Climate Change Agreements

Energy Intensive Installations operating in 53 defined sectors can obtain partial relief from the cost of the Climate Change Levy (CCL) – a UK tax payable on supplies of electricity, gas, oil and coal energy to industry – by participating in a sector Climate Change Agreement (CCA) and delivering substantial energy efficiency improvements. In return for this investment, CCL payments from UK paper mills in 2022 were around £24 million lower than they would have been if the CCA had not been in existence.

CCA participants can claim 92% relief on the CCL tax rate associated with electricity use and 86% relief on CCL rates for all other qualifying input fuels, in return for meeting energy or carbon improvement targets. These percentage relief rates have changed in step with changes in the rates of CCL over the past few years – the net effect is that the financial value of the relief gained remains constant. The present scheme runs through to 2027, with Government currently considering options to continue beyond that point.

CCAs are operated by Trade Associations, and 53 sector CCAs have been agreed by the Department of Business, Energy & Industrial Strategy (BEIS) (now the Department for Energy Security & Net Zero (DESNZ)). The paper sector was one of the first to agree a CCA in 2001 with the sector CCA operated through a wholly owned subsidiary company, The Paper Sector Climate Change Management Co. Limited (TMC). The paper sector CCA is open to all paper mills meeting the eligibility criteria, namely: a site must produce pulp and/or paper as defined in the EPR Regulations (see Annex A for a full explanation of eligibility).

As of March 2023, all 42 UK pulp & paper mills (other than establishments making hand-made paper or involved in educational activities) were participants in the paper sector CCA. The CCA currency and targets for the sector are expressed in terms of relative energy and are measured as kWh of primary energy consumed per tonne of product produced, i.e. a "specific energy consumption" or SEC. All forms of energy must be reported, not just fossil energy. The European Union Emissions Trading System (EU ETS and its successor UK-only scheme) regulates direct site emissions, and so to avoid double regulation for those mills in EU ETS and a CCA, then essentially only grid-supplied electricity consumption counts towards CCA targets. For smaller mills (those in a CCA but not EU ETS), all input energy counts.

Each mill, or group of mills in the same corporate ownership must meet biennial SEC targets for the periods 2013-14, 2015-16, 2017-18, 2019-20, and 2021-22, known as Target Periods 1 to 5 respectively. If a target is missed, then eligibility for CCL relief may be maintained by the payment of a buy-out fee based on the margin of failure. CCA targets, which get tighter over time, were based on an assessment of cost-effective improvements achievable compared with a base year of 2008 for the first four target periods, and 2018 for Target Period 5, agreed with Government. An increased focus on energy efficiency (plus the closure of several less efficient sites) delivered significant improvements in performance in Target Periods 1 - 4. The paper sector delivered a 7.3% improvement compared with 2008 in the first target period (2013-14), a 9.7% improvement (vs. 2008) for the second period (2015-16), a 10.8% improvement (vs. 2008) in the third period (2017-18), and a 9.8% improvement (vs. 2008) in the fourth period. This impressive trajectory illustrates the sector's continued commitment to improving energy and carbon efficiency. For the fifth period (TP5), with the base year changed to 2018, and the easier energy saving measures having already been completed, the improvement for the sector was a modest 0.1%.

Government has recently (spring 2023) confirmed a short extension to the existing CCA scheme (adding a new Target Period), and consulted on a potential future scheme for CCA that could be implemented from 2025 and which would be aligned with the UK's trajectory to achieve net-zero carbon emissions by 2050. The extension to the current scheme, Target Period 6 (a single year - 2024), will have targets continuing to be cast from the base year of 2018, but with the buy-out rates increased. Performance against those targets will allow reduced rates of CCL to be available for eligible businesses for a further two years until 31 March 2027.

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More details on general CCA issues can be found at:
www.gov.uk/climate-change-agreements--2

CPI Position on Climate Change Agreements

CPI supports the principles of CCAs. Energy costs are one of the highest operating costs associated with manufacturing industry – for paper, the top three costs are raw materials, energy, and personnel. Partial relief from the blunt instrument of CCL, in return for improvements in energy efficiency, recognises the competitive damage that such a tax can impose on Energy Intensive Installations that are trade-exposed (in other words, if the costs of manufacturing goods are higher in the UK than in neighbouring countries, customers simply import those goods from overseas and the UK industry declines and closes).

