

# PARLIAMENTARY DEBATES

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OFFICIAL REPORT  
GENERAL COMMITTEES

Public Bill Committee

## FINANCE (NO. 3) BILL

**(Except clauses 4, 7, 10, 19, 35 and 72)**

*Thirteenth Sitting*

*Thursday 9 June 2011*

*(Morning)*

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CLAUSES 73 to 76 agreed to.

CLAUSE 77 under consideration when the Committee adjourned till this day at One o'clock.

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**The Committee consisted of the following Members:**

*Chairs:* HUGH BAYLEY, †MR ROGER GALE, MR JIM HOOD

- |   |   |
|---|---|
| † Aldous, Peter ( <i>Waveney</i> ) (Con)                                  | † Lee, Jessica ( <i>Erewash</i> ) (Con)   |
| † Barclay, Stephen ( <i>North East Cambridgeshire</i> ) (Con)             | † Lewis, Brandon ( <i>Great Yarmouth</i> ) (Con)                                |
| † Blenkinsop, Tom ( <i>Middlesbrough South and East Cleveland</i> ) (Lab) | † McCarthy, Kerry ( <i>Bristol East</i> ) (Lab)                                 |
| † Blomfield, Paul ( <i>Sheffield Central</i> ) (Lab)                      | † McCartney, Karl ( <i>Lincoln</i> ) (Con)                                      |
| † Bradley, Karen ( <i>Staffordshire Moorlands</i> ) (Con)                 | † McClymont, Gregg ( <i>Cumbernauld, Kilsyth and Kirkintilloch East</i> ) (Lab) |
| † Creasy, Stella ( <i>Walthamstow</i> ) (Lab/Co-op)                       | † McGovern, Alison ( <i>Wirral South</i> ) (Lab)                                |
| † Crockart, Mike ( <i>Edinburgh West</i> ) (LD)                           | † Mearns, Ian ( <i>Gateshead</i> ) (Lab)  |
| † Crouch, Tracey ( <i>Chatham and Aylesford</i> ) (Con)                   | † Murray, Ian ( <i>Edinburgh South</i> ) (Lab)                                  |
| † Dakin, Nic ( <i>Scunthorpe</i> ) (Lab)                                  | † Nash, Pamela ( <i>Airdrie and Shotts</i> ) (Lab)                              |
| † Esterson, Bill ( <i>Sefton Central</i> ) (Lab)                          | † Parish, Neil ( <i>Tiverton and Honiton</i> ) (Con)                            |
| † Gauke, Mr David ( <i>Exchequer Secretary to the Treasury</i> )          | † Phillipson, Bridget ( <i>Houghton and Sunderland South</i> ) (Lab)            |
| † Glindon, Mrs Mary ( <i>North Tyneside</i> ) (Lab)                       | † Sharma, Alok ( <i>Reading West</i> ) (Con)                                    |
| † Goodwill, Mr Robert ( <i>Scarborough and Whitby</i> ) (Con)             | † Shelbrooke, Alec ( <i>Elmet and Rothwell</i> ) (Con)                          |
| † Greening, Justine ( <i>Economic Secretary to the Treasury</i> )         | † Smith, Julian ( <i>Skipton and Ripon</i> ) (Con)                              |
| † Hanson, Mr David ( <i>Delyn</i> ) (Lab)                                 | † Wharton, James ( <i>Stockton South</i> ) (Con)                                |
| † Harrington, Richard ( <i>Watford</i> ) (Con)                            | † Williams, Roger ( <i>Brecon and Radnorshire</i> ) (LD)                        |
| † Hoban, Mr Mark ( <i>Financial Secretary to the Treasury</i> )           | † Williams, Stephen ( <i>Bristol West</i> ) (LD)                                |
|   | Wilson, Sammy ( <i>East Antrim</i> ) (DUP)                                      |
|   | Simon Patrick, <i>Committee Clerk</i>   |
|   | † <b>attended the Committee</b>   |

## Public Bill Committee

Thursday 9 June 2011

(Morning)

[MR ROGER GALE *in the Chair*]

### Finance (No. 3) Bill

(Except clauses 4, 7, 10, 19, 35 and 72)

9 am

**The Chair:** Good morning, ladies and gentlemen. Welcome to the penultimate sitting of the Committee. Mr Patrick, the Clerk, has asked me to remind the Committee that although this is the last day, hon. Members may not wear their own clothes or bring in games!

#### Clause 73

##### BUSINESS SAMPLES

*Question proposed,* That the clause stand part of the Bill.

**Mr David Hanson** (Delyn) (Lab): Welcome back to the Chair, Mr Gale. May I say, in passing, congratulations today on your 28th year in the House of Commons? [HON. MEMBERS: "Hear, hear!"] I confess that I would have joined you in entering the House on that day had it not been for the 19,000-vote majority that Alastair Goodlad got in Eddisbury at the time, but *c'est la vie*—these things happen.

I have a quick question about the clause. It makes changes to the provisions relating to the VAT treatment of samples of goods given away by businesses. I notice that in the tax information and impact note, Her Majesty's Revenue and Customs invited claims from affected businesses prior to implementation of this provision, which will come into effect on Royal Assent. Will the Minister say how many businesses have expressed an interest to date, since the establishment of this potential measure on 30 September 2010, following the decision on the EMI case?

**The Exchequer Secretary to the Treasury (Mr David Gauke):** It is a pleasure to serve under your chairmanship again, Mr Gale. The clause gives effect to a recent judgment of the Court of Justice of the European Union, which extended the VAT relief available to businesses that give away samples for marketing purposes. The changes made by the clause will remove the restriction that limits the relief to the first sample, so that the second or subsequent sample of identical or not significantly different goods will also be VAT free. The clause will also remove the reference in UK law to the "gift" of a sample, to differentiate between samples and "business gifts", which are also relieved from VAT, subject to a monetary limit.

The change will be welcomed by businesses that promote their products through the provision of a number of samples to particular individuals or businesses.

It is estimated that the revenue cost of the change is in the region of £10 million for back claims and £5 million per annum going forward.

The right hon. Member for Delyn asked about the business response and representations that we have received. I am not in a position to provide an answer to him, but I will happily write to him and the rest of the Committee in due course to provide details. The measure extends the relief already available to business and will assist those for which giving samples is a key marketing tool.

*Question put and agreed to.*

*Clause 73 accordingly ordered to stand part of the Bill.*

#### Clause 74

##### ZERO-RATING: SPLITTING OF SUPPLIES

*Question proposed,* That the clause stand part of the Bill.

**Mr Hanson:** I have a couple of questions about the clause, which I hope are relatively straightforward. First, there has been speculation about whether the United Kingdom Government would need a derogation under article 395 of directive 2006/112/EC before the clause could be introduced. I would welcome the Minister's comments on whether he believes that such a derogation is required.

In addition, the Minister will be aware that there has been some discussion between that august body that has been very helpful to the Committee, the Institute of Chartered Accountants in England and Wales, and HMRC on the implementation of the clause. Although there has been helpful discussion, and HMRC's and the Minister's policy intentions for the clause have been under discussion, it may help the Committee if he places on record his response to the concerns of the ICAEW. It still believes that the clause is very widely drafted and may impact far more widely than he and HMRC intend.

The ICAEW raised that concern in response to the draft Finance Bill clauses published in December, and HMRC has set out what the policy intentions are. However, it might be helpful if the Minister responded so that we have clarity outside private correspondence and discussions about the intention in the clause and the concerns raised by the institute, which is particularly anxious about the requirement for two suppliers to be connected, even if they are not aware of each other's existence.

