Northern Ireland Assembly

Committee for Enterprise, Trade and Investment

OFFICIAL REPORT (Hansard)

Energy Prices: Briefing from Manufacturing Northern Ireland

6 June 2013

NORTHERN IRELAND ASSEMBLY

Committee for Enterprise, Trade and Investment

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Members present for all or part of the proceedings:
Mr Patsy McGlone (Chairperson)
Mr Phil Flanagan (Deputy Chairperson)
Mr Steven Agnew
Mr Gordon Dunne
Mr Paul Frew
Ms Maeve McLaughlin
Mrs Sandra Overend

Witnesses:

Mr Cecil McBurney	Bombardier Shorts
Mr Conleth O'Neill	Harland and Wolff
Mr Niall Irwin	Irwin's Bakery
Mr Bryan Gray	Manufacturing Northern Ireland
Mr Wilton Crawford	Michelin Tyre plc

Also in attendance:

Mr Shane Lynch	Northern Ireland Authority for Utility Regulation

The Chairperson: Briefing the Committee today are Bryan Gray, chief executive of Manufacturing NI; Wilton Crawford, managing director of Michelin Tyre plc; Conleth O'Neill, financial director of Harland and Wolff; Niall Irwin, joint managing director of Irwin's Bakery; and Cecil McBurney, director of plant engineering at Bombardier Aerospace. I have a note here that Mr O'Neill was to leave us at 11.40 pm, but we are well past that now.

Mr Conleth O'Neill (Harland and Wolff): Twenty to one.

The Chairperson: It says here 11.40 pm. So, you have a wee while yet.

Mr C O'Neill: A wee while yet; another half an hour.

The Chairperson: You are all very welcome here today. You obviously heard a lot of the background stuff that the Utility Regulator presented to us today. The nature of the meeting is that you will make an opening statement to us and then there will be a Q&A session with members. I am sure that you have worked out who is dealing with this, Con.

Mr C O'Neill: I am. Chairman and members, I propose to make a short opening statement, and then each of my colleagues will make a short statement primarily about their own businesses. Bryan will then follow up on some of the overall issues.

The Chairperson: I am not pressing you too much, but it needs to be a relatively concise statement from each of you, because we have to be out of this room as there is another Committee on after this, and I am sure that this engagement will last a fair wee while as well.

Mr C O'Neill: I have a potential customer, so that is focusing my mind.

The Chairperson: Good.

Mr C O'Neill: Chairman, you have introduced all my colleagues here. We first came to the Committee on 7 May 2009 to raise the issue of energy. It was a concern then, and it remains a concern for all our members. Our members are small, medium and large companies, indigenously owned companies and multinational companies across all sectors, and energy is the one theme that is constantly raised when Brian and I are meeting our members.

Our role is business. That can probably be summarised in two key issues. We need to sustain and grow our own businesses. If we do that, we can create opportunities for employment and wealth, and that can contribute to rebalancing the economy. Our other objective, which was mentioned earlier, is to efficiently use the utilities that we are provided with. That is the core role of our businesses here. It is for government, be that the Department, the regulator or the Executive, to provide us with a framework and a policy for, and regulation of, a secure, sustainable and competitively provided utility source. I highlight the words "competitively provided".

We will deal with each of our members' concerns. I will highlight some issues from my own company. On energy efficiency, in the past four years, we have invested in excess of half a million pounds in a more efficient transmission and distribution network in our site and in the core metering and management. That is to try to drive down the amount of energy that we use. In that same period, our unit cost of electricity, all in — it does not really matter to us how it is split up — has increased by circa 50%. We have ambitions to grow. We have invested in research and development and new products, we have expanded our involvement in the renewables market and we have increased and gone back into oil and gas. That presents tremendous opportunities for our company to grow and to manufacture products in Northern Ireland. That can only happen if we have a competitive cost base in Northern Ireland. So, in all of the discussions that we have, we must remember that companies create jobs. Jobs give people wages, and wages allow people to spend at their own discretion. If we do not have jobs and employment, we do not have money to spend at each person's discretion.

The correct energy framework and the competitive provision of electricity will provide an opportunity for manufacturing businesses across Northern Ireland. We have been raising this since 2009, and we need it addressed. I hand over to my colleague Niall Irwin to provide his own business overview.

Mr Niall Irwin (Irwin's Bakery): Thank you very much, Chair, for affording us the opportunity to meet you today. Irwin's is a small Northern Ireland company. We started off in Northern Ireland, and we want to play our part in Northern Ireland. We want to be part of the food and drink strategy. It is all fantastic. However, we need affordable power — not just electricity but gas as well, in our case. The costs are close to forcing us to move the part of our production that goes to the mainland. I confide in you that only 50% of our output goes to Northern Ireland, while 35% goes to GB and 15% to the Republic. The proportion that goes to GB is growing. What happens if we are tempted to move to GB, as we have been? We will save on our raw material purchases; on flour alone, we will save the guts of £100,000 a year. We will save the guts of £100,000 on electricity, and we will save the guts of £100,000 on the transport that we buy from Northern Ireland companies in Northern Ireland to get our products to the mainland. Here is the bad bit: 100 staff would go. That is how serious it is at this time if we do not get lower prices for power. The price of our power has moved in similar percentages to Con's.

