

eef

The manufacturers' organisation

Impact on industrial consumers

OFGEM Conference

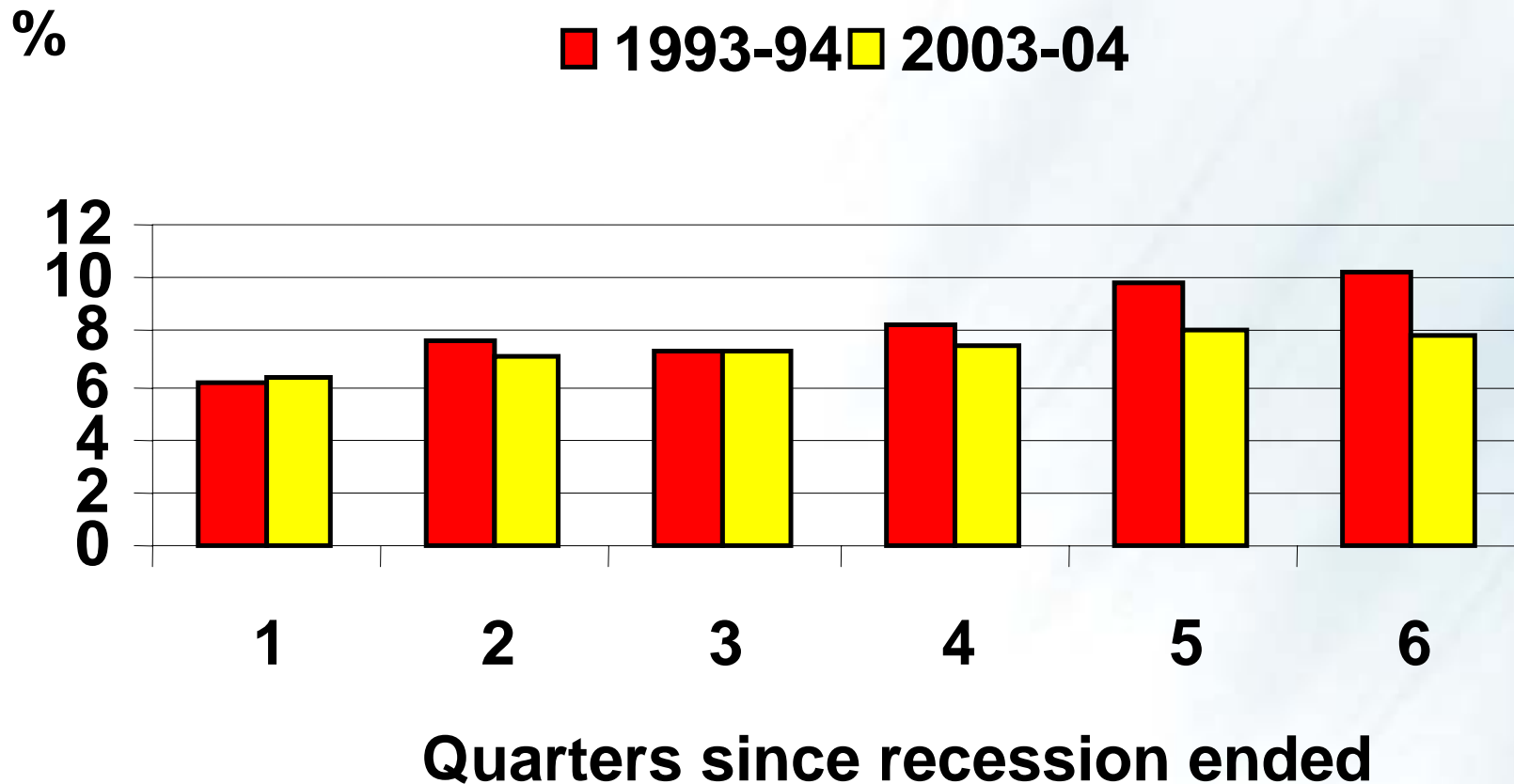
22nd February 2005

Overview

- Manufacturing supports EU ETS...
- ... and firms are embracing the need to increase energy efficiency
- EU ETS is impacting differentially on the UK
- Other factors are pushing up energy costs and their causes are uncertain
- Margins under pressure with other costs rising which are hard to pass on
- EU ETS alone will not drive fundamental decisions but perceptions of rising costs in UK will shape them

