Climate Change Levy

What is the Levy ?

The climate change levy is a new tax on energy use in industry, commerce, agriculture and the public sector.

- All UK businesses and public sector organisations will pay the levy via their energy bills.
- It was introduced on 1st April 2001.

Why is the levy being introduced ?

The aim of the levy is to encourage the non-domestic sector *(industry, commerce and the public sector)* to improve energy efficiency and reduce emissions of greenhouse gases.

Who will pay the levy and what will it cost ?

- All UK businesses and public sector organisations will pay the Levy.
- The levy will be recycled – principally by a 0.3 % reduction in employer's National Insurance contributions.

At what rates will the levy be paid ?

The full rates of the levy will be :

- 0.43p/kWh for electricity
- 0.15p/k/Wh for gas
- 1.17p / kilogram for coal
- 0.96 kilogram for LPG.
- Fuel oils will not attract the levy as they are already subject to hydrocarbon oil duty.

Source of information re rates of the levy above – Frequently Asked Questions from the Energy Efficiency Best Practice programme website at : **www.energy-efficiency.gov.uk**

For the exact rates of the Levy, please check out the following websites for the latest information :
www.energy-efficiency.gov.uk or www.detr.gov.uk and search under ' *Whats New '* or *' Climate Change Levy. '*

Are there any exemptions to the levy ?

There are some exemptions to the Levy, including certain new forms of renewable energy, good quality combined heat and power plants (CHP), energy products that act as both a fuel and a feedstock within the same process, and electricity used in some electrolytic processes *(e.g. chlor - alkali production and primary aluminium smelting).*

Will discounts be available ?

Energy - intensive consumers who sign up to energy – saving targets agreed between the government and relevant trade associations will be eligible for an 80% discount.

How can my organisation offset the effect of the climate change levy ?

- You can offset the effect of the Climate Change Levy on your business energy costs through the implementation of good housekeeping measures backed up by monitoring and targeting (M & T).
- The Government's Energy Efficiency Best Practice programme has proved that most companies can reduce their energy costs by at least 10% through the implementation of simple housekeeping measures.
- **The Effective Energy Management Guide** is a free online guide endorsed by CIMA, the Energy Efficiency Best Practice programme and the Institute of Energy, to help businesses reduce energy costs and offset the effect of the Climate Change Levy. It provides clear and detailed advice on a structured approach to energy management techniques, and is hosted by the Government Office for the South West at : **www.oursouthwest.com**
  *(Source of above information - The Government Office for the South West website - **www.oursouthwest.com**).*

Elements of the Government's Climate Change Strategy

Taking a ' broader ' view - does the British Government's Climate Change Strategy just consist of the Climate Change Levy ?
No. The Climate Change Strategy itself consists of a number of interlocking elements, these being :

- **The Climate Change Levy (CCL) itself**.
- **Enhanced Capital Allowances** – businesses can also claim capital allowances on plant and machinery. An Enhanced Capital Allowances (ECA) scheme will be launched late this year, to give 100% first year allowances on selected plant and machinery that meet energy efficiency criteria.
- **The Carbon Trust** – starting on 1 April 2001, the Carbon Trust, a company limited by guarantee, started work as the focus for developing a low carbon economy.
- **Emissions Trading** - the government also recognises that **carbon emissions trading** is a key part of longer term solutions to reduce greenhouse gas emissions, and similar developments are taking place in Europe and internationally. To this end, a further £30m has been allocated to an Emissions Trading Incentive Scheme

*(Source of information - The UK Energy Efficiency Best Practice programme at **www.energy-efficiency.gov.uk.enter.cfm?**).*

Focusing in more detail on some of the above

The Carbon Trust

- The role of The Carbon Trust was set out by The Prime Minister in October 2000, as follows : ***' The Carbon Trust will take the lead on low carbon technology and innovation in this country and put Britain in the lead internationally.'***
- The Carbon Trust welcomes feedback on their draft strategy which has been published.
- If you would like to know more about the operations and activities of The Carbon Trust, then check out their website at: **www.thecarbontrust.co.uk**
- Most of the services available to business from the Trust are free of charge.

The Carbon Trust has short, medium and long term objectives :

- to ensure that UK business and public sector meets ongoing targets for carbon dioxide emissions.
- To improve the competitiveness of UK industry through resource efficiency.
- To help develop a UK industry that capitalises on the innovation and commercial value of low- carbon technologies.

The background to The Carbon Trust

- The Carbon Trust is a private not-for profit company initially funded by Government (£50m pa).
- It has a secular board and constitution – business, Government , NGOs, research and Trade Unions.
- It covers low carbon research and development across all sectors and existing technology in business and public sectors.

His presentation went on to describe the services available to business from the Trust, most of which are free of charge. These services include :

(1) Energy savings – further information on this can be found at **www.energy-efficiency.gov.uk**

(2) **Enhanced Capital Allowances Scheme** – further information can be accessed at **www.eca.gov.uk** ;

The Enhanced Capital Allowance Scheme

The Enhanced Capital Allowances Scheme will enable businesses to claim 100% first year capital allowances on investments in energy saving equipment. Businesses will be able to write off the whole cost of their investment against their taxable profits of the period during which they make the investment.

To find out more about eligible products - go to the home page of **www.eca.gov.uk** and click on ***' Buyer.'***

The enhanced allowances will encourage businesses to invest in energy saving equipment. The list of eligible products is referred to as the Energy Technology Product List. Manufacturers can use this site to register their products for inclusion.