There is no requirement on HMRC to demonstrate that there has been a tax advantage or artificial value-shifting. Its examples in a briefing to hon. Members indicate that it believes that the following, for example, could be caught by the clause: a newspaper promotional coupon offering a 10% reduction on a restaurant meal; someone hiring electrical equipment from one supplier, who decides to purchase from another independent retailer a book on how to use it; someone having their car serviced, who decides to buy a servicing manual to check that the job has been done properly; a tutor giving a reading list to a group of fee-paying students, who then buy the books from various independent booksellers—the booksellers would not necessarily know that the purchase was linked to an exempt supply of educational material.

I am sure that all those matters can be easily tied down. The Minister knows that case law often considers what is said in Committee, and in the interest of clarity, we should not accept the clause until he has had an opportunity to cover those points and to put the record straight.

**Mr Gauke:** The clause acts to close a VAT avoidance scheme. The changes that it makes will remove zero rating from the supply of printed matter when it is supplied in connection with services and in circumstances in which the printed matter would not have been zero-rated if both had been supplied by a single supplier. At present, the arrangements are confined mainly to a small number of large businesses, but we believe that there is scope for abuse in any circumstance in which printed material qualifying for the zero rate is supplied with a differently rated service. That is why we are acting now. The clause will have an impact only on businesses that are engaged in that sort of artificial tax planning, and will not affect those who are making legitimately separate supplies to their customers. It is estimated that this counter-avoidance measure will yield £40 million in 2011-12, rising to £60 million a year by 2015-16.

I shall deal with the points that the right hon. Gentleman rightly raised. He asked whether the measure requires a derogation to be agreed by the EU Commission. It does not. It simply ensures that the boundary of the UK zero rate for printed matter is maintained by restricting the scope and circumstances in which, but for supply splitting, it would not apply anyway. Under the terms of the principal VAT directive, the UK has the right to maintain and restrict the scope of its domestic zero rates without reference to the EU Commission.

The right hon. Gentleman asked about the point raised by the Institute of Chartered Accountants and others that the measure goes further than necessary. We believe that it has much more limited application than some of the respondents fear. It will apply only when a supply of printed matter by one person is so closely connected with the supply of services by another that the two supplies would properly have been considered to be a single supply for VAT purposes if they had been made by the same person.

The clause will have an impact only on businesses that have entered into arrangements that artificially split what would otherwise have been a single supply into two separate supplies. It will not have any impact on businesses that are commercially or economically independent of each other and making supplies that, from the customer's point of view, are separate. Therefore, we do not believe that the measure will catch unwitting or innocent transactions.

The words "connected with" in note (2) in the clause are given a specific meaning, which is set out in note (3). In particular, the clause will have no effect unless the supply of printed matter is so closely linked to a supply of services that the two supplies would have been treated as a single supply of services if they had been made by a single supplier.

Although the rules on what constitutes a single supply can be difficult in some cases, the underlying principle, which has been repeatedly endorsed by the courts, is simple. Two supplies will be treated as a single supply for tax purposes only if they are so closely linked that

they form objectively a single economic supply that it would be artificial to split. By definition, an unwitting or innocent transaction will not be so closely linked to a supply of services by someone else, but together they constitute a single economic supply that it would be artificial to split. To be clear, the clause supports the Government's aim of making the tax system fairer and prevents the use of an avoidance scheme that is unfair to customers and a cost to the Exchequer. I therefore urge that the clause stand part of the Bill.

*Question put and agreed to.*

*Clause 74 accordingly ordered to stand part of the Bill.*

## Clause 75

### ACADEMIES

*Question proposed,* That the clause stand part of the Bill.

**Mr Hanson:** The clause will create a new refund scheme to enable academies to recover VAT incurred on goods and services used in the provision of free education. As Members will know, academies are schools in England that enter into academy arrangements under section 1 of the Academies Act 2010, or enter into an agreement with the Secretary of State under section 482 of the Education Act 1996.

I have no objection in principle to the clause. As I understand it, it will ensure that a similar situation is put in place to that in schools under local authority control, which have their non-business VAT refunded. However, I have a couple of questions on which I hope the Minister can put my mind at ease.

First, I would like to look at the position of VAT and Europe. My hon. Friend the Member for Gedling (Vernon Coaker) has passed me an e-mail from one of his constituents, who had contacted him as a former schools Minister to raise the issue. The constituent had raised the issue with the European Commission and, on 14 April, received the following response:

"We have analysed the published proposal for legislation to exempt academies from VAT. Following that analysis we have substantial doubts whether that legislation is consistent with the provisions of the VAT Directive; these doubts relate in particular to the combination of a supply of exempt services with a right to deduct input VAT and to the principle of equal fiscal treatment. With your agreement, we would therefore treat your file as a complaint which we would register with the responsible service for monitoring the correct application of EU tax law and which will engage the appropriate procedures for making sure that these provisions are applied properly."

Will the Minister reassure me and my hon. Friend by responding to the substance of that claim—that the proposals in the clause have created some concern with the Commission? Will he place on record his view of that potential dichotomy between the Commission view and UK Government policy, which I know is a matter close to his heart?

9.15 am

Secondly, the Treasury proposal allows for such VAT to be dealt with in a similar way to that of local authority schools. Academies get a VAT grant to compensate for the fact that, unlike local authority schools, they are eligible to pay VAT, which I understand is around £250,000 per school. I would welcome the Minister's clarification, but I understand that the grant

is given by the Department for Education to compensate for the situation that he is trying to deal with in the clause.

If that is the case, it raises two questions. First, what will happen to the grant to compensate for VAT paid given to academies by the Department? Will that continue? If the proposal is enacted, there could be a question of double counting, with academies getting the grant, as they currently do, and then receiving the relief.

Logic says that the grant could ultimately be withdrawn. There are about 200-plus academies that could be receiving the grant. That number could rise to 400-plus, all of which could receive the grant. Therefore, this should be a revenue-neutral move if the Minister is withdrawing the grant. What will happen to the money that is being saved? Will it be removed from the Department for Education's budget for future years?

**Bill Esterson** (Sefton Central) (Lab): My right hon. Friend is raising an interesting point about how academies benefit from some of the financial arrangements. Does he agree that if this clause goes through, about £250,000 will need to go back to local authority schools otherwise they will be further disadvantaged by some of the other arrangements that have been made for academies?

**Mr Hanson:** I am grateful to my hon. Friend for raising that point. If the information is correct—I would genuinely welcome some clarification on that—and there is a £250,000 grant from the Department for Education for schools that become academies to compensate for the VAT, and if clause 75 effectively neutralises that VAT, it means that £250,000 per school times the number of academies now and in future has been factored into the overall education budget.

If the Minister is neutralising the VAT issue, does the Treasury intend to repatriate that portion of the budget for another purpose or will it use it to pay for the VAT position in the clause? Will the Department for Education maintain the £250,000 per school times however many academies there are now and in future to ensure that the money stays within the overall education budget?

In essence, my hon. Friend the Member for Sefton Central is asking whether the spending review headline figures for the schools budget will be altered in any way as a result of the VAT changes in the clause, given that the VAT grant was paid by the Department for Education to schools which became academies or which are to become academies.

Has the Treasury calculated how much extra VAT it will receive in 2010-11, 2011-12 and beyond? Moreover, has the Treasury included the loss of income from existing academies in future scoring for VAT? Has the EU given any indication that there might be a problem with this exemption, as seen in the e-mail from the constituent of my hon. Friend the Member for Gedling? What is the net effect on schools funding overall? If the EU objects, is there a plan B for this particular issue and where are we on that?

