

# Biomass Subsidies

## and their impact on the British Furniture Industry



The campaign is supported by the following organisations:



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# Foreword

British furniture is renowned worldwide for its high quality design and manufacturing. A substantial industry, it contributes £8.3 billion to the country's GDP, which equates to almost 2 per cent of manufacturing output, and employs over 112,000 people. It is a sector full of industrious small enterprises employing highly skilled staff and is a manufacturing industry that Britain is rightly proud of.

Over the last year, in my position as Chair of the All-Party Parliamentary Furniture Industry Group, I've been working with the furniture industry, through their unifying trade group, the British Furniture Confederation, and other Members of Parliament from across the political parties to raise awareness of some of the issues the industry is facing. One of the most pressing concerns is the problem of increasing wood prices and the impact this is having on margins and competitiveness.

As we seek to rebalance the economy towards manufacturing it is important that any decision which affects manufacturing industries, such as incentivising burning wood, takes account of how any detrimental impacts can be minimised.

This timely report sets out how the current woody biomass subsidies are a significant cause of rising wood prices which are damaging British furniture businesses. Its publication provides an opportunity to find an appropriate solution that would remove a considerable obstacle for the furniture industry. I look forward to working with the industry and the Government over the coming months to find a way to resolve this ongoing concern.

**Stephen McPartland MP**  
**Chair of the All-Party Parliamentary Furniture Industry Group**



# Executive Summary

1. This report focuses on the Renewables Obligation woody biomass subsidy and the detrimental effect it is having on British manufacturing. It has been commissioned by the Furniture Industry Research Association (FIRA) on behalf of the furniture industry, the wood panel industry and the retail sector.
2. For several decades, wood was bought by user industries on a competitive basis. The competitive market began to be undermined in 2002 by the Government's introduction of a subsidy to compensate electricity generators for burning renewable fuel, which included wood and wood products. The subsidy is paid by consumers through their electricity bills.
3. In the past five years wood prices have risen by 55.1 per cent. The report ultimately argues that the Government should reform the woody biomass subsidy to prevent it damaging UK manufacturers and retailers. There are a number of measures outlined in this report the Government could adopt to improve the outcome for industries using substantial quantities of wood.
4. The amount of subsidy that can be claimed under the Renewables Obligation is determined by Government banding reviews that examine the impact and effect of each renewable technology in reducing emissions. It would be sensible for the current banding review, and all future reviews, to fully consider the impact on both businesses and employment levels in affected industries from incentivising energy generators to burn wood. Furthermore, the Department of Business, Innovation and Skills (BIS) in conjunction with the Department of Energy and Climate Change (DECC) should immediately undertake a thorough review of the potential employment losses and impact on the UK economy due to woody biomass subsidy.
5. Although energy generators plan to derive the vast majority of their wood from imports, the domestic market is cheaper and therefore more attractive. It is not feasible for the generators to derive all, or the majority, from domestic sources. The energy generators predict they will source 10 per cent of the wood from domestic sources but any increase on this figure will squeeze domestic supply further. The Government should set binding limits of 10 per cent of wood that large energy generators can source domestically.
6. There are currently a significant number of potential new woody biomass power generation plants at different stages of the planning process. Whilst uncertainty remains over the unintended effects of this market distortion, imposing a planning moratorium on new dedicated woody biomass energy plants should be considered. This would allow DECC and BIS to conduct a thorough review of the impact of the woody biomass subsidy on the UK economy. Moreover, whether it is sustainable to build so many large scale power plants is questionable. The Government should publish detailed analysis for each planning approval for a large power generation plant on how the plant will improve UK energy security and where it will source the wood to burn in its generator.
7. If wood is used in the most sustainable way it will go through a lifecycle from planting to manufacturing before being recycled and eventually burnt for energy. Wood from this sustainable lifecycle is exactly the kind of timber that we should be encouraging energy generators to burn. However, over recent years there has been an increase of burning virgin timber. It should be considered whether this is suitable for the Government's sustainability criteria. Furthermore, reviewing how Government can work with retailers and local authorities to encourage wood products to be recycled for energy generation would help reduce the burning of virgin timber.
8. Energy prices have come under significant scrutiny over recent months since the 'Big Six' energy retailers announced price rises for this autumn. These increasing prices are affected by the woody biomass subsidy as energy companies' prices include the cost of covering the Renewable Obligations charges. Any future investigations into energy prices in the UK need to consider whether it is equitable for consumers to pay for renewable energy forms which distort the market perversely against the British consumer and British manufacturing.

