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Aluminium Industry

10.2 pm

Mr. Philip Dunne (Ludlow) (Con): I am grateful for the opportunity to address the House on a topic that is of significant interest in my constituency, and of wider interest to the UK economy.

My constituency includes the town of Bridgnorth. It may surprise the House to learn that Bridgnorth is sometimes known as the aluminium capital of the country. That is because it is home to two large aluminium processing plants: Bridgnorth Aluminium, a rolling mill that makes aluminium flat-rolled coiled products including litho for the printing industry, and employs some 230 people; and Novelis, whose subsidiary has rolling mills in Bridgnorth and is the last aluminium foil producer in the UK. Its foil is used as packaging in containers and as food packaging, and has other industrial uses. It employs 300 people. Both companies are among the largest employers in my constituency, and together they represent one of the largest remaining repositories of aluminium skills in the country.

Last September, the main supplier to Bridgnorth Aluminium—the primary smelter operated at Holyhead on Anglesey by Anglesey Aluminium—was closed. I do not intend to dwell on its demise because the subject has often been raised in the House, not least by the hon. Member for Ynys Môn (Albert Owen), who is present tonight. I shall be happy for him to contribute to the debate after my speech and before the Minister responds, if he wishes to do so. The Minister himself was intimately involved in the discussions that preceded the closure, which was a result not of his contribution, but of a failure to provide an acceptable economic package to allow energy to be supplied at a competitive price. I shall return to that shortly.

I am aware that the Government tried to put in place a rescue package worth some £12 million a year for four years to subsidise energy costs. My purpose tonight is not to debate the failure of that package but to highlight the problems that muddled Government policy is posing to the remaining aluminium and other heavy industrial manufacturers in this country, many of which are at severe risk of going the same way.

As you will be aware, Mr. Speaker, aluminium production is one of the most energy-intensive processes in manufacturing. As David Bloor, managing director of Anglesey Aluminium, explained to Members at a presentation in December, when describing why the plant had closed:

"Anglesey Aluminium could not afford to buy power in the UK and reach a breakeven financial position. This is because the worldwide price of aluminium does not include a cost of carbon."

The aluminium industry in this country lost 145,000 tonnes, almost half of our primary production capacity, through that single closure and some 400 jobs were lost. Also last year, we lost almost a third of secondary aluminium production, which is production from recycled aluminium, with the closure of one of the largest secondary smelters in Cheshire. There are now only two remaining primary smelters, one at Lynemouth in Northumberland and the other in Lochaber in Scotland. Their owners have no plans to close those smelters, but the experience

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of production in this country in recent years and precedents elsewhere in Europe are not encouraging, partly because electricity costs in this country are some 20 per cent. higher than they are on the continent.

Competitive energy supply is a critical feature for effective aluminium production. My proposition is that the failure of the Government to recognise that the country needs an efficient and cost-effective energy policy has led to the demise of the nuclear plant at Wylfa, with no adequate replacement to allow production to continue at Anglesey, and the same problem is likely to befall other heavy manufacturing sectors throughout the country. The Government have time and again failed to recognise that we need an effective energy policy. They are therefore putting manufacturing jobs and processes at risk.

In addition to competitive energy markets, the industry relies on proximity to markets. That exists in the UK at the moment. We have an integrated manufacturing capability, in terms of both raw material supplies and end users, but that is in danger of breaking down. Just during the past year, Bridgnorth Aluminium, the company in my constituency, lost its largest raw material supplier at Anglesey, its only direct UK competitor, one major rolling mill engineering supplier in the south of England and its UK partner for aluminium recycling. That means that the chain of industrial activity in which it is a key part is in danger of breaking down.

The loss of raw materials means that the company has two essential options. One is to increase imports, which are readily available. That risks carbon leakage because many of the imports will come from countries where carbon measures are less rigorous than they are in the EU or the UK. The other option is to look to invest in its own cast-house to provide production smelting facilities. It may investigate that. If it were to do so, that is an energy-intensive process, so there is a significant risk that it may not have the electricity supply on a cost-effective basis. By introducing an additional smelting process into its manufacturing regime, it may become less competitive on international markets and it may suffer additional carbon usage, because that process will generate carbon.

Mr. Adrian Bailey (West Bromwich, West) (Lab/Co-op): I would not wish in any way to diminish the importance of the points that the hon. Gentleman has raised in the context of the industry, but does he agree that the problems that it faces underline the importance of the actions that the Government have taken to sustain the construction industry and a market for aluminium products? There is a need to keep programmes such as Building Schools for the Future going to ensure, notwithstanding the problems, that there is still a viable market for that product.

