# MARKET-LED GREEN GROWTH

## A CONSERVATIVE ALTERNATIVE TO LABOUR'S GREEN INDUSTRIAL STRATEGY

CONSERVATIVE ENVIRONMENT NETWORK

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**The Conservative Environment Network (CEN)** is the independent forum for conservatives in the UK and around the world who support net zero, nature restoration, and resource security.

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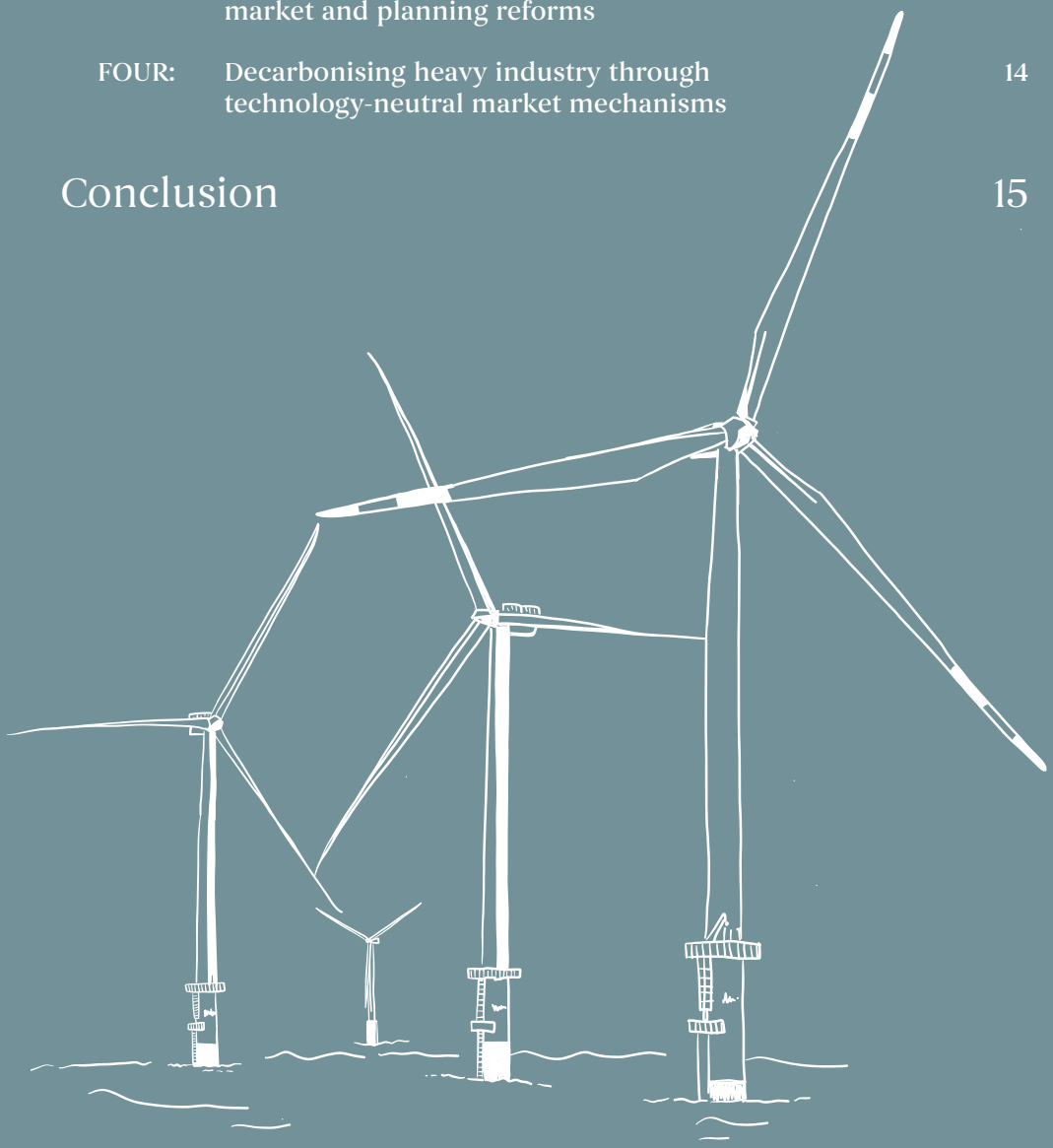
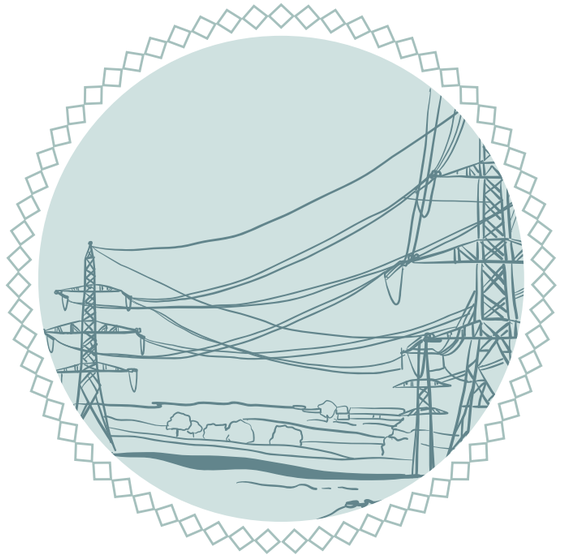