# Introduction

The past few years have seen a rising trend in the price of wood that has become increasingly difficult for users of wood throughout the supply chain to absorb. These pressures have become the chief concern of both the UK wood panel and furniture industries as they seek to remain competitive and profitable in an uncertain economic climate.

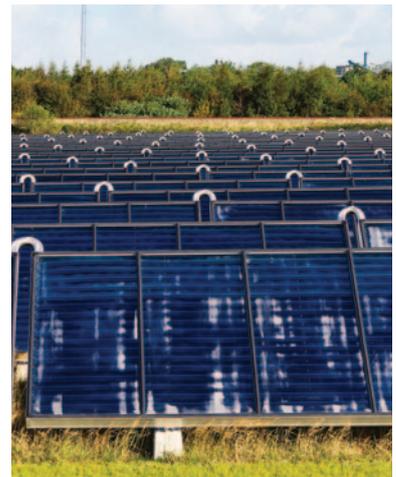
The manufacturers accept that natural market price fluctuations in wood prices occur as global and domestic supply and demand alters. They also accept that domestic price increases are not due solely to the woody biomass subsidy. However, wood prices are being significantly affected by the Government subsidy which is intentionally increasing demand for wood and distorting the market. Subsequently, the price which manufacturers have to pay is affected.

The subsidy is part of the Government's renewable energy commitments to meet European Union targets of increasing electricity generation from renewable energy. The subsidy is aimed at a wide range of different types of renewable energy, including wind, wave, and several varieties of biomass. This report focuses on woody biomass. It is important to note that the manufacturers fully support renewable energy and the need for the UK to reduce our carbon emissions.

The report is part of a collaborative effort between different industries affected by the market distortion on how to reform the subsidy. It is supported by a number of organisations, ranging from small to large businesses throughout the supply chain, as well as the trade industry bodies, the British Furniture Confederation and the Wood Panel Industries Federation, who are the representatives of their sectors.

The evidence in this report will highlight why the Government should reform the woody biomass subsidy to prevent it damaging the UK furniture industry. It will examine the impact of the distortion, its effect on employment levels, the sustainability of increasing demand in woody biomass as a renewable, and the double blow which consumers face as a result of the subsidy. There are eight recommendations throughout the report which would help improve the current situation.

The Government subsidy is distorting the market against manufacturers at a time when it is crucial to encourage the growth of manufacturing in our economy. In light of the evidence contained in this report we urge the Government to act quickly to prevent a key manufacturing sector being seriously damaged.



# Chapter 1

## Economic Impact of the Woody Biomass Subsidy

The price of wood can be examined by using an index based on the price per cubic metre for timber sold by the Forestry Commission. The index shows an increase in real terms over the last five years (September 2005-September 2010) of 55.1 per cent<sup>1</sup>. This upward lift has coincided with a rise in demand due to an incentive for energy generators to burn wood for electricity generation.



Source: Forestry Commission

The incentive is a subsidy from DECC. The amount paid out for biomass in the form of a subsidy by DECC rose significantly from £57.8m in 2008-09 to £105.1m in 2009-2010<sup>2</sup>.

<sup>1</sup> Forestry Commission: 'Timber Price Indices – Data to September 2010' (November 2010)

<sup>2</sup> Hansard: 'Parliamentary Written Answer – Biofuels Finance' (10th March 2011)

## 1.1 Paying Energy Generators to Burn Wood

The Renewables Obligation came into effect in 2002 as the main support scheme for renewable energy projects in the UK. It places an obligation on UK electricity suppliers to source an increasing proportion of their electricity from renewable sources.

Suppliers meet their obligations by presenting Renewables Obligation Certificates (ROCs). If suppliers do not have enough ROCs to meet their obligations, they must pay an equivalent amount into a fund, the proceeds of which are paid back on a pro-rated basis to those suppliers which have presented ROCs. The Government intends that suppliers will be subject to a renewables obligation until 2037.

The Government has introduced this support scheme to help Britain tackle climate change and meet its international emissions targets. However, the Government subsidy for **woody biomass** is distorting the market with negative impacts for British manufacturing and the economy.

After the ROC buy-out level for 2010-11 had been set, the Energy Minister stated that this would give a total value of £370 million for biomass generation. This is set to increase by an additional £118.4 million by 2012-13.<sup>3</sup>

At present the Government subsidy from the previous banding review ranges from 0.5 ROCs per MWh for co-firing of biomass to 2.0 ROCs per MWh for dedicated biomass with Combined Heat and Power (CHP)<sup>4,5</sup>. A new banding review is due to report very soon.