Mr. Dunne: The construction industry is not a customer of either of the two plants in my constituency, but I can see that for other aluminium processors maintaining demand is very important.

Returning to the issue of imports and the impact on the industry cluster and the supply chain, there is no doubt that if we start to lose the integrated chain of markets in this country, there will be a great risk in respect of major investment decisions for other manufacturing companies that are consumers of aluminium products.

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Companies that are currently thinking of investing in UK facilities in, for example, the automotive industry, which is close to the heart of the hon. Member for West Bromwich, West (Mr. Bailey), or the aerospace or packaging industries, may well look elsewhere if the raw material that they rely on from aluminium production moves abroad. There is, therefore, a longer-term risk to a much wider range of aluminium producers.

Carbon leakage is another principal issue. The Government's climate change levy is one of the main culprits in this regard, in addition to their failure to introduce an effective energy policy over so many years. The climate change levy is a tax on energy use, not on carbon emissions. The UK climate change agreement, which was introduced in 2001, is now in its final reporting period, and I wish to say a few words about it. First, the aluminium industry has been at the forefront of achieving carbon reductions through its efforts since 1990. If we compare the carbon emissions targets to which the Government have signed up with the 1990 baseline, we see that the aluminium industry as a whole has reduced its emissions by 39 per cent. That is within 1 per cent. of the target, and it is a remarkable achievement. Yet, as a result of the climate change levy and the Government's proposals, it will be penalised for this success. The goalposts are being moved in such a way that past success is not recognised. Raising the targets on an absolute, rather than a relative, basis makes it more difficult for businesses that have already achieved reductions in carbon emissions to be able to meet the next target without further significant investment. Given the competitive position of the industry and the uncompetitive position of operating with the current energy costs in this country, it is very hard to argue for that.

There is also the issue of the consequences of the Government's introduction in the pre-Budget report of a further element of gold-plating. The Government propose to reduce the climate change levy rebate for companies in energy-intensive industries who are participants in the climate change agreement from 80 to 65 per cent. from 2011. The Aluminium Federation is the trade body for the industry. It has estimated that its 45 member companies who participate in the climate change agreement will see a direct increase in their costs of some £4 million to £5 million a year. That cost will have to be absorbed straight off their bottom line, at a time when they are reeling from the impact of the recession and very low margins apply. This is completely unnecessary. This tax takes this country beyond the measures required under the EU emissions trading scheme. It is purely a tax revenue-raising measure, as perceived by the industry, and it penalises growth in the industry, for the reasons that I have set out. The estimated cost to the manufacturing industry of the measure announced in the pre-Budget report is some £50 million. We will have to wait to see whether the cost emerges in the Budget-if we ever have one. I urge the Minister to make representations to his colleagues that this measure is ill-founded and will merely accelerate the demise of many of the heavy manufacturing industries in this country.

An example of this measure's ineffectiveness in tackling carbon emissions is the Government's own estimate that the introduction of this reduced relief will save

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only some 200,000 tonnes of carbon emissions-that works out at a cost of some £250 per tonne. No logical argument can be made that this is being introduced to reduce climate change and emissions, because of the inconsequential reduction involved; this is purely a tax-raising measure.

The answer to this situation is to change the whole basis of levying tax on heavy industrial companies and, as my colleagues have been urging for some years, to use a carbon levy as a replacement for the climate change levy, which has the effect of raising tax and costs, without reducing carbon to the degree that it was stated to do.

I conclude by reminding the House that the Government are failing to recognise the achievements of the aluminium industry in meeting its own carbon reduction targets. They are seeking to gold-plate these targets, raising the goalposts in excess of the EU targets; raising tax, not reducing carbon emissions; and raising those emissions through leakage overseas. Far from helping British manufacturing, the Business Secretary seems more interested in helping businesses overseas and, dare I say it, indirectly some of his friends in Russia, who have significant interests in the aluminium industry in other countries.

10.16 pm

Albert Owen (Ynys Môn) (Lab): I am grateful to the hon. Member for Ludlow (Mr. Dunne) for allowing me to speak in this important debate and I congratulate him on securing it. I declare an interest, as chair of the all-party group on the aluminium industry. The industry had a difficult 2009, not least, as he said, in my constituency with the cessation of primary smelting at Anglesey Aluminium by its parent company, Rio Tinto Alcan. That was a massive blow to the local economy and to UK manufacturing in general, because this smelting was a big contributor to the local economy and to primary smelting in Europe and the United Kingdom.

