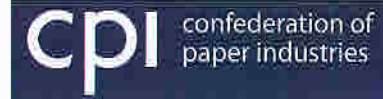




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Rt Hon Alistair Darling MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

17 December 2009

Dear Chancellor

Pre-Budget Report changes to the Climate Change Levy

I am writing on behalf of the Manufacturers' Climate Change Group (MCCG), to urge you to reverse your recent Pre-Budget Report decision to change the Climate Change Levy reduced rate supply within Climate Change Agreements from 80% to 65% from April 2011.

This change will damage industry in two ways.

Firstly, it imposes an additional cost burden on companies when they can least afford it. The Pre-Budget Report estimates that these changes will cost manufacturers around £50 million for a saving of 0.2 MtCO₂ making this an extremely inefficient carbon abatement measure. This will have a significant impact upon many companies, at exactly the wrong time in the economic cycle, when they are looking to the upturn.

By way of example, and coming so soon after the announcement of the partial mothballing of Teesside Cast Products, it will add more than £6m a year to the CCL bill paid by Corus. This amounts to a 75% increase in their CCL tax payments. Similarly, Ibstock Brick Limited estimates that these changes will see their CCL bill increase by £337,500. The glass sector will experience an increase of £2.25m per annum, much of which will ironically have to be loaded onto customers of insulation, advanced glazing, photo-voltaic, solar glasses and wind turbine materials at a time when the government is trying to encourage their purchase.

Secondly, the change undermines a key and proven incentive for investment in energy efficiency measures. According to government figures, sectors which have participated in CCAs have reduced their CO₂ by 9.2 million tonnes since 1999. Not only will these changes reduce this incentive, but the reduced relief may effectively force small emitters out of the voluntary agreements, thus removing them from the collective action taken to reduce carbon emissions by CCA sectors.

We accept that these changes are being introduced in order to ensure that the UK complies with the EU Energy Taxation Directive. However, the PBR has gone well beyond what is necessary in terms of minimum energy tax required by the Directive.

As MCCG pointed out to Treasury officials in the summer (see annex attached), the government needs only to slightly reduce the relief for gas and coal in order to comply with the Directive. At the same time, instead of also unnecessarily reducing the relief for electricity, it would be possible to increase this relief so as to keep the total CCL tax burden roughly the same as now.

We believe that this solution would reduce the impact on industry and remove any concerns about state aid. We urge you therefore to look at this issue again.

Yours sincerely



Gareth Stace
Chair, MCCG

CC: Rt Hon Lord Mandelson, First Secretary of State, Secretary of State for Business, Innovation & Skills, Lord President of the Council

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About MCCG

The Manufacturers' Climate Change Group (MCCG) represents key UK manufacturing sectors affected by the EU Emissions Trading Scheme and other Climate Change instruments, and comprises: Aluminium, Cement, Ceramics, Chemicals, Glass, Lime, Paper, Gypsum, Metalforming, Food and Drink, Mineral Wool, Quarry Products, Motor Manufacturers and Steel. Collectively our members employ approximately two million people with an annual turnover totalling more than £200 billion. Membership is open to any manufacturing organisation.

Manufacturers' Climate Change Group Position Paper: Obtaining State Aid approval for Climate Change Agreements post 2011

Under Climate Change Agreements (CCAs) energy-intensive industries can obtain an 80% discount from the Climate Change Levy (CCL) providing they meet challenging targets to improve their energy efficiency or reduce carbon emissions.

But the size and nature of CCL relief under the next round of CCAs, and the final two years of the current agreements, is uncertain. Existing State Aid approvals run out at the end of March 2011. Under recent changes to the EU Environment State Aid Guidelines, governments can self-approve energy tax relief provided sectors continue to pay energy taxation at least equivalent to the EU minima. Unfortunately, the existing levels of relief takes the tax paid by CCA sectors to below the EU minima in the case of gas and coal due to the depreciation in Sterling against the Euro.

Recent experience in trying to seek State Aid under the revised Guidelines has highlighted that the Commission is now requiring rigorous evidence of carbon leakage risks at a product group level. This has proved to be a significantly time consuming and administratively burdensome process. The Treasury is currently considering a number of approaches to satisfy the Commission. MCCG believe that the most pragmatic way to solve the issue is:

- **To set Climate Change Levy relief to the minimum tax levels outlined in the energy products Directive for the products regulated under the Directive.** This would need to take into account variable exchange rates. On this point we would recommend that the UK implementing legislation is linked to the annual variable rates expressed in the Official Journal. This approach is favoured for its simplicity.
- **But this should not exclude the possibility of an application under the EU Environment State Aid Guidelines** for those few sectors who have an appetite for preparing detailed evidence to demonstrate carbon leakage at a product group level, if it is practical to do so.
- **For activities that are outside the scope of the taxation on energy products Directive UK levy rates should remain unchanged** as there is no requirement to change them.
- **For HMT to move quickly to confirm this position with an announcement in this autumn's Pre-Budget Report** to give industry certainty on the way forward.

MCCG members that support this position are:

British Ceramic Confederation
British Glass Manufacturers' Confederation
Chemical Industries Association
Confederation of Paper Industries
EEF, including UK Steel
Food & Drink Federation
Foundry sector
Mineral Products Association
- Cement
- Industrial Lime
- Asphalt
Society for Motor Manufacturers and Traders