# INTRODUCTION

Having championed the rollout of clean energy in government, the Conservatives are now debating their energy policy in opposition. The Conservative leader, Kemi Badenoch, is seeking to rebuild the party's platform based on core conservative principles, and has announced that the previous commitment to achieve net zero by 2050 will be dropped. The Conservative Party is now rightly seeking to develop a market-led approach to the clean energy transition.

There are several vital conservative principles that should be followed in relation to energy: we should be seeking energy security, abundance, and affordability to accelerate economic growth; we should be seeking to leave as much of the energy transition as possible to the market, in order to reduce costs and prevent climate action from becoming a pretext for expanding the state; we should ensure the transition strengthens, rather than undermines, our national security, especially in relation to dependence on Chinese supply chains; and we should discharge our responsibilities to future generations to address climate change and hand on a healthier planet, applying Edmund Burke's observations about society as a contract between the dead, the living, and the yet to be born. A conservative approach to the energy transition can do just this.

Multiple factors have driven the UK energy transition to date, from climate change considerations, to ageing fossil fuel infrastructure, to the declining reserves of oil and gas in the North Sea. More recently, energy security concerns have come to the fore, with Russia's invasion of Ukraine highlighting our exposure to volatile global energy markets and quadrupling[1] the wholesale price of gas in 2021. With the UK vulnerable to the actions of hostile states that control much of the world's fossil fuel reserves, the energy transition could help strengthen our national security. Exploiting our existing fossil fuel reserves will play an important role too, but North Sea oil and gas alone cannot meet our energy demand. Even with new licenses, domestic production is expected to fall by 75% by 2035[2].

Whilst in government, the Conservatives made some huge strides in advancing the energy transition and tackling climate change. They lowered taxes on a series of clean technologies, for instance by eliminating VAT on energy efficiency measures such as heat pumps and solar panels in 2022. Sales of electric vehicles, now comprising over 21%[3] of the UK's new car market, were stimulated by the reduction in benefit-in-kind company car tax rates.



Firms were able to deduct the capital costs of new plant and machinery from their corporate tax liability, encouraging investment in modern, more efficient technologies that lower emissions.

The Conservatives, however, did not always follow a market-led approach to the energy transition. Whilst there were a significant number of policies that utilised tax cuts and cut red tape in order to grow investment in the energy transition, there was occasionally a preference for regulation over incentives to drive clean technology uptake. And by not putting enough emphasis on the affordability of electricity, electrification of the wider economy has been challenged, support for the energy transition has become more contested, and the risk of simply offshoring emissions from industry has increased.

Similarly, not enough was done to nurture domestic supply chains for clean technologies, increasing our reliance on China, which is home to over 90%[4] of global solar and 70%[5] of battery manufacturing. In 2023[6], the UK was the largest export market outside the EU for Chinese wind turbines and solar panels. This dependence on China for clean technologies is undermining the potential economic and security benefits of the energy transition.

In September 2023, then-Prime Minister Rishi Sunak delayed several net zero measures[7]. This reflected concerns that the party was taking too statist an approach to decarbonisation and adding too many costs to households during a cost of living crisis. But among some voters, it weakened the party's perceived commitment to climate action, and risked undermining investor confidence. It also didn't win over the voters it was supposed to attract. The 2024 electoral defeat represents a chance for the Conservatives to reestablish their clean energy credentials while also addressing legitimate concerns within the conservative movement and wider society about the route to net zero.