There were a number of complex reasons for this decision; the energy issue was one of the primary concerns that the company had, but several other issues were involved, including internal matters in Rio Tinto Alcan. That international company had moved its production to other operations across the world. The global downturn affected all manufacturing-aluminium, in particular-and it was also a factor.

The hon. Gentleman referred to the link with Wylfa, but I remind him that a new build had been on the agenda for many years under the previous Conservative Government and they aborted the nuclear programme because of complex planning issues and so on. Those had to be dealt with, but I am pleased to say, as a proud supporter of nuclear energy, that Wylfa is on the new identified list for the future. I hope that we can resolve this situation.

The Government gave a lot of support to Anglesey Aluminium over a long period, but in the end it chose not to take the resources available to help it bridge the gap and not to take the substantial financial package that was put in place to help it. The company requested this help and was given it, but unfortunately it decided not to take it. The remaining production at Anglesey Aluminium will be the remelt business, which will employ more than 100 people, but that is a far cry from the 1,350

people who worked at Anglesey Aluminium prior to the 1980s.

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The aluminium sector faces a number of challenges, not least from competition from countries such as China. The hon. Gentleman referred to the announcement made by the Chancellor in the pre-Budget report of a cut in the climate change levy rebate, which this Government introduced, from 80 to 65 per cent., and that is a big blow for the industry at this delicate juncture. The rebate is part of an agreement whereby intensive energy users, such as the aluminium sector, have cut their emission levels severely and well. It is a success.

Like the hon. Gentleman, I want to ask the Minister to ask his colleagues to reconsider the matter. There are other ways of meeting the European energy directive and I think that we should perhaps consider coal, oil and gas production rather than the measure that they are talking about. I wish that he would take that on board and not penalise the sector, which is reducing emissions and making environmental and economic sense.

I shall be brief, Mr. Speaker, but it is not all doom and gloom in the industry. Demand for aluminium production is projected to double by 2020. New technologies are evolving, with stronger products that use less metal and less energy. Growth in aluminium recycling is reducing both consumption and emissions. My friends in the Aluminium Federation tell me that 75 per cent. of all aluminium ever produced is still in use today. That shows the success in recycling aluminium, which is a very important product. The Minister will be aware that both the car and aviation industries are attracted by aluminium products. The Airbus A380 is 70 per cent. aluminium.

Let me finish, because I understand that the Minister has to reply to the debate in the time allocated. The aluminium industry is relatively young—it was founded in 1866—but the product is evolving, and will do so with continued support from the Government. I acknowledge that they have done an awful lot to help manufacturing—we see this week that manufacturing is bucking the trend and coming out of the global recession far quicker than many other sectors. I ask the Minister to take on board the important issues that the hon. Gentleman and I have raised. I ask him to reconsider the issue raised in the pre-Budget report and to give the aluminium industry and UK manufacturing the support that they deserve so that they can be in the fast lane and so that the UK can be ahead of the game.

10.22 pm

The Parliamentary Under-Secretary of State for Business, Innovation and Skills (Ian Lucas): I congratulate the hon. Member for Ludlow (Mr. Dunne) on securing the debate. I know that he is an active member of the all-party group on the aluminium industry and how much the industry means to him personally, as well as to his constituents. He told us of the two significant companies in his constituency and I am well aware of his deep knowledge of the industry. He is aware that I met members of the all-party group for an interesting and informative breakfast shortly before Christmas—doesn't time fly?—and have therefore heard some of the points that he raised this evening before in a less formal environment.

We are, of course, discussing an extremely important industry for the United Kingdom. I know that this has been a difficult year for Bridgnorth Aluminium, with

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business down by 40 per cent., as I understand it, and the loss that the hon. Gentleman described of many of its key partners in the UK. That is extremely significant and important. The Government need to deal with that, and we are determined to do so.

This country has a significant history in aluminium, starting with the smelting of aluminium ingots in the Scottish highlands. According to the Office for National Statistics, the UK aluminium industry is worth £425 million gross value added and employs

8,000 people. That means it is worth 0.3 per cent. of overall manufacturing value and employment. That is only part of the story, because the industry also plays an important role in the manufacturing supply chain with high technology industries such as aerospace, automotive and construction requiring high value and continually improving aluminium products.

