Subsidy Advice Unit Report on the British Industrial Competitiveness Scheme

Referred by the Department for Business and Trade

24 July 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority

CONTENTS

1. The Referral

1.1 On 5 June 2026, the Department for Business and Trade (DBT) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to the proposed British Industrial Competitiveness Scheme (BICS) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates DBT's assessment of compliance (the Assessment) of BICS with the requirements of Chapters 1 and 2 of Part 2 of the Act.[3] It is based on the information and evidence included in the Assessment.

1.3 This report is provided as non-binding advice to DBT. It does not consider whether BICS should be implemented, or directly assess whether it complies with the subsidy control requirements.

Summary

1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the Statutory Guidance) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the SAU Guidance).

1.5 In our view, DBT has considered in detail some aspects of the compliance of the proposed scheme with the subsidy control and energy and environment principles. In particular, the Assessment:

(a) clearly sets out how they identified the relevant market failure following the steps in the Statutory Guidance, and

(b) includes a detailed cost-benefit analysis of quantifiable costs in the balancing exercise.

1.6 However, we have identified the following areas for improvement. The Assessment should:

(a) provide more granular analysis throughout, reflecting how BICS may affect the sectors in scope differently, in particular when considering (1) the specific positive externalities that could be realised in each sector and the ways in which BICS will contribute to their realisation (Principle A); (2) how each

[1] The SAU is part of the Competition and Markets Authority.
[2] Referral of the proposed British Industrial Competitiveness Scheme by the Department for Business and Trade - GOV.UK.
[3] Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

sector targeted by BICS is likely to develop in the counterfactual and how BICS is expected to change the beneficiaries' economic behaviour (Principle C); and (3) the impact of BICS on competition and investment (Principle F);

(b) more clearly explain how BICS fits within the wider policy approach to industrial electricity costs (Principle E);

(c) include further evidence to support its conclusion on the counterfactual scenario (Principle C);

(d) further consider the extent to which beneficiaries are likely to change their economic behaviour and the associated risk of deadweight costs (Principle D);

(e) clearly explain why the chosen level of exemption is the minimum necessary; discuss the proportionality of offering electricity cost reductions to businesses who are the recipients of other subsidies with a similar aim; and explain how the sector-level electricity intensity thresholds were determined (Principle B);

(f) consider whether the pro-rating thresholds could incentivise certain businesses to increase their production of ineligible goods; and consider the impact of BICS on competition and investment within the whole of the UK, including Northern Ireland (Principle F).

1.7 We discuss these areas below, along with other issues, for consideration by DBT in finalising its assessment.

The referred scheme

1.8 BICS will be a subsidy scheme operated by DBT aiming at reducing electricity costs of eligible manufacturing businesses in Great Britain (GB). It is targeted at frontier and foundational manufacturing industries[4] that meet the sectoral electricity intensity test[5] within the eight growth-driving sectors identified by the UK government's industrial strategy.[6] BICS is expected to cost up to £600 million per year, operating between 2027 and 2035.

[4] The Assessment defines frontier industries 'the sectors and subsectors assessed by the Industrial Strategy as having the highest potential to stimulate overall UK growth' and foundational industries as the industries which supply critical inputs to the eight growth-driving sectors identified.
[5] ie have an average electricity expenditure as a percentage of Gross Value Added (electricity intensity) over 0.9% for frontier industries, and 2.7% for foundational industries.
[6] Industrial Strategy - GOV.UK.

1.9 BICS will provide an exemption from three electricity levies relating to: the Renewables Obligation,[7] Feed-in Tariffs[8] and the Capacity Market[9] (the Levies), delivered as an at-source reduction to electricity costs. Beneficiaries are expected to receive electricity cost reductions of around £35/MWh to £40/MWh, receiving an additional payment in the first year of delivery that approximately doubles the first year's total benefit.

1.10 The exemptions will be administered at site level and pro-rated by reference to the share of electricity consumption used for eligible activity:

(a) where eligible activity accounts for less than 25% of a site's electricity consumption, no exemption applies;

(b) where it accounts for 25% to less than 50%, a 50% exemption applies to the relevant levy costs; and

(c) where it accounts for 50% or more, a 100% exemption applies to the relevant levy costs.

1.11 To be eligible for BICS, a business must operate in a frontier or foundational manufacturing industry, as identified by SIC code,[10] and produce at least one eligible product, as defined by HS6 code.[11] Individual awards will take the form of certificates valid for two years, after which businesses must renew; firms must notify DBT of significant changes during that period.