**Table 1: Biomass Technologies and ROC Bands**

ROCs per MWh	Technology
0.5	Co-firing of biomass
1.0	Co-firing of biomass with CHP
1.5	Dedicated biomass
2.0	Dedicated biomass with CHP

Source: Wood Waste Market in the UK, WRAP

A ROC is worth £52.36<sup>6</sup>, equating to a subsidy of £78.54/MWh for electricity only generation. This compares with approximately £25 for an equivalent volume of wood input that wood manufacturers pay. The difference of over £50 is increasing both the demand and the price which energy generators are willing to pay for wood. In other words, this subsidy is increasing the price of wood for other users and having a significant impact on their margins.

**We recommend that the current banding review, and all future reviews, need to fully consider the impact on both businesses and employment levels in affected industries by the woody biomass subsidy.**

### Case Study

**Company:** Senator International  
**Sector:** Office Furniture Manufacturer  
**Turnover:** £90m  
**Employees:** 980



Paul Clarke, Commercial Director, said:

*“Over the past 2 years our raw material costs have generally increased by around 9% because of the escalating world commodity prices. Board prices (wood) however have rocketed by between 21%-29% over the same period. This additional increase can be directly attributed to the biomass subsidy given to the Power Industry for burning virgin trees. “This additional increase in material costs makes us more uncompetitive against foreign imports, which are manufactured from similar board without this price distortion; also our ability to export furniture similarly decreases. Going forward, manufacturing jobs will be lost from the furniture sector in total, as a growing influx of cheaper imports occurs.”*

<sup>3</sup> Hansard: 'Parliamentary Written Answer: Biofuels – Timber' (29th June 2011)

<sup>4</sup> Combined Heat and Power (CHP) is a highly efficient process that captures and utilises the heat that is a by-product of the electricity generation process. By generating heat and power simultaneously, CHP can reduce carbon emissions by up to 30% compared to the separate means of conventional generation i.e. via a boiler and power station.

<sup>5</sup> Europe Economics Report: 'The Wood Panel Industry in the UK' (12th May 2010)

<sup>6</sup> The ROC value is calculated as the buyout payment which is avoided by presenting the ROC, plus the portion of the buyout fund redistributed to the supplier that presented the ROC. This figure is from OFGEM: 'Renewables Obligation: Annual Report 2009-2010'

## 1.2 Supply and Demand

The Government is financially incentivising energy generators to burn wood to generate electricity. The intended consequence of this is to increase demand for wood. However, as the UK market is already under-supplied (see Table 2), there is no leeway to protect the price of wood from the increase in demand.

If the UK is to achieve its 2020 greenhouse gas emissions targets in power generation, wood consumption for energy production will have to rise to about 40 million tonnes per annum.<sup>7</sup> The current biological availability of wood from all sources in the UK is around 16.5 million tonnes per annum. In contrast, the wood panel industry consumption is steady at between 3-4 million tonnes per annum.<sup>8</sup>

**Table 2: Current UK Wood Supply and Demand**

Annual UK wood Forest production	10 m/wt
Annual supply of UK recycled wood	2 m/wt
Annual UK wood demand	15 m/wt
m/wt = million wet tonnes	

*Clegg Report: Wood fibre availability and demand on Britain 2007 to 2025 (January 2010)*

The Clegg Report<sup>9</sup> found that UK wood requirements will increase from approximately 15 million tonnes in 2010 to 40 million tonnes by 2020. The energy generators plan to source most of their wood through imports but expect to source at least 10 per cent from the UK.<sup>10</sup> Even sourcing 10 percent of their requirements from the UK would account for a significant quantity of the available UK sourced wood fibre. Whether the international market could cope with such increases in demand is also questionable.

However, if energy generators can source wood cheaper domestically, what is preventing them from sourcing more than 10 per cent at present? **To ensure that energy generators derive the vast majority of their wood from imports, we recommend that DECC sets binding limits of no more than 10 per cent on the amount of wood that large energy generators can source domestically.**

There are a significant number of woody biomass energy generation plants awaiting construction or planning consent. If all the projects go ahead, output from dedicated biomass plants will rise from approximately 300 MWh in 2008 to 1600 MWh over the next five years.<sup>11</sup> **We recommend that a planning moratorium is placed on new dedicated woody biomass energy plants whilst DECC and BIS conduct a thorough review of the impact of the subsidy on UK manufacturing and retailing.**



The Clegg Report was clear in its conclusions of the scale of wood input which would be required if the energy generators plans come to fruition. It concludes:

*"If a significant number of new wood energy plants proceed, [this would] imply that supply chains are going to be subject to significant pressure, prices are likely to rise and this in turn will have important consequences for the existing and potential new users of wood fibre and the future shape of the wood processing and wood energy industries in Britain."<sup>12</sup>*

<sup>7</sup> John Clegg Consulting: 'The Clegg Report: Wood fibre availability and demand in Britain' (4th May 2010)

<sup>8</sup> Wood Panel Industries Federation: 'The Make Wood Work Manifesto' (25th June 2010)

<sup>9</sup> Report by John Clegg Consulting which researched what the wood fibre supply and demand was in Britain for the next 15 years. The report was commissioned by the Confederation of Forest Industries (CONFOR), the United Kingdom Forest Products Association (UKFPA) and the Wood Panel Industries Federation (WPIF).