While the principle of the clause is fine, the Minister needs to reflect on and provide satisfactory answers to a couple of questions.

**Mr Gauke:** Clause 75 creates a new refund scheme to enable academies to recover the VAT incurred on goods and services used in the provision of free education. For these purposes, academies are schools in England that

enter into academy arrangements with the Secretary of State for Education under the Academies Act 2010 or the Education Act 1996. VAT can ordinarily be recovered from HMRC only on expenditure relating to taxable business activities. The provision of free education is a non-business activity, so VAT incurred on related expenditure cannot usually be reclaimed. An exception to this rule is that schools under local authority control, which of course provide free education, can claim the VAT paid on their expenditure through the refund scheme for local authorities in section 33 of the VAT Act 1994. Academies cannot access the scheme because they are not under local authority control, consequently, the changes that the clause makes enable academies in England to recover VAT incurred in their provision of free education.

It is important to be clear that the measure is not about giving academies additional funding of any kind or a funding advantage over local authority schools. Instead, it is simply the most efficient and sustainable means of ensuring that academies are funded in a manner consistent with how local authority schools are funded. If we did not introduce such a refund scheme, academies would be at a significant disadvantage compared with local authority schools, because they would have to pay VAT out of a funding allocation that was never designed to cover such costs.

**Roger Williams** (Brecon and Radnorshire) (LD): The Minister knows that we do not have academies in Wales, but we have charitable institutions set up for educational purposes, such as Christ college in my constituency, which was established after the dissolution of the monasteries in 1541. Charities complain, particularly after the latest increase to 20%, that they cannot reclaim all their VAT, which puts them at a disadvantage. The Charity Commission now insists that such establishments demonstrate that they meet their charitable purposes, so is it not time to reconsider their VAT position?

**Mr Gauke:** There is a wider point about charities and VAT to which I suspect we will return in detail this afternoon. Voluntary-aided schools that fall outside the scheme are not in the same position as local authority schools that become academies, and are not disadvantaged by the clause. The new refund scheme does not in any way discriminate against them. Voluntary-aided schools have always had the VAT element of their revenue costs refunded via the local authority, but they remain responsible in law for their own buildings and land, therefore they have never had the VAT element of their capital costs refunded. However, the Department for Education adds an allowance for irrecoverable VAT on eligible capital funding.

As far as academies are concerned, we obviously did not want unfairness in the system, and the only other way around the problem of academies having to pay VAT out of a funding allocation that was never designed to cover such costs would have been to design a whole new means of allocating funding to academies, meaning that we financed academy schools in one way and local authority schools in another. I suspect that that would in itself cause some controversy and be unlikely to be fair to one group or the other.

The right hon. Gentleman asked some sensible questions that I shall attempt to address. His first point was about whether the refund scheme was compatible with EU VAT

law. This is a public expenditure measure, and as such falls within the competence of the Government as opposed to the EU, but it is wholly compatible with EU law. The European Commission has accepted VAT refund mechanisms, such as this one, provided that they do not affect the EU budget or distort competition with business, and the provision does neither. The important point is that we intend to refund academy schools' VAT incurred on purchases relating to their non-business activities—mainly free education. Refunds under the measure do not extend to business activities, thus there is no issue of distortions of competition or breaches in fiscal neutrality.

I am aware that a junior official from the Commission has offered a preliminary view on the measure, but it is clear that it was based on a misunderstanding of the proposal. We have written to the Commission to clarify the position and are entirely confident that it will not pursue the matter further, so there is nothing to prevent the Committee from allowing clause 75 to stand part of the Bill. I am grateful to the right hon. Gentleman for allowing me to clarify that point.

**Stephen Barclay** (North East Cambridgeshire) (Con): I very much welcome the clause and think that it will be beneficial. As my hon. Friend the Minister knows, there is a distinction in the treatment of further education colleges' VAT. In my constituency, the college of West Anglia is grappling with the fiasco of the previous Government's decision on the capital expenditure of FE colleges—the consequences have created particular challenges for its budget. Will he instruct his officials to look at the impact of VAT on further education colleges? Over the coming years, given the convergence of funding planned for 16-18 education and for academies and FE colleges, what work can be done to help vis-à-vis VAT?

**Mr Gauke:** I appreciate my hon. Friend's expressing those concerns affecting his constituents. It is worth pointing out that further education colleges have always been funded differently from schools. They have never been able to receive VAT refunds against expenditure on their non-business activities. That restriction is already included in their budget planning, and this measure does not affect that, meaning that those institutions are no better or worse off. I appreciate that that is not the point he was making, but he has put it on the record. As I say, the budget planning for FE colleges is always done on the assumption that VAT on expenditure is not refundable.

**Stella Creasy** (Walthamstow) (Lab/Co-op): I think my colleague on the Public Accounts Committee is referring to our discussion yesterday about how much of an impact the VAT increase has had on the problems that many FE colleges face in meeting their expenditure commitments and ambitions for local students. Will the Minister undertake a review of the extent of that impact, especially when we are looking to narrow the gap between the funding for sixth-form colleges and for FE colleges? Clearly, if FE colleges have to pay VAT, and if VAT has been increased by the Government, there is a financial consequence for them and for the students in many of our constituencies.

**Mr Gauke:** I first point out that, again, sixth-form colleges are not being treated in the same way as schools, and are more comparable with further education colleges

in not being able to receive VAT refunds. However, we had a substantial deficit which we needed to close. I could also make the point that FE colleges, sixth-form colleges and charities have all been affected by the substantially greater increase in employers' national insurance contributions planned by the previous Government. The reality is, we have had to take steps to reduce the deficit. I know that that point is not always appreciated by the Labour members of the Committee, but it remains the case.

**Nic Dakin** (Scunthorpe) (Lab): I declare my interest as, this time last year, I was the principal of a sixth-form college. I draw the Minister's attention to the fact that when sixth-form colleges were incorporated, and when I enjoyed a similar transfer—I use "enjoyed" carefully—to that which academies are having now, they did not have this done in relation to VAT. Whereas FE colleges—he is quite right—have always been in that situation, sixth-form colleges' VAT status changed at incorporation, and has not been reversed, despite being a different sector.

**Mr Gauke:** The hon. Gentleman, as always, brings his expertise to our debates, and I accept that point of information. As I said, however, the clause will not have an adverse impact on sixth-form colleges, FE colleges or local authority schools. Its objective is to ensure that we can proceed in a fiscally neutral way.

On that point, I must respond to the question of the right hon. Member for Delyn about how to ensure no double counting—that academies are not paid twice for the VAT, through the refund scheme and through the current VAT grant. The current VAT grant is paid to academies through the Young People's Learning Agency, to replace the VAT that is currently irrecoverable. That will continue until 31 August. However, since academies will be able to reclaim VAT under the refund scheme from 1 April, the YPLA will require that portion of the grant to be repaid to them in the next academic year. The YPLA will write to academies to confirm the funding position for next year.

The right hon. Member for Delyn also asked about the current grant—where does the funding go and so on? The VAT refund was agreed at the spending review. No additional funding was given to the Department for Education. It was all taken into account in the funding plans set out for that Department, so I hope that that clarifies that point.

I hope that I have answered the questions asked by the right hon. Gentleman and other members of the Committee.

