

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

FINANCIAL ASSISTANCE TO INDUSTRY

Monday 14 March 2016

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS
LONDON – THE STATIONERY OFFICE LIMITED

No proofs can be supplied. Corrigenda slips may be published with Bound Volume editions. Corrigenda that Members suggest should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Friday 18 March 2016

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY
FACILITATE THE PROMPT PUBLICATION OF
THE BOUND VOLUMES OF PROCEEDINGS
IN GENERAL COMMITTEES

© Parliamentary Copyright House of Commons 2016

*This publication may be reproduced under the terms of the Open Parliament licence,
which is published at www.parliament.uk/site-information/copyright/.*

The Committee consisted of the following Members:

Chair: MR GRAHAM BRADY

- | | |
|--|--|
| † Arkless, Richard (<i>Dumfries and Galloway</i>) (SNP) | † Pawsey, Mark (<i>Rugby</i>) (Con) |
| † Barclay, Stephen (<i>North East Cambridgeshire</i>) (Con) | † Sandbach, Antoinette (<i>Eddisbury</i>) (Con) |
| † Brennan, Kevin (<i>Cardiff West</i>) (Lab) | † Shapps, Grant (<i>Welwyn Hatfield</i>) (Con) |
| † Cox, Jo (<i>Batley and Spen</i>) (Lab) | † Smith, Angela (<i>Penistone and Stocksbridge</i>) (Lab) |
| † Donaldson, Stuart Blair (<i>West Aberdeenshire and Kincardine</i>) (SNP) | † Soubry, Anna (<i>Minister for Small Business, Industry and Enterprise</i>) |
| † Donelan, Michelle (<i>Chippenham</i>) (Con) | † Trevelyan, Mrs Anne-Marie (<i>Berwick-upon-Tweed</i>) (Con) |
| Flint, Caroline (<i>Don Valley</i>) (Lab) | † White, Chris (<i>Warwick and Leamington</i>) (Con) |
| † Harris, Carolyn (<i>Swansea East</i>) (Lab) | |
| † McCartney, Karl (<i>Lincoln</i>) (Con) | Katy Stout, <i>Committee Clerk</i> |
| † Menzies, Mark (<i>Fylde</i>) (Con) | |
| † Morden, Jessica (<i>Newport East</i>) (Lab) | † attended the Committee |

First Delegated Legislation Committee

Monday 14 March 2016

[MR GRAHAM BRADY *in the Chair*]

Financial Assistance to Industry

4.30 pm

The Minister for Small Business, Industry and Enterprise (Anna Soubry): I beg to move,

That the Committee has considered the motion, That this House authorises the Secretary of State to undertake to pay, and to pay by way of financial assistance under section 8 of the Industrial Development Act 1982, in respect of compensation of Renewables Obligation and Small Scale Feed in Tariffs (RO / FiT), a sum exceeding £10 million and up to a cumulative total of £371 million maximum.

It is an absolute pleasure to serve under your chairmanship, Mr Brady, in what may be a relatively short debate. That is not to say that the subject is not important, but I think that there will be widespread agreement. The motion was laid before the House on 22 February under the Industrial Development Act 1982.

As a nation, we face the twin demands of meeting our essential energy and decarbonisation targets—rightly so—and, at the same time, maintaining the conditions necessary for our economy to grow. Industries such as steel, oil refining, cement, ceramics, glass and paper—there are many others, and I could go on—are wonderful manufacturing industries, which are vital to our economic health. They contribute more than £50 billion to our economy and provide more than 18% of the nation's total exports, as well as well-paid jobs, often in areas of economic disadvantage. With few exceptions, the workforce—to whom, as ever, I pay great tribute—are highly skilled.

For all sorts of great reasons, therefore, such industries are important and central parts of the British economy, but they are energy-intensive. Energy accounts for about 10% or more of their costs—for example, 20% of the fixed costs for concrete and cement come from energy use. That is against a manufacturing average of about 3%. Eight sectors, including steel, oil refining, chemicals, glass and cement, are responsible for about two thirds of industrial energy use and two thirds of greenhouse gas emissions. Having recently met with the cement industry and, indeed, the lime industry—I am becoming an expert in all such matters—I should note that 60% of those industries' carbon emissions come from the process itself, over which there can be no control, because the emissions cannot be reduced. That is an important factor that is sometimes forgotten.

In order to meet our climate targets, we have implemented a number of policies designed to incentivise generation of energy from renewable resources. The costs of such policies are recovered through levies on suppliers, who pass the costs to end users, usually in their electricity bills. That is sometimes contentious, because businesses that use a lot of energy, such as those in energy-intensive industries, are disproportionately exposed to those costs, which has an impact on their competitiveness and creates

a cost differential between the United Kingdom and other countries. All those industries tell me that they want not subsidies, but a level playing field. I absolutely agree with them about that.