1.12 DBT explained that BICS is a Scheme of Particular Interest because individual businesses are expected to receive over £1 million in subsidy, with some businesses considered likely to exceed £25 million over the applicable period. The Assessment also notes that BICS will likely support beneficiaries involved in industries identified by the Subsidy Control Act 2022 as being in a sensitive sector[12], with those beneficiaries likely to receive more than £1 million in a single award, and with the total amount they receive likely to exceed £5 million. BICS has no absolute cap to the amount a single business can receive, allowing one or more subsidies of particular interest to be given.

[7] The Renewables Obligation requires electricity suppliers to provide to Ofgem a specified number of Renewables Obligation Certificates per MWh supplied to customers, or make an appropriate payment, to encourage electricity generation from renewable sources in the UK; Renewables Obligation (RO) | Ofgem.
[8] Feed-in Tariffs require electricity suppliers to make payments to support generation of electricity generated via specific renewable technologies; Feed-in Tariffs (FIT) | Ofgem.
[9] The Capacity Market is a levy-funded scheme to ensure the UK has adequate electricity capacity; Capacity Market - GOV.UK.
[10] Standard Industrial Classification codes, used to classify businesses by their type of economic activity.
[11] The World Customs Organisation Harmonised System 6-digit codes, used to classify goods for customs and tariffs.
[12] Including SIC codes 24.42, 24.44, 29.10 and 30.11.

2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by DBT.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

(a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and

(b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.[13]

Policy objectives

2.3 The Assessment states that the specific policy objective of BICS is to increase growth and investment in GB, and increase the international competitiveness of British manufacturing by reducing electricity costs for certain manufacturing businesses who are most likely to invest more in response to lower electricity prices and have the highest potential to drive positive spillovers across the economy.

2.4 It further states that a secondary objective of BICS is to support foundational industries which, while contributing less directly to growth, help provide a secure supply chain for frontier industries and sustaining domestic resilience.

2.5 The Assessment explains that reducing the size of the electricity cost differential between the UK and other comparable economies is expected to 'increase the UK's viability as an investment location' for highly electricity-exposed manufacturing sectors.[14] The Assessment states that this is expected to trigger substantial positive spillover benefits such as innovation, employment and skills development, security and resilience.

[13] See Statutory Guidance, paragraphs 3.33–3.59 and the SAU Guidance, paragraphs 3.6–3.10 for further detail.
[14] Sectors in which businesses are highly sensitive to fluctuations in electricity prices due to consuming a large amount of electricity, or being heavily reliant on electricity.

2.6 The Assessment states that BICS is intended to continue to provide support 'until such time as wholesale electricity costs are reduced to manageable levels through the widespread deployment of renewables'.

2.7 In our view, the Assessment clearly describes the specific policy objective of BICS.

Market failure

2.8 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.[15]

2.9 The Assessment explains that the persistent divergence in industrial electricity price between GB and comparable countries has created a competitiveness gap resulting in chronic underinvestment in key manufacturing sectors, with new investment flowing to other economies. The Assessment explains that the productivity and growth effects which are lost due to underinvestment in frontier and foundational industries are examples of positive externalities, the benefits of which are not fully internalised by the businesses who provide them. The Assessment systematically looks at the questions set out in the Statutory Guidance[16] to establish the existence of positive externalities:

(a) It considers that there will be significant benefits for wider society, as highly productive and innovative industries will act as a catalyst for skills development and research, delivering productivity boosts to other industries, alongside other effects such as national security and progress towards Net Zero.

(b) It explains that the businesses cannot internalise these positive effects as they are not quantifiable and are to the benefit of wider society, rather than the business directly.

(c) It further explains that high electricity prices depress the activities resulting in lower economy-wide benefits than would otherwise be achieved.

2.10 The Assessment lists the following key societal benefits from supporting the Industrial Strategy sectors:

(a) Economic security and resilience: BICS is intended to deliver this by maintaining specialised skills in the workforce across key industries.

(b) National security: BICS will support technology specialisms, particularly in defence sectors.

[15] Statutory Guidance, paragraphs 3.36–3.51.
[16] Statutory Guidance, paragraph 3.14.

(c) Technology diffusion: new technology developed to support the sectors targeted by BICS are expected to diffuse into the wider economy.