*Question put and agreed to.*

*Clause 75 accordingly ordered to stand part of the Bill.*

#### Clause 76

RELIEF FROM VAT ON IMPORTED GOODS OF LOW  
VALUE

*Question proposed,* That the clause stand part of the Bill.

9.30 am

**Mr Hanson:** The clause reduces the value of goods that may be imported VAT-free from outside the European Union, including the Channel Islands, from £18 to £15 with effect for imports on or after 1 November 2011.

[Mr Hanson]

The Minister will know, because it says so in the explanatory notes for clause 76, that the measure is the result of low-value consignment relief, which came from EU directive 2009/132 and which exempts

“low value consignments imported from outside the EU from import VAT.”

My only question relates to the £15 figure that the Minister has set out in the Bill. Paragraph 4 of the explanatory notes for clause 76 states:

“The Directive requires the exemption to be set at a minimum of €10 (£9) but gives Member States the option of setting the limit at up to €22 (£20).”

The Minister has settled at £15, which he has estimated will bring in an additional £10 million of income, backpayable annually, to the Treasury. That relates to VAT-free imports from outside the EU, including the Channel Islands, and £10 million will be brought in with the £15 exemption, but the Minister could set a £9 exemption, which is the *de minimis* figure, and potentially raise additional income at a time of stringent spending cuts. Even though it is a small amount of money, why have we settled on £15? We could raise a small—I accept that—but additional, amount of money by setting the exemption at £9.

I am not one for increasing VAT generally, and we have had many discussions about this, but the measure appears to ensure that we keep resources and purchases in the EU. It is, therefore, a protectionist measure in one way. I accept that it perhaps goes against the Minister’s free-market approach, but what is the justification for the £15 exemption when he could have chosen £9 and raised a little bit more income as a result?

**Mr Gauke:** The clause, as we have heard, makes changes to the operation of low-value consignment relief, with a view to protecting Exchequer revenues and helping UK SMEs compete on a more level playing field with businesses based outside the EU.

The rapid growth of internet shopping has created conditions in which the relief can be exploited for a purpose for which it was never intended. Instead of the relief benefiting small, long-standing indigenous businesses outside the EU, the primary beneficiaries of the relief are now large, often UK companies. Those companies seek to market their products to UK consumers as VAT-free by moving their logistics centres to non-EU jurisdictions, particularly the Channel Islands, or by using local mail facilitators based outside the EU to process their UK orders.

A range of low-value goods are now being supplied to UK consumers VAT-free in large quantities from outside the EU. The CD and DVD markets have been at the forefront of that trend, with most CDs and DVDs ordered online now being supplied VAT-free from the Channel Islands. However, we are also seeing significant quantities of beauty products, greetings cards, health supplements and printer cartridge ink, among other goods, being imported VAT-free in growing quantities.

As a consequence, the cost to the Exchequer of the relief has increased by 50% over the past five years, from £85 million in 2005 to £130 million in 2010. It is worth pointing out that it is a long-standing issue, and

those of us who have served on Finance Bill Committees in recent years will remember previous debates on the matter.

These costs will rise further as a result of the increase in the standard rate of VAT to 20% in January 2011, even without a further increase in underlying volumes. That trend has also had an adverse effect on UK SMEs who argue, quite understandably, that they are unable to compete with large companies that are operating VAT free in the Channel Islands and elsewhere. Since we announced that the operation of low-value consignment relief was being reviewed last July, I have received a significant number of representations from such businesses, particularly in the music industry, to address the issue. I have a great deal of sympathy for the points that those companies made. The Government recognise that there is a very difficult balance to be struck between delivering fairness in the tax system and ensuring that any new arrangements can be enforced effectively and efficiently, at a time when we are looking for savings in the cost of public administration. We will not, however, tolerate exploitation of the relief for a purpose, and on a scale, for which it was never intended.

We are therefore pursuing a twin-track strategy to stop such exploitation. First, clause 76 amends the Value Added Tax (Imported Goods) Relief Order 1984 to reduce the threshold to £15 from 1 November this year, which is expected to raise £10 million for the Exchequer in 2012-13, rising to £15 million in 2015-16. Secondly, we are exploring options with the European Commission to limit the scope of the relief to prevent its exploitation, including the possibility of seeking a derogation from the usual EU rules on low-value consignment relief. We will return to the issue of the appropriate level of the threshold in Budget 2012, if discussions with the European Commission do not produce a workable solution to the problem of exploitation of the relief, with a view to reducing the limit further.

I recognise the point made by the right hon. Gentleman. Some would have liked us to go further today by reducing the threshold to £9, which is the lowest level available under EU law, or even by withdrawing the relief from mail order goods altogether. The previous Government did not take action in that area, and I considered the options carefully when reviewing our policy on relief for low-value consignments. I believe that exploring a more targeted approach to tackling exploitation of the relief with the European Commission is the best way forward, potentially allowing a better balance to be struck between the cost of enforcement of new rules by the Government and Royal Mail, and tackling the adverse impact of low-value consignment relief of the Exchequer and UK SMEs.

The Government are committed to ensuring fairness in the tax system. We are determined to tackle the exploitation of low-value consignment relief, and the clause represents the first step towards achieving that objective.

**Mr Hanson:** I am grateful for that explanation. However, in passing, I note that this Government and the Minister have increased VAT to 20% on a range of goods across the board, which is hitting people on lowest incomes hardest. They have an opportunity, under EU law, to adopt a lower threshold to address the VAT relief, where people are paying no VAT on importing goods

into the EU, but the Government have chosen a figure of £15 as the de minimis requirement, rather than £9, which they could have chosen. They raised £10 million by reducing the figure from £18 to £15. That is a small amount of money, but further money still could have been raised by reducing it to £9, as allowed by the EU.

I will support the threshold of £15, and I did not table an amendment for the figure of £9. I cannot understand, however, why the Minister will not maximise the level of income by making a level playing field, so that we do not undermine British manufacturers who are producing goods such as CDs in this country by allowing the import of VAT-free goods made outside the EU at a lower cost. That strikes me as completely unfair, and I cannot see the logic of the Minister's decision not to use the lower figure. However, those points are made in passing and no amendment has been tabled, so we will accept the figure that the Minister has produced.

**Mr Gauke:** Will the right hon. Gentleman give way?

**Mr Hanson:** Let me make one final point, before the Minister intervenes. He has used the word “derogation” a number of times today. I find it amusing that he seeks derogations for this, that and the other, for clause 76, and for everything else. However, when my hon. Friend the Member for Bristol East talked about a derogation for VAT on fuel, we were told, “It can't be done. It's impossible to do so.” It seems that derogations can happen when the Minister wants them, but when he does not, he does not wish to pursue them. In the spirit of co-operation on this matter, however, I will give way to the Minister.

**Mr Gauke:** If the right hon. Gentleman really wants to return to the Opposition's farcical policy on a VAT derogation on fuel, let him do so. The previous Government did nothing on this. The right hon. Gentleman might want to ask former Ministers why, but if we simply lower the limit to £9, we impose a significant additional administrative burden in relation to packages that come into the UK. There is likely to be a behavioural response which means that packages will still be below that £9 limit. The more effective approach is to take a first step by reducing the limit to £15. We think that that gets the balance right. Essentially, the desire to go to the EU to explore what opportunities lie in a better targeted low-value consignment relief system for the UK is a sensible approach. After years in which nothing happened, this Government are doing something about this.

**Mr Hanson:** I want to lay to rest the argument that because a previous Government did not do something about it, that is the history of the world per se. I could argue that Ted Heath or Margaret Thatcher did nothing about it. Life moves on, and people take decisions at different times about different issues.