<sup>10</sup> John Clegg Consulting: 'The Clegg Report: Wood fibre availability and demand in Britain' (4th May 2010)

<sup>11</sup> Europe Economics Report: 'The Wood Panel Industry in the UK' (12th May 2010)

<sup>12</sup> John Clegg Consulting: 'The Clegg Report: Wood fibre availability and demand in Britain' (4th May 2010)

## Case Study

**Company:** Kronospan

**Sector:** Wood Panel Manufacturer

**Turnover:** £192m

**Employees:** 617



Alex Gambroudes, Commercial Director, said:

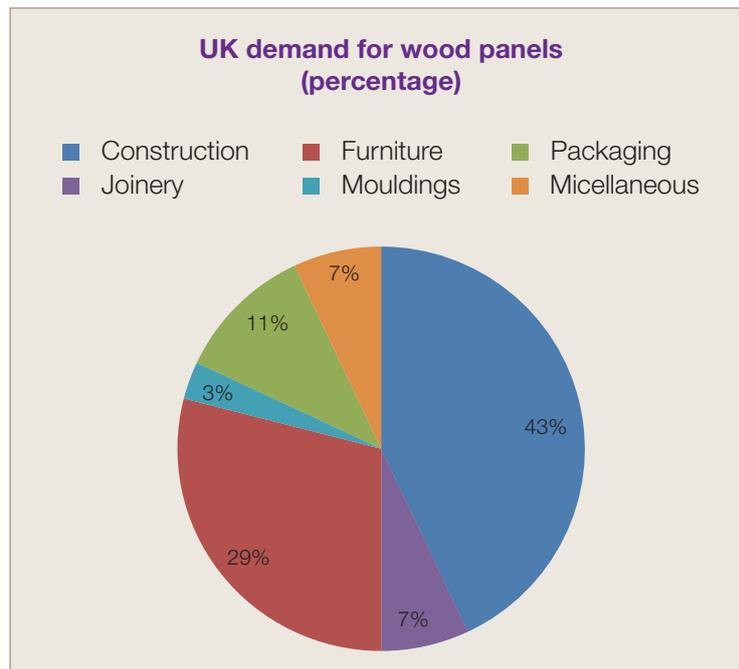
*"Timber prices have increased 85% in real terms over the last 5 years. The primary impact is on our raw material input costs. As an industry we have operated on unsustainable margins for a long period which results in any increase in input costs having to be passed on. Demand in our sector is fragile with our customers having difficulty passing on the increases to their customers which causes strain in the whole chain.*

*"The major concern is that the biomass industry is still at a relatively fledgling state with just over 2 million tonnes of timber being consumed. This is set to rise twentyfold in the next 5-10 years with an annual consumption of 40 million tonnes if the proposed biomass plants currently approved or under planning consideration are commissioned."*

## 1.3 The Impact of the Subsidy Distortion

As domestic demand for wood has increased without the supply to match, prices have significantly risen in the previous five years. The demand has increased due to energy companies burning wood for electricity generation. The Government is making this significantly more profitable through the renewable subsidy.

The domestic demand for wood products comes predominately from the construction and furniture industries (see chart).<sup>13</sup>



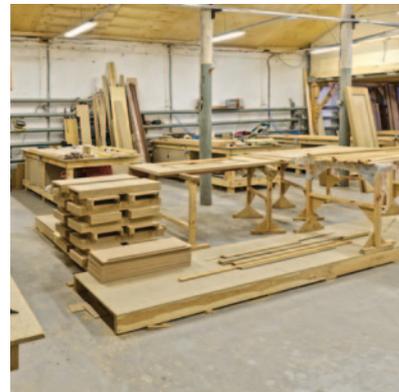
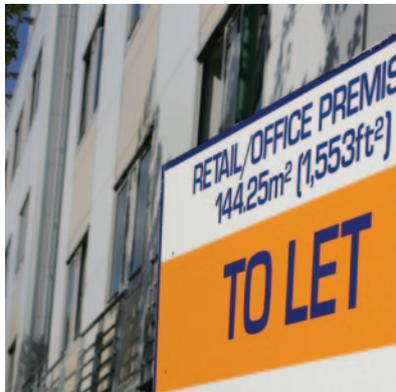
There are also significant smaller contributions from the packaging and joinery sectors.<sup>14</sup> These industries are being considerably affected by the price rises in wood. Consequently, as margins tighten, some of the cost has to be passed further down the supply chain which then affects retailers and ultimately British consumers.