Let me say one thing: the power companies are due their profit. Everyone is due profit. For some of us, it has proven quite elusive. However, it strikes us that the system that they exist is on a different planet to the one that we are in. Could you imagine, Chair, if I were to go to Tesco and say that my mixer is shot and I need a new one, so we will just put 10p, or 4p or 2p or 1p on the price of a loaf? I know what the boys in Tesco would tell us. There would be no more spuds required. I realise that the existing framework that the power companies work in — how they are split up between the generators and the distribution companies — is a massive thing, but it needs to be untangled. We do need to take risks. We know that people say: they need to make money, they need to be here. Northern Ireland needs to take risks if it is going to be here. And if we are going to be here, we have got to be brave. Thank you.

Mr Cecil McBurney (Bombardier Shorts): First, let me give you some of the good news. Bombardier is investing £520 million in its new CSeries wing production unit. I know that a number of people have been down to see it. That is the largest ever single inward investment in Northern Ireland. With that, we are also developing a lot of new skills and capabilities in our people and going to the high-skill end of the market. That will generate around 800 jobs during peak production years, and thousands more in the wider supply chain, which is key to the economy. The ongoing investment is also helping to maintain Bombardier's contribution to the local economy as the largest manufacturer, with some 5,000 employees. That is all good news.

Unfortunately, on the down side, as we grow our business, our energy consumption grows with it. To compound that, our energy costs are also increasing. That is having an overall impact on our competitiveness in an ever-challenging global market and an effect on our ability to retain existing work and win new contracts. For example, energy costs are more than three times higher than those of Bombardier's sister sites in North America, with whom we directly compete for business. I will just pick up on things Shane said earlier on the price increases from Airtricity and all this year. We have already seen this year a 20% increase which we did not budget for. That money has to be found somewhere. Because of all that, we are now considering alternative energy strategies to support competitiveness within the global arena. Thank you.

Mr Wilton Crawford (Michelin Tyre plc): Thank you for having me here. At Michelin Ballymena, we have roughly 1,000 jobs. We have been there since 1969 and we are very proud of the product we make. It goes around the world. We produce roughly 1 million Michelin truck and bus tyres that go around the world per year. We send about 40% of our products to North America; 10% to China; 5% to India; some to South America; and the balance, 42% or 43%, goes to Europe. Just to make you aware of it, only 10% of the tyres that we produce in Ballymena are sold in the UK and the Republic of Ireland, so over 90% is sold worldwide. We are part of a worldwide supply chain, just as Cecil talked about with Bombardier.

My greatest concern right now is as follows. In late 2009, I arrived and became the director of the site. I come from the US, as you can tell from my accent. I worked in five other factories, so I have worked in six factories in my 25 years in the Michelin group around the company, and our expenses in electricity and gas run at about £1 million per month in Ballymena. If we run at full capacity, we will spend about £10 million this year; £7 million on electricity, £3 million on gas. Based on what Cecil mentioned, looking at factories where I worked at in the US and at my close colleagues in Nova Scotia, which is quite a rural province, it is half there. The energy cost of manufacturing tyres in Michelin Ballymena is 15% per tyre. Look at other places and other countries: there, it is 8%, or even more competitive. We are all competing in a very tough market now, particularly in Europe.

There are 10 Michelin factories in our European business unit; we are one of ten. We are running at about 65% or 70% of capacity because the market is so compressed. We should be able to produce about 1·4 million tyres, but we are only producing 1 million. Energy cost is the number one threat to Michelin Ballymena. We should be running a £6 million to £7 million expenditure budget on electricity and gas, and we are running a £10 million budget. Now £3 million to £3·5 million represents 120 jobs. My job, as managing director of the site, is to make sure that we are competitive and that we can resource the business and the supply chain from Michelin Ballymena with all the Michelin truck factories around the world. There is a total of 18; we have 10 in Europe and 18 worldwide. There is too much capacity right now. There is a threat to Michelin Ballymena — probably in the next five years, not 10 years — if we do not reverse the trend. Compare to what I gone back and looked at, from 2002 to 2012, our electricity costs have gone from £46 per megawatt to £98·50, that is a 134% increase. Were it to go up another 50% — not 134% — in this RP5 or even in the next 10 years, we would struggle to even think about being in business. It is that serious, OK? Because we are a global player, we are all fighting for the same business. As a director, I, with my colleagues and close friends — the 18 of us who manage the sites around the world — have a business to supply Michelin tyres to customers.

The Michelin truck tyre that we make is probably the best in the world, but it is very expensive. It costs €200 to make a tyre in Michelin Ballymena and get it out the door. That is without considering logistics, R&D, marketing or sales. So, when the tyres get sold to a dealer or to a haulier fleet, it will probably sell for about €450 per tyre. We have many Asian imports coming into the UK; I was shocked to see it when I moved here four years ago. There are probably between 200 and 250 different brands coming into the UK, Republic of Ireland, Scotland, Northern Ireland and wherever. Look on the internet and you can find tyres made in China for €225 each. So they are selling the tyres at what it costs us to make them.