Conservatives must win back a broad range of voters to have a plausible chance of winning the next general election, including from the 24% of 2019 Conservative voters[8] who switched to Reform UK. But it is essential to recognise that Reform's anti-net zero position was not what motivated this swing. Opinium polling found only 4%[9] of Reform voters supported the party because of its policy to scrap the net zero target. It was instead overwhelmingly immigration that drove voters to Reform.

Rowing back further on climate action will not only fail to win back Reform voters, but will also alienate potential Conservative voters at the next election. CT Group polling[10] commissioned by CEN found net support among potential Conservative voters for increasing green investment (54% in favour versus 23% opposed) and reaching net zero (49% in favour versus 24% opposed). It is important that the Conservatives set out measures to capitalise on this broad support for the transition, using arguments and policies that are aligned with conservative principles.

As the Labour government pushes forward its plans for a state-led and centrally planned route to net zero, the Conservatives are well positioned to offer a market-led alternative. This paper sets out four alternative policy options that could be championed separately or together by conservatives.


# CRITIQUE OF THE GOVERNMENT'S GREEN INDUSTRIAL STRATEGY

Done well, the energy transition can be an economic opportunity for the UK and support growth. In 2024, the UK became the first major economy to halve emissions compared to a 1990 baseline[11] whilst also growing the economy by 79%. Hundreds of thousands of people are already working in 'green jobs'[12] and major investments have been secured, such as Siemens' £186 million[13] wind turbine blade factory in Hull. However, if the next phases of the transition are done poorly, it could raise energy costs for the rest of the economy, undermining growth.

The Labour government has made clean energy industries one of the eight priority sectors of its industrial strategy[14]. It is right to target a share of this fast growing market, with global clean energy investment surpassing $2 trillion for the first time in 2024[15]. It is also important to seek to create new jobs in the energy sector, as oil and gas employment declines with the maturing of the North Sea basin. However, industrial policy must not waste taxpayers' money by supporting investments that are not commercially viable and will close once support is removed. The government must be clear-eyed about where our comparative advantages lie. The Tony Blair Institute[16] has argued convincingly that green services are likely to be greater opportunity for the UK than green manufacturing. Green industrial policy should not come at the expense of cheap energy, which is essential for other sectors such as artificial intelligence and advanced manufacturing.

One of the government's flagship measures to bolster energy security is Great British Energy (GBE). GBE is a publicly-owned clean energy company, with the intention to "own, manage, and operate clean power projects". GBE seeks to shift part of the UK energy market into the state's hands, capturing more of the profits from the transition for taxpayers. It will receive an initial £8.3 billion of funding, raised by increasing the windfall tax[17] on oil and gas companies from 75% to 78% and extending this levy by a year to 2030, alongside borrowing.

GBE embodies the government's statist approach to the energy transition. Despite the effective branding, its purpose remains unclear. Previously stated priorities such as community energy and nuclear have been omitted from the enabling legislation. The 1,000 jobs in Aberdeen that the government plans to create in GB Energy's HQ to replace 50,000 oil and gas jobs now might not materialise for twenty years[18]. It risks crowding out private capital in established sectors like offshore wind, where there is a surfeit of corporate money eager to invest. It also undermines competition in the market, which will be critical to driving innovation and driving down prices for consumers and industry.

Before entering government, Labour also set out plans to establish a National Wealth Fund (NWF) to invest in nascent green industries. However, the government has rolled back on this plan and instead rebranded the UK Infrastructure Bank (UKIB), established by the Conservatives, as the NWF. The NWF has been capitalised with £27.8 billion[19] of public funds, of which £22 billion[20] is inherited from the UKIB and an additional £5.8 billion[21] is new money over this coming parliament. The £5.8 billion has been earmarked for investment in carbon capture, gigafactories, ports, green hydrogen, and green steel. While the belated decision not to duplicate the UKIB is welcome, the NWF label remains misleading as it is investing borrowed money in not yet fully commercial technologies. Furthermore, the Treasury appears to have dropped[22] the Conservatives' £1 billion Green Industries Growth Accelerator[23], which would have provided grant funding rather than loans to support clean energy supply chains, and therefore would have been more attractive to international investors.