To find out how to register and to check on eligibility - go to the home page of **www.eca.gov.uk** and click on ***' Supplier.'***

Under the scheme, expenditure on technologies and products on the list can qualify for 100 per cent first year allowances if :

- For a business in the charge to corporation tax – it is incurred on or after 1 April 2001.
- For a business in the charge to income tax – it is incurred on or after 1 April 2001 and the period of account to which the expenditure relates ends on or after 6 April 2001.

The first full list of qualifying products, called the Energy Technology Product List, was published in April 2001. The Energy Technology Product List is updated on the first of every month. An order to give statutory force to the Energy Technology List was laid by Treasury on 17 July 2001 and took effect from 7 August 2001. Hence 100% first year capital allowances may now be claimed.

In designing the scheme for enhanced capital allowances, the Government is drawing on the model operating in the Netherlands.

The Key Features of the Scheme

- all businesses will be able to claim enhanced capital allowances, regardless of size, industrial or commercial sector or location except where the assets are leased in the course of the business;
- enhanced capital allowances will permit the full cost of the investment in specified technologies to be relieved for tax purposes against taxable income of the period of the investment;
- the qualifying technologies will have to meet defined energy saving criteria. They will be published in a List, and the criteria will be reviewed on an annual basis;
- there are no territorial restrictions on manufacturers wishing to place their products on the list or the source of products;
- only investments in new and unused machinery and plant can qualify.

(3) The Low Carbon Innovation Programme – more detail on this programme can be seen at: **www.thecarbontrust.co.uk/template.cfm?name=business_help**

The Future – After the Levy

Speaking at a CIMA Climate Change Levy seminar in November 2001, Ian Christie from the Local Futures Group examined the topic of ***' After the Levy.'*** He noted that in the future energy is likely to be raised up the business agenda. In addition, be argued that business's approach to their use of energy, was going to be influenced by dwindling supplies of fossil fuels, increased legislation to combat the effects of climate change, and technological developments. The talk also discussed the issues which business needs to consider in its long term planning. Ian stressed the need for the UK and other advanced nations to cut CO2 emissions by at least 60% by 2050 to avert major climate disruption (*source the recent Royal Commission report).* He also argued that there is now an enormous opportunity for renewable energy sources – such as wind, tidal, solar and geothermal.

Notes and further information :

- Studies by the Energy Efficiency Best Practice programme *(source : **www.energy-efficiency.gov.uk**)* show that most organisations can reduce their energy bills by up to 20% - mainly through low cost or even no cost measures – year after year after year.

- http://www.energy-efficiency.gov.uk/enter.cfm?nav_code=0033&showtitle=yes

Emissions Trading

What effects is the levy having on business ?

EEF Survey highlights damage to manufacturing from Climate Change Levy
(*Source* – Engineering Employer's Federation press release of 24 September 2001)

The EEF (Engineering Employers' Federation) has published the first report on the real costs to engineering and manufacturing of the climate change levy in September 2001. The report also included an independent assessment by Oxford Economic Forecasting of the EEF's alternative proposals which they argue would lessen the impact of the levy, whilst achieving greater reductions in carbon emissions.

The report confirms that, *' at a time when the sector is already in recession, it is bearing a disproportionate burden of the levy.'* It goes on to say that based on energy bills received by EEF member companies in the period April to June, the first three months of the levy, engineering is paying 17% of revenue raised by the levy, well above its 8% share of the economy.
The report also shows that the gross increase in costs to the engineering sector will be £174m per annum, likely to exceed £200 million given that energy bills during the winter are significantly higher than in the period surveyed. Once the reductions in national insurance are taken into account, the net increase in costs is likely to exceed £100m on a similar basis.
EEF Director-General, Martin Temple, said:
"Our figures prove that the Government was wrong by saying that the levy would not impact on competitiveness when in reality it is imposing an ever greater burden on manufacturing at a time when it is already in recession."
The EEF has always supported the need to reduce carbon emissions in order to meet Kyoto targets but has always opposed the design of the climate change levy based on:

- Its disproportionate impact on manufacturing
- The anomalies between industries and even individual companies generated by the flawed basis for securing negotiated agreements
- The failure to use the revenue raised by the levy to provide sufficient incentives to invest in energy efficiency rather than recycling through NI contributions.
- The increased impact on companies that raise productivity either by producing more from their existing workforce or reducing the number of people they employ

Along with the results of the survey, the EEF has also published analysis carried out by Oxford Economic Forecasting (OEF) containing three alternative scenarios for a re-design of the levy. Any of these proposals would lessen the impact on engineering and manufacturing, whilst achieving greater reductions in energy use than is anticipated under the current levy.

OEF's analysis shows that the proposal most likely to lessen the impact on engineering and manufacturing, whilst achieving greater reductions in energy use, would be to scale down the size of the levy, abolish national insurance reduction and channel all the revenue raised into increased incentives to invest in energy-saving equipment. This will be presented to the Chancellor as part of the EEF's pre-budget submission.

"Our alternative proposals are giving the Government a win-win situation by achieving a balance between reducing carbon emissions and promoting growth in employment and output. They provide a basis for a fairer and more effective levy with the carrot equal to the size of the stick" added Mr Temple.

ENDS

Notes to Editors

The survey was carried out amongst 550 EEF member companies during July and August.

The EEF (Engineering Employers' Federation) is the representative voice of engineering in the UK. The EEF is a nationwide federation of 13 regional Associations and the ECIA, the Engineering Construction Industry Association. The EEF has a growing membership of almost 6,000 companies of all sizes, employing some 900,000 people from every sector of engineering, manufacturing, engineering construction and technology-based industries.