I know that the aluminium industry also forms part of the identity of many local communities. In my constituency, we have Hydro Aluminium—a company that I have visited—and, nearby, the Novelis can recycling plant at Latchford, which is the largest in Europe. I spoke earlier about the effect of the recession on Bridgnorth, and we have also heard from my hon. Friend the Member for Ynys Môn (Albert Owen) about the closure of the primary smelter at Anglesey Aluminium, and the Rogerstone rolling mill in south Wales closed down last year with the loss of close to 1,000 jobs. Many other smaller companies have also closed, and aluminium prices, which are traded at world prices on the London Metal Exchange, fell greatly, but have recovered somewhat in recent months. As with other metals, most notably steel, demand has also suffered significantly. The Government recognise the importance of aluminium to this country, not just to the economy but to the local communities in which companies are based. That is why we have taken a number of steps to help the industry at this time.

First, it is important that we sustain demand for aluminium in the UK. That is why we have brought forward capital spending on construction, which accounts for about a quarter of the aluminium used in the UK. That policy was opposed by the Conservative party, but I know from my work in connection with the construction industry that it was greatly valued by the industry, and that the public sector work that has been undertaken has sustained the industry in what has been a difficult time. If the demand from the public sector had been taken out of the market, the pressures on the aluminium industry would not have lessened but would have increased greatly and the difficulties would have been worsened. That sustaining of the manufacturing sector by the Government, which was opposed by the Conservatives, has been an important aspect of support for the aluminium sector in the UK.

The Government are investing in infrastructure and in the wider supply chain. We introduced the car scrappage scheme, and we know that the automotive sector is important as a large user of aluminium. Only last week, I visited a Honda plant in Swindon that has been greatly sustained by the scrappage scheme and by the investment and the fiscal stimulus made by the Government to sustain the industry.

The second thing that the Government have done to help the aluminium industry is to fight consistently, and with some success, for it to be compensated for indirect emissions under the EU emissions trading scheme. Thirdly,

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we are doing all we can to secure our energy supply. We heard much about energy from the hon. Gentleman, but I must say that there is a lack of clarity about the Conservative party's policy on energy. For example, I am still unclear about the Conservatives' position on the nuclear development at Wylfa, on Ynys Môn, that my hon. Friend has mentioned. The last I recall of their position is the description of nuclear as a last resort.

Mr. Dunne: I am happy to put the Minister out of his misery. My colleagues with responsibility for energy policy have made it crystal clear that we are supportive of the rebuilding of nuclear plants, particularly on sites that have been closed and that are therefore relatively easy to get through the planning process.

Ian Lucas: I am grateful that, at long last, there appears to be some clarity on this issue from the Conservative party. However, it must accept responsibility for its failures regarding the development and sustaining of the Wylfa plant, which have been described by my hon. Friend.

The private sector is delivering important new infrastructure such as liquefied natural gas facilities, and we are backing a diverse energy mix with new nuclear power stations playing a key role alongside other low-carbon sources such as offshore and, to a limited extent, onshore wind. However, many individual Conservative Members have consistently opposed such developments in their constituencies.

We are also making sure that the market is working properly, by encouraging reform in neighbouring EU markets and further afield. We have been pressing the European Commission to implement energy market liberalisation throughout the EU, and we warmly welcome the robust actions that it has already taken, which have included anti-trust action and infraction proceedings.

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Finally, we are helping the aluminium industry through our Real Help programme. We have put forward a range of measures to help businesses survive the recession and come through in stronger shape. Those measures include the enterprise finance guarantee, which has offered almost 7,800 loans to customers with a total value of £795 million.

More than 110,000 companies have benefited from the Business Link health checks, and more than 160,000 companies have gained agreement to defer tax payments worth over £4.6 billion. I know from my own constituency, which is a manufacturing constituency, that that has been greatly welcomed by the manufacturing sector.

We also have the Manufacturing Advisory Service, which offers aluminium companies hands-on practical assistance to improve their businesses, and our Train to Gain programme provides advice and subsidised training in a range of vocational areas.

We know that a lot of activity is going on. We take the state of the aluminium sector very seriously indeed, and the hon. Gentleman asked a specific question about the climate change levy. I know that the industry has already made representations about the levy to him and to my hon. Friend. My right hon. Friend the Minister for Business, Innovation and Skills is meeting the Aluminium Federation later this week, when I am sure that the matter will be discussed further.

I recognise of course that the past 18 months has been an extremely difficult time for the aluminium industry. In particular, the closure of Anglesey Aluminium Metal Ltd was a great blow, not just to Ynys Môn and Wales but to the UK as a whole. The sector is facing real challenges: we need to confront them together, by dealing with demand, looking at energy supply and ensuring that the sector has a sustainable manufacturing base in the UK.

Question put and agreed to.

10.32 pm

House adjourned.