At the same time, the government's timetable for clean power risks undermining the case for investment in clean energy supply chains. By arbitrarily moving forward the target to decarbonise the UK's power generation from 2035 to 2030, clean power projects that would be delivered beyond this date, such as new nuclear and their associated supply chains, risk being put on the back-burner. Similarly, domestic renewables supply chains will not have time to scale to meet near-term demand from projects in the forthcoming two auction rounds, leaving us more reliant on overseas supply chains in the short term. Nor will they be able to grow sustainably because the renewables project pipeline is so front-loaded.

One of the biggest barriers to attracting more green industries to the UK is our very high electricity prices. Yet the new government's approach to decarbonisation - in particular, the speed of the rollout of renewables compared to the rate of grid upgrades - will not cut energy prices and will certainly not deliver the £300 reduction in bills per household[24] that Labour pledged during the 2024 General Election campaign. While displacing gas as the dominant price-setter in the wholesale electricity market will apply downward pressure on prices, a substantial increase in electricity bill levies, for instance, to support low-carbon hydrogen and carbon capture, the weakening of market forces through a more state-led approach to energy generation, and the rushed 2030 clean power target, will have the opposite effect.

While it is important for the Conservatives to oppose the government's policies which are counterproductive for the energy transition, a clear, alternative proposition must be provided as well, building on the party's achievements in government. Rather than the government funnelling money into GB Energy, expanding the size and role of the state, conservatives should champion scrapping GB Energy and giving businesses green tax breaks instead. This paper sets out four alternative policy options, which can be adopted together or separately, to maximise the economic growth potential of the transition, let the market lead rather than the state, and drive costs down for households and businesses.

# POLICY OPTIONS

ONE

## Maximising private investment and competition in clean energy through reforms to renewable energy financing

- Set Contracts for Difference (CfD) auction budgets to ensure competition between projects.
- Move to a 'deemed' CfD model.
- Exempt power purchase agreements (PPAs) from the CfD Supplier Obligation Levy and reform Renewable Energy Guarantees of Origin (REGO) certificates.

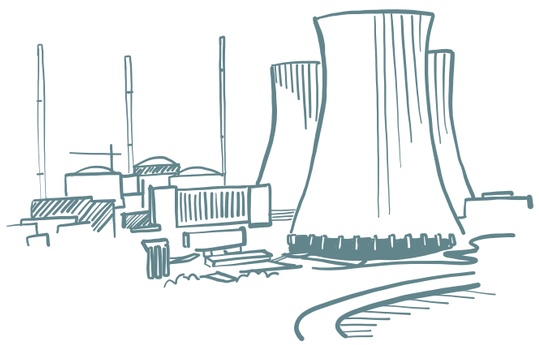
Contracts for Difference (CfDs) are one of the Conservatives' biggest legacies of the last 14 years. Introduced by the Conservative-led government in 2014, they incentivise private investment in low-carbon electricity generation at a lower cost to the consumer. They are a mechanism for de-risking investment, giving investors certainty over future returns from clean energy, and have been vital in the rollout of clean energy in the UK. With CfDs, generators in renewable technologies such as wind, tidal, and solar can stabilise their revenues at a pre-agreed fixed price for each MWh of electricity they generate (the strike price). When the market price for electricity is below the strike price, the generator is paid; when the price is above the strike price, the generator pays back the difference.

Crucially, CfDs have reduced the cost of capital for renewables by reducing risk. Whilst they have no marginal cost as there is no fuel, renewables are capital-intensive. Fifty-seven per cent of the cost of offshore wind, for example, is capital spending[25]. By increasing investor confidence, CfDs have lowered the overall price[26] of clean energy.

There have been six auctions, or 'allocation rounds', to date, which have seen a range of different renewable technologies competing directly against each other for a contract. Since 2014[27], the CfD scheme has mobilised £54 billion[28] of investments in around 30 gigawatts of clean energy generation (including nuclear). In 2022, CfD projects generated enough energy to power 7 million[29] homes.

CfDs have enabled private finance to deliver the vast majority of the energy transition while lowering the cost of capital and encouraging competition to drive down energy costs. Their success demonstrates why public financing through GB Energy is not necessary to deliver the energy transition.