2.11 The Assessment details how the sectors prioritised in the Industrial Strategy align with the policy objective; they are important to overall growth in GB, and have a high potential for greater returns on investment. The Assessment anticipates that BICS will lead to substantial investment increases per year in each sector, resulting in the positive spillover benefits sought.

2.12 In our view, the Assessment clearly demonstrates and evidences how, in principle, high electricity prices could result in the under provision of positive externalities in Industrial Strategy sectors. However, it should more clearly identify and evidence the specific positive externalities that could be realised for each sector targeted by BICS, and the ways in which BICS will contribute to their realisation.

Appropriateness

2.13 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.[17]

2.14 The Assessment explains that, when determining the most appropriate way to achieve the policy objective, DBT's options are limited by certain constraints and requirements, including funding limitations and speed of delivery.

2.15 The Assessment states that DBT have considered the following non-subsidy approaches to achieve the policy objective:

(a) Making the intervention non-selective. This was ruled out due to insufficient fiscal headroom, or because it would impose a disproportionate burden on households;

(b) Redesigning the Levies. This was rejected because it would not achieve the objective in the required timeframe as it would involve a complex, multi-year process, and doing so could pose risks to other parts of the energy system, including potentially to security of supply.

(c) Regulatory levers. The Assessment states that no available regulatory levers could materially reduce electricity costs at the necessary scale in the short term, and that broader reforms (such as renewable deployment or electricity market reform) would take several years to produce a similar effect;

(d) Other, non-subsidy options, such as commercial loans or equity investment were considered and rejected as too administratively complex and expensive

[17] Statutory Guidance, paragraphs 3.57–3.59.

to deliver. The Assessment states that these would not provide businesses with the immediate reduction in electricity costs required to provide the certainty needed to facilitate the increased investment sought.

2.16 The Assessment explains that, in DBT's view, a targeted exemption from the Levies is the most appropriate instrument because it directly targets the identified barrier to investment and growth at source, can be delivered quickly, and gives eligible businesses the certainty needed to alter investment decisions in the short- to medium-term.

2.17 In our view, the Assessment demonstrates that DBT has considered other ways of achieving its policy objective and explains why a subsidy was considered the most appropriate option in the short term. However, it should more clearly explain how BICS fits within the wider policy approach intended to address the structural cost disadvantage faced by parts of GB manufacturing arising from electricity policy costs. In particular, the Assessment should explain what consideration, if any, is being given to complementing BICS with less distortive options (eg redesign of the Levies) that would take longer to implement, and whether this will form part of the scheme review proposed for 2030.

2.18 It could also describe in more detail the design principles and constraints that shaped the proposed scope of BICS, including funding limits, speed of delivery and administrative feasibility.

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

2.19 Under Step 2, public authorities should consider compliance of a subsidy with:

(a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and

(b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.[18]

Counterfactual

2.20 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the 'do nothing' scenario).[19]

[18] See Statutory Guidance, paragraphs 3.60–3.74 and the SAU Guidance, paragraphs 3.11–3.13 for further detail.
[19] Statutory Guidance, paragraphs 3.63–3.65.

2.21 The Assessment sets out a counterfactual scenario in which, without BICS, businesses in the relevant sectors continue to be exposed to the full costs of the Levies. In the short term, the Assessment explains that those sectors would remain exposed to electricity prices materially higher than international peers.

2.22 The Assessment states that, without BICS, investment and growth in GB's manufacturing base would remain depressed with a continued loss of investment opportunities; this would result in further business closures, reduced manufacturing employment and lower productivity arising from reduced capacity utilisation. It further explains that businesses would continue to devote a disproportionate share of expenditure to electricity costs, which would reduce their ability to invest in research and development, workforce training, and plant and equipment upgrades. The Assessment draws on feedback from businesses received via engagement exercises to demonstrate this. The Assessment states that BICS is expected to lead to substantial increased investment per year for each affected sector.

2.23 In the longer term, the Assessment states that, while difficult to quantify, lower levels of investment are likely to have a negative impact on the economy. It explains how current levels of investment may depress future investment as new market entrants can act as a catalyst for investment by scaling up other businesses in the supply chain, encouraging adjacent businesses to invest to remain competitive and attracting overseas investors by signalling that the UK is fostering a long-term place for investment. Without BICS, benefits such as economic gains, increased productivity and employment will be lost absent the scheme and may perpetuate or widen the investment gap between the UK and other major economies.

