# UK manufacturing faces crisis amid soaring energy prices and Net Zero ambitions



Ed Miliband, the UK’s energy secretary, finds himself at the centre of a growing crisis that threatens to undermine the future of British manufacturing amid the country’s transition to net zero emissions. While Miliband aspires for his political legacy to be defined by progress toward net zero, there is concern that rising electricity costs under his tenure might instead be remembered as exacerbating the decline of UK industry. Factories are increasingly turning off their industrial ovens and idling turbines, driven by soaring energy bills that make continued production uneconomic.

The UK’s manufacturing sector has long been in decline, with its share of economic output now among the lowest across Europe. According to recent analysis from the Office for National Statistics, output in the nation’s energy-intensive manufacturing industries—which include paper, chemicals, metals, plastics, and processed food—fell to its lowest level in 35 years at the end of 2024, having dropped by roughly one-third since early 2021. While this contraction contributes to reductions in carbon emissions, the trajectory poses a grave risk to the country’s industrial base and economic resilience.

A major contributor to this squeeze is the country's electricity pricing structure. The wholesale price is often set by gas-fired power stations, which, despite providing only a minority of electricity, dictate prices during peak demand periods. Windfarm operators are frequently paid to curtail output when generation exceeds demand in some regions, while costly gas plants ramp up elsewhere to fill shortfalls—further inflating costs. This system, coupled with added network charges for upgrading the grid and levies to cover renewable subsidies, places severe financial pressure on manufacturers operating on tight margins. The introduction of a scheme to shield the 500 most energy-intensive businesses next year, funded by levies on all others, threatens to worsen the outlook for many firms.

Industry voices, including the Confederation of British Industry (CBI) and Make UK, have repeatedly warned that UK businesses face some of the highest electricity prices in Europe—four times higher than in the United States by some estimates. Make UK highlights that in 2023 the UK recorded the highest industrial energy prices among International Energy Agency member countries, a consequence of its heavy reliance on gas and the market’s pricing mechanisms. Nissan has even pointed out that its Sunderland plant endures the highest energy costs among all its global factories. This has triggered urgent calls for government intervention, including removing green levies on industrial energy and introducing fixed or capped energy prices to protect manufacturers from runaway costs.

In June 2025, Prime Minister Sir Keir Starmer announced a 10-year industrial strategy designed to address these issues, promising reductions in energy bills of up to 25% for over 7,000 energy-intensive firms by exempting them from certain green levies and lowering network charges for sectors like steel and chemicals. The strategy aims to boost competitiveness and growth, tackling workforce skills shortages and regulatory burdens, and includes plans to channel over £1 billion annually into skills development by 2028-29.

Despite this, critics argue that the government’s actions remain insufficient and slow. Ed Miliband’s Energy Secretary role has seen emergency spending of over £2 billion this year to balance the electricity grid, often paying for gas-fired power stations to compensate when renewables falter. Yet more comprehensive reforms are needed—such as a proposal from the Stonehaven consultancy, supported by Greenpeace, which advocates regulating gas plants more tightly to prevent them from exploiting their price-setting role and extracting “scarcity rents.”

Yet funding these changes poses political challenges. Chancellor Rachel Reeves faces fiscal pressures and has prioritised other subsidies, limiting the scope for more significant direct support to energy-intensive industries. This hesitance is felt acutely by manufacturers who are mobile and regarded internationally as critical assets in global supply chains. Their decline risks a cascade effect on allied sectors, such as services and technology, further eroding the industrial ecosystem.

Adding to the complexity, households are also bearing the burden of renewable energy subsidies, estimated by the Renewable Energy Foundation to add about £280 annually to electricity bills per household, with an indirect further £650 passed on from business costs. The total annual cost of these subsidies across households and industry now approaches £26 billion, fuelling heated debate about the balance between supporting green transition and economic competitiveness.

Similar challenges are being faced by other countries attempting net zero transitions. Germany, grappling with its own energy price spikes following geopolitical shocks, is an example of how industrial sectors in Europe are under pressure from elevated electricity costs linked to energy policy and market dynamics.

In essence, the UK government stands at a critical juncture. While the long-term goal of decarbonisation remains vital, without a clear, adequately funded plan to ease energy costs for manufacturers and tightly regulate the underpinning electricity market, the UK risks accelerating a deindustrialisation process that has already spanned decades. Miliband and Reeves are urged to adopt detailed reforms like those from Stonehaven or to consider more direct control of energy markets to stabilise prices. Otherwise, the net zero transition could unintentionally hasten the exodus of UK heavy industry to countries with more competitive energy frameworks, undermining economic growth and jobs in what should be a green future.