Annual CfD auctions ensure a stable pipeline of renewable projects that will require components from the supply chain, supporting jobs and investment in regional economies, and therefore retaining them is crucial. However, the budgets for CfDs need to be set such that the auction remains genuinely competitive, which is key to keeping costs down[30]. The government's proposed reforms[31] for the next CfD auction risk decreasing





the competitiveness of future auctions and pushing up prices. To continually increase budgets, so every project clears the auction, will result in a slew of renewable projects that are of poor value for money for billpayers. As CfDs are paid for through levies on electricity bills for 15 years, minimising the strike price will keep consumers' bills down. Moreover, building renewables too fast before expanding the transmission network will result in more wasted power due to constraint payments. Competitive CfD auctions will help deliver the energy transition while keeping prices down for billpayers.

It is important to acknowledge that CfD auctions are not technology-neutral, do not take account of the systems costs of renewables, and shift risk from developers to billpayers, so they are sub-optimal from a free market standpoint. In order to reduce state intervention in the energy market, reforms to the CfD model should be explored.

The last government proposed a deemed-based CfD model in its 2024 Review of Electricity Market Arrangements (REMA) consultation[32] – aimed at reforming the country's electricity market to support its transition to renewable energy generation. In the current model, generators are paid based on the energy they actually produce. In a deemed-based CfD model, generators are paid based on their potential to generate in a particular time period, not how much they actually generate. This requires generators to operate on merchant terms, selling energy into the market, therefore being more exposed to market forces and being required to optimise trading strategies. This model could also reduce the need for constraint payments, which cost taxpayers nearly a billion[33] pounds last year and are set to grow.

The long-term ambition should be to transition away from a government subsidy model to an entirely market-led approach, particularly for lower risk, smaller-scale projects. This could be partially achieved through the expansion of the power purchase agreement (PPA) market, which operates without government intervention whilst offering long-term price stability for developers. PPAs are long-term contracts between an electricity generator and a customer, and have seen a resurgence in the United States as 'big tech' seeks to invest in nuclear power[34] to power data centres. Extending the use of PPAs could support the development not only of renewables, but also of flexibility[35] technologies, such as battery storage, and nuclear power.

To facilitate the expansion of PPAs, there are a number of options that could be considered. Firstly, exempting new PPAs from CfD Supplier Obligations[36] should be explored as a method of reducing the cost of electricity generated through PPAs. This levy currently undermines the business case for corporates to sign PPAs. Another would be to reform the current system of Renewable Energy Guarantees of Origin (REGO) certificates, which enable some companies to claim, often incorrectly, that they are using 100% clean power, while doing very little to support additional private investment in renewables.

TWO

## Cutting taxes and liberalising trade to onshore and ally-shore clean energy supply chains

- Sign critical mineral partnerships and targeted trade deals with allied countries.
- Add a premium to the capital allowances for clean energy industries in freeports.

Given our leadership position in the energy transition, and our post-Brexit freedoms in trade and regulatory policy, the UK has the potential to grow its clean energy supply chains. Green industries are the fastest growing sector of the economy, expanding by 10.1%[37] between 2023 and 2024, compared to 0.1%[38] growth in the UK economy as a whole. However, China still has a stranglehold on global supply chains in clean technology, leaving the UK substantially dependent on a hostile state and missing out on some of the economic benefits of the energy transition.

We must recognise that we are not well-placed to be leaders in producing every technology that will be needed for the energy transition - for example, critical mineral mining or solar panel manufacturing. As such, we will continue to be vulnerable to disruptions caused in global supply chains because of issues such as conflicts and the political decisions of authoritarian countries. But this should strengthen the UK's resolve to push forward with the technologies in which we can be leaders.

It is vital we build resilience into the UK's clean energy supply chains through a combination of primarily onshoring, followed by ally-shoring, which can diversify supply chains and reduce reliance on hostile states. Onshoring would create jobs across the UK and support regional economies, whilst ally-shoring utilises supply chains in allied countries that share our geopolitical goals. Diversifying our clean energy supply chains will also increase competition, helping to drive down costs of new infrastructure and ultimately energy prices.