2.24 In our view, the Assessment describes at a high-level what would be likely to happen if BICS was not implemented**.** It should however include further evidence to support its conclusions, and provide a more granular explanation of how each sector targeted by BICS is likely to develop in the counterfactual, building on the sectoral analysis of market failures recommended in paragraph 1.6(a).

Changes in economic behaviour of the beneficiary and additionality

2.25 Subsidies must bring about something that would not have occurred without the subsidy.[20] They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy ('additionality').[21] For schemes, this means that public authorities should, where possible and reasonable, ensure the scheme's design

[20] Statutory Guidance, paragraph 3.67.
[21] Statutory Guidance, paragraphs 3.66–3.70.

can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy).[22]

2.26 The Assessment states that BICS is not intended to lead to the start of an entirely new activity, but rather an increase in the rate and level of investment by beneficiaries. It explains that reducing electricity prices is expected to increase investment through two channels; intensive margins (increased investment in existing businesses), and extensive margins (business entry and exit). Investment increases could be realised due to lower operating costs and/or greater confidence in the GB business environment, while lower operating costs should reduce pressure on electricity-intensive businesses which reduce exit, and may attract new domestic and foreign direct investment. The increased investment is expected to lead to increased productivity in supported sectors through either capital deepening[23] or sector expansion.[24]

2.27 The Assessment further explains that the increased production from sector expansion could lead to job creation, whilst a reduced number of businesses exiting the market or reducing production levels could help safeguard existing jobs. The Assessment estimates increases in average employment benefits.

2.28 The Assessment recognises that BICS will subsidise business-as-usual costs by funding electricity costs. DBT considers this to be justified as BICS is still expected to provide additionality through an increase in investment. Moreover, the Assessment explains that the funded electricity costs are related to policy costs resulting from the Levies, which it does not consider 'normal' operating costs.

2.29 The Assessment explains that as BICS eligibility criteria include an electricity intensity test, only businesses that are likely to respond to electricity price changes receive subsidy funding. BICS also targets specific activities via a pro-rating mechanism, linking the proportion of electricity consumption used to manufacture eligible products to the amount received.

2.30 The Assessment explains that an additional payment will be provided to beneficiaries who receive funding from BICS for the first delivery year (April 2027 – 2028) (the Year 1 payment) to cover costs approximately equivalent to an extra year's benefit. This will be based on individual energy consumption (including historic consumption data) to determine a baseline and calculate the amount given. The Assessment states that giving businesses advanced notice of the additional payment is expected to incentivise an increase in productivity sooner.

---

[22] Statutory Guidance, paragraphs 3.71–3.73.
[23] Capital deepening is when investment leads to a larger amount of capital for each worker to use.
[24] This occurs when new investment leads to higher output, but the amount of capital per worker remains fixed. If there is a higher than average level of productivity, the expanding sector will lead to higher average economywide productivity and output.

DBT expects there to be a substantial increase in investment during the first year of the scheme.

2.31 In our view, the Assessment explains at a high-level how BICS would change the beneficiaries' economic behaviour and that it brings about changes that would not have occurred absent the scheme. However, it should further consider the extent to which all or most beneficiaries are likely to change their economic behaviour and the associated risk of deadweight costs. This could include a more granular, sector-level analysis of expected behaviour changes, rather than relying on scheme-level analysis. For each eligible sector, the Assessment should explain how BICS is expected to affect the ability of potential of beneficiaries to invest at the levels necessary to achieve the policy objective.

2.32 The Assessment could also explain in more detail and evidence how the Year 1 additional payment will bring forward that change.

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

2.33 **Under Step 3, public authorities should consider compliance of a subsidy with:**

(a) **Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and**

(b) **Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.**[25]

Proportionality

2.34 The Assessment states that the estimated value of BICS is up to £600 million per year and that approximately 10,000 businesses are eligible for the Scheme.

2.35 The Assessment states that the size of the subsidy has been set at the lowest level that, in DBT's view, is still capable of changing investment decisions. The maximum support is an exemption worth up to 100% of the Levies, which the Assessment estimates is around 20–25% of beneficiaries' total electricity costs. It explains that the levy exemptions targeted are expected to bring industrial electricity prices in line with Italy and Czechia, which sit at the high end of EU-14 countries and that a lower reduction would not bring GB's electricity costs into line

[25] See Statutory Guidance paragraphs 3.75–3.112 and the SAU Guidance, paragraphs 3.14–3.18 for further detail.

with any European comparators and would therefore be less likely to have a meaningful effect on investment.