### 📌 Reference Map:

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2. <https://www.standard.co.uk/business/business-news/keir-starmer-ed-miliband-prime-minister-confederation-of-british-industry-tuc-b1234283.html> - In June 2025, Prime Minister Sir Keir Starmer announced a 10-year industrial strategy to reduce energy costs for UK manufacturers. The plan includes cutting electricity bills by up to 25% for over 7,000 energy-intensive firms by exempting them from green levies. Additionally, network charges for the most energy-intensive industries, such as steel and chemicals, will be reduced. These measures aim to address concerns that high energy costs are hindering the competitiveness of British manufacturing.
3. <https://www.reuters.com/sustainability/boards-policy-regulation/sky-high-electricity-costs-hinder-britains-net-zero-mission-2025-08-28/> - High electricity costs in the UK are significantly hindering the country’s progress toward achieving its net zero emissions target by 2050. Despite investments in renewable energy and energy-saving technologies, industrial users—such as Bridgnorth Aluminium and 7 Steel UK—face unsustainably high energy bills. These costs limit their ability to invest in greener infrastructure and compete globally. Britain's wholesale power pricing structure, where expensive gas often sets the market rate, exacerbates the issue. Businesses fear losing government subsidies if their efficiency drops them below usage thresholds, creating a paradox where conserving energy can be financially detrimental.
4. <https://www.reuters.com/sustainability/climate-energy/high-energy-costs-threaten-uk-manufacturings-future-industry-warns-2025-06-01/> - Make UK, a prominent manufacturing industry body, has issued a stark warning about the future of British manufacturing, citing the country’s exceptionally high industrial energy costs. In 2023, the UK recorded the highest industrial energy prices among International Energy Agency member nations, primarily due to its heavy reliance on gas and its pricing mechanisms. Make UK is urging the government to eliminate climate levies on industrial energy and introduce a fixed energy price to prevent further de-industrialization. Prime Minister Keir Starmer’s administration is currently formulating a new industrial strategy to revitalize the sector, badly affected by Brexit, high energy expenses, and global trade tensions. Manufacturing has steadily declined in the UK, now contributing only 9% to economic output, the lowest among major European economies. Nissan has noted that its Sunderland plant bears the highest energy costs among its global sites. Make UK and industry leaders argue that policy changes are crucial to attracting investment and reinforcing the UK's commitment to competitive and sustainable manufacturing, particularly in the electric vehicle sector.
5. <https://www.reuters.com/sustainability/boards-policy-regulation/britain-cut-companies-energy-bills-new-industrial-strategy-2025-06-22/> - The UK government will unveil a new industrial strategy for 2025–2035 aimed at boosting economic growth by reducing high energy costs for businesses. Under this plan, electricity bills for over 7,000 energy-intensive manufacturers could be cut by up to 25% starting in 2027. This measure responds to industry concerns about high energy costs impacting competitiveness and growth. The strategy also includes exemptions from levies like the Renewables Obligation and will be funded through energy system reforms without increasing household bills or taxes. Additionally, five sector-specific plans will be launched, focusing on sectors such as advanced manufacturing, creative industries, and clean energy. The strategy also addresses workforce skills shortages, access to capital, and regulatory burdens. It will expand the British Business Bank's capacity to invest in small companies and allocate an additional £1.2 billion annually toward skills development by 2028-29. Business groups, including Make UK and the Confederation of British Industry, welcomed the strategy as a significant and positive step for boosting competitiveness and economic growth.
6. <https://www.gbnews.com/money/energy-bills-net-zero-rise-household-ed-miliband> - Britain’s green energy subsidies are costing British households £280 a year on their electricity bills, according to new research. The report claims subsidies for wind and solar are adding hundreds of pounds to bills and holding back UK industry. A further £650 per household is being passed on indirectly through higher costs at businesses like supermarkets, as companies recover their share of green energy levies, according to research by the Renewable Energy Foundation (REF). It means the total cost of renewable energy subsidies is now around £25.8 billion a year across households and industry. REF said this was a major factor behind high electricity prices and blamed it for helping to drive the decline in British manufacturing.
7. <https://www.no2nuclearpower.org.uk/news/energy-markets-6-6-25/> - Bosses have urged Ed Miliband to scrap net zero costs from energy bills as Britain’s businesses suffer the highest electricity prices in the world. Rain Newton-Smith, the director general of the Confederation for British Industry (CBI), will warn in a speech that the levies act as “an anchor” on the UK’s ambition as businesses also contend with high taxes and labour costs. The plea from the head of Britain’s biggest lobby group comes ahead of the Government’s publication of its long-awaited industrial strategy. In a speech at the trade body’s national business dinner on Thursday, Ms Newton-Smith will say: “Bringing more renewables too fast on to the grid without storage can push electricity prices up. And the cost of building the network is immense. That is being felt by bill-payers across the country. “But UK firms cannot carry their part of that without hitting our ability to compete. That’s why we’re calling on government to remove policy costs from electricity bills.” British companies pay the highest electricity prices of anywhere in the developed world, according to government figures.