BRITISH ceramic CONFEDERATION

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

Dear Chancellor

CERAMICS SUBMISSION FOR BUDGET 2014

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 100 member companies cover the full spectrum of ceramic products and comprise over 90% of the industry's manufacturing capacity. The sector in the UK employs about 20,000 people directly with at least as many in indirect jobs.

Membership of the Confederation includes manufacturers from the following industry sectors:-

- Gift and Tableware
- Bricks
- Refractories
- Floor and Wall Tiles
- Clay Roof Tiles
- Industrial Ceramics
- Sanitaryware
- Clay Pipes
- Material Suppliers

1. **Capital Investment Allowances**

Following the withdrawal of the Industrial Buildings Allowance, the increase in the Annual Investment Allowance from £25,000 to £250,000 was welcomed. It supported investment in plant and machinery. We strongly recommend that the AIA be extended beyond January 2015 to incentivise all companies, but particularly SMEs to invest in capital in their business to help the recovery. It would be helpful if the annual amount was increased above £250,000. However, if this is not possible then we suggest the increased allowance be tapered down over 24 months, rather than simply withdrawn.

2. **Housing**

Any further rebalancing of public spending away from current expenditure and into capital investment in housing will be welcomed. House completions remain low at around 100,000 - 130,000 per year rather than the 200,000 - 250,000 needed each year for over a decade to meet demographic and social needs.

Our members making construction products used in house building have found that Help to Buy increased demand for their products following the prolonged recession. We would welcome clarification on what will happen after 2015. At present manufacturers of construction products have little confidence to invest in extra manufacturing plant, so a longer duration of Help to Buy or other measures linked to boosting the supply of new build housing would be very welcome.

We also advocate provisions to rebalance public spending further away from current expenditure and into capital investment to increase the amount of new social and affordable housing.

3. **Energy**

The ceramics industry is energy-intensive: energy bills / taxes can be up to 30-35% of total production costs. The need to maintain diversity and security of energy supply and the scale of emission reductions targets must be balanced against the ability of manufacturing industry to pay. Many firms have already invested in the latest technology to improve energy efficiency to the maximum level possible. The cumulative UK energy tax regime is extremely challenging and threatens company survival in the medium term (i.e. extra green taxes are likely to exceed current profits in many more companies within the next few years). We need to ensure a more level playing field with European and non-European competitors on climate related taxes to ensure that the world class energy intensive companies in the UK can remain internationally competitive.

High energy costs were stressed in the European Council's conclusions of 22 May 2013[1]. Following that, the European Commission prepared a report[2] on this subject which was published in the context of the 2030 climate and energy package on 22 January 2014. The report, which combined macroeconomic figures with bottom-up data collected from several energy-intensive sectors including ceramics, clearly showed that energy prices in the EU are two to four times higher than in competing non-EU countries such as the USA and Russia. Furthermore, the figures show that SMEs pay much higher energy prices than large companies within the EU. For instance, electricity prices for EU ceramics companies, which contain many SMEs are more than twice higher than for aluminium. Moreover, the detailed analysis of energy bills confirmed that the combination of national and European legislation has contributed significantly to the increasing trend of prices through different instruments (Renewable Energy Subsidies - RES charges, network fees, carbon prices etc.) and to the rising divergence of energy prices within the EU.

3.1 **Energy Security**

Poor perceived energy security (both gas and electricity) for industrial users in the UK is also adversely affecting investment decisions. Highly volatile gas prices in the UK have been caused by a lack of adequate gas storage and Public Service Obligation. This volatility means the market does not work well for our members; one was driven to close their plant and lay off staff in March 2013 due to high prices. Others refuse to invest in plant that will be damaged if there is unplanned loss of gas or electricity. DECC's decision not to support, by comparison with electricity security, minimal investment in storage and storage obligations is short-sighted, and was based on selective use of data in a commissioned report. The Government's decision needs to be revisited because of the effect on businesses and jobs[3].

We would welcome the same tax benefits / treatment being extended to all Unconventional Gas extraction – i.e. Coal Bed Methane as well as for shale gas. This would help exploitation of local energy sources.

Companies would like more ability to "help themselves" in energy security – for example by on site generation from wind, or responsible use of biomass, but are hampered by local planning difficulties.