2.36 The Assessment states that the application of pro-rating for BICS exemptions mitigates the risk of over-compensation. The Assessment explains that, whilst a directly proportionate form of pro-rating, where the exemption percentage would be exactly equal to the percentage of activity which is eligible, may have been preferable for proportionality, it would create a significant burden on suppliers to ascertain their precise exemption value and potentially undermine scheme uptake.

2.37 The Assessment states that proportionality is also supported through monitoring, evaluation and periodic review. It says that BICS is being developed with a detailed theory of change, SMART objectives and a monitoring framework drawing on application data, levy settlement data, supplier reporting, business reporting and external statistics. Baseline data on energy costs, electricity consumption, investment and employment will be collected before support starts, and annual declarations will track changes over time. The Assessment explains that DBT plans a Year 1 process evaluation, a Year 3 interim impact evaluation and a Year 5 summative evaluation, with the 2030 review acting as a formal decision point on whether BICS remains necessary and proportionate.

2.38 The Assessment acknowledges that some beneficiaries will likely also be eligible for other subsidies including the British Industry Supercharger scheme (BIS).[26] To prevent a business from overly benefitting from both schemes, electricity consumption covered by a BIS certificate will be excluded from the pro-rating calculation for BICS. The Assessment states that, given the number of eligible sectors, it is not feasible to identify every other subsidy that beneficiaries may receive in addition to BICS. The Assessment has identified certain subsidies that may target BICS beneficiaries including the Capacity Market, DRIVE35[27] (including the Automotive Transformation Fund), the Aerospace Technology Institute programme[28] and the Critical Chemicals Resilience Fund[29]; however, it states that these schemes target different costs to BICS, and have distinct policy objectives. The Assessment notes that there are no other active schemes in GB which specifically target industrial electricity costs.

2.39 In our view, while the Assessment discusses how some elements for BICS contribute to its proportionality, it should explain more explicitly why the chosen level of exemption is the minimum necessary to achieve the policy objective.

---

[26] it is possible for a business to be eligible for both BICS and the BIS; both provide exemptions from the same levies, although BIS has a significantly smaller number of beneficiaries compared to the number potentially eligible for BICS.
[27] Backing British Industry: Government launches £2.5bn DRIVE35 programme to power UK auto investment and jobs - GOV.UK.
[28] Apply for ATI programme funding - GOV.UK.
[29] Government steps in to back long-term resilience of UK's chemicals and ceramics industries - GOV.UK.

2.40 Whilst the Assessment states that BICS targets a distinct set of costs and a unique investment barrier compared to most other active subsidy schemes in GB, it should further discuss the proportionality of offering electricity cost reductions to businesses who are the recipients of other subsidies, given that these may also incentivise increased investment in sectors eligible for BICS. In particular, the Assessment could discuss possible options for taking account of other subsidies received by beneficiaries when considering the overall level of support available under the Scheme, for example self-reporting.

2.41 Given their role in calibrating subsidies awarded under BICS, the Assessment should also explain how DBT determined the sector-level electricity intensity thresholds, and could show how sensitive the estimated number of beneficiaries or the estimated value of BICS is to the chosen thresholds.

Design of subsidy to minimise negative effects on competition and investment

2.42 The Assessment acknowledges that BICS will have some distortive effects, but sets out a range of design features intended to minimise these:

(a) Selection process. The Assessment explains that the eligibility criteria helps to ensure that support is limited to the production of goods/services that contribute to the policy objective, as eligibility is limited only to sectors whose businesses are likely to respond to electricity price changes by changing their investment behaviour, and the definition of eligible products mitigates the risk that BICS inadvertently provides support to businesses who do not sufficiently contribute to the policy objective. The Assessment further explains that the eligibility criteria help ensure that support is generally available across eligible sectors rather than favouring individual competitors. It says that this reduces the risk that otherwise similar firms in the same market receive materially different treatment, and that the broad beneficiary base of over 10,000 businesses means support is spread relatively thinly rather than concentrated in a small number of firms.

(b) Time span. The Assessment explains that BICS is expected to run from April 2027 to 2035, as it states that long-term certainty over electricity prices is important to investment planning. The Assessment also states that BICS will be reviewed in 2030 and could be modified, tapered or ended if the electricity price gap narrows materially, or if wider market and policy changes address the underlying problem.