We are very productive. Our cost to labour performance base in Ballymena is outstanding. We compete with any of our sister factories in the world, but our energy cost is about £3·5 million too high today, never mind what it looks like becoming in the future. Thank you for having us here to share that.

Mr Bryan Gray (Manufacturing Northern Ireland): I have some general comments. We have provided the Committee with a great deal of detail in the background documents that we sent, so I do not intend to get into that. I will just say that, as Mr O'Neill said, it is four years since we first presented on this problem to the Committee. During those four years, the only policies that we have seen introduced by the Department are ones that will make the problem worse by compounding it and increasing costs. It is of huge concern that the Assembly has no policy whatsoever to address the high cost.

For some time, the Department has been dismissing our concerns. We provide the Department with the same figures as we give the Committee, but they have been dismissed offhand as "just one example" or "that's an average, we need more detail". We welcome the regulator's research, in that it definitively quantifies what the problem is; there is no arguing anymore with the fact that there is a problem. We are paying 20% more than the Republic of Ireland or GB. We pay the second highest price in Europe after Italy. I will possibly dispel one of the myths in the regulator's research, which is that 71% of commercial users "enjoy competitive" prices. Those 71% of users use only 9·7% of commercial electricity. They are users who are paying on a domestic tariff and using about the same amount of electricity as a domestic household. So, those 71% of users comprise very small offices or shops; they are microbusinesses. Virtually every industrial business in Northern Ireland is paying a 20% premium on electricity; 29% of commercial users use more than 90% of the electricity. That is the scale of the problem that our members face.

In many ways —

Mr Flanagan: What was that first percentage?

Mr Gray: I said that 29% use 90·3% of the electricity. In many ways, this issue is more important than corporation tax. A 20% premium on a company's electricity bill will amount to an awful lot more money than any reduction they will ever see in corporation tax. As a result, that has a major effect on foreign direct investment and on the competitiveness of Northern Ireland companies.

When we look to the future, we can only see things getting worse. We will see increases in costs because of renewables. The fossil fuel cost — the cost of oil and gas — will go up for sure; nobody anticipates it coming down. We will pay more for networks, and that may be compounded by companies going off-grid after building their own power stations and becoming self-generating. If a company is paying £5 million in network costs at the minute, and it goes off-grid, the rest of us must pick up that £5 million bill. It will make things worse for everybody else. It will make companies less competitive. Very importantly, it will also have a huge impact on fuel poverty for domestic consumers, because they will have to pay their share of that bill, too. As we said in our letter to you, we believe that we badly need a forum of expertise. As we all know, this is a hugely complicated and technical issue. We all struggle to understand it, but there is a raft of good sources of expertise, such as the regulator and Systems Operator for Northern Ireland (SONI). Those areas of expertise need to be brought together. The first thing that we need to do is quantify and define the problem; then we have to look at policies that can address it, help to get costs down and help to make manufacturing in Northern Ireland more competitive.

We believe that there are two main drivers for costs: network costs and public policy. There are a number of other areas identified in Mr Lynch's research — the size of the market, for example. The only way that we can reduce costs is by increasing the size of the market, and, unfortunately, we cannot import one million people into Northern Ireland overnight.
There is a continuing need for effective regulation on price control and network costs, with a review of the allocation of those costs between domestic and commercial users, because we believe that we are paying an unfair share of network costs. There are several issues there. For example, commercial

companies have to pay for domestic energy-efficiency measures. We have to pay for the insulation of people's houses, which is of no benefit to us. Why should we subsidise domestic users in that way?

We can look at how other countries have dealt with the issue, and I will distribute a statement from the Minister of Communications, Energy and Natural Resources in the South. You can see clearly what their approach has been. I think that that explains the distortion between commercial prices North and South very clearly.

The Chairperson: Has that policy not changed?

Mr Gray: No; it continues.

Mr Flanagan: That explains the difference between North and South, but what about the rest of Europe?

Mr Gray: I do not know what government policy is in other European jurisdictions. The Chairman mentioned the case of Denmark where domestic costs are much higher than Northern Ireland but where commercial costs are much lower. It is my guess that other countries have adopted similar policies.

Mr Crawford: We have done our own benchmarking every year for many years, and we have had a full-time energy manager based in Ballymena for the past seven years focusing on energy efficiency improvements. In fact, we have become the best of the 72 factories worldwide as far as megawatt hours per good ton of tyres produced. If we look at our sister factories, we have four in Germany, and they cost on a commercial basis about 35% to 36% less an hour per megawatt per ton. There is a difference. Naturally, the government and other bodies have made the decision based on large industries and manufacturing.

Mr Gray: Generator profits also badly need to be looked at. Mr Lynch referred to the recent report, which was published by the single electricity market (SEM) committee. Once again, that is a terribly technical and complex document. It was published only in the past 10 days or so, and we have not had an opportunity to examine it in detail. There was considerable discussion earlier about the cost of wind energy, and the tables in the report show that wind generators are making a gross profit margin of 79%. Hydro generators make 62%, conventional gas and coal stations and fire-powered stations make only 24% or 25%. Wind may be an effective solution down the road, but not while our market is structured in such a way that we continue to pay way over the odds for wind power. We need to be paying a more competitive price for it.

