



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

25 May 2011

A handwritten signature in dark ink, appearing to be 'Geo'.

Thank you for your letter of 27 April 2011 about the carbon price floor.

I have also written in similar terms to the Chairman of

The Government is committed to ensuring growth, rebalancing the economy and reducing the deficit. While we must remain realistic about the challenges we have inherited, we can also be optimistic about the future. Progress has been made in the last twelve months: at a macro level manufacturing is up almost 5%; business investment is up 11%; and export volumes are up 16%.

I appreciate your concerns about the competitiveness of UK industry. Rising electricity costs may pose a risk to the sectors which are critical to our growth agenda. As part of rebalancing and transitioning to a lower-carbon economy, we need to ensure that the UK energy-intensive industries remain competitive. On the other hand, there are significant challenges posed by the scale of the investment required in the UK's energy infrastructure to ensure that the UK remains competitive as a location for inward investment and production. We need to provide secure energy supplies, while meeting our legally binding commitments to reduce emissions. These challenges come with costs over the short to medium term, but will ensure lower electricity prices over the long term.

The Budget announcement on the carbon price floor is an important early step towards encouraging greater investment in the power sector. Alongside this announcement, I also set out a package of measures to ensure that the UK energy intensive industries remain competitive internationally, including:

- a further 1% reduction in the corporation tax rate;
- not introducing the Carbon Capture and Storage levy, (which would have increased bills by 1% in 2015 and 3% in 2020);
- a cap on the cost of policies funded through energy bills;
- an extension of the climate change levy discount on electricity for participants in the Climate Change Agreements scheme to 2023; and

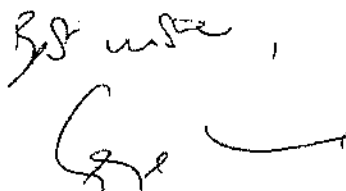
- an increase in the electricity tax relief from 65% to 80% from April 2013 at a cost of £40m – 50m a year to support energy-intensive sectors such as your own that participate in Climate Change Agreements.

On 17 May, my colleague the Secretary of State for Energy and Climate Change also announced that the Government had committed to reduce emissions by 50% in 2027 from 1990 levels, and by the end of the year will set out a package of measure to help energy-intensive industry adjust to the low-carbon industrial transformation that will be required to meet this goal.

The Department for Business, Innovation and Skills and the Department for Energy and Climate Change are currently assessing the cumulative impact of energy and climate change policies on energy-intensive industries. I would encourage you to provide evidence of the cost of these policies on your business to inform this process.

As a government we understand the need to support UK industry to move to a lower-carbon economy over the long term, whilst sending a clear message that the UK is open for business today.

I am copying this letter to the Secretary of State for Energy and Climate Change, the Secretary of State for Business, Innovation and Skills and the Cabinet Office Minister for Government Policy.

A handwritten signature in black ink, appearing to read 'George Osborne', with a stylized flourish at the end.

GEORGE OSBORNE