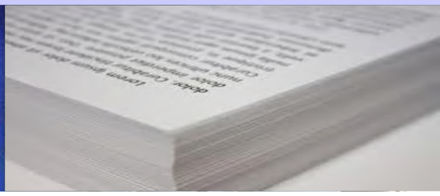
Carbon Reduction Commitment - Energy Efficiency Scheme



CRC has been heavily criticised as overly complex and expensive to manage. In April 2016, the Chancellor announced the scheme will be abolished (from April 2019) with revenue protected by increasing the rates of Climate Change Levy (CCL) taxation.

The Carbon Reduction Commitment (CRC) widens the range of energy users impacted by energy efficiency schemes, targeting large commercial users of energy outside energy intensive sectors – those such as large retailers, offices, hotels, non-energy intensive manufacturing and local authorities. Obligated organisations are required to purchase emission allowances from the Government to cover their use of gas and electricity across their entire organisation.

Energy already covered by Climate Change Agreements (CCAs) or the European Union Emissions Trading System (EU ETS) is excluded from CRC, with such installations already benefiting from lower rates of CCL in recognition of their efforts to improve energy efficiency (see the CPI position statement on CCA). In 2019, when CCL rates are increased to protect CRC revenue, then the CCL discount associated with CCA membership will be increased to make the impact cost neutral.

In the paper sector, all mills participate in the papermaking sector CCA (with most also in EU ETS), and a number of downstream users are in other sector CCAs.

However, CRC does apply to the less energy intensive parts of the sector as well as the supply chain, and there could be some unexpected outcomes for companies at the margins of compliance. In this context, CRC, and the forthcoming increased CCL taxation, are an additional cost and simply increase the cost of doing business. CRC and CCL taxation makes the UK a less competitive and more expensive place for manufacturing.

Full details can be found at:

www.gov.uk/crc-energy-efficiency-scheme-qualification-and-registration

www.gov.uk/government/policies/reducing-demand-for-energy-from-industry-businesses-and-the-public-sector--2/supporting-pages/crc-energy-efficiency-scheme

Until the abolition of the scheme in 2019, obligated organisations are required to continue complying with the scheme, purchasing CRC allowances (costing around £16.55) to cover each tonne of carbon dioxide associated by organisational energy use. CCL taxation is levied on companies via energy suppliers who add the cost to invoices on behalf of HMRC.

CPI Position:

- CPI welcomes the abolition of CRC, but notes with concern that revenue protection is an over-riding concern.

  When CRC was introduced it was designed to be revenue neutral to Treasury, with income used to reward those investing in energy efficiency. The Government quickly abandoned revenue neutrality, changing the scheme into a tax raising vehicle. As competitively priced energy is a prerequisite for industry, additional taxation being loaded onto energy is a real concern.

  In his 2012 Autumn Statement, the Chancellor stated that CRC is a high priority for removal

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when public finances allow. Since this time, the cost of CRC to participants has been increased by one third and the scheme is not being cancelled until 2019.

- CPI welcomes the promise that the increase in CCL rates will be revenue neutral for installations holding Climate Change Agreements.

- The justification for the scheme was that CRC makes organisations properly assess their energy use, and so encourage improved energy efficiency measures. For industry at least, this is nonsense.

Sector background - The Manufacture of Pulp & Paper

While the manufacture of paper and some conversion activities are excluded from CRC, due to the sector's participation in CCA and/or EU ETS, much of the supply chain into paper mills as well as downstream users of product, are obligated to participate in CRC. As such, CRC (and increased CCL rates) increases the cost of manufacturing and substantially increases the cost of energy to business.

Further Information

Further information is available from Steve Freeman, Director of Environmental and Energy Affairs, on 01793 889625 or email sfreeman@paper.org.uk.

Confederation of Paper Industries

- The Confederation of Paper Industries (CPI) is the leading trade association representing the UK's Paper-based Industries, comprising recovered paper merchants, paper and board manufacturers and converters, corrugated packaging producers, and makers of soft tissue papers.

- CPI represents an industry with an aggregate annual turnover of £6.5 billion, 25,000 direct and more than 100,000 indirect employees.

- For facts on the UK's Paper-based Industries please visit: www.paper.org.uk.

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