Post-Brexit, the UK has the opportunity to further liberalise trade. The freedom to sign free trade agreements (FTAs) and thereby secure frictionless trade in the components and technologies required for clean energy infrastructure from friendly nations should be utilised where we lack a comparative advantage to make them ourselves. In the short term[39] critical mineral partnerships and deals to expedite trade in specific technologies should be prioritised to diversify supply chains. Critical minerals[40] are a necessity for the energy transition, as they are required in batteries, renewables, and energy networks. Longer term, bespoke FTAs with allied countries should be pursued to remove barriers to trading clean technologies[41], critical minerals, and green services, boosting growth, lowering costs, and strengthening national security. These should be underpinned by appropriate environmental, social, and governance standards, and should be used to diversify our supply chains, rather than entrench reliance on one single state.

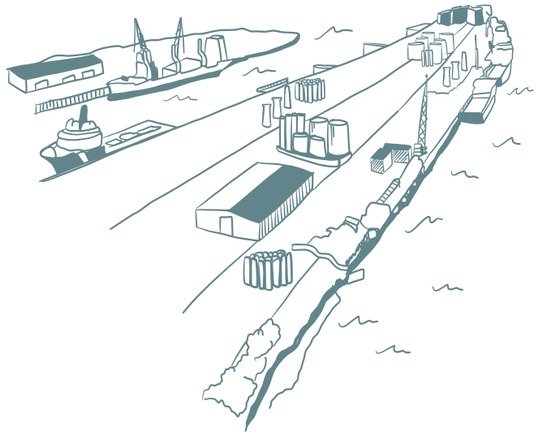
When considering allied countries to negotiate FTAs with, Chile has the second largest lithium deposits in the world and processes approximately 40% of global copper concentrates, both of which are vital minerals for the transition. India is third globally in solar manufacturing with a 3% share of the global market but intends to achieve 110 GW[42] capacity by 2026. Meanwhile, the Inflation Reduction Act ramped up solar and wind turbine manufacturing in the USA, and even with Trump cutting subsidies, these sectors are likely to continue to expand due to the favourable economics of clean energy. The UK could also explore upgrading its existing FTA with South Korea to capitalise on low-cost nuclear technologies and cooperate on regulatory approval, as we seek to secure investment in new nuclear capacity.



Freeports were also a central part of the previous Conservative government's plans to boost investment, liberalise trade, and encourage manufacturing in certain parts of the country post-Brexit. Goods imported into freeports benefit from customs and tax breaks, and businesses benefit from reduced administrative and planning burdens. Already, the tax incentives at these freeports have attracted billions of pounds in private investment and boosted the UK's clean energy supply chains.

Enhanced freeports could provide a route for the UK to capture more of the clean energy supply chain, working alongside a stable UK pipeline of infrastructure projects. The UK missed out on significant manufacturing opportunities with the initial rollout of wind power. Between 2008-2022, the UK's wind power capacity went from 3GW to 28.5GW[43], representing 15.2%[44] of wind installations in Europe yet accounting for only 1.4%[45] of production. We have a chance to learn the lessons from this experience as we scale up the nascent floating offshore wind industry. The direct impacts of building floating offshore wind farms domestically and the indirect impacts from activity in the supply chain could add £25 billion to GDP, and create tens of thousands of long-term jobs by 2050[46].

Freeports already provide some tax incentives to encourage inward investment. Businesses operating within freeports receive enhanced capital allowances, relief on Stamp Duty Land Tax (in England), and relief on Land and Buildings Transaction Tax (in Scotland). Within two years of freeports being reintroduced by the Conservative government, they attracted almost £3 billion[47] of investment. It was estimated in April 2024 that freeports had already created 5,600 jobs[48] and had the potential to create approximately 214,000 more. Expansion of the existing reliefs, in particular adding a premium to the capital allowances for clean energy industries, will boost the UK economy and attract international investment in clean energy supply chains to the UK.



THREE

## Reducing the cost of electricity through market and planning reforms

- Reduce environmental and social levies on electricity bills.
- Reform the electricity market to sharpen price signals around time and location.
- Accept approved nuclear reactor designs from other trusted regulators.
- Expand permitted development rights for small-scale wind turbines.
- Designate clean energy zones in areas of low environmental sensitivity, where there is community support.

High electricity costs are undoubtedly one of the most significant barriers to decarbonisation, clean energy supply chain investment, and faster growth in the wider economy. Bringing down the cost of electricity will be important for ensuring political support for the clean energy transition is not undermined, whilst playing a vital role in encouraging widespread electrification and decarbonisation.