(c) Pro-rating model. The Assessment states that the chosen pro-rating model (see paragraph 1.10) provides partial mitigation against competitive distortions. It explains that, whilst fully proportional pro-rating model may have further minimised distortion risk, the delivery complexity of such a scheme and the evidence burden on beneficiaries meant that it delivered

lower value for money. The Assessment clarifies that the 50% threshold was chosen over a higher threshold, as a higher threshold would result in a higher likelihood that more complex manufacturing sites (ie those who co-locate eligible and ineligible production) receive a lower exemption simply due to production location decisions. The Assessment also explains that site-based tiered pro-rating is a key mechanism for limiting distortions in adjacent markets for ineligible products as without pro-rating, each business that operates in an eligible sector and produces an eligible product would receive the maximum exemption, the cost savings from which they could increase their competitiveness in ineligible markets in which they also operate.

2.43 In our view, the Assessment explains how some design features of BICS contributes to minimising distortions to competition and investment. However, it:

(a) should assess whether businesses that are not close to a consumption threshold (paragraph 1.10) would be incentivised by the pro-rating mechanism to increase their production of ineligible goods because the exemption applies to levies on all electricity consumption rather than just eligible consumption;

(b) could explain in more detail the extent to which, subject to the financial constraints of BICS, the chosen SIC and HS6 codes minimise the distortive impacts. The Assessment could do this by drawing on evidence gathered during DBT's public consultation focused on scheme eligibility; and

(c) could consider whether applying the pro-rating calculation at a site level rather than a business level could create any material additional distortions.

Assessment of effects on competition or investment

2.44 The Assessment says that BICS is intended to affect competition and investment by increasing investment in eligible frontier and foundational manufacturing and by improving their cost competitiveness relative to other countries. BICS seeks to redirect investment towards sectors judged to have higher growth potential and stronger spillovers, while also attracting new domestic and foreign investment that might otherwise have gone elsewhere. At the same time, the Assessment recognises that some investment may be diverted away from ineligible sectors, or reduce the competitiveness of ineligible alternatives to eligible products, but argues that this is part of the intended policy effect.

2.45 Given the breadth of the sectors covered by BICS, the Assessment has not undertaken a detailed assessment of its competitive impacts. The Assessment has instead considered impacts on proxies of competition. In particular:

(a) On market concentration, the Assessment says the likely effects differ across market types. The Assessment draws on the CMA's State of UK Competition Report 2024[30] to identify concentrated sectors. In lower-concentration frontier industries, it explains that low concentration and low mark-ups indicate competitive market structures; BICS is therefore more likely to support domestic participation in global value chains than to create sustained market power.

In more concentrated markets, the Assessment explains that market power is more likely to stem from capital intensity, intellectual property or regulatory approvals than from electricity costs, so lower electricity prices are not expected to materially alter market power. For foundational industries, it states that concentration is moderate and pricing is often constrained by international trade, meaning that BICS is more likely to maintain competition and viability than to increase the market power of recipients.

(b) On barriers to entry, expansion and exit, the Assessment draws on evidence collected in the Industrial Strategy sector prioritisation exercise on barriers to growth, (which the Assessment assumes are representative of entry barriers) and states that high energy prices are an existing barrier to entry and expansion. It argues that lowering electricity costs may improve margins, reduce volatility, strengthen business cases within multinational groups and improve access to finance, particularly in more dynamic frontier sectors where electricity costs can constrain scaling.

However, it also says that in sectors with very high capital requirements or strong incumbent advantages, such as aerospace, pharmaceuticals and automotive, electricity costs are not the principal barrier to entry, thus effects on entry, expansion and exit are likely to be limited. In foundational industries, where entry and exit rates are currently low and declining, the Assessment expects BICS to help prevent the premature exit of viable but electricity-exposed firms, while acknowledging that, in some cases, this may also prolong the survival of less productive businesses.

2.46 The Assessment acknowledges that the scheme design will leave some remaining distortive effects. In particular:

(a) The thresholds at 25% and 50% of eligible electricity consumption create 'cliff-edge' risks, as two comparable sites could receive different exemption levels due to differences in their electricity profile. The Assessment states that a likely and intended consequence of the scheme design is that businesses may increase their eligible production to cross a threshold.

[30] The State of UK Competition Report 2024 - GOV.UK.

