BRITISH
ceramic
CONFEDERATION

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Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Chancellor,

CERAMICS SECTOR REPRESENTATION FOR THE AUTUMN 2017 BUDGET

The British Ceramic Confederation (BCC) is the trade association for the UK ceramic manufacturing industry, representing the common and collective interests of all sectors of the industry. Its 90 plus member companies cover the full spectrum of ceramic products and comprise over 90% of the industry's manufacturing capacity. The UK sector directly employs about 20,000 people, with at least as many in indirect jobs. Annual sales, including suppliers are around £2 billion with over £500 million exports. Member companies range from SMEs (75% of BCC's membership) through to large multinationals, making a diverse range of products - including both foundation industries and advanced manufacturing / materials - that will contribute to the success of Brexit and improve the UK's balance of payments.

With a concentration of the sector in Stoke-on-Trent / Staffordshire, we have been working with a range of Staffordshire partners to propose a "*Deal for Ceramics*" (summarised here) as part of the Government's Industrial Strategy. We appreciated Andrew Jones MP attendance at our Parliamentary reception handing over the proposal to BEIS; and we are further developing our original proposals which included:

- **A 'Ceramics Park'**
  As a focal point for innovation, knowledge and learning for the sector, to be located in Stoke-on-Trent.
- **Specific 'asks'** covering: Skills Innovation Trade Image Regulation

Through our sector deal proposal we hope to realise our sector's full potential. Although ceramic exports have grown in recent years, the UK ceramic sector's overall trade balance stands at a deficit of almost £1 billion, and has grown steadily. Government can help reverse this trend, but we need a level playing field to compete internationally, with our five broad areas set out under our **Ceramic EARTH campaign** below:

E	**Emissions Trading and exploring an alternative approach**. The government needs to ensure all ceramic sub-sectors receive mitigation measures in full to guard against carbon, investment and job leakage risks vs. competitors outside the UK. We also want to work with Government, to explore a fairer approach to emissions reduction and which improves the UK's international competitiveness.
A	**Action to lighten the cumulative costs of UK energy, climate and environmental policies** which harm the sector's ability to remain internationally competitive.
R	**Reducing industrial CO_2 emissions** by developing a long-term partnership with co-funding assistance for the sector to accelerate development / implementation of breakthrough technologies.
T	**Trade freely but fairly**. Ensure an adequate, comprehensive UK-EU trade settlement obtaining, if possible, tariff free access to the EU. New UK free trade agreements must support UK ceramic manufacturers.UK Trade Defence Instruments must protect UK manufacturers adequately against dumped products. Reject recognition of China as a Market Economy until it meets accepted criteria.
H	**Housing**. Achieve higher growth for the UK economy from government housing policy by enabling investment in the supply chain here rather than overseas.

Emissions Trading and exploring an alternative approach

The UK needs to take a holistic approach on issues affecting energy-intensive industries (EIIs), working jointly across Government departments including HMT to prevent carbon, investment and job leakage. A combination of current UK / EU policies are harming the UK's industrial competitiveness, which is deterring investment and is threatening business survival.

In recent years one of the biggest deterrents for investment to many of our businesses is uncertainty around climate change policy-related costs, with potential threats of EU Emissions Trading System reforms that would put many of our members out of business (even 'state of the art' energy-efficient factories). We continue to highlight this issue to HM Treasury to ensure that the impacts on jobs, businesses, investments and economic consequences are fully understood. To-date we feel this understanding has been lacking.

With increased ceramic construction product imports in recent years (particularly bricks / roof tiles) we see an opportunity for the UK to re-establish its self-sufficiency, to invest and to grow the sector, whilst continuing to decarbonise through investment in energy-efficient plant. To support this, the exiting of the EU now presents a major opportunity for the UK to change its approach to offering '*more carrot, and less stick'* (i.e. incentivise rather than penalise businesses). We want to work with Government to explore a fairer approach.

