



Energy Efficiency Deployment Office - Call for Evidence: Energy Efficiency

Response by the Scotch Whisky Association

Introduction

The Scotch Whisky Association is the trade body representing over 90% of the Scotch Whisky industry. Members are distillers, blenders, bottlers and those engaged in the wholesale and export trade in Scotch Whisky. Scotch Whisky exports represent 25% of the UK's total food and drink exports and in 2011 contributed £4.23bn to the UK's balance of payments. Exports of Scotch Whisky generate around £134 every second.

The Scotch Whisky Industry's Environmental Performance and Ambitions

The Scotch Whisky industry has a proven track record in taking active steps to mitigate climate change. Energy efficiency has been a key part of that action. Through their participation in the spirit drink sector's Climate Change Agreement, distillers have improved energy efficiency by 25% since 1999¹. Over the same period CO₂ emissions have reduced by 13% despite production increasing by 16%.

In 2009 the industry launched an ambitious, wide-reaching, and award-winning Environmental Strategy. Among the strategy's various targets is a commitment to increase energy efficiency in the production process, as well as ambitions to source 20% of primary energy from non-fossil fuels by 2020 (rising to 80% by 2050) and to mitigate greenhouse gas emissions. Our progress report² of December 2010 on the Environmental Strategy sets the industry's energy efficiency baselines (2008) for distilling and packaging.

Responses to questions

i) Energy efficiency priorities (question a)

Figure three of the paper appears to suggest that the consumption of energy for domestic use and transportation dwarfs that of industry and services. Based on that evidence, it would appear logical to prioritise action in the areas of greatest energy use. Much climate change related regulatory action to date has been focussed on industry. Distillers face a complex, costly, confusing, and at times, contradictory, climate change policy landscape, including:

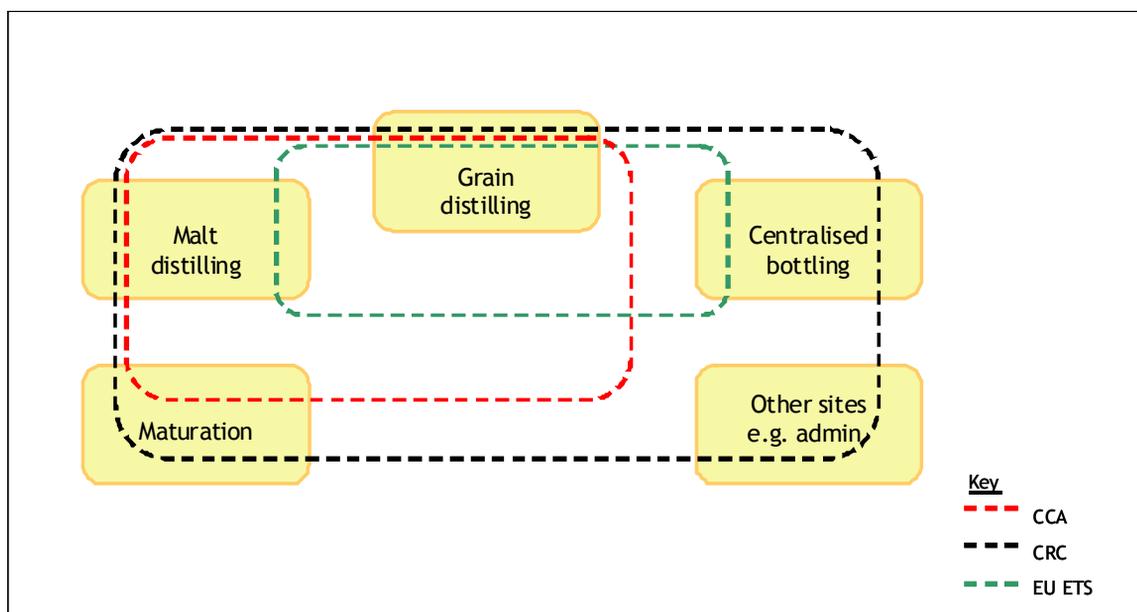
- UK Climate Change Agreements (CCAs)
- EU Emissions Trading System (EU ETS)
- The UK Carbon Reduction Commitment Energy Efficiency Scheme (CRC)

¹ <http://www.decc.gov.uk/assets/decc/11/cutting-emissions/cca/3369-cca-5th-target-annex.pdf>

² <http://www.scotch-whisky.org.uk/swa/files/EnvironmentalReport2010.pdf>

- Various financial incentive schemes (such as Renewables Obligation (Scotland), Renewable Heat Incentive and Feed-in-Tariffs).

The following diagram shows how the different schemes affect the different parts of the Scotch Whisky production process.



The principal policy measure which targets industrial energy efficiency is the Climate Change Agreement scheme. However, for the Scotch Whisky industry, the CCA process only covers one part of the production process - distilling. Although distillers are able to enter their distilleries in the spirit drink sector's CCA³, the current rules prevent the industry's large-scale packaging (bottling) sites from participating.