As a result of the situation that I have described, the United Kingdom might not be as attractive an investment location as it could be. There is also increased risk of carbon leakage—a terrible expression, which it might not surprise the Committee to know apparently came from the European Union. Normally, in my view, the EU gets things right, but not in this case—the use of “carbon leakage” as an expression is stupid. What does it mean to ordinary people? Absolutely nothing. What it means is that we are in real danger of exporting jobs and importing carbon—in other words, people will stop doing stuff here and industries will not be located here, because they will move to other parts of the world that, frankly, do not have similar policies to ours. That is the “leakage” bit of the expression. It not only erodes the United Kingdom's manufacturing base but means that emissions are exported to countries with less ambitious decarbonisation regimes.

To address the challenges, we are taking action to reduce the financial burden on our EIIs. In 2013 we started to compensate companies for the cost of carbon, which is passed through in bills. I am not undermining our system, which is a good one, by saying that we will change it in 2017 so that we do not put some of the tariffs on in the first place—that is the best way to do it. At the moment, however, the system simply puts tariffs on to business and industry, and we then have a device to claw back a large part of it, which does not make sense. The better way will be introduced in 2017, but in the meantime, we rightly committed in the 2014 Budget to compensating EIIs for the indirect cost of the renewables obligation in small-scale feed-in tariffs and reconfirmed that we will exempt them from the cost of contracts for difference.

We are going to extend the programme of support. Alongside the autumn statement, the Prime Minister announced that we will transition from compensation for renewables to an exemption, which, as I described, will start in 2017. In order to target limited resources, we are focusing support on the sectors that are the most exposed to electricity price rises—those that are both EIIs and exposed to international competition.

The compensation programme for the renewables obligation and the feed-in tariff opened in January this year. Businesses are already applying for the relief, and we are keen to pay eligible EIIs as soon as possible once their applications have been assessed. In order for us to do that and to pay total compensation of more than £10 million, we are required under the Industrial Development Act to seek agreement from the House of Commons, which is what this motion is all about. As a number of hon. Members know, in the Enterprise Bill we are upping the limit of £10 million to £30 million. That is completely uncontroversial and means that in future, we will not have to come to the House if the amount of money to be paid falls under £30 million.

We are also taking action to ensure that energy-intensive industries are well placed to develop greater energy efficiency in the longer term. The Department of Energy and Climate Change and the Department for Business, Innovation and Skills are currently working together with industry on what we call the 2015 industrial

decarbonisation and energy efficiency road map, which is another unfortunate expression—what is a road map? Basically, it is a very good plan—a strategy—to help our EIIs reduce their costs in the long term. It has many features, and I commend it to the House.

The project focuses on sectors including iron, steel, paper, chemicals, glass, cement, refining, food and drink, and ceramics. The focus is on identifying the technologies needed for energy efficiency and decarbonisation in those sectors and understanding the major commercial considerations that they face. It is clear that we must do that in a way that maintains the competitiveness of UK manufacturing as we transition to a low-carbon economy.

I am content that the financial assistance outlined in the motion will benefit those industries and the United Kingdom economy, and that section 8 of the 1982 Act is the appropriate means by which to make payments. I pay tribute to my Secretary of State, who has done a great deal in the European Union to advance the scheme, because it was not happening as fast as we wanted it to happen. He made great strides over in Brussels to speed it on, so full credit to him for doing that. I would welcome comments from members of the Committee before I formally seek the Committee's support for the motion.

4.37 pm

Kevin Brennan (Cardiff West) (Lab): If the Minister is going to praise her Secretary of State, I will praise my shadow Secretary of State, who has put a lot of pressure on the Government to try to get them to do the right thing on this issue. It is only fair—if the Minister mentions him, I have to mention her; that is just the way it is.

Broadly speaking, the motion is very welcome. I thank the Minister for her explanation of what we are doing this afternoon. It was interesting to read through the documentation on the issue, including the guidance for applicants for compensation under the scheme. The Minister gave us a little sample of the industries that may well benefit from compensation, but if hon. Members have not had chance to see the documentation yet, they might be interested to know that it has a long list of industries that will potentially benefit from compensation under the scheme—they will be glad to hear that I am not going to read it out. That is extremely welcome, given the high electricity costs for businesses in this country.