Action to lighten the cumulative costs of UK/EU energy, climate and environmental policies

All UK ceramic businesses compete in fiercely competitive global markets and are at high risk of carbon, job and investment leakage. As energy supplies represent up to 30-35% of ceramic production costs they must be secure and affordable in order to maintain international competitiveness. Given intentions to leave the single market (and therefore remove EU state aid requirements) the Budget should set the scene for what will be done after we leave the EU to improve the competitiveness of the UK's energy-intensive industries, including ceramics, against both EU / non-EU competitors.

The current cost of energy / climate policies is extremely challenging for UK ceramic manufacturers and therefore action is urgently required if the sector is to retain an internationally competitive position:

i) **Direct costs for greenhouse gas emission reductions** need to be adequately mitigated.

ii) **Indirect costs for greenhouse gas emission reductions** - passed through by power generators - compensation needs a complete overhaul to ensure all electro-intensive sectors, subsectors and installations are protected.

iii) **'UK-only' Carbon Price Floor** (which our sector is completely uncompensated for) needs to be repealed early or phased out. If this cannot be achieved, then the tax must (at least) be frozen permanently. We were very disappointed in the Spring Budget that there were no moves to announce its abolition, which continues to undermine the competitiveness of UK industrial electricity users.

iv) **Compensation for the indirect costs of renewables** - BCC is grateful for previous assurances that the RO/FiT compensation scheme to EIIs will be continued until exemptions are in place and trust that this will be honoured. However, as the European Commission will not grant State Aid approval for the proposed FiT exemption, so long as it remains open to new schemes, then it cannot currently be enacted. Further assurances about continuing availability of FiT cost compensation would be welcome. We would also welcome measures to broaden this relief, as only seven (out of 90 plus) BCC member companies are compensated, unlike many EU competitors (e.g. in Germany, Italy, Austria and France). This could be at no cost to HMT, once an exemption is in place, by lowering the business test threshold.

v) **Levy Control Framework** – it is equally important to BEIS, low carbon energy investors and energy users to have clarity about future subsidy levels for as far ahead as is reasonably practical. We seek clarity on how the LCF, or its replacement, will be implemented after 2020/21. Whilst we are largely open-minded about the future framework design, it must continue to limit total costs, promote lowest cost electricity decarbonisation and give clarity on the likely impact of energy price subsidies over this period (to EIIs and other users). Accompanying this should also be commitment to publish an annual assessment of the impacts on consumers in general, and on EIIs specifically, during the period covered. We would refer you to the Energy Intensive Users' Group representation for specific details on this.

vi) **Climate Change Levy (CCL)** - against the backdrop of HMT considering CCL rates for post-2019/20 (and rapidly increasing CCL costs) we emphasise that all EIIs - vulnerable to carbon leakage as a result of the CCL - should be eligible for a Climate Change Agreement. The bulk of our materials supplier member companies however are currently ineligible and this needs to be addressed.

Reducing industrial CO_2 emissions

We would welcome measures which help to boost investment in both proven and breakthrough technologies to ensure more energy / carbon efficient manufacturing; these would include:

- **Establishment of an energy efficiency fund** – if EIIs are to decarbonise as envisaged by the 2050 energy-efficiency / decarbonisation industry roadmaps such a support mechanism - analogous to those in already established in the power sector - will be required. We (and also BEIS officials) have supported the creation of such a fund, of £100 million over the parliament to help unlock the substantial investment required in additional proven energy efficiency measures.

