POSITION PAPER: THE UK'S INDUSTRIAL STRATEGY

The UK's upcoming Industrial Strategy will guide Government decisions, influence subsequent sector-specific strategies and provide certainty to investors for years to come. Therefore, it is a unique opportunity to ensure that the fuels sector is recognised, supported and attracts the vital investment needed for decarbonisation.

The UK will struggle to achieve net zero and economic security without a competitive fuels sector. The sector can play a pivotal role in achieving the UK Industrial Strategy's objectives of sustainable growth, regional development, and economic security.

Refineries and fuel supply is one of the UK's foundational industrial sectors: by providing over 90% of the UK's transport energy and supplying the many non-fuel products vital for any modern-day economy. While the UK demand for traditional fuels is expected to fall over time, the sector continues to offer growth potential in the production and supply of lower carbon fuels and through its central enabling role in industrial decarbonisation clusters.

A strong industrial strategy for the UK must:

- Identify the UK's foundational industries – including refining and fuels supply given its central role in growth subsectors including carbon capture, hydrogen and lower carbon fuels - by mapping interdependencies between sectors across the economy.
- Ensure foundational sectors remain competitive and are integrated into plans for new, clean energy industries. Targeted support that can upgrade infrastructure and enable cross-sectoral collaboration can enable increased productivity and growth.
- Remove barriers to growth that impact the business environment: our high costs of doing business; inflexible regulation; closing off technology pathways to net zero; and workforce skills.

Sustainable Growth

All net-zero models of the UK economy have a role for lower carbon fuels. While current demand levels of conventional fuels will fall, volumes of lower carbon fuels are expected to grow with global consumption expected by the International Energy Agency (IEA) to grow from 2% to 7% by 2030.

Sustainable Aviation Fuels (SAFs) are forecast by the IEA to grow from less than 18 billion litres (5%) of global aviation demand in 2025 to around 75 billion litres (20%) by 2040. Meanwhile international shipping shows just 0.1% of fuels in 2022 are low carbon but are forecast to see an increase to 13% low emissions fuels by 2030, offering a rapid growth opportunity.

Regional development

A 2019 Oxford Economics study for Fuels Industry UK showed that at least 2% of every UK region, and therefore of the whole economy, is reliant on the fuel sector's input making it a potentially a large contributor to growth in all regions. A Scottish Government funded study gives an up to date (2023) estimate of the value of refineries to their regions, estimating that the Grangemouth refinery (due to close in 2025) supported over £400m of economic activity with strong GVA (2.25x) and jobs multipliers (5.30x).

The fuels sector is also essential to delivery of the UK's industrial decarbonisation clusters. The UK's six refineries are among the largest industrial sites in the UK and without their scale and technical and project delivery credentials, the cluster model - delivering carbon capture and hydrogen projects at scale - is less likely to succeed and will be slower and more costly.

