



## Integrated policy approach shows its worth

The future of Climate Change Agreements beyond this decade lies in the balance. But their worth as an energy-saving tool should not be underestimated or written off

**A**cross the UK there are over 10,000 different business facilities involved with delivering Climate Change Agreements. Fifty one trade sectors currently receive an 80% tax break, in exchange for delivering agreed amounts of saved energy. The big questions are: does the policy work? Is it value for money?

My conclusion is that these Climate Change Agreements (CCAs) have delivered more energy, hence carbon, savings than a non-interventionist policy would have done – albeit the absolute amounts have been less than originally anticipated. It is likely these could all have been delivered at a lower cost to the public purse, had the original discounts recommended by its progenitor, the 1998 Marshall Report, remained at 50 rather than 80 per cent.

### Success of Climate Change Levy

The Climate Change Levy is the longest established instrument designed to affect the business sector in order to meet binding international climate change commitments. That the CCAs have delivered more energy savings than would have occurred in its absence is now presumed by government. The latest review, prepared this summer by the National Audit Office (NAO), appears to accept the government's estimate that the scheme will be delivering savings of 1.9 MtC by 2010 – all of which are additional to those that could reasonably have expected to be delivered by business-as-usual. This figure is a reduction of one-third on the 2.9MtC which had been assumed would accrue by government, as recently as 2004.

However, in 2005 modelling by Cambridge Econometrics concluded that most sectors would have surpassed their targets regardless: "A combination of technological change and relative decline in UK energy-intensive sub-sectors of manufacturing ... implies that the energy (and therefore carbon) and energy efficiency targets would have been met without the Agreements."

### Return on capital within 24 months

Bearing in mind that a) the basic yardstick used by government negotiators was always that all CCAs should incorporate only energy saving measures which would return all their capital within 24 months, and b) that only 60% of such identified saving measures needed be taken up to achieve the 80 per cent reductions, such additional sav-



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50% of major energy users acknowledged that compliance with CCAs resulted in these additional energy savings.

### Cost to the Treasury

Are the Climate Change Agreements value for money? This depends on how much revenue the Treasury isn't collecting, as a result of allowing all these companies an 80 per cent discount. In its report this January on the cost-effectiveness of the government's 2006 climate change programme, the NAO stated that the cost in 2005/6 to the Treasury, of forgoing its anticipated full Levy revenue from the 51 industrial sectors now incorporated within the CCA, was "around £300m". The August NAO review cites Cambridge Econometrics as identifying the sum forgone in 2003/4 as £350m.

The Treasury has never confirmed publicly the correct figure. This makes it extremely difficult to calculate what the precise cost per tonne of carbon saved by the CCAs has been, in order to verify the former Chancellor (now Prime Minister)'s oft-repeated claim that this was the "jewel in the crown" of his carbon abatement programme. But on the basis of the two figures given, the "NAO" figure works out at £158 per tonne of carbon saved, the "Cambridge Econometrics" figure some £184.

This should be contrasted with the cost per tonne saved to the public purse of other programmes identified in the January NAO Report on the climate change programme (e.g. the Energy Efficiency Commitment at a negative cost of £270, or Warm Front, at a negative cost of £420 per tonne).

According to the NAO August review, the government considers the CCAs bring a net benefit – i.e. negative cost – to the UK of £90 for every tonne of carbon the policy saves: this more positive conclusion apparently reflects savings to participating businesses of future fuel bills, as well as benefits from improved air quality, set at £500m.

No announcement has yet been made about the future of all these Agreements beyond this decade. Before that happens, we need to agree whether the policy of introducing them worked. And the answer, with reservations, should definitely be positive. ■

### FURTHER INFORMATION

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