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## Sustainability & Climate Change Reporter

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### **UK Carbon Allowance Rebate Scheme to Become a Carbon Tax**

The U.K.'s nascent Carbon Reduction Commitment (CRC) Energy Efficient Scheme appears to be making a dramatic change from a rebate program to an outright tax. Before the first carbon allowances have even been sold, Britain's efforts to reduce its [budget deficits](#), apparently are the driver for taking the CRC from a scheme that "recycles" carbon allowance revenues back to users and converting it to the government keeping that revenue to "[support public finances](#)."

#### **Original CRC Scheme**

The U.K. just launched the CRC on April 1 this year to apply to roughly 20,000 businesses, including banks, hotels, government facilities (including schools), and industries. As outlined in the [CRC User Guide \(PDF\)](#), organizations that use more than 6,000 MWh of electricity a year, about one-fifth of all covered users, would have to buy carbon allowances based on their energy usage. The initial phase of the scheme set a fixed price of £12/tonne of carbon (US \$18.86) for allowances, with sales to begin in April 2011. The plan was to recycle the carbon allowance revenue back to users according to an organization's energy performance -- those who ranked highest in energy efficiency would get the most back. The first rebates were to be paid out in October 2011.

#### **Budget-Driven Changes**

Faced with a government policy to reduce the country's substantial budget deficits, the 2010 Spending Review for the next four years would take the "revenue from the CRC Energy Efficiency Scheme to support public finances (including spending on the environment), rather than recycled to participants." This could amount to about £1 billion per year (US \$1.57B) that won't be recycled to CRC participants. Notwithstanding the repurposing of CRC and other budget cuts, DECC remains committed to increasing environmental expenditures to meet the U.K.'s goals of reducing greenhouse gas emissions by 34 percent and increasing the share of renewable energy to 15 percent by 2020.

At the outset , the CRC scheme was complex and, when last we [blogged](#) about it, things were looking a little dicey because as many as 40 percent of U.K. businesses didn't even know they were supposed to register for the scheme by September 30, 2010. Switching from a rebate program to a tax certainly would eliminate some of the scheme's complexity, for example, it appears that the league ranking system to determine who qualified for what amount of rebates is no longer necessary, but it remains uncertain what other changes might result.

### **Good News or Bad?**

The shift to a tax was announced on October 20, so it's a little early yet to assess the reaction or consequences. Generally, it's likely that environmental groups and some businesses that prefer a carbon tax may find the change preferable. But it's also just as likely that many of the 5,000 or so U.K. businesses and industries that will have to pay the tax will not be too happy with the increase in costs.

For those of us in the U.S., it's hard to imagine that a federal or state government could ever adopt a CRC-like scheme here, let alone convert it from a rebate program to an outright tax. Nevertheless, the U.K. experience is more than just an academic exercise. For better or for worse, it may add fuel to our own debates regarding pros and cons of cap-and-trade versus a carbon tax.

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