Sector targets must build on existing results. The sector delivered a 34% improvement in SEC over the period 1990-2010 (42% if considering fossil energy use only), meaning the easy wins have already been achieved. Continued energy efficiency improvements become increasingly difficult and challenging, requiring continued investment and installation of best-in-class equipment.

Once a target is set, stick to it. A fundamental aspect of CCA is to set long term energy reduction targets so companies can decide if they should invest in emissions reduction to meet CCA targets or pay the buy-out price if targets are failed. The system should be allowed to operate as planned and the temptation to micromanage should be resisted.

Competitively priced energy is a must-have. Having UK energy costs in line with those in competitor nations is fundamental to the long-term future of UK industry. Country-specific taxes can distort the playing field. As well as the intrinsic cost of energy, CPI is extremely concerned about increasing regulatory costs which are additional to the base price of energy. It is the cumulative impact of policies that counts; each policy cannot be considered in isolation.

Regulatory policies must offer carrots as well as sticks. Current UK energy policy is essentially predicated on driving up the cost of using fossil fuels so that low-carbon generation becomes competitive. This runs a real risk of making industry uncompetitive and driving it out of the country. To counter this, energy taxes should be used to invest in industrial efficiency – making sites more competitive as well as reducing emissions.

The sector continues to work with Government to implement a Decarbonisation Roadmap to 2050, through which opportunities for improved energy efficiency are being identified and supported.

Further Information

Further information is available from Steve Freeman, Director of Environmental and Energy Affairs (sfreeman@paper.org.uk).

Confederation of Paper Industries

- The Confederation of Paper Industries (CPI) is the leading trade association representing the UK's Paper-based Industries, comprising paper and board manufacturers and converters, corrugated packaging producers, makers of soft tissue papers, and collectors of paper for recycling.
- CPI represents an industry with an aggregate annual turnover of £11.5 billion, with 56,000 direct and a further 93,000 indirect employees.
- For facts on the UK's Paper-based Industries please visit: www.paper.org.uk.

Annex A

Paper Sector CCA – Eligibility Rules

Eligibility for participation in a CCA is defined under one of two pieces of legislation:

1. **The Environmental Permitting (England and Wales) Regulations 2010 (EPR) (as amended).** A site is eligible if it carries out a Part A(1) or A(2) activity listed in Part 2 of Schedule 1. Note that eligibility for facilities in Scotland or Northern Ireland is also determined by reference to the activities listed in the EPR for England and Wales. For the purposes of the CCA scheme, thresholds in the EPR Schedule 1 activity descriptions should be ignored, with the sole exception of the 50MW limit for combustion plant.

2. **The Climate Change Agreements (Eligible Facilities) Regulations 2012.** A site is eligible if it carries out an energy-intensive process or activity detailed in the Schedule.

Eligibility for the paper sector CCA is defined according to category (1) above. The EPR regulations cover installations that:

- manufacture pulp
- manufacture paper or board with a capacity of more than 20 tonnes per day.

Since the numerical thresholds in the EPR regulations do not apply for the purposes of CCA, this means that any site that has an EPR permit, or would have one if the 20 t/d threshold were ignored, is eligible. Consequently, all paper and pulp mills in the UK are eligible for the paper sector CCA – and all currently participate in it.

If the regulated activity at an eligible site consumes more than 70% of the site's energy, then all energy consumed on site is eligible for CCL relief as part of the CCA. If the regulated activity consumes less than 70% of the site's energy, then the energy eligible for CCL relief is limited to that associated with the eligible activity plus a further 3/7 of that amount. This is known as the "70/30" rule.

Other Paper Manufacturing Sites

Sites such as stand-alone corrugated and tissue converters are excluded from the paper sector CCA. Some of these facilities produce more than 20 t/d of product, but none has an EPR permit. It follows that the Agency's interpretation of the EPR rules is that only pulp and paper mills are obligated under the regulations and so only sites that make pulp or paper are eligible for the sector CCA.

Several paper sector converters are part of the printing inks CCA which is managed by the BPIF. The qualification criterion is:

- printing using solvent-based inks.