The margins that all generators in Ireland receive — whether gas, coal, wind, peat or oil — are considerably above industry norms in GB and elsewhere. Those profit margins badly need to be reduced to industry norms. Indeed, we believe that how the system marginal price is set, whereby the last man in and the most expensive man set the price, is a hugely dysfunctional market. It badly needs to be addressed and restructured. We also believe that policy modification is required to sustain and grow manufacturing jobs to the benefit of the economy. It will prove impossible to rebalance the economy unless we can provide an effective cost base for manufacturing industry in Northern Ireland.

We are very disappointed that Mr Lynch is leaving his role as regulator, as, in his short period in post, he has brought new levels of transparency and accountability to his office. He has proactively promoted a much better understating of the energy market among users, and we trust that his replacement will continue with such proactive policies.

Mr Flanagan: Will we give him a round of applause?

The Chairperson: He is still in the room —

Mr Flanagan: He is getting red all right.

The Chairperson: — listening very astutely to everything that is being said.

Mr Gray: As you will see from the letter that we have received from the Department, it has very little information about the cost of its policies. It is very firmly stated in the strategic energy framework that those policies should be properly costed before they are introduced. The Department said that it intends to review the strategic energy framework in 2015. We all know that, given the timescale, it could be 2018 before that review takes place and we see any action as a result. That is five years away. We need to ask how many companies will close, how many jobs will we lose, and what damage will we do to our economy in those five years. We need urgent action now.

The Chairperson: You heard me pursuing the Utility Regulator earlier on whether, having identified the problem — they accepted that there was a problem — there was an action column. Mr Shiels said that there was and that the issue that you highlighted was one of those problems.

There are two things that I want to make sure of. Shane, it might be helpful if you could join us for this bit. I know that you cannot speak for the Department, but will you confirm whether that level of engagement will extend to the companies and their full participation with the regulator to make sure that this issue is adequately addressed?

Mr Shane Lynch (Northern Ireland Authority for Utility Regulation): Do you have a seat for me.

The Chairperson: Aye, there is one there.

Mr Flanagan: You can temporarily join Sinn Féin.

The Chairperson: Thanks very much for staying with us. Will you confirm that point? It is a key issue. We have heard what the problems and issues are with the industries, and it is important that we get it addressed.

Mr Shane Lynch: To clarify your proposal, when you talk about "industry" do you mean energy providers, energy users or both?

The Chairperson: We know what the problem is — we have heard it — and its implications for the business sector as it is represented before us. The issue that I raised earlier was that you have identified the problem and concur with at least some of the symptoms that we have heard about. What I am seeking clarity on is that the problems raised by the people who are represented here — not exclusively by any means, manner or fashion — and the consequentials of those problems will be factored into the deliberations that you will have in the dialogue and the studies that you will take further to try to rectify this problem.

Mr Shane Lynch: Yes. It is crucial that consumer representatives — industry and domestic — be part of that forum; it is also crucial that energy providers be part of it. As I said earlier, there is a collective responsibility. It is also important that the leadership of such a forum should rest with the likes of us and DETI, because, with respect to energy providers, they all have a vested interest. They have an interest in looking after consumers, but they also have an interest in looking after shareholders. They are an important contributor to that, as are large domestic energy users. If we were to have a forum, we have to figure out a way of making sure that we have participation.

The Chairperson: Are we at the early stages of the dialogue on its shape and form or the strategic way in which that might develop?

Mr Shane Lynch: Yes. We and DETI are at the early stages of thinking about how we might do that. It should dovetail into the ultimate review of the strategic energy framework that will happen anyway. I take Bryan's point: it probably needs to happen sooner rather than later.

The Chairperson: Yes, because we will be five years down the line before —

Mr Shane Lynch: That is right. It is urgent; it is imperative that we get going.

The Chairperson: Without labouring the point, I think that everybody in the room accepts the urgency. How can that urgency be injected into what could otherwise be a very tedious and long-winded process? In other words, are there mitigating measures that could be taken in the interim that do not require us to wait five years?

Mr Shane Lynch: It is up to the leadership of the forum; it should set itself objectives and a timeline from the outset.

The Chairperson: Thanks very much for clarifying that for us, Shane.

I listened carefully to you, Mr Irwin when you said that we needed to take risks. I am sure that Bryan more than amply articulated your thoughts, as he usually does, but it is important for us to hear from you. You are an important provider of very tasty bread and the like. It is important for us to hear from you whether you are saying that we need to take risks, whether it is the industry, the Executive or the Assembly. Will you expand a wee bit further on that?