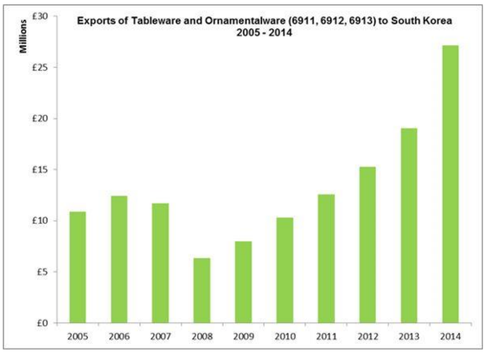
- **Enhanced Capital Allowances (ECA) scheme expansion** - We have developed costed plans for extension of the Energy Technology List (linked to ECAs) to cover more technologies relevant to heat-intensive sectors (covering; "ovens", "heaters", "control", "insulation" and "heat recovery"). The annual cost to government (over a five year term, but excluding interest costs) would be ~£3 million for the ceramics sector.
- **Support development of new commercially viable "breakthrough" decarbonisation technologies -** after the vote to leave the EU, access to substantial EU funding streams (Horizon 2020, SILC etc.) has been made more difficult and could cease. It is imperative that similar UK funding is forthcoming, applicable for heat-intensive sectors to meet long term emissions reductions targets (as grants, not loans).
- **Temporarily raising Annual Investment Allowances (AIAs) –** to help mitigate policy uncertainties around leaving the EU, temporarily raising the AIA to £1 million until 2019 would help boost capital investment (CBI previous cost estimate £1 billion pa).

Trade freely but fairly

UK ceramic products are heavily traded across the world. Free trade is welcomed by our members, provided it is fair. If trade conditions are right our sector is in a strong position to grow exports and fully contribute to a more even balance of trade. Three key areas are:

i) **Having no tariff / non-tariff barriers to the EU single market** - with half ceramic exports sold in the EU, it is of no surprise that our members are anxious to avoid any tariff and non-tariff trade barriers that could make their products less competitive in this crucially important market and we support a speedy comprehensive UK-EU Free Trade Agreement. If after Brexit, WTO Most Favoured Nation rates apply, these would be 5-12% to the EU for our most exported subsectors. If these costs were passed through to customers, as UK manufacturers would find these difficult to absorb, this would make UK products much less competitive in the price-sensitive EU market. **The industry needs to keep tariff-free access to this market.** Some commentators have suggested that a list of possible policies, in combination with a weak pound, could fully offset tariffs; we have no confidence that this can be achieved as currency prices are often volatile and the required number of UK policy reversals required is unlikely. **The industry also needs to keep access to the EU single market free from non-tariff barriers (NTBs)**.

ii) **Transitional arrangements for the UK to remain party to EU Free Trade Agreements (FTAs) -** UK manufacturers currently benefit from EU FTAs negotiated with other countries to remove tariffs. The importance of "good" FTAs to the ceramics industry is demonstrated by UK exports to South Korea, where following the provisional agreement in 2011, the reduced import duties on UK goods sold to South Korea (shown right: HMRC data) link to a rapid rise in exports of ceramic tableware to £28 million per year (equivalent to ~200 extra UK direct jobs (mainly in the West / East Midlands) and indirect benefits to UK suppliers of clay (South West region), glaze, kilns etc. South Korea is now the second largest non-EU export market for ceramics (after the US). **Transitional arrangements therefore are critical until it is able to sign its own similar UK-third country agreements.**



iii) **Trade Defence Instruments** - for genuine free trade there must be fair competition, without distortions, between domestic and foreign producers. The EU's system of Trade Defence Instruments (TDIs), including a non-market economy methodology in dumping investigations when relevant, has been somewhat effective in 'levelling the playing field' where unfair trade practices have occurred.

Since the introduction of the anti-dumping tariffs by the EU covering imports from China of tiles (2011) and tableware (2013), UK-based producers have been able to stabilise, invest in their manufacturing facilities and start to reverse the trend of job losses. Employment in UK floor / wall tile manufacturers has increased by ~40% and in tableware and giftware by ~20%. Employment has also increased in the UK supply chain. However significant Chinese imports have continued and the risk is that if dumping was allowed to resume unabated after the UK leaves the EU this progress would be lost. There needs to be a clear plan to manage the transition from EU TDIs to new UK trade remedies, with continuation of active measures for our sector until UK investigations are completed. This is not an area where the UK Government has had legal competence for many years and while we welcome the establishment of a DIT Trade Remedies team, this needs to be adequately resourced and responsive to the needs of UK manufacturers. Our needs for adequate UK measures need to be addressed fully in the imminent Trade Bill else the UK risks further rises in dumped products putting at risk many UK manufacturing jobs, businesses and investment.