**Mr Gauke:** It may have slipped the right hon. Gentleman's mind, but there was not an awful lot of internet shopping going on when Margaret Thatcher was Prime Minister.

**Mr Hanson:** It just shows what a fabulous improvement there was in terms of range and opportunities under the previous Labour Government, and how many more people have access to computers thanks to schemes that

we brought in, including in libraries and everywhere else. It is also delivered by a publicly owned postal service, which was maintained under the Labour Government. But that is by the by. I have made my point on this. I think that the Minister is missing an opportunity to raise a small but important amount of money. I hope that he will consider bringing forward the proposals to reduce the de minimis figure as soon as practicable.

*Question put and agreed to.*

*Clause 76 ordered to stand part of the Bill.*

### Clause 77

#### SUPPLIES OF COMMODITIES TO BE USED IN PRODUCING ELECTRICITY

**Nic Dakin:** I beg to move amendment 184, in clause 77, page 44, line 5, at end add—

“(2) The Schedule shall come into force on a date specified by the Treasury by an order made by Statutory Instrument, which may not be made until an impact assessment of the effect of this Schedule has been laid before the House of Commons; and approved by resolution of the House of Commons; and the dates specified in paragraphs 8(3) and 9(5) of the Schedule shall be replaced by the date specified in the order under this section if it is later.”

**The Chair:** With this it will be convenient to discuss the following:

Clause stand part.

That schedule 20 be the Twentieth schedule to the Bill.

**Nic Dakin:** I am pleased that this amendment stands not only in my name and those of my hon. Friends the Members for Walthamstow and for Southampton, Test but in the names of the hon. Members for Brighton, Pavilion (Caroline Lucas) and for Richmond Park (Zac Goldsmith). That there is cross party support for this reflects the level of concern both in the country and across the House. The amendment asks for a proper impact assessment to be undertaken before enacting this part of the Bill because there are two areas of significant concern about the clause and the associated schedule. First, the penalty to manufacturing industry is disproportionate. Secondly, the proposals fail to deliver a green tax that has the support of environmentalists. For the Government to unite the representatives of manufacturing industry with Greenpeace and WWF in opposition to these proposals is a real achievement.

The real challenge we have as a nation is how to balance greening the economy with growing the economy. I am afraid that the proposals as they currently stand fail to meet that challenge. The UK is competing internationally for investment. The Humber is competing with Bremerhaven for green investment. And those making investment decisions too often sit outside our shores as they weigh up options. The carbon floor price represents a serious threat to our competitiveness. We are in danger of exporting UK jobs to countries like Ukraine and Russia, boosting global warming rather than reducing it. We need an energy security policy in place that assures investors. And we need to ensure that the UK taxpayer and the UK energy bill payer fund jobs here in the UK that will help the recovery and help

[*Nic Dakin*]

drive the economy forward. The current proposals on the carbon floor price are in danger of exporting jobs and importing CO<sub>2</sub>—the worst of all possible worlds.

9.45 am

My own community in the Scunthorpe area faces serious challenges after Tata announced that it was putting 1,200 jobs at risk at the local steelworks. When he came to Scunthorpe last month the CEO of Tata Steel's European operations, Karl-Ulrich Köhler, cited the sustained downturn in demand for long products as the prime reason for the restructuring in the UK, but he added that the other reason was the regulatory outlook. He made the following point:

“EU carbon legislation threatens to impose huge additional costs on the steel industry. Besides, there remains a great deal of uncertainty about the level of further unilateral carbon cost rises that the UK government is planning.”

As we build low-carbon energy sources, improve energy efficiency, drive advancements in low-carbon construction, help create the vehicles of the future and expand low-carbon travel networks, steel will be in high demand. The UK's low-carbon economy should be built with steel produced in the UK, rather than steel imported from China, Russia, Ukraine and other steel-producing countries that do not face the same regulatory constraints.

The carbon floor price will cost Tata Steel's UK operations £20 million in the first three years, and it is estimated that it will cost £20 million a year by 2020. So the carbon floor price is likely to damage not only international competitiveness but the ability to compete within the single market. The net cost of the carbon floor price for the UK steel industry as a whole is estimated to be £13 million in 2013, £21 million in 2014 and £29 million in 2015.

It is not only the steel industry that will be affected. Tom Crotty of INEOS ChlorVinyls wrote to me recently saying that

“the government's plans to introduce Carbon Price Support in the Finance Bill will seriously damage intensive manufacturing in the UK, and as a consequence stifle regional economic recovery, cause job losses and lead to a loss of revenue from this sector.”

Michael O'Sullivan of Hargreaves Services plc wrote:

“The proposal in its current form...is likely to be extremely damaging to a number of interests (jobs, reclamation, etc) in those areas of the country least able to accommodate such damage”.

North Lincolnshire's Singleton Birch has made similar comments to me.

Let us listen to what EEF, the manufacturers' organisation, said in its 2011 Budget submission:

“The case for a carbon price floor...has not been made.”

In March the CBI observed that policy changes should ideally be made at EU level, but if carbon price support is introduced

“it should start at a low level and build up towards the anticipated EU ETS price by the end of the decade.”

The Energy Intensive Users Group, which represents sectors such as steel, chemicals, paper, cement, glass, ceramics, industrial gases and aluminium smelting, recently said:

“The effect of the CPS proposals would be to guarantee a higher carbon price impact on UK power prices than for any other EU state, which has obvious implications for intra-EU

trade in energy intensive products. It cannot be acceptable for Treasury to disadvantage UK-based manufacturing in this way, tipping the playing field in favour of our European competitors.”

**Stephen Williams** (Bristol West) (LD): I am listening carefully to what the hon. Gentleman says, because I am expected to have sympathy with some of his remarks. At the start of his speech he cited environmental non-governmental organisations that have misgivings about the clause, but he seems to be making an argument that is based on economic protectionism. Which is it? Is it the environmental case, or is it the protectionism case?

**Nic Dakin**: I do not think it is a protectionist argument. It is about creating a fair, level playing field, which is the argument being made by the manufacturers and manufacturing organisations that I have quoted. It is not about protectionism, it is about a level playing field.

The hon. Gentleman will be pleased to know that I am now moving on to the green arguments against the proposals. The green lobby's view is that the proposals for carbon floor pricing give an unacceptable windfall to the existing nuclear generators by creating an uplift in the marginal price of power with no additional cost. Let me make it clear that nuclear power almost certainly will be needed, as part of the mix of sources, to create the secure energy supply that the UK requires. This is not an anti-nuclear argument; it is an anti-windfall argument when there is no return on that windfall. Indeed, in a written answer to a parliamentary question, the Economic Secretary acknowledged that the carbon price support clause will put up consumer energy bills and deliver windfall profits of £50 million a year from 2013 to 2030 for existing nuclear reactor operators. Greenpeace has calculated that the figure exceeds £1.3 billion by 2020.

The proposals are, therefore, a bad deal for bill payers. Almost £1 billion will be given to the nuclear industry for doing absolutely nothing new. It will not add to energy output or to Britain's energy security. There will be no requirement for companies to invest the windfall in national priorities such as energy efficiency programmes or meeting our renewable energy targets. It will simply add to the profits of certain companies, which last year made a combined profit of more than £3 billion while their CEOs recouped annual compensation of up to £2 million. Such bill increases are likely to compound fuel poverty and risk public hostility to the idea of green taxes.