This is particularly pertinent for the decarbonisation of heavy industry, as the UK has the highest industrial electricity prices[49] in the developed world, rendering manufacturing uncompetitive compared to imports. For instance, the average[50] cost of electricity to UK steelmakers for 2024/25 is £66/MWh compared to the German price of £50/MWh and the French price of £43/MWh.

Lowering electricity prices will require reforming the levies added to bills. A significant proportion of the price of electricity is made up of environmental and social levies (such as the Renewables Obligation and Feed-in Tariff introduced by Labour). A number of energy intensive industries (EIIs) currently receive relief from these levies and 60% of the network charges as part of the *British Industries Supercharger*[51], which is funded by a levy on domestic bills. There is a need to go further on sheltering EIIs from the remainder of the rising network charges, which, even with current relief, are up to three times the cost[52] of equivalent costs in France or Germany.

Ideally, the government would also reduce levies across all industrial electricity bills, funding the cost of the schemes out of carbon pricing revenues. This would provide a de facto tax cut on electricity to all users and make electrification more attractive. Reductions in electricity bill levies will necessarily be limited by constraints on the public finances, however.

Meanwhile, reforms to the electricity market that sharpen price signals around both time and location would incentivise more demand flexibility, and encourage the more efficient use of assets such as storage and interconnectors, helping to optimise the energy system and drive down costs. This, alongside[53] building more transmission infrastructure and increasing competition for gas peaking plants in the balancing market, could help tackle[54] the £2.4bn[55] annual cost of balancing the grid.



Reforms to the planning system are also necessary to drive down the long-term costs of electricity. Increased risks and delays due to the planning process add significant costs to building new electricity generation infrastructure, inflating the cost of electricity. The lack of new infrastructure being built also pushes up power costs[56], fuelling the electricity supply crunch. The number of public sector planning officers[57] has fallen, whilst the number of planning applications for renewable energy projects has tripled[58], leading to up to half of applications[59] facing delays. In the delivery of new infrastructure, we must strike a balance[60] between streamlining planning processes and listening to community concerns. The government should prioritise planning reforms that reduce uncertainty for developers, while still encouraging local engagement.

Streamlining regulations around the building of new nuclear power stations should be considered as part of these reforms, including accepting approved reactor designs from other trusted regulators, such as South Korea and France, as called for by Britain Remade[61] and the Tony Blair Institute[62]. Regulatory justification[63] should be granted to all new modern nuclear power station designs, rather than forcing them to submit individual applications. This could reduce the time for developing new nuclear by at least two years[64]. The Scottish government's ideological planning block on new nuclear should also be lifted.

Other ways to increase the flexibility of the planning system include expanding permitted development rights for clean technologies, such as allowing industry to install on-site small-scale wind turbines without requiring planning permission. However, streamlining the process for developers to get projects off the ground does not mean steamrolling over some of the legitimate concerns local residents may have. We must also improve community engagement and offer tangible community benefits, such as energy bill discounts, to secure local buy-in for projects.

In order to streamline the development process for large-scale renewables, Britain Remade's[65] proposals for 'clean energy zones' should be implemented in areas deemed to have low environmental risks. These zones around the country would be mapped out by the government, enabling looser planning restrictions and streamlined environmental regulations, cutting the red tape for new energy infrastructure applications and reducing the cost of development. In the creation of these zones, there must be significant engagement with communities and local authorities to thoroughly assess local impacts, and should begin with areas where there is strong local support. Creating such zones would also allow targeted grid infrastructure upgrades to be made ahead of time, cutting the grid connection queue.

FOUR

## Decarbonising heavy industry through technology-neutral market mechanisms

- Introduce a cost-neutral carbon border adjustment mechanism (CBAM) on sectors with a strong domestic industry.
- Introduce an enhanced capital allowance for investment in electrification, carbon capture, utilisation, and storage (CCUS), and hydrogen.

As the third[66] largest emitting sector, industry has a key role to play in reducing UK emissions. Domestic emissions would be drastically reduced by offshoring vast quantities of industry - however, this would be environmentally counterproductive and economically irresponsible. Job losses and economic decline in communities would ensue, and global emissions would be pushed up. The UK has a vast wealth of technological expertise and world-class research and design capabilities that can pioneer new technologies for industrial decarbonisation. Cost-competitive technologies pioneered in the UK can be exported globally to combat climate change, contributing to the UK's prosperity and reputation as a leader in clean energy.

