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Energy and Jobs

The transformation of America’s energy market is starting to have a direct impact on vital British [and European] industries

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“Welcome to Boomtown USA,” says the sign at the entrance to Williston, North Dakota. Its unemployment rate is under 2 per cent. Its gas flares are visible from space, and its pride at helping to reverse America’s long slide towards energy dependency is palpable.

There are no such signs in Britain because there is still no large-scale British fracking industry. Instead the economy remains yoked to high energy costs and low growth that compare well only with its sluggish European neighbours.

Britain’s energy-intensive industries, chief among them chemicals manufacturers, are struggling with gas prices three times higher than in the United States. Electricity costs twice as much as in America and the chemicals sector across Europe is in a “fight to the death”, in the words of one analyst, as investment and jobs go elsewhere. Prompt steps must be taken to begin to bring them back. If the price is that the coalition’s green credentials are further undermined before the next election, it is one that must be paid.

For now, Europe’s largest maker of PVC is the giant chemical works owned by Ineos in Runcorn. It produces 38 varieties of polyvinyl chloride, used in hundreds of products from clingfilm and swimming pool liners to pharmaceuticals and drainpipes. It uses as much electricity, much of it from gas-fired power stations, as Liverpool. Historically it has exported much of its output to North America, but its future is now much less certain.

The Government’s Committee on Climate Change warned yesterday that low American shale gas costs as a result of fracking “could present a direct competitiveness risk to UK gas-intensive firms trading with the US”. The committee said that “in the longer term there is a risk that investment and jobs could relocate to the US”.

Viewed globally, this relocation is already under way. Taiwanese and Saudi chemicals firms are among those planning investments worth more than $90 billion in new US plants to take advantage of low energy costs. From being a net importer two years ago, America expects to be exporting chemicals worth $30 billion a year by 2018. At the same time it is preparing to boost its gas liquefaction capacity by a third in order to sell its shale gas surpluses abroad.

The impact on British industry will be profound, and the policy imperatives are clear. The Government should, first, avoid the trap of committing itself to high prices for future energy supplies when there is a clear possibility that wholesale prices will fall rather than rise in the medium to long term. That it has already guaranteed extravagant prices for power from new nuclear plants to woo foreign investors only makes it more important not to follow the same path for renewables. The result would be higher domestic energy bills and the risk of steep job losses for the sake of self-imposed carbon targets not observed even elsewhere in Europe.

Next year the Chancellor must decide whether to revise the "carbon budget" that sets legally binding emissions caps for the middle of the next decade. The Committee on Climate Change would prefer him not to, but if has to in order to rein in unsustainable price subsidies, he must.

Energy-intensive industries should, secondly, remain exempt from the need to buy costly European carbon "allowances". These industries support 600,000 jobs but would go swiftly to the wall if forced to compete with US rivals at the double disadvantage of high energy and carbon costs.

The Government should, finally, speed up the growth of domestic fracking by boosting incentives for local communities; and urge the US to shun protectionism and export its own cheap shale gas as soon as global markets make it profitable to do so. The age of cheap energy may be past, but less expensive energy is still an essential goal.