alternative sources of energy, for domestic and transport use could increase the availability of energy for industry. When fossil fuel is used in the industry as a raw material, then its continuing availability is essential to produce the products required by modern day society. Renewable sources of energy are predominantly most suited to domestic and transport use. Incentives are needed to increase the use of renewables for domestic and transport use, so that remaining fossil fuels are available to industry.