



Department  
for Business  
Innovation & Skills

**COMPENSATION FOR THE  
INDIRECT COSTS OF THE  
CARBON PRICE SUPPORT  
MECHANISM - 2014/15**

Government response to the  
public consultation

JULY 2014

# Contents

<b>Contents .....</b>	<b>2</b>
<b>1. Introduction .....</b>	<b>3</b>
<b>2. Analysis .....</b>	<b>4</b>
<b>3. Annex A - List of respondents .....</b>	<b>7</b>

# Compensation for the Indirect Costs of Carbon Price Support mechanism 2014

## 1. Introduction

1. At the Autumn Statement in 2011 the Government announced its intention to compensate the most energy intensive industries for the indirect costs of the Carbon Price Floor (CPF) and the EU Emissions Trading System (EU ETS), subject to state aid guidelines.

2. A consultation on the proposal for compensating electricity intensive industries for the indirect costs of EU ETS and Carbon Price Support was held between 5th October and 21st December 2012. The purpose of the consultation was to seek views on the proposed eligibility and design of both the ETS and CPF compensation schemes.

3. The consultation was available on the BIS website, and was emailed directly to a large number of contacts who have previously expressed an interest in this issue.

4. 58 responses were received. Of these, 34 were from companies, 20 were from trade associations or industry representative groups and 4 were received from NGOs. The full list of respondents is attached at Annex A.

5. Government held a stakeholder workshop on the 23rd October 2012 to discuss the proposals as well as attending 14 other events and meetings. In addition, the Parliamentary Environmental Audit Committee (EAC) undertook an inquiry into the Energy Intensive Industries Compensation scheme. BIS Ministers attended an EAC hearing alongside BIS and DECC officials on the 4th December 2012. The EAC presented their findings in their report which was published on the 4th January 2013. The Government published a command paper as its response to the Committee on the 20<sup>th</sup> May 2013. This can be found here: [www.official-documents.gov.uk/document/cm86/8618/8618.asp](http://www.official-documents.gov.uk/document/cm86/8618/8618.asp)

6. In May 2013, Government published its response to the consultation, but only covered the questions relating to indirect ETS compensation. This is because, at the time, the UK Government was awaiting the European Commission's state aid approval for the CPS scheme. We were also considering the case for inclusion of a number of additional sectors who came forward with evidence concerning their electricity-intensity.

7. This document addresses responses to the CPS-related elements of the consultation and explains the Government's approach to eligibility for the scheme following the Commission's recent approval of the scheme and its publication of its new Environment and Energy State Aid Guidelines (EEAG).

## **8. Full guidelines on how to claim compensation for the indirect costs of the CPS can be found at [insert link].2. Analysis**

9. The consultation included two questions relating to the Carbon Price Support compensation –

- **Do you agree with the proposed approach to eligibility for CPF compensation? If not, please give your reasons why?**
- **Are there any companies which are not on the eligibility list which would meet this test? Please provide evidence?**

### **– Do you agree with the proposed approach to eligibility for CPF compensation? If not, please give your reasons why?**

10. There were 42 responses to this question, with 16 respondents agreeing with the approach and 26 disagreeing or raising specific concerns.

11. The main reasons for not agreeing with the approach, as with the responses to the ETS compensation eligibility, were related to:

- the maximum level of compensation – with many businesses suggesting that compensation should be at the maximum allowable; and
- the use of an additional filter at the ‘company level’ – here there was a concern about whether a ‘company level’ filter might unfairly discriminate against those companies which make a number of different products and services.

12. Many responses were received that related to the proposed additional filter. It was proposed that to receive compensation a business in an eligible sector has to provide evidence to demonstrate that their indirect carbon cost (the combined cost of EU ETS and CPS) in 2020 will amount to 5% of their GVA.

13. A number of respondents disagreed with this approach. There were specific concerns that the ability to pass this test may be heavily influenced by a company’s structure. There were also concerns about the extent to which data relating to non-energy intensive activity may be captured by this approach.

14. Concern was also raised that by compensating companies that pass the 5% test and not others that manufacture the same product (because they do not pass the test) the policy may introduce market distortions. To address this some suggested that the filter test should be at the plant or installation level.

15. Some respondents asked that government allows for any changes in baseline activity and / or company structure during the 2005-11 reference period when assessing the 5% test gross value added (GVA) impact test.

## Government response

16. Government is seeking to target this compensation on the most energy intensive industrial processes. While we recognise the concerns raised by industry about the company level test, there are a number of problems with moving away from a 'business' or 'company' level approach particularly relating to the calculation of GVA at a plant / installation level and how this can be validated.

17. Government is keen to minimise the administrative burden on business for this compensation and has therefore decided to retain the test at the overall 'business-level' but with an additional provision to account for issues caused by company structure or for companies that manufacture the same product. This is set out in the detailed guidance and is in line with the approach being taken with indirect ETS compensation. Government also accepts the concerns about changes in baseline activity or structure during the reference period and measures to address all these concerns are detailed in the Government's guidance.

