

Energy Security & Net Zero Committee Call for Evidence on Business Energy

Make UK's response to call for evidence

Introduction

Make UK welcomes the opportunity to respond to the [call for evidence on business energy](#). Make UK agrees with the committee's evidence that the high cost of energy for business and industry in the UK is a drag on economic growth and is driving up wider prices. The primary concern is that Government has failed to rise to the moment as prices are set to continue to increase in an atmosphere of global uncertainty.

Key Points

- The cost of energy has remained a primary concern for UK manufacturers with over half of our membership classifying it as their biggest challenge over the coming years. The escalating burden of energy prices is playing a determining role on companies' profitability particularly when coupled with a challenging business environment characterised by heightened capital costs and inconsistent demand. Businesses can only deliver growth if the government takes a serious and holistic approach to tackling high electricity prices for manufacturers.
- The current crisis in energy markets, following the conflict in the Middle East, has shown that the UK can no longer rely on volatile fossil fuels to set the price of electricity. For instance, the UK Energy Research Centre (UKERC) has estimated that, despite only supplying a third of the country's electricity, gas-fired generators set the wholesale price of power around 90% of the time in 2025 exemplifying a systematic misbalance. The economy cannot survive another price shock with the Climate Change Committee finding that the total additional cost of a single fossil fuel price spike of 2022 magnitude is likely to be as large as the total net additional cost of meeting the pathway to net zero across every year to 2050.
- The time for action is now, and industry can be the heart of decarbonisation within the country. If action is not taken now, then the risk of rapid deindustrialisation will grow at pace, and the country will be left behind by international competitors. The UK must kickstart the process of electrification within industry finding routes to bring down electricity prices through structural reforms, support funding for investment into new technologies and better prepare the grid for existing industrial demand.

Summary of questions

1. What is the potential for industry to electrify by 2030 and 2050?

- Engineering studies show that up to 90% of industrial energy demand could ultimately be electrified with existing and emerging technologies. The Committee for Climate Change has made it clear that the next phase of industrial decarbonisation will require a significant movement towards electrification and the sector can completely decarbonise by 2050 if uptake is sufficient. Existing technologies can deliver meaningful electrification now. Industrial heat pumps, electric boilers, and resistance heating are commercially available today and can address large shares of low- and medium temperature heat demand — the low-hanging fruit of industrial electrification. Crucially electrification exists as a methodology that could enable an industrial decoupling from fossil fuel outputs solving many of the electricity price concerns.
- Our data has shown that the sector is rising to the challenge with 63% taking steps towards electrification and 87% keen to invest more if the 'spark gap' between gas and electricity can be closed.
- However, despite the positive movements towards electrification, there are clear blockers to increased adoption which is driven by the 'spark gap' and unaffordability of the transition within a challenging business environment. For instance, our data suggests that those businesses that have invested into the transition have mixed experiences on cost reductions where it would be fair to equate this to 17% Stayed the same 11% 9% the inflated cost of electricity. These outcomes are further compounded by a high cost of CAPEX making the initial investment necessary harder to justify.
- If Government can address inflated electricity costs and support upfront investments, then the business case for electrification is made much easier. This would contribute significantly to the UK's energy security and operational resilience, shielding industry from the worst impacts of fossil fuel shocks

2. Would electrification of industry contribute to economic growth?

- According to the Office for Budget Responsibility (OBR), a reasonable UK range for investment multipliers is ~1.3 1.6 in the near term. Based on these standard UK fiscal multipliers, an additional £9.2 billion of private sector investment by UK manufacturers would increase UK GDP by between £12bn and £15bn over the next decade, supporting the creation of approximately 43,000 new jobs directly, and 63,000 jobs in total when indirect job creation across supply chains is included. The scale of the payoff will depend on the domestic content of supply chains, but the direction of impact is clear. Expanding finance for manufacturers to adopt efficiency measures, electrified heat, and on-site renewables would support productivity and therefore wider economic growth.
- Unfortunately, Government is failing to take advantage of this opportunity by not addressing rising energy costs efficiently enough creating inflationary pressures and threatening deindustrialisation. For instance, we have found that 62% of businesses are feeling their operations have been impacted by global uncertainties and 13% feeling that projected energy cost rises could be life threatening to their operations. If this were to close those businesses then Make UK estimates that a 13% decline in UK manufacturing activity would manifest an £85bn annual loss for the UK, with the majority of that loss, ~£50bn, occurring within supply chains for which the sector is a customer, and the loss of the worker spending impacts to their relevant local economies.

- The impacts of a business environment constrained by high costs create economy wide shockwaves. Our data shows that 58% of manufacturers are passing increased costs through to consumers raising prices creating inflationary pressures. This is coupled with 21% being forced to reduce their headcount which further reduces the spending power within the economy. The broader concern underlying this is that businesses no longer see the UK as an investable. This is restrictive on growth and ultimately results in the offshoring of operations and the deindustrialisation of the UK. Addressing energy prices is therefore a key to a strong economy helping to reduce consumer costs and prompting a healthier employment market whilst preserving investment in the country. An inefficient and ineffective response to the current crisis will only increase the potential impacts particularly with the majority of manufacturers facing upcoming energy contract renewals.

3. What needs to be in the Industrial Decarbonisation Strategy? What should the Government be doing to incentivise SMEs to decarbonise?