(b) BICS may distort markets for ineligible goods as businesses that produce both eligible and ineligible goods may pass through the savings from exemptions targeted at eligible activity into ineligible activities, allowing the business to offer more competitive prices than rivals who only produce ineligible goods, or those whose proportion of eligible consumption is provides them a lower level of exemption. Whilst in the latter case, a business may be able to respond by increasing their proportion of eligible production, this may not always be possible.

(c) Larger businesses may benefit from greater knowledge and resources needed to apply to the scheme compared to smaller competitors, increasing their relative likelihood of benefitting from BICS, and in turn, increasing their relative market power. The Assessment states that DBT have taken steps to minimise this potential distortion, including launching an online 'eligibility checker' which informs businesses if they are likely to be eligible without the need to undergo a lengthy and resource-intensive data-gathering process.

2.47 The Assessment states that BICS will operate throughout GB, and that relative regional cost conditions are not materially altered because electricity support is applied uniformly. It concludes that relocation within GB is unlikely to be incentivised, and that regional differences in support mainly reflect existing structural factors rather than scheme design.

2.48 The Assessment explains that BICS does not distort electricity markets because electricity suppliers act only as intermediaries and are not beneficiaries; this is an intended effect, to avoid distorting the electricity supply market.

2.49 In our view, the Assessment includes a high-level consideration of the effect of BICS on competition and investment**.** However, while it may not be feasible to expect a scheme covering such a broad array of markets to provide an in-depth evaluation of the market characteristics as set out in the Statutory Guidance for every market, the Assessment should still engage at a more granular level in a detailed assessment on competition and investment; for example, by using case studies. Any case studies should be chosen to cover sectors which are more likely to be distorted, for example because the sector's trade intensity is low or because market concentration is high.

2.50 The Assessment should consider the impact of BICS on competition and investment within the whole of the UK, including Northern Ireland. The Assessment could do this by identifying which sectors include products whose geographic markets are at least UK-wide rather than GB-wide.

2.51 Regarding input and related markets, the Assessment could focus on the competitive impacts of BICS, for example whether it may convey market power to

certain types of businesses in related markets, rather than more general impacts such as increased demand.

Step 4: Carrying out the balancing exercise

2.52 Under Step 4 (Principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.[31]

2.53 The Assessment sets out quantified costs and what DBT see as potential distortionary and negative effects of BICS, before explaining anticipated benefits which will stimulate investment and growth in certain manufacturing sectors in GB, by reducing electricity costs through policy level exemptions. It considers the quantifiable costs vs quantifiable benefits of BICS through a cost-benefit analysis, as well as listing unquantifiable potential distortive effects alongside an assessment of how the design of the scheme mitigates them, where applicable.

2.54 The Assessment identifies quantified costs, including the cost of the exemption itself, administrative and compliance costs and environmental costs. The Assessment also sets out an extensive list of possible distortive effects, including:

(a) Increased output, investment, growth in BICS sectors; increased demand for intermediate products for BICS products; increased import demand for intermediate goods; increased production or export of BICS products;

(b) Qualifying firms based on relative electricity intensity (paragraph 2.46(a)). Qualifying firms may reduce production of ineligible products, or pass discount onto production of ineligible goods to pursue competitive advantage;

(c) Prolonged market participation of unproductive firms;

(d) Ineligible firms producing goods that are a substitute for eligible goods;

(e) Potential diversion of investment away from ineligible products or sectors;

(f) Incentivising non-eligible firms to acquire qualifying supply chain aspects to benefit wider business operations, or to produce goods which are a substitute for eligible goods.

2.55 The Assessment then explains some of these distortions, detailing how the scheme design may mitigate the impact, although not for all.

[31] See Statutory Guidance, paragraphs 3.113–3.121 and the SAU Guidance, paragraphs 3.19–3.21 for further detail.

2.56 The Assessment discusses the following benefits: investment-related wage premium benefit; employment and associated wage premium; and economic security and supply chain resilience.

2.57 The Assessment determines that the anticipated benefits will outweigh the costs of BICS based on the quantifiable benefits and costs through its economic appraisal discounting. The Assessment notes that the scale of distortions cannot be quantified, but it anticipates that the effects of negative distortions will be low.

2.58 The Assessment concludes that the investment benefits are significant, while negative impacts are likely to be dispersed, and offset by the impact of greater investment in eligible sectors, and that the positives outweigh the negatives.

