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CARBON SCHEMING: THE GOVERNMENT'S CRC BOMBSHELL

By Michael Hutchinson

We should have known better. The very idea that any Government would go to the trouble of constructing a scheme as "baroque" (per Chris Huhne) as the CRC to raise billions of pounds only to hand it all back to the poor business taxpayer was always going to be improbable at best.

What's most galling, though, about George Osborne's tax grab – which you can find buried somewhere midway through the Spending Review 2010 – is the fact that our new Chancellor seems utterly indifferent to that quaint old custom that says you need to share decisions to impose massive tax hikes with Parliament.

His failure to mention, or even hint at, his sleight of hand in reworking the CRC in his speech to the Commons last week is compounded by the fact that this tax rise will not need primary legislation to bring it into effect.

Hardly "fair and transparent". Anyway, enough righteous indignation (for now).

For those readers not familiar with the CRC and the changes announced in the Spending Review, here's what the Coalition has been up to.

The CRC is a carbon trading scheme that was introduced in April this year to encourage businesses to invest in energy efficiency. In broad terms, any group of businesses with an electricity bill of over £500,000 a year has to buy "allowances" equivalent to their energy use.

Labour took great pains to argue that the scheme was not a tax because almost all of the money raised in the annual sale of allowances was going to be "recycled" to participants based on their performance in a "league table". If you cut your emissions, took "early action" or lowered your emissions per unit of turnover, you would do well in the league table and get a proportionately better recycling payment compared to those who did not.

The principle sounds good but it went horribly wrong in the execution. The rules were over-complicated and, ultimately, pretty easy to get around. The CRC was an object lesson in not allowing civil servants with noble aspirations to get carried away with dreaming up kooky legislation.

This all led to calls for the CRC to be simplified, which undoubtedly it was. The wholesale abandonment of recycling payments may make the CRC less complex but it is certainly now more blunt. Instead of revenue being passed back to participants it will go to the Treasury. There will be no ring-fencing for environmental projects.

Neither the Conservatives nor the Liberals gave any serious hint that they were uneasy about this aspect of the CRC and many businesses spent a great deal of time and money preparing for the scheme, not least by investing in "early actions" with a view to being rewarded by the recycling payment.

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As a sweetener, the first sale of allowances has been postponed for a year, but it looks like businesses will have to buy allowances for the current year and next year.

Businesses now need to get to grips with where to find the extra money to meet these changes and what steps, if any, they can take to minimise the impact of the scheme.

They also need to look ahead: there are going to be more changes to the CRC – it's likely to be applied to smaller businesses – and the Government has big plans for the Climate Change Levy – it too will be turned into a carbon tax.

Whilst the Government's approach may meet its need for cash, it's likely to have wider implications for the "green economy". Already nervous investors will now be much more wary about piling money into green schemes where the economics are dependent on policy-created markets, especially in the renewables sector.

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