Therefore, **this report recommends that the Government should urgently reform the woody biomass subsidy.**

<sup>13</sup> Europe Economics Report: 'The Wood Panel Industry in the UK' (12th May 2010)

<sup>14</sup> Ibid.

# Chapter 2



## The Impact on Jobs

The different sectors affected by the increasing wood prices, created by the subsidy distortion, will undoubtedly result in employment losses. This chapter focuses on two sectors that will be particularly affected: the furniture industry and the wood panel industry.

### 2.1 UK Furniture Industry

The UK furniture industry employs **112,000 people within 8,360 companies**. It is estimated that the industry comprises **18,800 self employed individuals** and an estimated **25,000 interior designers**.<sup>15</sup>

The increase in wood prices will undoubtedly result in employment losses in the furniture sector. British furniture manufacturing, renowned for its high quality, will be particularly hit as imports unaffected by the market distortion will have a competitive advantage.

The industry has a high proportion of micro and small to medium sized businesses. Only **315 companies** report turnovers in excess of **£5 million and 82 per cent of companies turn over less than £500k per year**.<sup>16</sup> This pattern is reflected in employment figures with **86 per cent of companies employing less than 10 people, while only 60 companies employ more than 250**. As margins tighten, smaller companies are less able to absorb these changes in the short term and thus face closure. Small businesses are the lifeblood of the economy and the subsidy distortion is damaging their potential to succeed in the furniture sector.

The Government has stated that it wants to rebalance the economy towards manufacturing and create an export-led recovery. However, if this distortion is allowed to continue, the Government will create adverse conditions for this significant part of the manufacturing sector. **We recommend that BIS in conjunction with DECC immediately undertake a thorough review of the potential employment losses and impact on the UK economy of the woody biomass subsidy. This report should be published in full upon completion.**

<sup>15</sup> British Furniture Confederation: [http://www.britishfurnitureconfederation.org.uk/about\\_furniture\\_industry.php](http://www.britishfurnitureconfederation.org.uk/about_furniture_industry.php)

<sup>16</sup> FIRA: 'Competitiveness of the UK Furniture Manufacturing Industry 2010' (February, 2010)

## Case Study

**Company:** *Premiere Kitchens*

**Sector:** *Kitchen Designer, Manufacturer and Retailer*

**Turnover:** £15m

**Employees:** 150



Andy Barham, Head of Supply Chain, said:

*"Our wood (board) prices have increased by approx 20% since April 2010. Premiere purchases approx £3.5m pa on timber related products and a 20% increase from our bottom line at a time of worsening global economic recession is not sustainable.*

*"The strain on the furniture and kitchen industry is a blow from which many will not recover. Passing prices on is tough, as the building industry and contractors struggle through their own industry challenges. Therefore, our industry has to sit in the middle and watch tight margins squeezed even more when faced with increased purchase prices which are disproportionate against marginal gross selling price increases.*

*"This is one of the toughest business challenges facing our industry in the last 20 years and we look to our Government for assistance to recover from this position since it is their legislation that has, for a large part, created it."*

## 2.2 UK Wood Panel Industry

There has been extensive research conducted into the subsidy effects on employment in the UK wood panel industry. A report by *Europe Economics*, an independent economics consultancy, laid bare the potentially devastating consequences for the domestic industry.

There are **8,700 people** currently directly and indirectly employed across seven sites in the UK, with an approximate net turnover of **£520 million in 2009**.<sup>17</sup> If the UK wood panel industry disappeared there would be a net loss of **4,400 jobs**, taking account of the standard Government re-absorption factor which includes displaced employees finding new forms of employment. However, whether the standard re-absorption factor would fully apply in this case is questionable as six of the sites are major employers in rural areas where new forms of employment would be harder to find.

The *Europe Economics* report also made the observation that if energy generators' demands for UK-sourced wood products continue, the sawmilling sector will face difficulties as generators will effectively buy the whole tree.<sup>18</sup> The Forestry Commission estimates that there are currently **12,000 people employed** in sawmilling or related activities.

