



BRIEFING PAPER

The Carbon Reduction Commitment

What is it?

In April 2010 the Carbon Reduction Commitment (CRC) will become law. The objective of this law is to help deliver the Government's emissions reduction targets set out in the 2008 Climate Change Act. It is a carbon trading scheme which will reward companies that cut their emissions and penalise those that don't.

Who does it affect?

Any organisation that used more than 6,000 Mega Watt hours of half hourly monitored electricity during 2008 – this roughly equates to an annual electricity bill of £500,000 or more.

Qualifying participants in the CRC will be required to purchase Carbon Allowances from the Government at a rate of £12 per tonne of carbon dioxide emissions. Businesses will then be eligible for a refund within the first year plus a bonus of up to 10% depending on how they score in a league table that will be compiled by the Environment Agency. The relative position of a company within this table will be based on three criteria;

- 1). An overall reduction in emissions.
- 2). Emissions compared to turnover.
- 3). An early action metric based on whether a company has installed an energy meter and received Carbon Trust certification.

Are there penalties for failing to comply?

As this is a legally binding requirement, there are a number of penalties:

- Failure to register penalty - £5,000 plus £500 a day.
- Failure to disclose information - £1,000
- Failure to provide a report - £5,000 plus 5p per tonne of CO₂ for 40 days after which this is then doubled.
- Incorrect reporting - £40 per tonne of CO₂ for emissions incorrectly reported
- Failure to keep adequate records – £5 per tonne of CO₂.

What about companies that currently use less electricity?

At the moment these companies will be exempt. However, the CRC is being regarded as nothing less than the beginnings of an eco-tax, which many believe will eventually be extended to cover all businesses. The primary reason for this is that the government's targets for reducing emissions are perceived as too ambitious just to be covered by the companies that currently qualify under the terms of the CRC.

Additionally, it will not have escaped the attention of Treasury policy makers that the issue of reducing emissions produced by business use of electricity and gas presents the government with a prime opportunity to raise funds through taxation.

Are there any potential business benefits?

Whilst it would be political suicide for the Government to introduce an additional tax on businesses at this time, it would in fact be a tax unlike any other. The CRC would in theory force

businesses to reduce carbon emissions, which would in turn cut energy costs, thereby increasing profitability. It is of course supposition but a well managed approach to the law could in fact reap some cost benefits.

When might the CRC be extended?

Not just yet. Much criticism has been levied at the CRC qualification process, the structure of the rules, the confusion caused by the exemptions offered and the ultimate effect the penalties will have upon the cash flow of businesses.

According to a recent survey by the UK charity Business in the Community, two thirds of Britain's bosses are unaware that the CRC will soon compel them to account for their companies' carbon emissions. The survey of 266 UK business leaders also found that 40 per cent of bosses at larger firms felt they still needed help and advice on complying with the new rules, which come into full effect from next year.

The current structure of taxing large companies presents the government with the ideal opportunity to test the effectiveness of the legislation and fine tune it. Once the process is streamlined and proven, and the next general election has passed, will be the point at which we believe an announcement will be made.

Why do anything now if my company doesn't qualify for the CRC yet?

Aside from the fact that you will be helping preserve our environment and at the same time reducing your business costs, an energy efficiency programme of the type you will need to fulfil CRC requirements takes time to plan.

Ideally, appointing an Energy Officer to research, construct and execute your plan should be the first step. Undertaking an audit should closely follow this. This will then lead into product testing and so on. All of which can take a great deal of time.

Possibly the other major reason for starting now is that saving energy costs money, and is therefore a capital expenditure exercise. Knowing what this might be sooner rather than later has its obvious benefits. At this time there are a large number of grants and loans that help ease the burden of such a commitment. When the threshold for the CRC is lowered more companies will be applying for an ever-reducing pot of funds.

Notwithstanding the CRC you are probably already paying a small eco-tax in the form of the Climate Change Levy – a small pence per kWh supplement added to your electricity bill.

Useful Links

In October 2008 the Government created the Department of Energy and Climate Change (<http://www.decc.gov.uk/>) which is tasked with the responsibility of managing the CRC.

The Carbon Trust can be found at www.carbontrust.com