We recognise that HMT does not lead on trade matters, but it is critical that impartial and fact-based analysis and objectivity is undertaken in ascertaining, for example, whether China is / is not a market economy (and not a largely political decision, without evaluating broader economic consequences on UK manufacturing and trade, both now and in the future).

Housing

Higher growth for the UK economy can be achieved by enabling Government investment in the UK construction sector supply chain rather than overseas. More house building is needed to meet UK demand and we would welcome supply side measures in the Autumn Budget. To meet longer term UK housing requirements, policies must take into account factors of quality and service life. It is important that Government does not distort the market by subsidising imported construction materials or untried technologies. UK-manufactured materials must not be disadvantaged.

The economic benefits of retaining / growing UK construction product manufacturing (to meet a burgeoning housing need and maintaining alignment with the "*UK Construction 2025 Industrial Strategy"* [1] for a 50% reduction in the trade gap by 2025) are significant. Additional investment in UK manufacturing capacity needs to be made, and this would help boost productivity. We are happy to share case studies provided in our "*Evidence Pack to BEIS ("A Deal for Ceramics: Appendices – Case Studies and Evidence*", July 2017) that help demonstrate the potential contribution that the UK ceramics sector can make to construction aims. Also, if broader supportive policies are in place for the sector by working in partnership, there is an opportunity to provide an additional 7,750 direct UK ceramic manufacturing jobs, with £1 billion capex and £800 million annual turnover making ceramic construction products (equating to £2.3 billion per year in the wider economy[2]). Our members would welcome working across Government departments to help ensure the essential principle of "Government and industry in partnership" is followed.

BCC remain keen to discuss any of these issues with HMT ministers or officials at the earliest opportunity. In the meantime, we trust the concerns we have raised will be given serious consideration, and that relevant announcements will be included in this Autumn Budget. We would be delighted if you would like to visit a ceramic manufacturing site so we can explain these issues at first hand.

Yours sincerely

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Copy (by e-mail) to:

Rt Hon Greg Clark MP, Secretary of State for Business, Energy and Industrial Strategy
Rt Hon Sajid Javid MP, Secretary of State for Communities and Local Government
Rt Hon David Davis MP, Secretary of State for Exiting the European Union
Rt Hon Liam Fox MP, Secretary of State for International Trade
Rt Hon Mel Stride MP. Financial Secretary to the Treasury.
Andrew Jones MP. Exchequer Secretary to the Treasury
Claire Perry MP, Minister of State, Business, Energy and Industrial Strategy
Margot James, Parliamentary Under Secretary of State, Business, Energy and Industrial Strategy
Greg Hands MP, Minister of State for Trade Policy
HM Treasury - Brendan Bayley, Rachel King, Anouka Dhadda, Alex Routledge, Nico Heslop, Julie Sorensen
BEIS - Niall Mackenzie, Carolyn Campbell, Fergus Harradence, Andrea Whitworth, Dan Osgood, Paul van Heyningen, Anna Osborne, Emily Briggs; Luke Reynolds
DCLG - Eamon Mythen
DfIT - Amanda Brooks, Wayne Hanson
MPs / MEPs with ceramic manufacturing interests
BCC Board; Brick Development Association
Trade union contacts – TUC, GMB, Unite

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[1] Balance of Trade - Construction 2025: Industrial Strategy: government and industry in partnership (July 2013) https://www.gov.uk/Government/uploads/system/uploads/attachment_data/file/210099/bis-13-955-construction-2025-industrial-strategy.pdf (page 5)
[2] L.E.K. Consulting – Construction in the UK Economy: The benefits of investing, 2009. *"Every £1 spent on construction leads to GDP growth of £2.84*