The £1 billion windfall will come directly from the pockets of bill payers. As taxpayers do not have a choice about paying electricity bills and the rule change is being introduced by the Chancellor, this is effectively a tax and it clearly amounts to a subsidy for nuclear power. The Energy and Climate Change Committee investigated the issue recently, and MPs were concerned that Government proposals would effectively provide subsidies to nuclear generators through a carbon price floor that could hand them windfall profits. The coalition agreement committed to there being no new public subsidies for nuclear power.

**Ian Murray** (Edinburgh South) (Lab): My hon. Friend is making an incredibly powerful case. The Environmental Audit Committee looked at this in great detail, and there is potential for the green investment bank also to

provide subsidies to nuclear. We are, therefore, seeing a modal shift from normal generation of power to nuclear, based on public subsidy.

**Nic Dakin:** My hon. Friend makes a good point, and we need to be careful about where we are using public subsidy. Public subsidy should be there to support areas of risk and development, not to support existing provision, which is what is happening here. I am concerned if the same thing is happening through the green investment bank.

Both the Conservative and Liberal Democrat parties stood in the 2010 general election on manifesto commitments—it is a morning when manifesto commitments are in the headlines—not to allow subsidies for nuclear power. The carbon floor price proposals break those promises to the electorate. There is no electoral mandate to support the windfall subsidy that the Bill will generate.

I am hoping that Liberal Democrat Committee colleagues will take cognisance of the recent YouGov poll that showed that only 15% of Liberal Democrat voters were willing to support the party leadership on failing to keep that manifesto promise. There is an opportunity for Liberal Democrat Committee members—indeed all Committee members—to demonstrate that on this issue they are true to their principles and promises by voting with us in support of the amendment, which simply asks for a full impact assessment to be undertaken before any legislation of this sort is enacted.

In its present form, the tax is very badly designed. It will not drive the significant investment that is needed to develop clean, safe alternatives to fossil fuels or the technological improvements that are needed in energy-intensive industries. However, it will penalise British industry and endanger British jobs. It will hurt the consumer but fail to deliver our green ambitions.

The amendment we are debating would give the Government the opportunity to take time to think the policy through and to consider the concerns of the green lobby and manufacturing industry. It would allow them to pause before charging headlong into a policy that they will regret at leisure.

**Tom Blenkinsop** (Middlesbrough South and East Cleveland) (Lab): I will be brief in responding to my hon. Friend's argument. He has made an excellent point. Given the current circumstances in Scunthorpe and the difficulties in the steel industry there, he has made a brave argument in trying to defend the manufacturing jobs that will help our economy.

The Government's position on carbon floor pricing is bizarre. The Chancellor is constantly saying that UK manufacturing is returning, but in this policy he is unilaterally undermining it to the extent that 650,000 jobs in chemicals and steel are potentially at risk. It is not just companies such as Tata that are making the manufacturing argument. As my hon. Friend the Member for Scunthorpe said, companies such as INEOS and, on Teesside, Lucite, SABIC, GrowHow and other chemical firms are terrified by the carbon floor pricing proposals.

Under CFP, a tonne of CO<sub>2</sub> will be £16 by 2013 but around £30 by 2020. The energy bills for those intensive industries will be at such a level that the profits generated

will not be able to cover the costs. We on the Committee have to think about the manufacturing future for Britain. In terms of climate change, are those products that are manufactured here produced in a far greener way already and can they be made even greener? If this policy is implemented, how will it affect British manufacturing and climate change across the globe? From talking to colleagues in this Committee Room and outside, I know that there are many reservations about how this policy will be implemented across the country and how it will affect our competitiveness. For example, given that the chemical industry makes up more than 30% of UK exports at the moment and is the largest sector for exports, this policy in and of itself will undermine manufacturing.

I speak in favour of my hon. Friend's amendment. I will be supporting it and I hope that Government Front Benchers and Committee members will realise the logic of a pause in relation to this policy. When we had an Adjournment debate on the UK steel industry and we asked how the consultation process on this policy was implemented, it was clear from the Department for Business, Innovation and Skills Minister that BIS had absolutely no involvement in that consultation process. The Department of Energy and Climate Change had a tokenistic involvement in the process, but this policy is Treasury-led. It is not business-led or environment-led; it is purely about getting tax in. If that is the case, the Government will destroy a UK manufacturing sector that at this time could be fantastically developed. Particularly in the Teesside conurbation, projects are waiting in the wings and people want to invest. All they want is certainty from this Government.

We have gone through the battles for Teesside cast products and fought for two-and-a-half years to get a new buyer in Sahaviriya Steel Industries for that site. The beam mill has gone down, as well as other jobs in Hartlepool and down the road in Scunthorpe—all areas that I know very well—so I find it incredibly frustrating that a Government who keep preaching about manufacturing intend to implement this policy. I hope that everyone in this room realises that the amendment contains a common-sense solution.

**Stella Creasy:** I do not intend to speak for very long as I know that time is tight today. However, I want to put on the record my support for the amendment and for the principle of an impact review. We need to try to understand what this effective subsidy will mean for not only our energy security but our manufacturing base and our ability to meet some of our environmental commitments.

All of us recognise that strong challenges face our society in trying to reduce carbon emissions and support our economic recovery, and a good evidence base for making policy is key to much of that. Many of us are deeply concerned about the importance of reducing our dependency on particular forms of energy while ensuring that we meet the needs of our economy, and we recognise that there may be better ways to cut the cake. That is the point addressed by the amendment. If we are putting money, by default, into particular forms of energy production through carbon floor pricing, we need to know what we are doing and understand whether we are getting best value for money—again, I speak with my public accounts hat on.

10 am

Providing an effective subsidy for one part of industry without asking whether that could also be used to generate efficiency in other parts of industry and encourage renewable sources of energy, is a debate that we have missed so far and something that could be offered by an impact assessment. I hope that the Government will look at the amendment and the concerns behind it with an open mind, and open an inquiry into how we could better use public subsidy to achieve the things that we wish for in our economy, such as a thriving manufacturing sector, and in the long term, a reduction in carbon emissions.

**Ian Mearns** (Gateshead) (Lab): Does my hon. Friend wonder, as I do, how the global climate will be helped by our exporting jobs and manufacturing processes to countries where the regulatory framework is nothing like as tight as it is—quite rightly—in this country? Health and safety is one thing, but the impact on global climate change if we export jobs and manufacturing processes of this nature to places such as Ukraine and Russia, should not be underestimated

**Stella Creasy**: My hon. Friend makes a fair point. I am also concerned about what we can do to fast-track the development of renewable energy sources in our country. There is much debate about whether we have the capacity to generate more electricity through renewable energy sources, including wind and solar power, and I am also interested in microgeneration. One point about this proposal, and the subsidy that it will generate for the nuclear industry, relates to whether some of that money could be used to support the development of renewable industries. That would allow us to have a greater energy mix that relies on a wider range of sources and encourages the development of renewable energy. We would all like to see such a development, and there is no disagreement across the House that the more we do to support processes such as microgeneration, the better.

Above all, the review asks for better evidence on which to base our policies and move forward, so that we have more confidence in supporting our manufacturing industries and make the best use of our support for renewable energy and our energy mix as a country. I hope that the Government will take the amendment in that spirit and look closely at the proposals.

