

## **ALUMINIUM FEDERATION**

**Parliamentary Breakfast Meeting  
Tuesday, 23 March 2010**

### **CCL Relief Rate Cut**

**Gareth Stace, Head of Climate & Environment Policy, EEF**

Thank you Mr Chairman and thank you to the Aluminium Federation for inviting me here today to present on climate change policy and the proposed climate change levy relief rate cut, set out in the PBR last year.

As been said, my name is Gareth Stace and I am Head of Climate & Environment Policy at EEF, the Manufacturers' Organisation and more importantly for our discussions today, I am Chairman of the Manufacturers' Climate Change Group which represents key UK manufacturing sectors affected by the EU Emissions Trading Scheme and other Climate Change instruments, such as climate change levy, the Carbon Reduction Commitment and the Renewable Heat Incentive and so on.

The sectors represented by MCCG employ approximately 2 million people with an annual turnover of £200 billion.

The issue of climate change and most notably for our discussions today, climate change policy, has rapidly moved centre stage over the last few years. Whatever ones views about climate change, the fact that climate change policy is here and potentially here to stay, is one thing that can not be discounted.

Therefore, we as industry, must be able to respond, in a positive way, to government and work within an effective partnership to deliver a common goal.

The problem that we, as industry, have is that the UK climate change policy landscape is "Over Crowded, Over Complex and Over Lapping". We have seen government apply a sticking plaster approach to developing climate change policy over the last 10 years, and we see no real sign that any political party is considering a full review of this policy area.

From my discussions with manufacturing companies, I have seen that there is a disconnect between government and industry. Businesses seem to believe that government is speaking a different language, with DECC talking about carbon, and business still measuring in kWh and counting the cost of energy.

In order for the UK to achieve its 2020 and 2050 carbon goals, as set out in the Climate Change Act, government and industry need to work together in partnership. With DECC understanding the real and perceived barriers to resource efficiency and carbon management of industrial sectors.

I put it to you that manufactures are the solution to climate change. It is the manufacturing sector that will make the products and deliver the services for a low carbon economy. A change can not happen without a vibrant manufacturing sector.

I now turn my attention to the proposed climate change levy relief rate cut.

So if we are on a road to a low carbon UK, the Chancellor here has taken a sharp right turn with proposals to reduce the climate change levy relief rate for climate change agreement participants from 80% to 65% in April 2011. This move, if confirmed tomorrow in the Budget, will cost industry in excess of £50m annually. A 75% increase in the amount of energy tax paid by each company to Treasury.

The group that I Chair, the Manufacturers' Climate Change Group (MCCG) is disappointed that the Chancellor is seemingly continuing to press ahead with his PBR decision. It sends the wrong signal to industry on UK climate change policy direction.

This change imposes an additional cost burden on companies when they can least afford it and at exactly the wrong time in the economic cycle, when they are looking to the upturn and to reinvest.

Any claims by the Chancellor that he had to take this action are unfounded. In reality this 75% increase in energy tax payments is purely a revenue raising exercise.

It is nonsense to suggest that this significant increase is needed to comply with a European Directive.

It is nonsense to suggest that this move will bring UK industry in line with energy taxes in other Member States. Even if this were true, what about any consideration of the international implications on competitiveness.

It is nonsense to suggest that any other solution would have made the collection of the tax too complex.

Last summer, I, as the Chairman of MCCG provided the Chancellor with a workable solution that would have seen no increase of tax for industry and full compliance with the Energy Taxation Directive. This advice, as far as I can see, has been ignored in order to raise revenue for the consolidated fund. Advice that was supported by both DECC and BIS.

In terms of Treasury's statement that the CCL is a highly complex tax to collect and its proposed action will simplify this, is highly questionable. Indeed, a National Audit Office report on CCL and CCA to the Environmental Audit Committee in 2009, states that "*HMRC estimates the Levy is a cheap tax for it to collect*".

The Chancellor stated in the PBR that '*the Climate Change Agreements have been an effective way to reduce emissions in energy-intensive sectors while giving the sectors a discount from the Climate Change Levy*'. Why then has he chosen to weaken this popular, highly successful scheme, at a time when the UK Government is keen to lead on a global stage on climate change action?

No one should forget that although climate change agreements are the oldest climate change policy instrument, the agreements are still the most popular with industry and government alike. In recent interviews with EEF members on the subject of climate change agreements, we were told that they were liked because:

As much 'Carrot' as 'Stick' and were implemented in a way which has real resonance with business.

Targets were challenging but achievable and resulted in substantial emission reductions compared to BAU. An average saving of more than 16mt CO<sub>2</sub> per year since 1999.

Good incentive to go beyond compliance, to over achieve and trade.

Took account of changes in throughput, i.e. they are relative targets that encourage resource efficiency, rather than reductions in production.

The qualitative results have led to significant behavioural change in CCA sectors throughout whole organisations.

Government really engaging with business – not just preaching to it, therefore a good example of government/industry partnership since 1999.

The government should understand that climate change policy must favour both 'carrots' as well as 'sticks'. A stick only approach will not work in the long term and only alienate the UK manufacturing sector and lead to carbon leakage.

Surely this is not the desired outcome for anyone.

Thank you.