## Case Study

**Company:** *Egger UK Ltd*

**Sector:** *Wood Panel Manufacturer*

**Turnover:** £150m

**Employees:** 600



Bob Livesey, Joint Managing Director, said:

*"Over the past five years we have witnessed a 64% rise in virgin wood fibre costs. The ongoing pressure on wood supplies is leading to a hefty rise in costs, which is set to continue as the demand for wood increases.*

*"We, as a business, are unable to absorb the significant increase in wood prices. We are therefore in discussions with our customers to inform them about the ongoing cost impacts and the necessity for these to be passed along the whole supply chain. If costs are not passed on we will see a significant reduction in panel board production."*

<sup>17</sup> Europe Economics Report: 'The Wood Panel Industry in the UK' (12th May 2010)

<sup>18</sup> Ibid.

## 2.3 Other Related Sectors

Retailers further down the supply-chain will be affected by this price increase. They have the option to source products from outside the UK, and will have to do so if the price rises become unprofitable. If their margins are reduced, this will impact on their bottom line. It would be very damaging to British manufacturing if retailers were forced to source wood-based products from outside the UK because of the woody biomass subsidy.

There are other industries which use a substantial amount of wood and therefore will be affected by the increasing prices. This report does not examine these industries in detail but notes that employment levels could also be affected in the construction, packaging, and joinery industries.

### Case Study

**Company:** Gresham Office Furniture

**Sector:** UK designer and manufacturer of office desking, seating, storage and screens

**Turnover:** £20m

**Employees:** 250

Julian Roebuck, Managing Director, said:

*"The increase in raw materials over the last 18 months has been unprecedented. As a company you come accustomed to the volatility of steel and oil prices but the latest increases in chipboard has been incredible.*

*"In the last 12 months we have had two increases of 6% and 9% respectively which in the current economic climate we have been unable to pass on to our Customers. This is having a serious effect on our business and the damage to the office furniture sector will be untold."*



# Chapter 3

## Environmental and Energy Sustainability

The European Union has agreed to 20-20-20 targets: a 20 per cent cut in emissions of greenhouse gases by 2020, compared with 1990 levels; a 20 per cent increase in the share of renewables in the energy mix; and a 20 per cent cut in energy consumption.<sup>19</sup> For the UK, this translates into a reduction of at least 34 per cent in greenhouse gas emissions by 2020 and at least 80 per cent by 2050, as set out in the 2008 Climate Change Act.<sup>20</sup> Furthermore, the UK has been allocated a target to increase the proportion of its energy use provided from renewables to 15 per cent by 2020.<sup>21</sup>

However, the increasing investment and potential energy generation from woody biomass has led to growing concerns over the environmental sustainability and the potential future energy supply issues in the international market.



<sup>19</sup> BBC News Online: 'EU Climate Package Explained' (9th April 2010)

<sup>20</sup> DECC Online: 'Carbon Budgets Explained'

<sup>21</sup> Renewables Advisory Board: '2020 Vision – How the UK can meet its target of 15% renewable energy' (June 2008)

## 3.1 Environmental Sustainability

There are a number of concerns on the environmental sustainability of importing woody biomass to support large power stations. These include the carbon footprint and emissions from woody biomass, displacing forests which act as vital carbon sinks, and the danger of creating an over-reliance on biomass to generate electricity which diverts investment away from more efficient electricity generating technologies such as wind power.

Woody biomass is encouraged by Government subsidies to help Britain meet its climate change objectives and obligations. However, a report by Carbon River has showed that over its lifecycle burning woody biomass emits significantly greater CO<sub>2</sub> than wood panel manufacturing.<sup>22</sup> The CO<sub>2</sub> emissions from the wood panel industry equate to 378kg of CO<sub>2</sub> per tonne of timber processed compared to 1905kg of CO<sub>2</sub> from the biomass industry consuming domestically sourced timber. They estimate that if the wood panel industry were displaced by the biomass industry there would be a net emissions increase equivalent to 1527kg of CO<sub>2</sub> per tonne of timber, a 1 per cent increase in our UK net CO<sub>2</sub> emissions each year.<sup>23</sup>

If the Government is to encourage burning wood, it must ensure that the incentives do not encourage the burning of virgin wood which can be used productively through its lifecycle before being burnt at the end. **We therefore recommend that any Government subsidy precludes the burning of virgin timber.**

Ensuring that wood at the end of its lifecycle is recycled and available for energy generation needs to be encouraged by the Government. There is currently a vast amount of wood that is not being put to good use at the end of its lifecycle. Recent estimates show that about 4.1 million tonnes of wood entered the UK waste stream in 2010, of which almost 2.3 million tonnes was recycled or used in energy recovery in the UK. A further 200,000 tonnes were exported for recycling or recovery and of the remaining 1.7 million tonnes, it is believed that around 1.2 million tonnes were sent to landfill, with the remainder burned or used in land recovery.<sup>24</sup> **We therefore recommend that the Government works with retailers and local authorities to encourage wood products to be recycled for energy generation and not sent to landfill.** If wood can be recycled back up the supply chain by furniture manufacturers to wood panel manufacturers this should be actively considered as well.