3.2 **Package of measures for energy intensive industries – no benefit to ceramics to date**

We welcomed, in principle, the announcement in Autumn Statement 2011 of a £250m compensation fund to mitigate the indirect impact of the EU Emissions Trading Scheme and the UK-only Carbon Price Floor (CPF) on electricity prices to energy intensive industries, recognising that funding would need to be developed in terms of scale, scope and duration in due course. We similarly welcomed the principle behind the announcement certain energy intensive industries were to be partially exempted from the additional costs of Contract for Difference feed in tariffs (CFDs) for low carbon electricity generation, and the confirmation in Budget 2013 that compensation for the indirect impact of CPF would be extended until 2016. We would welcome further extension to 2020 and beyond. The threat to international competitiveness must be mitigated by widening the scale, scope and budget of the compensation package. Moreover, Contract for Difference compensation should be funded from adequate general taxation funds and not funded, as proposed, by industry / domestic consumers who will not be compensated. It would be wrong for our members to pay for compensation for less durable competitor materials. Our members are concerned that some industries are benefitting significantly more than others and this trend shows signs of increasing divergence.

To date none of our members is currently receiving any compensation and only around 7 out of 100, if any, of our members might receive partial future compensation (not backdated) for Carbon Price Floor (and by implication, future Contract for Difference partial compensation) as eligibility may be denied as a result of unduly restrictive proposed EU guidelines. All companies in our membership are also left fully exposed to the impact of other taxes (such as EU ETS indirect charges on electricity and existing renewable subsidies).

We welcomed the Budget announcement in 2013 to exempt ceramics and other industries from the full costs of the Climate Change Levy from next year. We have been working constructively with your officials in HMRC to ensure a fair implementation that minimises administrative burden. We look forward to prompt implementation in April 2014. The tax exemption will not be a game-changer, saving about 2% of energy costs only for our members, but it is an important signal to companies in these sectors that the UK Government has understood the cumulative climate change related tax burden in the UK and is taking the threat to international competitiveness seriously.

A radical change in direction is required to prevent further loss of international competitiveness. We recognise the government's view that effective carbon pricing represents an important element of its energy policy. Nevertheless, for UK industry to remain globally competitive, it is fundamental that the Carbon Price

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[1] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/137197.pdf in particular, paragraph 8c

[2] http://ec.europa.eu/energy/doc/2030/20140122_swd_prices.pdf

[3] Analysis by the British Ceramic Confederation shows that heavy industrial users would pay approximately 1p a therm on top of their current bills if the UK added 5bn cubic metres of storage (which would double the country's current capacity). This provisional estimate is something our members would accept as an insurance policy to reduce price volatility and the potential threat of a supply cut.

Floor is either removed or maintained at its current level. Given the lack of ability to protect our sector from extra UK charges through Contract for Difference / Electricity Market Reform, we see the only remedy is that these costs are paid for from general taxation. The Renewables Obligation and small scale Feed in Tariffs are also completely uncompensated for energy intensive users and remedy is required here too.

Recognising that government funds may be limited, we would welcome any opportunity to adjust the trajectory of the Levy Control Framework to reduce the future cumulative impact of climate policy measures on electricity prices. A revised longer term trajectory, allowing the market to deliver more internationally competitive electricity prices, would benefit all companies in our membership.

3.3 **Investment in energy efficiency measures**

There are several practical measures that could be introduced as part of a transfer to spending to help investment in manufacturing in our sector in the UK:-

- **Greater capital allowances for a much wider range of energy efficient technologies** that would help both improve energy efficiency. The existing Carbon Trust Enhanced Capital Allowances scheme is completely inadequate for **high temperature processes** such as ceramics and needs urgent reform.
- Return a much higher proportion of "environmental" taxes to the sector through co-funding for development of critical energy efficiency / emissions reduction technologies. Our sector has prioritised these technologies. **One mechanism might be to increase Technology Strategy Board funding with adequate focus to ensure this benefits industry.**

The current tax regime will do nothing to help growth in the UK, nor the reduction of global emissions, if these essential products, many of which reduce emissions / energy use for their customers, are made in less regulated or less energy-efficient factories in other countries whose priority is economic growth and not environmental protection. As you have said, "We are not going to save the planet by putting our country's manufacturing sector out of business".

We have seen the rise in construction demand over the past year has been met by both an increase in domestic production, and in the short-term, imports of products. To ensure that government meets its own target for reducing the trade deficit on construction products by 50% by 2025, outlined in *Construction 2025*, the Industrial Strategy for Construction, it is essential that UK manufacturing remains competitive. This will only occur if the UK has a secure, low carbon energy supply at an internationally competitive price.

These are investments that would reflect the need for the UK Government to prioritise growth and rebalance the economy and help profitable and energy efficient UK businesses to sustain their international competitiveness. This is crucial to ensure the survival of UK ceramic companies and indeed provide good value for money relative to the lost tax revenue that would otherwise occur as healthy companies are driven out of profit and out of the UK.

We trust that explicit reference will be made to these concerns (provisionally, if need be) either in the Budget statement itself, or in additional material published at the same time.

Yours sincerely

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Gregory Barker MP, Minister of State for Energy and Climate Change
Peter Hansford, Chief Construction Officer
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