**Kerry McCarthy** (Bristol East) (Lab): The crucial point about the amendment is that it calls for an assessment of the implications of this measure. As we have seen with many other things that the Government have done, not only in the Finance Bill but in other Departments, the crux of the matter is that the policy has not been fully thought through and its impact on different sectors may be slightly contradictory. As the hon. Member for Bristol West suggested in his intervention, the impact of the measure on energy-intensive industries and its environmental impact may not necessarily square. That is why it is so important to make a thorough assessment and for the Government to be clear about the objectives of the carbon floor price mechanism. Labour Members do not oppose the principle behind the mechanism; in Government, we were fully committed to carbon reduction and we passed the world's first climate change Act.

There are, however, several serious problems with the way the Government have chosen to implement the policy, and I have a number of questions for the Minister.

Our first concern is the impact on ordinary consumers of energy and their household bills. I have cited a number of times the quote from the director of the Institute for Fiscal Studies about the Government giving with one hand, and taking away with many other hands. This measure is yet another example of that and of the Government hitting ordinary people where it hurts most. Energy prices are already rising fast. The cost of energy has been a problem for many years, and fuel poverty is certainly a concern for many of my colleagues. The OECD estimates that consumer energy prices in the first quarter of the year were 9.3% higher than the year before, compared to general consumer inflation of 4.1%. This week, ScottishPower announced that the cost of electricity would increase by 10%. Along with the 19% increase in the price of gas, it means that bills will rise by £170 a year.

**The Economic Secretary to the Treasury (Justine Greening)**: The hon. Lady is right to flag up the cost of living, part of which is the cost of energy. I presume that she has read the tax impact information note, which clearly states that moving to more low-carbon energy generation in the long term will result in lower fuel bills.

**Kerry McCarthy**: The Minister hits the nail on the head by saying that it will be in the long term. I was about to challenge her on that. In the longer term, it is obviously desirable to reduce energy bills, but the question is what impact the changes will have in the short term. People are already being hit by rises in fuel prices, yet the Government have cut the winter fuel payment by £50 for people over the age of 60 and by £100 for those over 80, despite saying in their Budget of June 2010 that they were committed to protecting key benefits for older people, including the winter fuel payment.

Consumer Focus said in February:

“In its current form there is a real risk that this policy may simply displace detriment”.

We are concerned that there will be increased fuel poverty and even more pressure on squeezed family incomes. What assessment did the Government make of the impact of the schedule on consumers, including fuel poverty, particularly in light of the cuts to the winter fuel allowance and fast-rising energy prices? Rather than speaking of the long term, will the Minister tell the Committee what impact it will have in the short to medium term? Did the Government consider the suggestion from groups such as Consumer Focus that revenues from the carbon price support rate should be hypothecated and used to help consumers in these difficult times?

Our second concern, which has already been explained to great effect by my hon. Friends the Members for Scunthorpe and for Middlesbrough South—

**Ian Mearns**: And East Cleveland.

**Kerry McCarthy**: Thank you. I knew that it was a long name, but I am glad for that name check.

Our second concern is the effect that the change will have on manufacturing. We heard earlier that because the Government have chosen to implement the mechanism,

energy-intensive industries such as steel, paper, glass, ceramics and others expect to be particularly hard hit. These sectors directly employ 225,000 workers and contribute more than £15 billion to our GDP. Many international industries are worried about the effect that it will have on their competitiveness abroad. Many of these firms and industries are large inward investors and, as has been said, they are vital if we want to develop the high-technology and green sectors in the UK.

Despite this, the Government have structured the mechanism in such a way that energy-intensive industries will bear the brunt of the policy, but that makes a mockery of their so-called plan for growth, and particularly their aim to encourage investments and exports as a route to a more balanced economy and to drive investment in green infrastructure. Even if the proposals were successful at encouraging investment in renewables, the measure would have a severe impact on other jobs, and on investment and exports. What options, if any, did the Government consider for mitigating the impact of the policy on those industries, or was it considered a price worth paying?

Thirdly, as was touched on earlier, the Government's choice of mechanism for carbon price support would provide a subsidy to the nuclear energy industry of a reported £50 million a year, yet they explicitly promised not to subsidise it. The Conservative party manifesto, the coalition agreement and even the Prime Minister have said that the nuclear industry should receive no public subsidy, so either the Government have brought in this nuclear subsidy accidentally or they are attempting to bring it in by the back door.

**Stephen Williams:** Will the hon. Lady clarify the Labour party's position? When the current Labour leader was Energy Secretary, he confirmed that there should be a new generation of nuclear power stations as part of our energy mix. It is debatable whether that is the right thing to do. However, the hon. Lady's colleagues prayed in aid NGOs such as Greenpeace and the World Wide Fund for Nature, which do not want a new generation of nuclear power stations—it is not only that they do not want a subsidy; they do not want nuclear power it at all. What is the current position of the Labour party? Does it want nuclear power to be part of our energy mix or not?

**Kerry McCarthy:** We are talking about Treasury matters.

**Tom Blenkinsop:** I find that sort of position from Government Members a bit rich. We had a good plan for nuclear in Britain, which would have had the component parts built in Britain, just down the road from the constituency of the leader of the hon. Member for Bristol West, at Sheffield Forgemasters, instead of being contracted to firms in Korea. The Opposition understand the need for manufacturing, but Government Members are still going over old ground and do not have that much understanding of manufacturing.

**Kerry McCarthy:** The Labour party is committed to supporting nuclear energy, but the issue is to do with the Department of Energy and Climate Change rather than the Finance Bill, so I will not get into any detailed discussion.

We are talking about a subsidy, which the Liberal Democrats explicitly ruled out—a subsidy by stealth for the nuclear industry. The Conservative Chair of the Energy and Climate Change Committee, the hon. Member for South Suffolk (Mr Yeo), wrote that another of the Government's energy markets proposals seemed

“to be more about concealing the fact that it is providing financial support for nuclear power than it is about coming up with the best approach.”

Perhaps the Minister can answer on behalf of the Liberal Democrat supporters of the Government as well, but is it Government policy to subsidise nuclear power stations by stealth, or is that an unintended side effect? Even if Government policy were to subsidise new nuclear build, does she agree that there is no good reason to subsidise existing stations, which the introduction of the mechanism would do?

The Liberal Democrat members of the Committee must recall that their party conference resolved that

“any changes to the carbon price”

should

“not result in windfall benefits to the operators of existing nuclear power stations.”

I am happy to take an intervention from the hon. Member for Bristol West to explain how, presumably, he will support the provision in a moment. How will he square that with the decision of his party conference? It is another decision taken or action endorsed by the Liberal Democrats in government that does not tie up with what their party members feel and with what they promised the electorate.

The coalition agreement dealt with nuclear power, providing for Liberal Democrat Members to be able to oppose nuclear power without the issue being seen as one of confidence in the Government. The hon. Gentleman is a supporter of nuclear power, so perhaps that does not apply to him, but I ask the Liberal Democrat Committee members as a whole why they have not proposed any amendments to schedule 20. Do they intend to oppose it entirely, or are they happy to go ahead and support a subsidy to the nuclear industry?

The final issue is the impact on emissions. Will the mechanism really result in more long-term investment in renewables? More importantly, will it actually reduce carbon emissions? On the first point, DECC commissioned the consultants Redpoint to look at the options for energy reform. They reported in December that,

“our analysis suggests that the effectiveness of Carbon Price Support in driving low-carbon investment is dependent on the confidence that investors have that this policy will not be subject to future change.”

In other words, the success of the carbon support measures depends on whether investors believe the Minister's promises.