The Government must seriously consider the concerns expressed by environmental groups of the impact of importing vast amounts of wood for biomass energy generation and the threat to the world's forests and biodiversity. Paul Steedman, from Friends of the Earth argues, 'Planet-wrecking biomass stations that rely on wood imports from abroad are a threat to the world's forests and may even increase climate-changing emissions'.<sup>25</sup>

A 2011 report by the World Wildlife Foundation stated:<sup>26</sup>

*"Extracting more wood from forests will have an impact on biodiversity. Many of the world's commercial forests are already intensively used, so expansion will have to happen in areas with untapped sustainable potential. There is the potential to increase yields by using fertilizers and fast-growing species, although this too has implications on wildlife habitats, and water and soil quality."*

The report concluded that:

*"All large-scale energy infrastructure developments must satisfy independent, in-depth, social and environmental impact assessments."*

*"Bio energy production has to be based on sustainability criteria with strong legal controls – binding legislation and strict enforcement – at national and international levels."*

These concerns need to be fully considered by the Department for Environment, Food and Rural Affairs (DEFRA) and DECC when subsidising power plants to invest substantially in burning wood for energy.

<sup>22</sup> This report by Carbon River was commissioned by the Wood Panel Industries Federation. The report, which is primarily concerned with net CO<sub>2</sub> emissions, maps and compares the emissions associated with the processing of one tonne of wood through the wood panel production process and the transport and eventual burning of one tonne of wood to generate electricity.

<sup>23</sup> Carbon River Report: 'Carbon Emissions for end of life scenarios for wood fibres' (May 2010)

<sup>24</sup> WRAP Market Situation Report: 'Realising the value of recovered wood' (August 2011)

<sup>25</sup> Danny Fortson - Sunday Times, Page 9: 'I chop down trees to light your house...' (7th August 2011)

<sup>26</sup> World Wildlife Fund: 'The Energy Report – 100% Renewable Energy by 2050' (February 2011)



## 3.2 Energy Sustainability

The debates in the energy sector have been dominated in recent years by growing concerns over the security of energy supplies. As Britain looks to move away from relying on gas supplies from Northern Europe and Russia, and oil supplies from Middle Eastern countries, utilising the UK's potential for renewable expansion is a sensible course. However, encouraging the vast growth of woody biomass power generation plants runs contrary to that aim on two fronts.

Firstly, an over-reliance on biomass to generate electricity could divert funding away from more efficient electricity generating technologies such as wind power. Biomass is unique amongst renewable technologies in that its feedstock is finite and has many other current uses. The UK has the potential to take advantage of wave, wind and other renewable technologies which would allow it to become more energy sustainable. Investing significant amounts in an energy form that is based on importing the source is just diverting the reliance from one import to another.

Secondly, it is not certain that importing demand will be met by supply. It would be ill-considered to encourage huge investment in one form of renewable, at the expense of others, where it cannot be certain that supply will meet the increasing demand. For instance, a new woody biomass plant at Tilbury expects to burn 4.6m tonnes of wood over 16 months.<sup>27</sup> However, a recent investigative article in the Sunday Times found that 'America, the largest wood pellet producer, last year shipped 1.5m tonnes of pellets to Europe, according to Wood Resources International. That is less than what Tilbury alone will need to operate'.<sup>28</sup>

Furthermore, the Clegg Report forecasts that generators' needs for imported wood chips and pellets will rise from virtually nothing in 2012 to 27m tonnes per annum in 2017.<sup>29</sup>

**The Government must urgently reconsider whether it is sustainable to build so many large scale wood burning power plants. We recommend that the Government publishes detailed analysis for each planning approval of a large power generation plant citing how the plant will improve UK energy security and where its wood will be sourced.**

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<sup>27</sup> Danny Fortson - Sunday Times, Page 9: 'I chop down trees to light your house...' (7th August 2011)

<sup>28</sup> Ibid.