### - Are there any companies which are not on the eligibility list which would meet this test? Please provide evidence?

18. The proposed approach to eligibility for CPS compensation was to largely mirror the eligibility for the indirect ETS compensation scheme.

19. However, we were concerned that there may be a few specific products which were electricity intensive, but not captured by the EU ETS eligibility list. The consultation stated -

"If a company or trade association operating within a sector not named on the eligibility list can provide Government with firm evidence in favour of eligibility, the Government will consider putting the case for inclusion to the Commission at formal state aid notification stage. In order to demonstrate that a company within a sector is at risk within the UK, we would require quantitative evidence as part of this consultation of the following:

- Evidence that shows that the company's carbon costs (CPF and EU ETS) in 2020 will amount to at least 5% of GVA.
- Evidence that the product is significantly traded within (or beyond) Europe or that imports would become more economically viable as a result of increased carbon costs."

20. We received consultation responses making the case for 41 sectors/products. To ensure all the cases for CPF compensation were considered in a fair and consistent manner we put in place an objective process to consider the case for the sectors and subsectors which came forward.

## Government's response

21. Of the 41 products and sectors which came forward, Government accepted that 25 satisfied the two conditions set out above.

22. However, on 9 April this year, the European Commission published its new Environment and Energy Aid Guidelines (EEAG). Whilst the new guidelines provide a firm legal basis for CPS compensation, they also set out clear rules around eligibility - that only the sectors and sub-sectors that are included in the ETS compensation scheme eligibility list are eligible to receive compensation for the indirect costs of carbon taxes, such as the CPS.

23. In light of the new EEAG, it is clear that there is now no legal basis for the Commission to allow for the inclusion of additional sectors into the UK's CPS compensation scheme. Therefore, from April 2014, the eligibility for the new indirect CPS compensation scheme will be firmly in line with the indirect ETS compensation scheme. However, we remain concerned about those products which are electricity intensive, but which are not on the indirect ETS eligibility list. For this reason, the UK Government will be discussing with the European Commission, the potential for reviewing the ETS eligibility list with a view to the future inclusion of the additional sectors which came forward with compelling evidence regarding their electricity intensity.

### 3. Annex A

Respondents to the consultation

1.	ABB Ltd
2.	Aluminium Federation Ltd
3.	Association for the Conservation of Energy
4.	BASF
5.	BOC
6.	Boortmalt
7.	British Ceramic Tile
8.	British Ceramics Confederation
9.	British Compressed Gases Association
10.	British Glass Manufacturers Confederation
11.	British Lime Association
12.	British Polythene Ltd
13.	British Tyre Manufacturers Association
14.	CELSA Manufacturing UK Ltd
15.	CEMEX UK
16.	Chemical Industries Association
17.	Confederation of Paper Industries
18.	DSM Nutritional Products UK Ltd
19.	EDF Energy
20.	EEF / UK Steel
21.	Energy Intensive Users Group
22.	Friends of the Earth

23.	Grantham Research Institute
24	Growhow UK Ltd
25.	Imerys Minerals Ltd
26.	Ineos Chemicals Grangemouth Ltd
27.	Ineos Chlorvinyls Ltd
28.	Ineos Enterprises
29.	Innovia Films
30.	Johnson Tiles
31.	Lafarge Cement UK
32.	Lucite International Group Ltd
33.	Mainetti UK Ltd
34.	The Maltsters' Association of Great Britain
35.	Mersen Scotland Holytown Ltd
36.	Mineral Products Association
37.	Minesco
38.	North East Process Industry Cluster
39.	Novelis Uk Ltd
40.	Petroineos Manufacturing Scotland Ltd
41.	RWE npower
42.	Sabic UK Petrochemicals Ltd
43.	Saffil Ltd
44.	Sandbag Climate Campaign
45..	Sandvik Materials Technology Ltd
46.	Scotch Whisky Association



47.	Scottish Power
48.	SGL Carbon Fibers Ltd
49.	Sheffield Forgemasters
50.	Sibelco UK
51.	Tata Chemicals Europe
52.	Tata Steel Europe
53.	Tees Valley Unlimited
54.	UCM - Magnesia Ltd
55.	The Utilities Exchange Ltd
56.	UK Petroleum Industry Association
57.	Unifrax Ltd
58.	Wood Panels Industry Federation

© Crown copyright 2014

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. Visit [www.nationalarchives.gov.uk/doc/open-government-licence](http://www.nationalarchives.gov.uk/doc/open-government-licence), write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

This publication available from [www.gov.uk/bis](http://www.gov.uk/bis)

Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills  
1 Victoria Street  
London SW1H 0ET  
Tel: 020 7215 5000

If you require this publication in an alternative format, email [enquiries@bis.gsi.gov.uk](mailto:enquiries@bis.gsi.gov.uk), or call 020 7215 5000.

**URN BIS/14/997**