Mr N Irwin: What I meant by risks is the whole system agreement under which the generators and distribution companies work that guarantees the return of profits. We talk about a 20% return on gross profits for some of those guys. I wish that we had them. I think that my friends around the table wish that they had them, too, and they are a lot smarter than I am. That will take political will and bravery. However, in the past number of years, we have seen what Northern Ireland can do if it is minded to. It needs to be minded to do that. If the system needs to be disentangled, it needs to be disentangled. I know about security of supply; we can be ranted at about that. However, we have to take risks. There will be security of supply. If we reduce their margin slightly, they will still want to come in for more. None of them will run away; rest assured about that. That is what I meant about taking risks. Look at the system. If necessary, be brave enough to dismantle it. If it is wrong, let us fix it.

The Chairperson: The figures that Brian mentioned — gross profit of 79% — are absolutely astounding.

Mr N Irwin: Twenty-five per cent is astounding at the lower end of the scale.

The Chairperson: Oh yes, but 79% in this day and age?

Mr Flanagan: Any business would be happy with a 25% return. We are normally the first people to hammer the home heating oil industry, but if the boys driving around the back roads into housing estates with lorries were getting a 20% return they would be happy too. All those things need to be put into context. The fact that renewable generators are getting upwards of 80% for generating electricity is ridiculous.

I hope that Manufacturing NI will acknowledge some of the great work that this Committee has done in the past in supporting your campaigns. I like getting briefings from Manufacturing NI, because if we get a briefing from five people, it could take an hour before I get to ask you a question. It is good to see that you do not talk too long because you do not have the time to and you have a message to get out. It is easy for us to understand your message, so I am glad that that is how it is being done. Cecil, when you were giving your introduction you said that you were considering looking at alternatives for energy. I think that we all know what those are, but will you elaborate?

Mr McBurney: We are looking at options. I think that everybody recognises that we are looking at waste to energy, and the planning is in the system. That is going through the system at present and hopefully later this year we should get planning if everything goes well. That is a renewable source of electricity for our site. We are also looking at photovoltaic (PV), biomass and biogas, which are all at earlier stages because we have other sites in Northern Ireland.

Mr Flanagan: Have you any idea how much that might save you?

Mr McBurney: We are hoping to save some 30% of our electricity bill.

Mr Flanagan: Generating your own power and becoming self-sufficient is spoken about as if it were a bad thing. I understand why it may be a bad thing, but I think that one of our problems is that we are too reliant on centrally generated electricity and energy that then has to be transmitted. People, businesses and communities should look at generating their own sources of energy so that they can be self-sufficient; therefore I am keen to hear more about what you are doing. It is not something that would fill me with fear. It is definitely something that should be explored; however, there will be consequences, and they need to be factored into policy implications. You are looking to generate your own energy, and it is good that that is explored, but does each of your organisations pay the same price per unit for electricity, or is that negotiated with the supplier?

Mr Crawford: We negotiate directly through our purchasing.

Mr Flanagan: Without giving away any sensitive commercial interests, is there much of a difference in what you are paying? I presume that the four of you have spoken about what you are paying.

Mr C O'Neill: There will be differences because of the level of consumption. The volume drives the price, but in our previous work we tried to look at groups of manufacturers together. What we are seeing is that groups of people with a similar load profile or consumption profile are paying broadly the same rate. In fact, although we have competition in the supply, from our own perspective, we have probably not changed supplier in 15 years because the most competitive quote that we get is from that existing supplier. The new suppliers coming into the market have not brought us a cheaper alternative.

Mr Flanagan: Bryan, I am not sure whether you have released a press release about this today, but I see that Julian O'Neill has tweeted that Manufacturing NI wants to see a strategy from the Executive to deal with it. What would you like to see in that strategy?

Mr Gray: Phil, it is a hugely complex and technical area. Mr Lynch understands it, but we do not. We believe that it is our role to identify the problem; it is not our role to provide the solution.

Mr Flanagan: Have we identified the problem or have we identified a consequence of the problem — that you are paying more for your electricity than other places — and we do not know what the problem is or why you are doing it?

Mr C O'Neill: It is the consequence that we are dealing with here. As I said at the start, what we need is provision that is not just secure and sustainable but also competitive; we must have competitive provision. Wilton's examples were very well put across. In Michelin he is dealing with factories with significantly lower costs. He has done everything in his factory to be more efficient and to deal with its energy consumption and other productivity factors, but he is still —

Mr Crawford: Two times higher.

Mr C O'Neill: We have examples of members with businesses in the Republic of Ireland, in the North and on the GB mainland who can show us their bills. It is not a myth. In many ways, that is one of the benefits of the regulator's recent publication. For many years, we felt that people thought that we were crying wolf and that our figures did not stack up. The recent figures produced by the regulator have validated what we have said for many years. The issue now needs to be addressed. We think that the policy needs to have competitive provision, because it is only through competitive provision that we will sustain the jobs that we have and allow for more jobs and wealth to be created. Without that, we will not; we will put investment off.

Mr Flanagan: We all know that you are paying more than most other member states. Is it your understanding that domestic customers are not paying enough for a unit compared to large users, or are suppliers and generators making too much profit on the back of large energy users?

Mr Gray: We do not believe that competition would have a major impact on prices. We fully accept that Northern Ireland is a small market. We are at the end of a very long gas pipeline so we will always pay more for gas, and, because we are a small market, we will always pay a bit more than larger markets. A minor reduction could be made through increased competition or increased regulation of supply companies, but the two main drivers for prices are network costs and public policy.