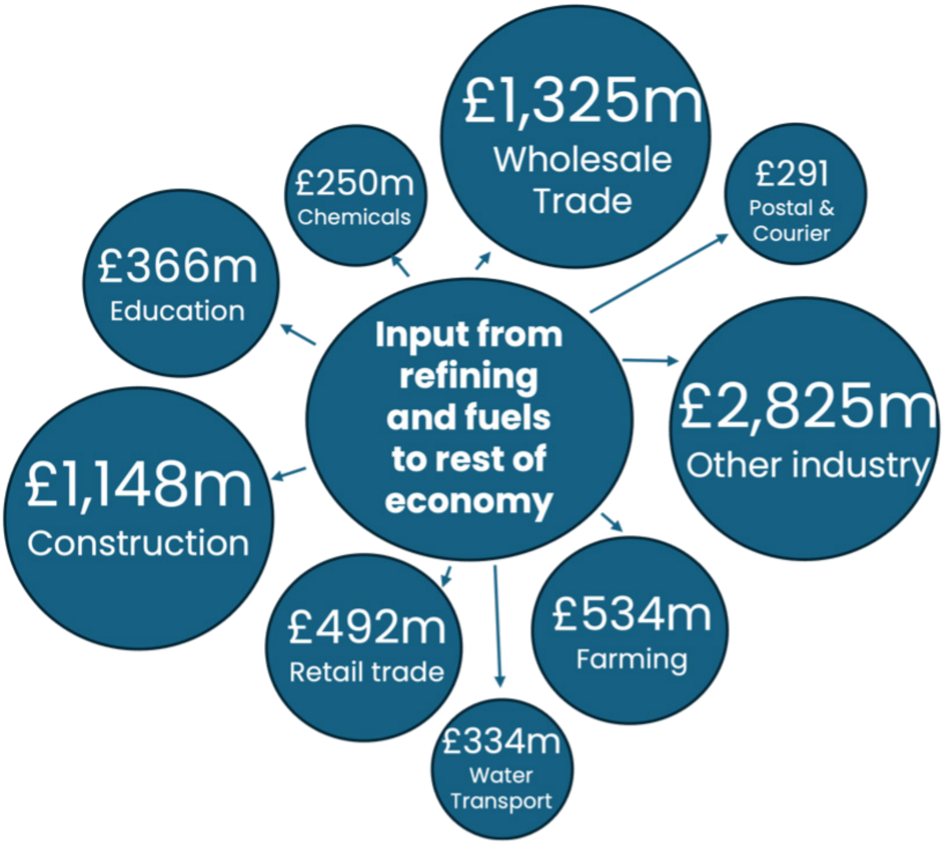
Economic security

A domestic fuel manufacturing capability and supply chain offers greater flexibility in how fuel is supplied. This is a protection against shocks from volatile international markets with increased geopolitical risks which can exacerbate costs of living concerns and risk national security.

Identifying foundational industries

The Green Paper identified foundational sectors as: "the sectors which provide critical inputs and infrastructure to our growth-driving sectors". To support a successful industrial strategy, the Government needs to understand how sectors are enabled and supported by one another.

ONS input/output data allows us to map interdependencies of sectors across the economy and therefore indicates how inputs from the refining and fuels sector (e.g. fuels and other products) are used by the rest of the rest of the economy. In 2022, over £8.5billion of inputs from the fuels sector were used as critical inputs to the rest of the economy.



Ensuring Foundational Sectors remain competitive

To secure sustainable growth, the UK needs to be an attractive place to invest. It is essential that the UK create a pro-business environment, which can be achieved by addressing:

- *High Energy and Carbon Costs* - The annual operating cost for the UK refinery sector is more than one-tenth higher than if it operated at the same scale in Europe and more than four times higher than in the US. This is due to the costs of taxation, and the high industrial electricity and gas prices in the UK. As part of the overall disadvantage, UK carbon costs have been consistently higher than comparable schemes globally, including outstripping the European price for much of the past two years. This is a concern for most major industrial manufacturers and is making the net-zero transition less affordable

- *Lifecycle emissions policies* - A lifecycle approach and policy which considers decarbonisation right across the production and use of a product (rather than the UK's tailpipe emissions focussed transport decarbonisation at present) should set overall carbon reduction objectives for all technologies to meet. This could make the UK a more attractive place to invest for all lower carbon fuels technologies - and also the CCUS, hydrogen, and lower carbon fuels subsectors that can drive growth.

Removing barriers to growth

As well as the high costs of doing business and the lack of a lifecycle approach to reducing emissions, there are other barriers which make the UK a more difficult place to invest:

- *Old models of regulation* - are slowing down the net zero transition. We need a simple and stable business environment with enabling regulation by the competent authorities. We also need to ensure that regulators are supported with the necessary capacity and capability.

- *Workforce skills shortages to deliver net zero* - Reforms to education and better access to workers are urgently required. Government needs to provide national strategic direction on how to address skills shortages, which will enable industry and external stakeholders to deliver on local and regional skills needs through new entrant provision, reskilling and upskilling initiatives.

Fuels Industry UK

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