The end of the CRC Energy Efficiency Scheme?
Proposals to simplify energy efficiency taxation and reporting

Safety, Health and Environment Matters

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Following the announcement made at the time of the Summer Budget of a review of the business energy efficiency tax landscape, HM Treasury has issued a consultation paper which proposes the abolition of the CRC Energy Efficiency Scheme (CRC), and its replacement by a single business energy consumption tax based on Climate Change Levy (CCL). The review will also take into consideration the Enhanced Capital Allowances currently available for specific energy efficiency and low carbon technologies and the Electricity Demand Reduction Fund currently being tried out as a pilot.

The Government also proposes to develop a single reporting framework to replace current requirements under ESOS, Mandatory Greenhouse Gas Reporting and other schemes including the CRC scheme and the Climate Change Agreements. It is proposed to design this framework "through the prism of " ESOS, a scheme which the Government is committed to maintain, because it is an EU requirement under the Energy Efficiency Directive.

The Government argues that over the last 15 years a number of different policy instruments have been introduced to encourage the uptake of energy efficiency and low carbon measures. However, this has resulted in a complex regulatory landscape, which often requires businesses to report emissions and energy consumption a number of different times and in different contexts, and subjects businesses to strikingly different tax rates on different sites, activities and fuels. It is argued that these complex requirements may actively discourage investment in energy efficiency and decarbonisation.

To address this, the consultation paper sets the review a number of objectives:

- Consistency with fiscal consolidation plans. (This is presumably a coded statement that the overall tax burden to business cannot be allowed to decrease, and thus adversely affect public finances).
- The simplification and reduction of compliance and administrative costs.
- The protection of energy intensive businesses at risk of carbon leakage.
- The support of productivity through improving incentives for energy efficiency and carbon reduction.
It is also implicit in the consultation paper that any changes proposed must be consistent with EU obligations such as those under the Energy Tax Directive. Since that Directive is the main driver behind CCL, it is not surprising that the proposal for a new business energy consumption tax which would take over the revenue raising element of the CRC should be based on CCL. However, the Government has indicated that it is open to views as to the balance of tax costs across fuels, where proposals can deliver carbon reduction potential. The Government is also open to the suggestion that smaller business consumers and Energy Intensive Industries at risk of international competition from industries not subject to such taxation should pay lower rates.

There is some suggestion that the current exemption from CCL for energy used in mineralogical and metallurgical processes would continue under the new tax, and that the equivalent of Climate Change Agreements (CCAs) within the new tax should focus on Energy Intensive Industries which are exposed to international competition and the risk of carbon leakage. Parties in eligible industry sectors which have signed up to CCAs currently obtain substantial discounts from the different rates of CCL, and sites where over 70% of the energy consumed is covered by a CCA are exempt from the CRC.

The Government has also indicated but it is "open to considering" options for new incentives for energy efficiency. These would need to comply with the Energy Tax Directive and may need state aid clearance. They would also need to be funded so as to avoid any adverse impact on deficit reduction targets. Presumably any new incentives would therefore need to be paid for by a corresponding general increase in the new business energy consumption tax.

The consultation paper also notes that the proposal to merge the CRC scheme and the CCL into a single energy consumption tax based on the CCL would exclude the public sector and the non business activities of charities from a price signal, and reporting obligations, that may drive energy and emissions savings. The Paper therefore canvasses the idea that the merged tax might be "designed to improve its effectiveness in driving energy and carbon savings from the public sector and charities".

It also suggests that the proposed new reporting framework might also require reporting by the public sector.

It seems likely that there will be mixed reactions to the Consultation Paper. Undoubtedly many businesses will welcome the proposed demise of the CRC, which has proved to be costly and burdensome, even though it was originally intended to have a light "regulatory touch". There are many who take the view that the need to comply with the scheme did bring to light potential energy savings which businesses had not previously considered. However, it may well be that the benefits of that will not be entirely lost if the CRC is replaced by a new tax, which is likely to be significant less costly to administer.

The CRC has the inevitable administrative complexities of an emissions trading system, but without revenue recycling, few of the potential benefits, and the consultation paper is indeed fairly candid in viewing it essentially as a tax.

The advantages of modelling a new tax on the CCL is that both the burdens and the incentive effect of that tax could be spread more widely.

The advantage to business of the proposed simplification will of course to some extent be offset by the need to understand and in due course implement the new regulatory requirements of the proposed new tax and reporting regimes.

It is likely however that, assuming the proposals are carried further, they will take a significant period of time to come into force.

The review is at a very early stage, and the consultation is very much an "outline" consultation. That will enable stakeholders to exert significant influence on the detail of the proposals.

Expressions of view from interested parties are invited by 9 November and the Government proposes to follow up with further communication and discussions with interested groups.

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