Mr Flanagan: Could you elaborate on public policy?

Mr Gray: For example, we have just had a consultation on the Energy Bill. The Department estimates that that will add 3% year on year to electricity prices for commercial users as we have to subsidise energy-efficiency measures for domestic users.

Mr Flanagan: Will the energy-efficiency measures not be available to all users?

Mr Gray: No; they apply only to domestic consumers. They are measures such as roof-space insulation and cavity-wall insulation. Industrial users get no benefit from energy-efficiency grants from the Department.

Mr O'Neill: We have all been investing for the past five or 10 years.

Mr Flanagan: One of the important points that you made, Bryan, and which needs to be heard, is that, in your opinion, this issue is bigger than the corporation tax issue. Reducing corporation tax is all well and good; it will reduce the tax that people pay on profits that they make and would ultimately make it more attractive for people to invest here. However, for people who are already here, reducing the profit that they make, although doing very little to reduce their cost base, would not be that attractive. It would be better to tackle the cost base.

Mr Gray: We need to remember that the Republic has been able to sell itself not just thorough low corporation tax; it is through a low cost base as well. They are equally important.

Mr Flanagan: This is my final question, Patsy. Has Invest NI's large energy user forum been effective? Is the subject on the agenda for those meetings?

Mr Gray: I do not think that it is Invest NI's large energy user forum; it is our large energy user forum that is held there. We run it jointly with the Confederation of British Industry (CBI). It is held in Invest NI.

Mr Flanagan: I will withdraw that comment. However, it is on the agenda regularly for those meetings.

Mr Gray: Constantly.

The Chairperson: I need clarification on the taxation issue. Where you have an infrastructure investment for the enhancement of your plants — I am looking at Conleth because he is the financial guy — is there not a tax offset that can be redeemed?

Mr C O'Neill: If you invest in your factory and get a standard capital allowance. However, the major benefit for us is to try to reduce consumption and make ourselves more efficient. There is that benefit, which is like investing in any asset in your business.

Mr Agnew: Thank you, gentlemen, for all your contributions so far. Conleth, you said that network costs and policy were the two key questions. I have sympathy for the frustration with how the system works, and we heard about that in detail. You bring your generators on to the market with a lower cost base and the price does not come down because we set the prices at the highest cost. That certainly is a frustration. At the time, I commented that I was glad that we broke up the system to separate generators from suppliers. I am not sure that that was the best policy decision, but it would be a hard one to roll back.

On network distribution costs, we heard that 29% of users consume 93% of the electricity; Mr Irwin, are you in that 29% who use over 20 megawatt hours, or are you outside that?

Mr N Irwin: We are smaller than that.

Mr Agnew: I thought so. That is where the problem comes in, because, to some extent, we are talking about wanting to bring costs down for large energy users. Soon, we will talk to the Northern Ireland Independent Retail Trade Association (NIIRTA) and Pubs of Ulster, which represent some of the smaller energy users, and then we will talk about fuel poverty and domestic prices. We want to bring the price down for everybody. On network costs, it is really about choice and about how we distribute the costs. Ultimately, if we bring down Bombardier's costs, we might put up Mr Irwin's costs. Obviously, policymakers have to grapple with that. I am not saying that the current balance is right, but, ultimately, we have to consider the consequences. One of the consequences might be that, if we help one of you out, we disadvantage another. Either way, it could result in the sorts of job losses that Mr Frew referred to when Shane Lynch was here. I do not know whether anyone wants to comment on that.

Mr N Irwin: It goes deeper than that. Tampering around the edges of this problem is not the answer. You have to get back to the nitty-gritty of, for want of a better word, an agreement. We are all fond of agreements; this is a matter of agreement. Tamper around the edges, and all we will do is fool ourselves. We have to get stuck in, and, if necessary, dismantle the system and then fix it, because the problem will not go away.

Mr Agnew: To some extent, that slightly contradicts Mr Gray's point that network costs are one of the two key issues.

Mr C O'Neill: Bryan's point is that there are issues that we feel could be addressed almost immediately, recognising the reality of the world we deal with. Bryan is saying that, if there were a bigger will, we could take a bigger step. The question is whether the will is there to take that step to sustain the jobs that exist at the minute and create the context for more jobs growth. You have to balance practicality and reality. The reality for many of our businesses here, irrespective of whether their consumption is in the same category as that of Niall's, some of the small and medium-sized enterprises, or the larger guys who are here with us today, is that we all face and have to deal with those market pressures. Because of some of those market pressures, there is a big risk of people losing employment. Therefore, we have to do something different.

Mr Agnew: I am certainly not trying to pit people against each other, but I think that what we are getting to is, as Mr Irwin put it, tinkering on a short-term basis, which just shifts the problem. I do not see any merit in just shifting the problem around because, as soon as we shift it on to another energy user, they will come back to lobby us, and we will shift it again, and politicians will just play popular politics. My party is not that popular, so I do not have to do that.