Manufacturing profitability slow to recover

% net rate of return on capital employed



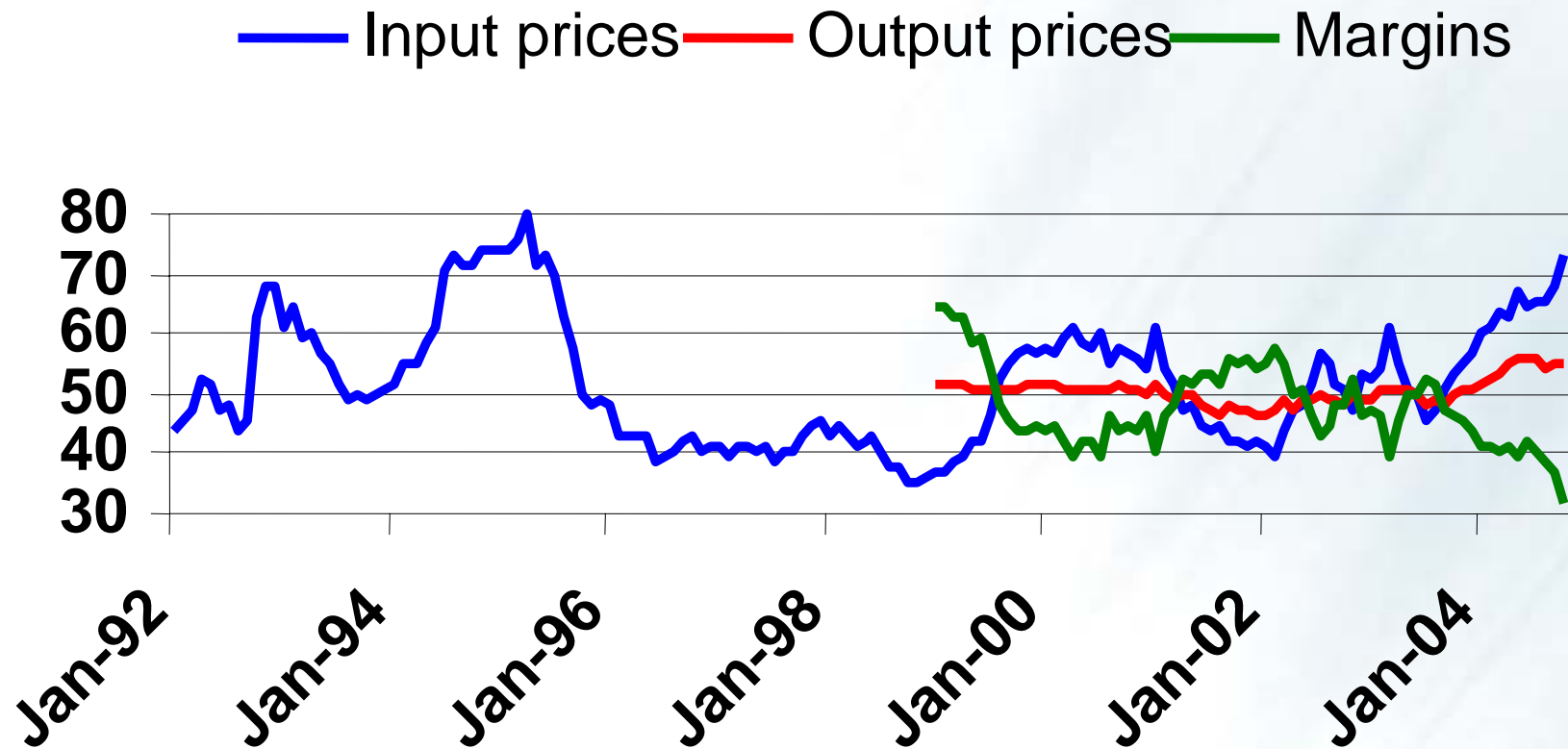
Source: National Statistics



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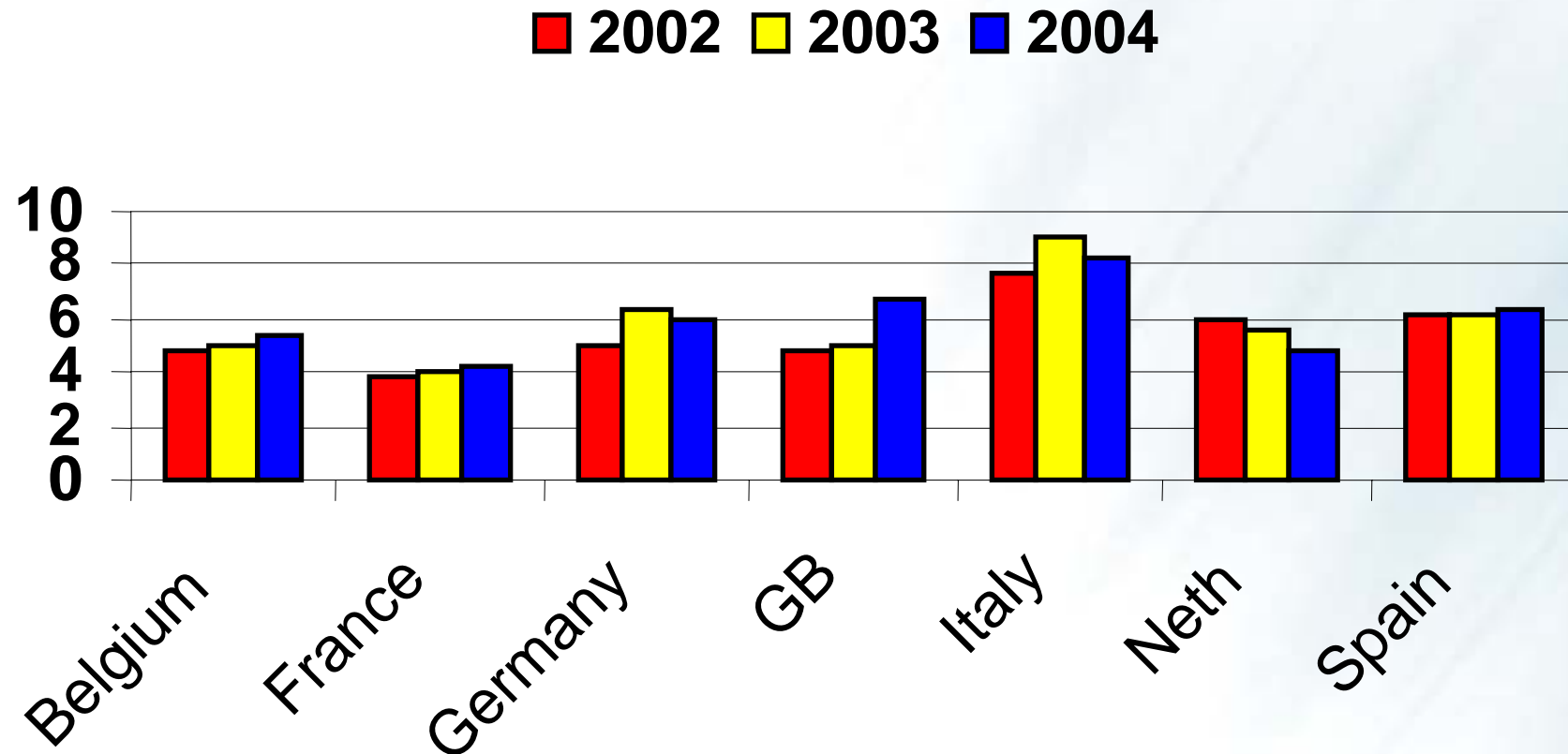
Manufacturers unable to pass on cost increases

% balance in change in output and order over next three months



Source: Chartered Institute of Purchasing and Supply

Cost advantage eroded delivered industrial electricity prices €/MWh



Source Energy Information Centre

Impact of rising energy costs

- Energy costs around 5% of value added by manufacturing though much higher for some sectors
- EU ETS accounts for around 30% of energy cost increase relative to Central and Western Europe...
- .. with much of rest down to gas
- Coincides with large rises in metals, plastics and insurance
- Cumulative cost increase of a third of operating surplus between 2003 and 2005
- Problems for companies further down supply chain
- Short-term response on switching production loading
- Will contribute to investment location decisions in long-term if problem persists