The Committee, however, needs no reminding of what the Government have done. They raised VAT by 2.5 percentage points after the Prime Minister repeatedly said that he had no plans to do so. Only weeks after assuring the oil industry that they would preserve the stability of the North sea oil regime, they sprang an ill-conceived surprise attack, which we have discussed in some detail in Committee. They also shocked the green energy industry in this country by proposing radical reductions to small-scale feed-in tariffs. I have had

[Kerry McCarthy]

conversations with companies in my constituency—I know many other Members have had such discussions—about the impact. Investing in renewables cannot happen overnight: some people were lined up for projects on the basis that the feed-in tariff regime would apply to them, but it was whisked away from under them.

10.15 am

The solar energy sector provides 10,000 jobs in the UK. A solar specialist at the Renewable Energy Association said in response to the move to reduce feed-in tariffs:

“This industry has been strangled at birth”

by the Government. Investors are all too aware that the Government’s record on keeping their tax promises and supporting the industry is somewhat flaky. Will the Minister tell the Committee how the Government intend to restore their credibility with the industry, particularly the renewables sector?

On the second point, there are serious concerns that, even if the Government’s proposed rules reduced emissions in the UK, they would simply increase them elsewhere in Europe. Redpoint, the consultants commissioned by the Department of Energy and Climate Change, said in its report, hidden away in a footnote:

“Under the EU Emissions Trading Scheme, it would be expected that lower emissions from the GB electricity sector in a given year would be offset by higher emissions elsewhere within the trading scheme.”

An analysis in *The Guardian* suggests that the effect of the Government’s proposals by 2020 would be a drop in the European carbon price of about 8%, and a windfall to polluting firms in the EU of around £1.3 billion pounds. Will the Minister tell us whether the Government believe that a net reduction in carbon emissions will be a key measure of the success of this scheme? What talks has she had with her counterparts in other EU Governments to explore the possibility of working with them on this policy?

**Karl McCartney** (Lincoln) (Con): The hon. Lady mentioned *The Guardian*. I know that it was some time ago, but we have heard a lot about *The Daily Telegraph*, and I wondered whether she had quotes from it today.

**Kerry McCarthy**: I do not believe I have any quotes from *The Daily Telegraph*. I may endeavour to find one for our sitting this afternoon, just to keep the hon. Gentleman happy, but I do not believe that I will quote from it this morning.

**Justine Greening**: The hon. Lady has been speaking for some time about her concerns about this approach, but the bottom line is that her party supports the clause. Is that not right? Is she not simply blustering about points that people outside have raised with her, when she ultimately agrees with us that this is the right step to take?

**Kerry McCarthy**: As I said, we support the principle of carbon price support. That is not the same as supporting the way in which the Government have chosen to implement it. With due respect, we will support the amendment

tabled by my hon. Friend the Member for Scunthorpe. It is for him to decide whether to press it to a vote, and I hope that he does.

I shall be interested to hear the Minister’s response to my specific questions, but my suspicion is that she will not be able to answer our questions about the impact of the measures. My hon. Friend’s amendment calls for an impact assessment before the clause goes ahead, and that is the right approach. We need to know the impact on manufacturing, consumer energy prices, the renewables sector and across the board. In response to the Minister’s recent point, we may want to return to the issue on Report, particularly if we do not receive decent answers from her now.

**Stephen Williams**: I want to make some general comments about the clause, and to refer specifically to the amendment tabled by the hon. Member for Scunthorpe. The clause is one of the most important in the Bill, because of its possible effect on manufacturing, which has been mentioned, and because of the long-term effect on our climate change targets in this country. It introduces carbon price support, which will lead to a proper carbon tax in future. This country will not be the first to take that step. Such a tax exists in other parts of the developed world. Sweden has one, and also has a well-developed, high value-added manufacturing industry, which co-exists with a carbon tax. Denmark has one. The Netherlands has one. In case I am upsetting my coalition colleagues by naming too many EU member states, I point out that British Columbia, in Canada, also has a carbon tax, in an economy that is hugely based on resource extraction.

My right hon. Friend the Secretary of State for Energy and Climate Change confirmed three weeks ago that the Government would adhere to the recommendations of the Committee on Climate Change in the fourth carbon budget. Of course, carbon budgets were introduced as a result of the Climate Change Act 2008, which the hon. Member for Bristol East mentioned. The fourth carbon budget, for the period from 2023 to 2027, commits us to having a ceiling of 1,950 megatonnes of carbon dioxide equivalent, which means a 50% reduction on the 1990 level of emissions by 2025. That puts us on course for the 80% reduction by 2050 that the 2008 Act, with cross-party agreement, committed us to achieving.

In 2008, all three parties were committed to the Act. In fact, significant improvements were made to the Bill, which started in the Department for Environment, Food and Rural Affairs. Amendments were tabled by my party and the Conservative party and were supported by non-governmental organisations. It is very strong legislation, and across the House we have reason to be proud of it. However, there is no point in having that legislation and a series of carbon budgets from now until the mid-2020s if we do not have the fiscal and policy instruments in place to achieve those demanding carbon reduction targets.

**Ian Mearns**: I wonder whether the hon. Gentleman would be surprised to learn that in *The Daily Telegraph* in April, the chief executive of E.ON said that the measures being put forward by the Government were an unacceptable additional tax on consumers. Would the hon. Gentleman be interested in reflecting on that?

**Stephen Williams:** I thank the hon. Gentleman for his intervention, but it does not surprise me that the CEO of an energy company complains about new taxes being levied on his industry that will affect what he currently does to produce his profits and will require him to change his business behaviour. That does not surprise me at all; indeed, I welcome the fact that he is discomfited by the policy because if he were not, there would be no point in having it.

**Ian Murray:** If the costs for a particular business in the energy sector go up, where does the hon. Gentleman think that the added burden of those costs will fall?

**Stephen Williams:** The hon. Gentleman makes an important point. At the end of the day, we are all consumers, whether we are consuming the energy directly in our own homes through our electricity or buying products that have required a carbon-intensive industry to bring them into the high street where we can purchase them, so a carbon tax will fall, indirectly, on all of us as citizens. That is important because we need to change our own behaviour. However, what we do with the revenue from a carbon tax—I am ranging a little too far outside clause 77, so I will not dwell too long on this—is important as well. I think that taxes should be reduced elsewhere and, in particular, vulnerable households should be protected from the impact of increasing taxes.

**Kerry McCarthy:** A significant number of people in the hon. Gentleman's constituency live in fuel poverty.

I know that particularly well because two of the most deprived wards in the south-west used to be part of my constituency and are now part of his. Is he happy that those constituents of his who are living in fuel poverty will bear the burden—a significant burden—as a result of this mechanism?

**Stephen Williams:** Well, yes, I am not happy that increased taxes fall on individuals that do not reflect their ability to pay those taxes. As I was saying in response to the intervention by the hon. Member for Edinburgh South, what we do after introducing a carbon tax is important as well. There will need to be protection for vulnerable households to ensure that they are not exposed to taxes in the same way that I am. I am able to bear an increased carbon tax, but of course I recognise that many of my constituents may not be able to do so. Perhaps that could be dealt with through the income tax mechanism, through the benefits system or through giving a direct rebate to each citizen from the proceeds of the carbon tax. There are many things that we can do to ensure that the burden of this taxation falls fairly on individual households. Many of the other measures that the Government are introducing, such as the green deal, which is being discussed in a Committee Room further along this corridor, will help households to come out of fuel poverty by retrofitting their houses.

10.25 am

*The Chairman adjourned the Committee without Question put (Standing Order No. 88).*

*Adjourned till this day at One o'clock.*