<sup>29</sup> John Clegg Consulting: 'The Clegg Report: Wood fibre availability and demand in Britain' (4th May 2010)

# Chapter 4

## Making the Consumer Pay Twice

Consumers are currently facing increasing pressures on their incomes as well as rising prices for staple commodities. Inflation has remained at five per cent for a number of months and UK real wages this year will be at 2005 levels.<sup>30</sup> Households are also facing the extra cost of energy prices which have grown significantly this autumn after a series of announcements from the 'Big Six' companies (see Table 3):

**Table 3: Increase in Gas & Electricity prices**

Energy Company	Gas price increase (%)	Electricity price increase (%)
E.ON	18.1%	11.4%
British Gas	18%	16%
Scottish Power	19%	10%
Scottish & Southern	18%	11%
Npower	15.7%	7.2%
EDF Energy	15.4%	4.5%

The energy companies' prices include the cost of meeting renewable obligations charges. The consumer is paying for the UK and energy companies to make emissions reductions and meet international climate change targets. This is a necessary course of action if Britain is to meet its emissions obligations. However, given the increasing financial pressures placed on consumers, it seems perverse for them to pay for a subsidy for woody biomass energy generation which also increases the price they pay for British manufactured wood-based products on the high street. It reduces consumer purchasing power which has a negative effect on British wood-based product sales, consequently tightening margins further.

### Case Study

**Company:** The Decorative Panels Group

**Sector:** Paper Foil Laminator, Component Panel Production & Furniture Manufacturer

**Turnover:** £90m

**Employees:** 370

Phil Dalton, Operations Director, said:

*"The Furniture Industry has seen a continuous rise in price from the board mills and they indicate to us the price rise is due primarily to current government legislation subsidising the burning of timber based materials for use as biomass. The regularity and scale of price increases already incurred within the furniture production sector threatens an already delicate market as manufacturers attempt to pass on these increases through the chain. This can of course prove difficult, especially considering many manufacturers have fixed price agreements with retail outlets in order to provide price stability on the high street."*



Retailers will be forced to source products from abroad which are not affected by the subsidy to ensure they offer the consumer the most competitive price. If the Government wants to actively encourage the rebalancing of the economy towards manufacturing it needs to consider these concerns.

**We recommend that future investigations into energy prices in the UK consider whether it is equitable for consumers to pay for renewable energy forms which distort the market perversely against the British consumer and British manufacturing.**

<sup>30</sup> Mervyn King, Governor of the Bank of England: Speech at the Civic Centre, Newcastle (25th January 2011)

# Chapter 5

## The Recommendations

This report sets out a number of recommendations. The main theme of the report is the urgent need for the Government to reform the woody biomass subsidy to prevent it damaging UK manufacturers and retailers. The eight recommendations this report proposes for reform are listed below:

1. We recommend that the current banding review and all future reviews need to fully consider the impact on both businesses and employment levels in affected industries by the woody biomass subsidy.
2. To ensure that energy generators derive the vast majority of their wood from imports, we recommend that DECC sets binding limits of no more than 10 per cent on the amount of wood that large energy generators can source domestically.
3. We recommend that a planning moratorium is placed on new dedicated woody biomass energy plants whilst DECC and BIS conduct a thorough review of the impact of the subsidy on UK manufacturing and retailing.
4. We recommend that the Department for Business, Innovation and Skills in conjunction with the Department of Energy and Climate Change immediately undertake a thorough review of the potential employment losses and impact on the UK economy of the woody biomass subsidy. This report should be published in full upon completion.
5. We recommend that any Government subsidy precludes the burning of virgin timber.
6. We recommend that the Government works with retailers and local authorities to encourage wood products to be recycled for energy generation and not sent to landfill.
7. The Government must urgently reconsider whether it is sustainable to build so many large scale wood burning power plants. We recommend that the Government publishes detailed analysis of each planning approval for a large power generation plant citing how the plant will improve UK energy security and where its wood will be sourced.
8. We recommend that future investigations into energy prices in the UK consider whether it is equitable for consumers to pay for renewable energy forms which distort the market perversely against the consumer and British manufacturing.

# Conclusion

As the economy slowly recovers from recession, it is important to evaluate how we can grow the economy in a balanced, mixed, and sustainable way. The Government has shown the right intentions by signalling we need to encourage a greater share of our economy to come from manufacturing.

Another Government commitment is to renewable energy and emissions reductions targets, which this report fully supports. This report does not believe that these goals are necessarily conflicting and believes that both can be achieved if policies are designed to consider what maximises the two aims. The Government needs to reconsider whether in this instance the benefits for emissions reductions outweigh the economic cost of the significant detrimental impact on sizeable manufacturing industries.

This report has outlined a series of recommendations for how the Government can ensure manufacturing does not suffer from the distortion caused by this woody biomass subsidy. Whilst ultimately there is a case for its complete removal, we accept that this may not be the preferred option from the Government. Therefore, the eight recommendations offer a route which allows the Government to retain the woody biomass subsidy whilst ensuring manufacturers are allowed to continue business without facing the difficulty of coping with rising prices from the woody biomass subsidy distortion.





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