- To protect industry, drive investment and produce growth the Government must now consider a more fundamental reform agenda to energy markets which focuses on immediate intervention alongside structural changes. Reducing the cost of energy is the most effective step Government can take to addressing the challenge of decarbonisation with well-established appetite for electrification within industry. We understand that this will require a phased approach with a policy tranche focused on immediate cost pressures and unlocking investment alongside a more fundamental tranche to secure the long-term competitiveness of the country.
- Key policy recommendations:
 - **Prioritise addressing policy costs by moving them onto general taxation.** We understand the value that these policy levies have on driving improvements, but the current balance is punishing end users transitioning to clean power. This is the most efficient way of driving down costs whilst undergoing more fundamental reforms. This would provide a powerful signal to industry that the UK is serious about competing in the modern global economy in vital strategic industries and is almost unanimously supported by energy-intensive industries, manufacturers, and the energy sector. The Government has shown that this intervention can be made quickly through the Autumn Budget and, therefore, we believe that it is an appropriate immediate intervention.
 - **Business rate relief:** Alongside immediate price support, the Government must focus on how to support investment into green technologies to allow manufacturers to decarbonise their operations and move away from volatile fossil fuel markets. One way to redress the imbalance in the business rates system would be to introduce long-term relief for green investments. As well as reducing the overall business rates burden on manufacturers, this would remove a key barrier to investment in green technology and machinery. This would be an affordable, pro-growth reform that can help the UK meet net zero faster and more efficiently. To achieve this, we would recommend extending the duration of the Green Investment Relief from 12 months to three years & introduce a new targeted business rates exemption for investment in green plant and machinery.
 - **A successor to the Industrial Electrification Transformation Fund (IETF):** This would support businesses by strengthening the operational benefits of electrification. It is concerning to see figures that suggest limited cost benefits to electrification. If

Government can provide a vehicle that rewards action in this space by bringing down the OPEX, then the equation becomes simpler for manufacturers and the high appetite in the sector can be matched by investment. The Government has previously considered a Targeted Electrification Discount model, and we believe that this would be an effective successor to the IETF.

- **Breaking the link between gas & electricity:** We would recommend that Government take a careful, detailed design and implementation to ensure value for money and to avoid further market distortion. Market reform must be carefully designed to avoid unintended distortions, but we feel that the risks of inaction are greater. The Government should therefore accelerate work on credible mechanisms to reduce the role of gas in setting electricity prices, including serious consideration of other approaches that more directly break the link between gas and power prices putting forward more substantial steps than what has currently been proposed.
- **Improving grid connectivity:** The current design of grid infrastructure is a blocker to more investment. The Government must take a more holistic approach to support existing demand and provide greater certainty to businesses intending to take the next step to decarbonise their operations.

4. Is the biggest barriers to SMEs the high cost of electricity?

- This is a problem that creates a drag on the whole of industry and will disproportionately impact SMEs. It is well understood that the UK have energy prices substantially higher than the International Energy Agency member countries' median, and the highest in the G7. These costs are projected to rise further as new transmission investments and the financing of new nuclear power feed into bills. We have found that 90% of our membership have bills that have increased at least moderately since 2022.
- These pressures have been compounded by the conflict in the Middle East, which could put the country on course for deindustrialisation if sufficient action isn't taken. Conflict in the Middle East is disrupting global energy supply and driving up prices, exposing the UK's continued vulnerability to fossil fuel shocks. This has led to the global benchmark oil price, Brent crude, rising to above \$120 (£89) a barrel and briefly hitting \$122, its highest price since 2022 and the month-ahead UK wholesale gas price hitting 172p a therm, the highest level since August 2022. Forecasts from Cornwall Insight have shown that business energy costs are set to soar, with electricity bills increasing by an average of 10% to 30% since late February, depending on sector and the size of the organisation. Gas price rises are steeper still, with Cornwall Insight forecasts showing bill increases of between 25% and 80%, due to the conflict in the Middle East and the uncertainty surrounding the region's stability in the coming years continuing to drive wholesale prices higher.
- Worryingly, our analysis has found manufacturers may not have faced the full impacts of rising costs due to the timing of upcoming contract renewals. The data indicates that there is a pinch point in the coming months which could significantly change the complexion of the crisis plunging the UK into further economic difficulty if not correctly addressed.
- In an already constrained business environment, investments into decarbonisation may fall by the wayside to prioritise immediate competitiveness. We are finding that often electrification technologies do not reduce the operational costs of sites due to the persistent high electricity costs. This means that the business case is weakened despite 71% of

manufactures considering net zero important to their business operations, which indicates an understanding of the competitive advantages presented by the transition.

- The opportunity is clear. For instance, our modelling has indicated that this policy would deliver measurable economic growth. Every £10 reduction per MWh in energy bills across manufacturing boosts the economy by £800 million (0.03%) a year if sustained over the medium term (with an associated direct fiscal cost of £750 million a year).

5. How should the Government be engaging banks and financial services to drive the decarbonisation of the UK's SMEs?

- We have previously found that access to finance is a major blocker to further steps towards electrification. 42% of our membership has highlighted it as a primary blocker to further investment into green technologies. A coherent investment plan is needed so manufacturers can engage with emerging technologies as they develop. This approach will help to deliver the existing Industrial Strategy, which recently affirmed the Government's ambition for greater investment in the green agenda through new ways to finance green projects, investments, training for green skills, simpler planning rules (including grid connections) and targeted tax incentives.

Background

1. Make UK, The Manufacturers' Organisation, is the representative voice of UK manufacturing, with offices in London, every English region and Wales.
2. Collectively we represent 20,000 companies of all sizes, from start-ups to multinationals, across engineering, manufacturing, technology and the wider industrial sector. Everything we do – from providing essential business support and training to championing manufacturing industry in the UK and internationally – is designed to help British manufacturers compete, innovate and grow.
3. From HR and employment law, health and safety to environmental and productivity improvement, our advice, expertise and influence enables businesses to remain safe, compliant and future-focused.

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