

## ***Net-zero: we have the tools, now we need the ambition***

*Michael Lewis, E.ON UK CEO*

Crisis often brings people together and this has been exemplified by our nation's united front against the coronavirus pandemic, supported by UK manufacturers answering the nation's call for help in making vital medical equipment to save lives.

Manufacturers of all sizes have shown tremendous resilience and adaptability to rise to this challenge, but the fallout from this outbreak has undoubtedly taken its toll on large parts of the industry. According to the latest CBI SME Trends Survey, SME manufacturing output fell at the quickest pace on record in the quarter to July.<sup>1</sup>

But while SME manufacturers navigate their way forward through the unprecedented circumstances of the pandemic, the biggest challenge facing us in the long-term remains the climate emergency, and the Government's ambitious target of reaching net-zero emissions by 2050. Ultimately, it will be the actions of industry in general, and manufacturing in particular, that will define our success in delivering on this.

Our [latest report](#), conducted in partnership with Make UK, comes as we begin to look beyond the immediate effects of the pandemic and as businesses begin to map their recovery plans. It serves as both a timely reminder of the momentum growing across the manufacturing industry and a blueprint for how we can accelerate towards our green goals.

### **The path has been paved for a greener future**

The encouraging findings from our research, undertaken shortly before the coronavirus crisis fully emerged, show that the industry's awareness of net-zero is high and manufacturers who are investing in energy efficiency are already seeing the commercial benefits. However, less than half (47%) of all SME manufacturers saw this as an opportunity for their business, almost half the proportion of large enterprises (90%).

Despite this, the fact 40% of manufacturers report increased margins, and 30% increased competitiveness, as a result of sustainability initiatives vindicates the case for green investment to spur the sector's post-coronavirus recovery and proves that energy must be a strategic imperative for manufacturers of all sizes.

There is much progress to be made, particularly amongst smaller manufacturers with 50% reporting they have not yet considered what action to take. In part, this will require overcoming barriers to further investment reported by manufacturers, particularly cashflow and profit margin impacts, as well as payback periods on investments.

### **A strategic imperative**

These barriers are being more keenly felt than ever before by small businesses and if our economy is to recover in a way that supports the UK's net-zero target, both government and the energy industry must find a way to remove these barriers.

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<sup>1</sup> [SME manufacturing activity sinks at record pace](#), The Confederation of British Industry

As a critical first step, the Government needs to set the agenda by demonstrating that our long-term trajectory to net-zero emissions remains paramount, with increased incentives for businesses willing to put the net-zero target at the heart of their business strategy.

Although government schemes do exist to promote investment in energy efficiency measures, awareness amongst manufactures is worryingly low. Just 40% of those surveyed were aware of the Renewable Heat Incentive (RHI) whilst 70% were not aware of the Industrial Emissions Transformation Fund, which could be applicable to SMEs with projects of a certain size, or the future Business Energy Efficiency Scheme, again focused on SMEs.

It is our recommendation to government that to encourage and reward investment in the green economy, it must simplify the range of grant schemes to ensure that these are more flexible and accessible to SMEs.

With such policies, alongside growing consumer demand for sustainability, small business owners must embrace the fact that 'spend to save' investment will be required and factor this into their long-term capital, or operational, expenditure plans.

### **Our industries, together, have a pivotal role**

Our report also underlines a greater role for the energy industry, in helping to tackle the knowledge gap among smaller manufacturers on the benefits of improved energy efficiency. There is no such thing as an average business, and there is no one-size-fits-all solution.

Energy suppliers must ensure businesses of all sizes, with varying levels of existing sustainability measures, fully appreciate the range of tailored solutions and scalable options available. At E.ON, we offer 100% renewables-backed electricity to eligible microbusiness customers across Britain, which for some might be a vital first step towards a more sustainable and personalised energy system.<sup>2</sup>

Another cost-effective measure, from which so many manufacturers continue to benefit, is securing better deals by renegotiating energy contracts. However, the greatest impact can only be realised by managing overall consumption. This can begin with other administrative measures such as increasing staff engagement in energy efficiency activities.

Understanding and mitigating the significant impact that daily operations have on carbon emissions should also be combined with simple and low-cost measures. This includes switching to high-efficiency LED lighting, HVAC upgrades and replacing outdated fans and pump systems.

By working closer with energy providers, SME manufacturers can improve sustainability through smart and more bespoke solutions and in turn minimise operational expenditure.

### **Now is the time to accelerate sustainability**

While rebuilding after coronavirus rightly remains the immediate priority for businesses, the UK's net-zero target remains by far the most significant challenge for our future. We must now navigate our way out of this crisis, while holding our gaze firmly on the net-zero ambition and deliver a green recovery.

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<sup>2</sup> Electricity sourced from E.ON's renewable generation assets, supply agreements with independent UK wind generators and the purchase of renewable electricity certificates. The electricity supplied to homes and businesses comes from the National Grid.

Our report with Make UK signals that, although awareness of the net zero by 2050 target is high amongst small manufacturers, the sector is unsure of how to adapt and whether it can afford to do. It is clear that government and the energy industry must do more to promote sustainable investment amongst SMEs to help them play their part in driving our nation towards a greener future. Now is the time to advance the effort to reach net-zero by 2050.