Mr N Irwin: We accept that Northern Ireland will have problems achieving the lowest cost. We cannot achieve that in our businesses, and nor can Northern Ireland plc, but we have to do our best to get the best value for money in whatever we do.

Mr Agnew: The public policy point is a fair one, but, ultimately, there is something over and above that: the structure of the energy market. What has come out of today is that that is where we need to look. I see nodding heads, so I think that I understand you properly and that I have interpreted properly the information from Mr Lynch about addressing those issues.

Moving to Mr McBurney, the Committee recently visited Bombardier, and we were very impressed by its work. I agree with Phil in that I am not in any way concerned that you are investing in the production of your own energy. I encourage that for those who can afford it and are able to do it. To some extent, public policy has been about encouraging that.

What really impressed me is that Bombardier in Northern Ireland is still getting orders, constantly moving up and continually telling new success stories. Bombardier, as a parent company, is not stupid: it has invested in Northern Ireland for a reason, despite the energy issues. I suppose that that would apply to Michelin as well. I appreciate that the other guys represent locally based companies, which is slightly different.

Why is your parent company investing in Northern Ireland despite the energy costs? To some extent, we are hearing that, if this issue is not resolved, jobs will go. So far, your companies — this applies to Michelin as well, and I will be interested to hear from both of you — continue to invest in Northern Ireland, and I am glad that they do. Why, despite the energy costs, does your company continue to do that?

Mr McBurney: The answer to that, as I said earlier, is that we compete in a global market, so we compete against our own sister sites and other companies. We put in our bids for a product that goes out to tender and we are still winning the tenders that we are bringing to Belfast. However, it is getting tighter all the time.

One of the positives of Northern Ireland is that we have a cracking skills base and people who want to work. However, we will slide down the scale and lose those benefits if energy costs keep going up. Energy prices rise 7% or 8%, year on year, and there is a cut-off point when that factor will outstrip all the other benefits. That is why we are still bringing work to Belfast and we want to continue to do that. However, we need to get all the other things lined up. That is what is driving us down the road of looking at alternatives so that we can stay competitive.

Mr Crawford: Our manufacturing factors in Michelin are that we are one of many cost centres, not a profit-and-loss centre. Everything is done at the corporate level. Clermont-Ferrand, which is the worldwide group, manages all our 110,000 employees. We are a cost centre, one of the 72 factories in the group, and one of 18 tyre manufacturing factories in the world.

Similar to Cecil's point, we have a very high-spirited and highly motivated workforce in Ballymena. We have been there since 1969 and I have been privileged to be part of that operation for almost four years. People are engaged, willing to change, and adapt very quickly. We outcompete our sister factories across Europe in that regard to a great degree. Ballymena is comparable to our German factories.

Paul, who I know very well, has supported us very strongly over the years. The number one risk in Ballymena is energy costs. That is, far and away, more important than corporation tax because, to be frank, our corporation tax is managed at a pooled level across the UK and Republic of Ireland. However, we must get a hold on our electricity costs, which, as I said, went from £46 per megawatt in 2002 to £98·50 in 2012. If it continues to escalate, as Bryan said, we will have a really hard struggle to say that Michelin Ballymena will be here in five years.

We are competing with a resource of supplying tyres to customers, and that market has shrunk by over 30% in Europe over the past four or five years. So, much like Cecil said, we are competing within Michelin internally to say that we want the business to make tyres at Michelin Ballymena. However, that market has gone down by more than 30%. The market will probably stay that way for the next three to five years, so we do a five-year plan, just like RP5. The market will stay at a level 30% less than in 2007 and 2008, and our electricity and gas costs are preventing us from doing what we would otherwise do in investment to a great degree. We still attract some nice investments because of the workforce and skill set, and our productivity levels are better than our sister factories. However, the energy cost is now at a point that it is the number one risk, and we are struggling to figure out how to overcome that, even with the 4% to 5% efficiencies that we have made, year on year, since 2006.

We are urgently working on a cogeneration unit for Michelin Ballymena to take us off the grid as much as we can. That is to protect the 1,000 jobs on a payroll that is approaching £40 million. My job is to make sure that we protect those 1,000 jobs.

The Chairperson: How do energy costs in Ballymena compare with your sister plant in Germany?

Mr Crawford: The sister plant in Germany pays about 35% less than we do per megawatt of ton of produced tyres. In Nova Scotia or the US, where we run many factories, or in other parts of the world, such as France, our costs are roughly two times higher.

The Chairperson: We have two more members who want to ask questions. I am conscious of the clock; somebody will be throwing us out of this room shortly.

Mr Dunne: Apologies for coming in late. You are very welcome. As representatives of major employers from various companies, we recognise the excellent work that you are doing in Northern Ireland. Manufacturing is extremely important. The Committee fully recognises that. We have been endeavouring to do all that we can to support you. We will certainly be using our influence with the Minister and Department to try to bring about change. The work that you are doing is invaluable to the Northern Ireland economy. We recognise that. We will certainly be doing all that we can to try to support you.

