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BASDA briefing paper

**ENVIRONMENTAL SUSTAINABILITY
- A BUSINESS IMPERATIVE**

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ENVIRONMENTAL SUSTAINABILITY - A BUSINESS IMPERATIVE

As we emerge from one of the deepest recessions of the last 60 years, sustainable development remains an important trend for both business and society. To remain relevant in the 21st century business environment, many organisations are competing against each other, using sustainable development principles to differentiate their brands and related product marketing.

The new coalition Government has also stated that there will be 'No let up on the carbon agenda' and has committed to being the 'Greenest Government ever' and leading by example.

Public and Commercial Sector organisations are therefore beginning to focus on environmental sustainability as a way to improve their business.

In a recent report, when asked for the top five reasons to adopt sustainable strategies respondents said:

- 68% - to gain customer trust;
- 68% - to make the business more efficient;
- 62% - to allow staff to make better operational decisions;
- 56% - to meet new legislative standards;
- 46% - to better measure manufacturing processes.

Combine this with the much lower importance given to sustainability as a way to bolster brand image (38%) and it appears that respondents now realise the difference between a self-serving PR exercise and genuine improvement.

Additionally 56% of businesses surveyed stated increasing climate change-related regulation and standards are a clear stimulus to work on sustainability measures.

It is also clear that environmental considerations are playing an increasingly prominent role in government procurement activity. While the profile is less important on smaller tenders, for suppliers involved in major projects, their response to environmental issues has become a significant factor in winning government business.

The CRC Scheme

On 01 April 2010, the CRC Scheme came into force in the UK mandating around 6,000 UK firms to report on their carbon emissions. The CRC is a mandatory emissions trading scheme, designed to reduce energy use in the commercial and public sectors and to encourage investment in new technology aimed at reducing carbon dioxide (CO₂) emissions.

The CRC will run for set time periods known as “phases”. The first phase (known as the “introductory phase”) will run for three years from 2010 to 2013 and subsequent phases will each last for seven years. Each year in a phase (known as a “compliance year”) will run from 01 April to 31 March.

The CRC will be administered by the Environment Agency (for England and Wales), the Scottish Environment Protection Agency and the Northern Ireland Environment Agency (collectively referred to as the CRC “Administrator”).

An organisation will be required to participate in the CRC where, during the relevant “qualification period”, its UK operations:

- (1) consumed at least 6,000 mega-watt hours of electricity (equal to approximately £500,000 of electricity bills per annum); and
- (2) had at least one “half hourly electricity meter” (a meter which records total energy consumption every half hour and automatically transfers this information to the energy supplier).

The qualification period is the 2008 calendar year for the introductory phase, and the previous financial year to the first compliance year for subsequent phases.

An organisation which has a half hourly electricity meter, but fails to meet the electricity consumption threshold, may still need to disclose certain information to the CRC Administrator (known as “information disclosure”) including how much electricity it has consumed through all half hourly electricity meters.

Registration:

CRC participants will need to register with the CRC Administrator for participation in each phase of the CRC. The registration period runs from April to September during the first compliance year of each phase. The registration deadline for the introductory phase is **30 September 2010**. As at June 2010, only 500 impacted organisations had registered (source: Environment Agency).

Calculating emissions:

Participation in the CRC is governed by the calculation of an organisation's CO₂ emissions from its energy use (i.e. consumption of electricity, gas and any other types of fuel such as coal, LPG and diesel) minus exempt emissions (e.g. emissions relating to energy used for transport or onward supply). A CRC participant's CO₂ emissions will determine the number of allowances that it will be required to purchase (and surrender) to comply with the CRC scheme.

Purchasing allowances:

For each compliance year (excluding the first compliance year in the introductory phase), CRC participants will need to purchase sufficient allowances (directly from the CRC Administrator or from the secondary market) to cover their annual CO₂ emissions. One allowance will be the equivalent of 1 tonne of CO₂. During the introductory phase (excluding the first compliance year), allowances will be sold at a fixed price of £12/tonne CO₂. However, from April 2013, the total pool of allowances will be capped and subject to auction.

Emissions management:

CRC participants will be encouraged to develop systems to manage their CO₂ emissions and to improve their energy efficiency. CRC participants using more energy than they originally predicted will need to purchase additional allowances to fulfil their CRC obligations with obvious cost consequences. Conversely, participants making energy efficiency savings (and therefore using fewer allowances than anticipated) will be able to sell any surplus allowances on the secondary market.

Reporting: CRC participants will be required to submit:

- (1) a "footprint report" at the start of each phase showing which of the organisation's overall emissions are covered by the CRC; and
- (2) an annual report at the end of July following each compliance year indicating what its emissions were during that compliance year.

Performance commitment:

CRC participants will be required to surrender allowances corresponding to their total CO₂ emissions **by the last working day of July** after the end of a compliance year (with the exception of the first compliance year in the introductory phase). The CRC Administrator will then cancel the allowances.

League table:

Following annual reporting, the CRC Administrator will publish a league table showing how all participants have performed under the CRC scheme. Participants' performance will be assessed against three metrics –

(1) early action (i.e. fitting automatic meter-reading equipment and/or meeting Carbon Trust (or equivalent) standards);

(2) absolute growth in emissions (i.e. percentage change in emissions); and

(3) relative growth in emissions (i.e. carbon intensity of any growth or decline in turnover). Whilst the league table will be weighted in favour of the early action metric in the first compliance year of the introductory phase (i.e. April 2010-March 2011), early action will not be considered from April 2013 onwards and the league table will be calculated largely with reference to the absolute growth metric.

Revenue recycling payments (i.e. revenues received from the sale of allowances by the CRC Administrator) will be recycled back to participants depending on their performance in the league table. In essence, this means that high performance (and therefore high league table position) will be rewarded by bonuses in the form of recycling payments (**predicted to equate to up to 150% of the original outlay for allowances by 2020**). It is also anticipated that high league table rankings will provide reputational benefits, particularly in consumer facing industries.

Penalties for non-compliance:

Civil penalties (such as fines and publicity notices) may be issued for the majority of offences under the CRC (such as the offences of failing to register or failing to submit an annual report, both of which result in a **£5,000 fixed penalty and daily fines thereafter**). However, CRC participants may also incur criminal liability for certain offences (e.g. failing to comply with an enforcement notice or attempting to deceive or mislead the CRC Administrator). Criminal penalties can include fines up to £50,000 (on conviction in the Magistrates' Court), or an unlimited fine (on conviction in the Crown Court).

Directors' and officers' liability:

Individual directors and officers may be subject to personal liability where an offence is proved to have been committed with their consent, connivance or neglect. In extreme circumstances, they could be subject to imprisonment for a term not exceeding three months on conviction.