One issue that occurred to me in reading through the guidance for applicants, and also through the further guidance for applicants—there is quite a lot of documentation related to the scheme—is that a business filling in the application form must have certification by an accountant of what its energy bills actually are. Let me quote from BIS's "Compensation for the indirect costs of the Renewables Obligation and Small Scale Feed-In-Tariffs" guidance for applicants, from February 2016. Paragraph 19 states:

"The accountant's fees, together with VAT and out-of-pocket expenses, will be agreed with and billed to the Compensation Applicant. BIS is not liable to pay the accountant's fees."

That is perfectly understandable. The Minister says that businesses are already applying for the compensation. Are any of those businesses likely to be quite small? If so, will the cost of having to use an accountant in that way, as specified in detail in the guidance for applicants, be likely to have an impact on whether it is worth while

for a small business to apply for compensation? It would be useful for us to have a feeling of the likely size of the businesses that might be eligible in the long list of industries outlined in the Government's documentation. If they are very small businesses, it would be a shame if they missed out because the cost of applying takes up a large amount of the likely compensation.

I have a few other questions for the Minister, although we are perfectly content for the motion to proceed without a Division. Her opening statement answered a number of questions that I will now not ask, but from the applications received so far, or from the Department's own intelligence, does she have an indication of how the funding is likely to be distributed across the country? I understand that that depends on who applies, but what areas of the country does she expect might benefit from being able to apply for the compensation? Does she think that the funding will be sufficient for all the businesses that are likely to qualify? If it is capped, there may be a bit of a scramble to get it before it runs out. It would be helpful if she could give us a general feeling on that.

Will there be there an upper limit on the level of compensation for which individual businesses can apply? As I understand it, we are authorising up to £371 million of funding today. How exactly was that very precise figure arrived at? Further to that, is there a plan in place to disseminate information to small and medium-sized enterprises? The larger players will be well aware of the compensation scheme, but SMEs that might benefit from it might not come across it unless the Department makes an active effort to market its availability to such companies. Indeed, has the Minister thought about involving Members of Parliament in the dissemination of such information in their constituencies? Members on both sides of the House will be aware of businesses in their constituencies that might well benefit from such compensation, and it would be useful if the Department were able to indicate whether it thinks Members of Parliament might be useful in such dissemination.

I will not ask any further questions, but I hope the Minister will give us some ideas on some of those points.

4.43 pm

Anna Soubry: I thank the hon. Gentleman for his questions. I will answer as many as I can and, if I do not complete the list—I counted six questions—I will of course write to him.

I will start at the end. If there is a need to write to all Members of Parliament, I do not have a problem with doing so. In fact, I will go further, because I am keen to ensure that we tell everybody about the procurement rules. I know this is not on topic, Mr Brady, but the hon. Gentleman raised an important point about using Members of Parliament far more as champions. Most of us like to be champions for our local communities, so there is no reason why Members of Parliament cannot play a bigger role in, for example, the procurement rules. We will be writing to a large number of organisations, including all local authorities, to tell them how we have changed the procurement rules, and I undertake to ensure that every Member of Parliament—I do not care what their political party is—gets the details so that they can go and talk to their local authority during the many recesses that seem to be upon us, when Members

[Anna Soubry]

will be working very hard on behalf of their constituents. That is one way in which we can do this work locally. I am more than happy to advertise the scheme's availability to EIIs further if we need to do so. Frankly, I would be surprised if we needed to, because the sector is extremely well organised through its various bodies, so I should have thought it would be more than aware of the situation. However, if there is any doubt about that, I am happy to undertake to make sure that everyone knows about it. I honestly do not think that BIS needs to tell people, but if I am wrong I will be happy to be corrected.

As for the geographical distribution of funding throughout the United Kingdom, I do not have information available about whether there will be higher amounts in Scotland, Wales, the north of England, the midlands, the south or whatever. I do not know whether those figures exist, but if they do I am more than happy to share them.

On the question of small and medium-sized businesses, we have engaged already with the CBI, and EEF, the manufacturers' organisation, is excellent at disseminating information to its members. I hope that that answers the hon. Gentleman's question.

The hon. Gentleman's point about accountants was interesting. Small energy-intensive businesses may not have to seek an accountant's report, but the cost of those reports is between £1,000 and £3,000. We may have to consider that issue and provide a fuller answer, and I do not have a problem with doing that.

We have forecast expenditure based on data available to the Department, and we consider the overall funding sufficient to compensate EIIs. As might be imagined, when the scheme was being devised, officials and Ministers were keen to see whether we could get really good, accurate data, so that we would know how much the compensation package would cost. That is why we have given the figure of £371 million; we have done a great deal of work on the matter.

I think that I have answered all the hon. Gentleman's questions, but if not I will of course write to him and fill in the details. What will happen is what the motion says, and I am delighted that it will not be contentious.

Question put and agreed to.

4.47 pm

Committee rose.