We are very keenly aware of Bombardier and the excellent work that it is doing. We have been there, and we were really impressed with the set-up and how you are involved with R&D, which we hear so much about, how you have put that into practice and how you have drawn down funding from Europe. You have been a good example of that; we have looked at that and the skills base. We are also aware of your intention to expand, and we are very supportive of that. We have seen the work that Harland and Wolff is doing with renewables. Maybe we will get to Michelin some time as well, and to Portadown. We have had a wake-up call here today about energy costs. We very much appreciate you coming along and giving evidence.

The North/South interconnector is a big issue in relation to security of supply. If we could get that up and running, would it make any significant change? The other thing is the support of Invest NI (INI), which was mentioned earlier. I understand that it has officers working on energy conservation and how manufacturers can save energy, mostly in renewables. How have you found Invest NI in relation to those issues?

Mr Crawford: INI has been a great supporter of Michelin Ballymena for very many years. We have worked closely with it on our energy efficiency programme since 2005. It has been very diligent. We pulled all the fruit off the low-hanging limbs. Everything has pretty well gone that we have been able to find with its support. We worked with the Carbon Trust for a number of years until it changed recently. As I said before, of our 72 factories across all zones and countries, Michelin Ballymena is the number one energy efficient factory. That happened with the support of INI and things that we have done, such as benchmarking against many other companies. It has been a great supporter. However, we have now exhausted that opportunity. The challenge that I have given to the INI team as well as Minister Foster is to consider what else can be done to support us. It could be cogeneration units, or something else. We are at a point where is not much left for Michelin Ballymena to gain.

Mr Dunne: How will the interconnector make a contribution towards security of supply?

Mr C O'Neill: As Bryan said, we do not have a really detailed understanding of those decisions. We see overcapacity in the South of Ireland. New plants were brought online recently, and there is an opportunity to hook into those. Perhaps that will make a difference to some of the issues that we heard about this morning, such as the restrictions on our supply. It makes sense. Mr Lynch talked about the opportunity that exists through the ability to tap into the wider European grid, be that in supply or generation from potential new renewable sources. Interconnectivity can offer us some opportunities.

Mr Dunne: I take it that you are all using gas as a form of energy. Has the introduction of gas over recent years saved money?

Mr Crawford: A great deal for Michelin Ballymena, Mr Dunne.

Mr Dunne: It has?

Mr Crawford: Yes, sir. We went from heavy oil to gas. That was a major step change for us.

Mr Dunne: That is good to hear.

Mrs Overend: I will be very brief. Thank you very much for your time this morning. We really appreciate it, and we have learned more about where you are coming from on this issue. We spoke previously about an expertise forum and getting that up and running sooner rather than later. You also mentioned the Energy Bill that has finished its consultation process. Maybe this is the opportunity to get the forum up and running and connect that with the drafting of the Energy Bill. You mentioned the insulation of domestic houses and how you were not happy about the larger companies subsidising that. Are there any other issues you want to raise in connection with the Energy Bill?

Mr Gray: I was just using the Energy Bill as an example. It is not the biggest driver in public policy. I think we would say that the 40% renewables target is the biggest cost driver in public policy. There is a whole raft of legislation out there that is being considered. For example, Minister Attwood recently held a pre-consultation on a specific climate change Bill for Northern Ireland. Once again, we are concerned that that is another element of public policy that will just add more costs. There are many different strands of public policy that are all adding to costs. We believe that somebody needs to look at the big picture, take an overview and decide where we are going with it in the future.

Mr Frew: I have one very quick question.

The Chairperson: Very briefly, Paul.

Mr Frew: I apologise for missing the start of your presentation. I had to go out to a couple of meetings that could not get moved. There is talk that, in the future, if we do not get our act together, there could well be interruptions in our supply, and security of supply is crucial. As manufacturers, what would it mean for you if you had to down tools for several hours?

The Chairperson: We will take one answer from whichever one of you wants to address that.

Mr Crawford: When the snowstorm happened in March, we were down for 38 hours. That cost us probably in the neighbourhood of £600,000 or £700,000 worth of product that we did not sell. It is a very serious issue. I use that example from just two months ago.

Mr Gray: I would just add that we believe that the interconnector is a key factor in security of supply.

The Chairperson: Thanks very much for that. One thing you mentioned earlier, Bryan, was the Energy Bill, which will be coming before us in autumn. We would welcome your input to our scrutiny of that Bill when it comes to the Committee. That will be advertised and, when it is, please pencil that into your diary. You do not miss much anyway.

Just so you know, it is not just a case of coming here today, holding hands and saying, "Tut, tut. Everything is bad". We have a long two-and-a-half-hour evidence-gathering session, and it will all be recorded in the Hansard report. It will be for us as a Committee to work through all the issues that have emanated from that and to determine how we action those, but you can keep check on us online through the Assembly website. Please keep in touch with us, either individually — as I am sure you will — or through the Committee Clerk. It is crucial that we make a stab at sorting out some of the issues that you have presented to us today. We hear what you are saying to us very clearly.

We appreciate you and your companies' contributions to the local economy. That is invaluable, given the difficult times that we are all experiencing. Thanks very much for being with us today.