Today, heavy industry in the UK is in decline, but our industrial heartlands can be resuscitated through a pro-market, technology-neutral approach to decarbonisation. As with all aspects of decarbonisation, the approach taken must be flexible for different industries.

Carbon capture, usage, and storage (CCUS) has rightly been a priority focus for industrial decarbonisation. The UK is undoubtedly well-placed to develop and commercialise CCUS, owing to expertise in the oil and gas sector, where there is a significant overlap in skills, and favourable geology. It is estimated there is enough storage capacity under the UK seabed for over 70 billion tonnes[67] of $CO_2$, 233 times[68] the annual emissions of the UK. Whilst in government, the Conservatives steadfastly supported CCUS, committing up to £20 billion[69] to develop four clusters by 2030.

CCUS, however, will not necessarily be the best or most cost-effective solution for decarbonisation across all industrial sectors. Research by E3G[70] has found that CCUS's role in industrial decarbonisation will likely diminish as electrification ramps up. Relying exclusively on CCUS therefore risks higher costs and investments becoming stranded. It is therefore vital that, alongside CCUS, other methods of industrial decarbonisation are explored.

Industrial carbon pricing is a cost-effective, economically efficient, and technology-neutral measure to combat climate change. Utilising the principle of 'polluter pays', it closes the green premium and ensures businesses rather than taxpayers bear the costs of pollution. The UK Emission Trading Scheme (UKETS) provides our domestic carbon price, operating under a cap-and-trade system to limit emissions in certain sectors.

A CBAM ensures that carbon-intensive goods, like steel or cement, face the same carbon costs when imported as domestically produced goods. It aims to prevent companies from moving production to countries with looser climate regulations to avoid paying for carbon emissions ('carbon leakage'), and prevents British industry from being undercut.

By implementing a CBAM only for sectors where the UK has a strong domestic industry, the government could level the playing field, ensuring that foreign producers cannot undercut UK prices, simply by offshoring more polluting forms of industry. It would also encourage international producers to reduce emissions, as those failing to comply would face additional costs when exporting to the UK. The scope of the UK CBAM should be expanded to include a greater number of trade-exposed sectors that are vulnerable to carbon leakage. But sectors where the UK lacks a domestic industry and is heavily reliant on imports, for example certain fertilisers, should be excluded, as there is no need for a level playing field mechanism and CBAM would unnecessarily increase costs. Revenues generated from the CBAM should be ring-fenced and used to fund some of the green levies, reducing energy costs for consumers and businesses alike and ensuring that the CBAM is cost-neutral.

One of the most significant barriers to industrial decarbonisation is the significant upfront capital[71] required and unclear payback period. The Industrial Energy Transformation Fund[72] was introduced by the Conservatives when in government to support businesses with these costs. This fund was, however, not renewed by the new Government in the 2024 Autumn Budget, leaving the majority of industry (except steel) without any support for decarbonisation capital expenditure.

To counter this, mechanisms that support a more technology-neutral approach to industrial decarbonisation that does not pick winners should be championed. Enhanced capital allowances for companies investing in industrial decarbonisation through measures such as CCUS, hydrogen and electrification should be introduced. This would provide a market-based incentive for industry to invest in decarbonisation technologies, and support them with the impact of high upfront capital costs. Companies investing in decarbonisation would be eligible to write off this cost from their tax liabilities.

# CONCLUSION

Taken together, the policies outlined in this paper present a conservative alternative to the government's state-led approach to the energy transition. By prioritising market-led solutions, decarbonisation is achieved through innovation, competition, and private sector investment, rather than through an increased tax burden and inefficient state-directed investments. Rather than simply making policy to reach a target, conservatives should seize the opportunity to develop policy that also brings wider security and economic benefits to the UK.

They would ensure that, as the energy transition progresses, the UK becomes a much more attractive destination for clean energy businesses to invest, creating jobs, growing the economy, and making our supply chains more secure. Finally, this paper also provides conservatives with a compelling and credible set of policies to sell to voters, which are rooted in our economic and environmental principles, and which demonstrate a firm commitment to handing on a better environmental inheritance for future generations.

# ENDNOTES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