

The Climate Change Levy.

David Smith.

Designed by the government as both a carrot and stick approach, the Climate Change Levy is designed to fulfil the United Kingdom's promise to reduce carbon emissions. The stick is a 10 to 20 percent levy on all commercial and industrial use of energy. The actual amounts are .43 pence per kilowatt-hour for electricity and .15 pence per kilowatt-hour for gas. The carrot is the reduction by 80 percent of the levy if you promise to improve your energy efficiency by 2010, and keep that promise.

Climate Change first came on the international agenda at the Rio Earth Summit in 1992 when John Major agreed that we would reduce the UK's Carbon Emissions. The commitment was further developed at Kyoto conference in Japan in 1997. Internationally it seemed to go around at the conference in the Netherlands last year when the Americans seemed to block further agreement.

The point for all UK business is however that for us the reality is that the Levy comes into force in April and looks as though it will last for ten years. Approx. 10% on the cost Electricity and 20% on the cost of Gas.

The whole concept and the method of operation, the administration, and the time scales seem so incredibly complicated. The Irish joke about if you were going there you wouldn't start from here comes to mind.

The Craft baking industry is lucky. The act is based on the European Union's Integrated Pollution Prevention Control. IPPC. Any firm covered by IPPC can join a climate change levy agreement. A long and complex definition for most industries. Often with a lower power use threshold and often with individual processes carefully defined. For example to form metal shapes by hitting with power hammers, the energy used is eligible for rebate, using a press to achieve the same result, that energy is not. The energy used printing sheet metal in the same factory that forms that metal into cans is not eligible although it is if printed separately in another factory then that energy used is rebateable.

For the food processing industry it is simple because all food processing is covered by IPPC, therefore all bakers from the smallest to the largest are eligible to join a Climate Change Levy agreement.

The Department of Environment Transport and the Regions (DETR) were initially reluctant to talk with us. They only wanted to deal with large firms, very large users of energy. They seemed to want The Craft Baking Sector to be part of the Food and Drink Umbrella. We said that was anti-competitive and so the negotiations started.

The basic premise of a Climate Change Levy agreement is that the ratio between energy used and output will improve over ten years. For Example if you produce Widgets. If you use one kilowatt to produce 1000 now and in 2010 you produce 1100 with the same energy then you have improved your energy efficiency.

Once DETR accepted that the three normal measures of output mentioned in the act,

Number of all products made, as in the example of widgets

Or the weight of all products made, if you just produced pig iron for example

Or the actual tons of carbon produced, were not possible for craft bakers to measure and that were a special case, serious negotiations began.

We also got agreement that there is no practical difference between a small bakery behind a shop and a large bake off unit.

The weight of the ingredients used seemed to be a way forward as an industry measure of output, although a survey of members showed that it was very difficult and not likely to attract many bakers signing up to an agreement. We played the "the government says it wants maximum carbon savings, so you have to make it practical" card and they agreed.

Agreement was reached that the formula would be added value divided by energy used. They accepted the argument that bakers needed a consistent level of waste to maximise sales so, value of products sold rather than value of products produced; less the ingredients bought became the added value.

We had arrived at the added value concept as a measure of output.

The SAMB and ourselves went to press, the British Baker, Bakers Review and mailings to all members to claim what was for us a real victory.

Then the lawyers at DETR came back to say we could not have added value as the output measure because it was not "robust" enough. What they meant was that you could change the ratio, gross profit, without ever thinking about saving energy. Faced with the level of publicity we had given to added value as a measure, and being left in no doubt about who would have to explain any change we managed to retain added value, as the measure of output. They did however ask for a sales figure to be reported so that they could check the gross profit margin to see that real energy saving has been achieved.

What happens next, well for those bakers who have already submitted their Climate Change Levy forms, they are on track to receive their rebate for at least two years. After two years the DTI will be looking at the whole sector to see if it has achieved the savings at the two-year milestone. If the whole sector has then we move to the next milestone at four years. If the sector as a whole fails to achieve the milestone, then individual sites will be investigated. Those, which have failed, will not receive the rebate until they can prove that they have made the required savings at the four-year milestone. They then will once again start receiving the rebate. If a business fails at any milestone because of changes to the business, installing new equipment to increase the production of frozen products, for example then these changes will be taken into account when assessing a businesses pass or fail.

Bakers will of course be able to join the agreements at any time.

Once their data and applications have been processed they will then start to receive the rebate. Rebate will not be paid retrospectively, nor, and this is important will it have to be paid back if the energy savings required are not made.

The energy savings to be made our 9% in bakeries and 4.5% in bakeries with a shop attached or bake-off shops. This may seem strange and unfair to stand-alone bakeries but we saw this as helping a large section of the membership. I am sure that these targets are achievable within the ten-year period and represent a very good deal for our industry. I know that other sectors are envious of our agreement, both the milestone targets and the output measure.

The energy savings are not in a straight line; more savings are due at the end of the ten-year period than at the beginning. This is because energy savings come in three ways. I am sure that Mike I will go into this in more detail later. In our negotiations we recognised that there were initial savings from housekeeping then some savings from retro-fit of equipment and finally some savings to be made by re-equipping.

The information Pack and the forms it contains seem complicated. You should have seen the originals from DETR. They have to cover all the different kinds of business in our industry. I remember the first VAT return I saw and attending a meeting run by Custom and Excise I complained that the form was complicated. They said that after you had completed it two or three times it would become second nature and so it had proved. I'm sure that in two years time the CCLA annual return will seem relatively simple.

The scheme is managed for The NAMB and the SAMB by Enviros. The helpline run by Enviros has proved very efficient and helpful. They are the experts and will provide as much help as you need in registering and completing the forms your business style require.

The Government says they want the climate change Levy to be fiscally neutral. They are to reduce all employers share of employees national insurance by .3% from April. They will be giving 100% capital allowances on energy saving equipment, this is a long list and we are still waiting for confirmation that ovens can go on the list. They will spend 50 million in the first year on advice helplines and seminars. Importantly via the National Association we should be able to access government money to pay for site visits to give specific advice to members on energy savings. There will be a national budget for this type of help and we have applied with both ETSU and the Institute of Energy for a part of this.

More efficient use of energy in bakeries is important. Even without the climate change Levy any monetary savings made will go straight to the bottom line. With the climate change levy in operation, more efficient use of energy will both make sure you continue to receive the rebate and increase your net profit.