2.59 In our view, the Assessment clearly sets out potential positive effects of the Scheme in relation to the policy objective, as well as potential negative and distortionary impacts before explaining why in their view the beneficial effects outweigh any potential negative effects of the scheme. However, to ensure that the balancing exercise is conducted in line with the Statutory Guidance, the Assessment could discuss more explicitly the impact of BICS on international trade and investment, as well any geographic or distributional impacts.

Energy and Environment Principles

2.60 This section sets out our evaluation of the Assessment against the energy and environment principles.[32]

2.61 DBT has conducted an assessment of BICS against energy and environment Principles A, B, F and G, although it considers Principles F and G to not apply. We have not identified any other principle that should have been addressed as part of the assessment.

Principle A: Aim of subsidies in relation to energy and environment

2.62 Subsidies in relation to energy or the environment should be aimed at (1) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market, or (2) increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy. If a subsidy is in relation to both energy and environment, it should meet both limbs.[33]

2.63 The Assessment has assessed compliance with the energy limb of principle A.

[32] See Schedule 2 to the Act, and Statutory Guidance, Chapter 4.
[33] Statutory Guidance, paragraphs 4.19–4.28.

2.64 The Assessment states that reducing electricity prices for industrial energy users will directly make the energy system more affordable for a large cohort of consumers, and that reducing the distortion of the electricity price caused by energy levies will bring electricity demand closer to its natural level, improving the functioning of the energy market.

2.65 The Assessment anticipates that BICS will not negatively affect the functioning of, or competition within, the energy market. It states that electricity system stakeholders will face no adverse effects beyond minor administrative costs for suppliers to implement BICS. It considers that the Levies will continue to support energy system sustainability and stability and will not be compromised by the redistribution of levy costs.

2.66 In our view, the Assessment clearly explains how BICS complies with Principle A of the Energy and Environment Principles.

Principle B: Beneficiary's liabilities as a polluter

2.67 Subsidies in relation to energy or the environment should not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland, or Northern Ireland.[34]

2.68 The Assessment states that BICS does not relieve beneficiaries from any of their liabilities as polluters. The Levies are not pollution-related liabilities.

2.69 The Assessment clearly explains how BICS complies with Principle B of the Energy and Environment Principles.

Principle F: Subsidies in the form of partial exemptions from energy-related taxes and levies

2.70 Subsidies in the form of partial exemptions from energy-related taxes and levies in favour of energy-intensive users should not exceed the total value of the relevant tax or levy.[35]

2.71 The Assessment states that BICS is not within the scope of Principle F, as the scheme is not specifically targeted at energy-intensive industries as defined under the Statutory Guidance.[36] The Assessment states that the electricity intensity thresholds set for frontier and foundational sectors (0.9% and 2.7% respectively) are well below the level of around 7% used by EII-targeted schemes. The

[34] Statutory Guidance, paragraphs 4.29–4.34.
[35] Statutory Guidance, paragraphs 4.52–4.55.
[36] Statutory Guidance, paragraph 4.58.

Assessment states that the fact that a sector passes one of these thresholds does not mean it is necessarily 'energy-intensive' as this term is generally understood.

2.72 The Assessment states that even if Principle F were to apply, BICS would satisfy its requirement that the total amount awarded cannot exceed the total amount raised by the Levies. The Assessment states that the value of the exemption will be calculated for each business individually and the maximum possible exemption for a business would be 100% of the relevant costs.

2.73 In our view, the Assessment clearly sets out why DBT considers that Principle F does not apply to BICS and why, if it did apply, BICS would be consistent with it.

Principle G: Subsidies for electricity-intensive users in the form of compensation for increases in electricity costs

2.74 Subsidies in the form of compensation for electricity-intensive users given in the event of an increase in electricity costs resulting from climate policy instruments should be restricted to sectors at significant risk of carbon leakage due to the cost increase.[37]

2.75 The Assessment states that BICS does not target electricity-intensive industries and is therefore not in scope of Principle G. It goes on to explain that to the extent that electricity-intensive industries are eligible for BICS, such as the steel industry, they would be at a high risk of carbon leakage and are aligned to the list of at-risk sectors identified by the European Commission.

2.76 We note, as stated in the Assessment, that BICS does not target electricity-intensive users specifically. However, in our view, to the extent that DBT considers Principle G and its relevance to BICS, the Assessment should explain and evidence in more detail why the electricity-intensive industries eligible for BICS are at a high risk of carbon leakage.

Other Requirements of the Act

2.77 DBT confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to BICS.

24 July 2026

[37] Statutory Guidance, paragraphs 4.56–4.59.