Bottling is an integral part of the Scotch Whisky production process. Other food and drink producers which operate integrated production facilities (including packaging) are eligible to join a CCA and receive the CCL rebate throughout their entire operation. This is not the case for distillers and this anomaly has created a competitive distortion within the food and drink industry. One may imagine five bottles on the shelf of the local supermarket: one of ketchup, one of beer, one of spirits from an integrated distillery/bottling plant, one of a fizzy soft drink and one of Scotch Whisky from a distillery with no integrated bottling. It is illogical and inequitable that of these, only the last one will not have qualified for CCL relief on its bottling process and will have suffered a competitive disadvantage as a result - even though the contents of the bottle are probably the most energy-intensive overall to produce, and Scotch Whisky is the most exposed to international competition. We accept that the industry's bottling facilities are not likely to satisfy any energy-intensive test in their own right. However, it is doubtful whether any other food and drink packaging operation (with perhaps the exception of chilled or frozen goods) would do so and we believe that the new CCA scheme, which is set to begin next year, could be designed to allow entire industrial processes (i.e. from distillation to packaging) to be included in a CCA scheme.

The industry's problems are now further compounded following the introduction of the CRC Energy Efficiency Scheme. That scheme captures a number of distillers, although some are able to opt-out of the trading element because of the various CCA exemptions.

³ The spirit drink sector's CCA is administered by the Spirits Energy Efficiency Company (SEEC) - a joint venture between SWA and the Wine & Spirit Trade Association.

However, the ability to opt-out depends upon company structures. Some SWA members have been unable to opt-out as their distilleries are operated by a subsidiary company while their bottling operations are operated by the parent company. As a result, some members are required to comply with three complex, overlapping energy or emission reduction schemes: CCA, CRC Energy Efficiency Scheme and EU ETS. The proposal⁴ to remove the CCA exemptions from the CRC in Phase II would likely increase the number of Scotch Whisky participants in that scheme as some, although not all, packaging sites would fall under the scope of the CRC. However, if the bottling of spirits is eligible to qualify for a CCA, it is highly likely that this would increase the scope of the industry's emissions that are covered by a climate change policy measure, as those packaging operations which will fall outside of the scope of the CRC scheme would probably join the CCA scheme. The CRC scheme was not designed to capture energy-intensive sectors such as the manufacture of Scotch Whisky. The most effective domestic policy measure for Scotch Whisky is the CCA scheme. There does not appear to be a logical reason why spirits bottling plants should be prevented from joining our CCA scheme. Widening the CCA eligibility criteria would help the Government achieve its green ambitions and reduce administrative burdens for business. We have raised these concerns on numerous occasions in the last ten years or so, and more recently with DECC's CCA team following the publication, in January this year, of the response to the consultation on the new CCA scheme. The CCA team is now considering our case and we keenly await the outcome.

ii) Barriers to the uptake of energy efficiency measures (question c)

Innovative renewable energy projects rely on the various financial incentive schemes to make them commercially viable. To date, the Renewables Obligation (Scotland) has been instrumental in bringing renewable energy projects to fruition within the distilling industry. Members have advised that incentive schemes have been crucial in attracting investment. We are therefore concerned that the consultations, carried out in late 2011, on banding levels for the Renewables Obligation and Renewables Obligation (Scotland) propose to reduce support for a number of renewable energy technologies such as anaerobic digestion (AD). AD is in its infancy in the distilling sector. The proposal to reduce the level of support for AD in 2015/16 and then further in 2016/17 appears to be based on an assumption that operators receive a gate fee of £10/MWh. This however is not the case in the Scotch Whisky industry as the feedstocks are either effluents or by-products of the distillation process. Some of those by-products have financial value on the animal feeds market. Distillers implementing AD effectively forfeit the sale of by-products as animal feeds in order to extract the energy embedded in them.

Uncertainty inhibits investment. We are concerned that regular changes to energy incentive schemes will have a detrimental effect on some more ambitious renewable energy projects. In a similar vein, the considerable uncertainty surrounding the future of the CCA scheme cast some doubt over some planned projects. We welcome confirmation that the scheme will continue and that all 54 sectors currently participating will continue to be eligible. However, the new scheme is due to begin in January 2013, but participants are not likely to know their energy efficiency targets until the autumn of this year at the earliest. It is difficult to focus investments if targets and other important aspects of the operation of the scheme, such as treatment of CHP and energy accounting, are still to be confirmed.

⁴ This is based on the proposal included in the consultation which closed on 2 September 2011. We are currently reviewing the proposals contained in the consultation launched on 27.3.12.

iii) Energy efficiency projects (question e)

We have over ten years experience in managing the Umbrella CCA on behalf of the UK spirit drinks sector. Participating companies have invested significant sums in energy efficiency and the sector has improved its energy efficiency by 25% since 1999. In the 2008 CCA target review we were able to identify over £27m of investments by participants in technologies that were specifically directly at helping them meet their CCA energy efficiency targets. Some of those technologies include heat recovery systems, new boilers, boiler economisers, mechanical vapour recompression and variable speed pumps and fans.

A number of case studies highlighting some of the work carried out on energy efficiency have been published alongside our Environmental Strategy. Some of the projects include: installation of Flash Recovery Energy Management Equipment (FREME)⁵, new-build energy efficient distillery⁶, energy efficiency in grain distilling⁷, steam traps, condensers, and heat recovery in malt distilling⁶, and energy efficiency in packaging⁶.

Looking at resource efficiency more broadly, some of the larger energy projects that have been undertaken, or are currently under construction, concern generating renewable energy from distillery by-products. Although those projects will use energy more efficiently, the main environmental benefit comes from substituting fossil fuels with renewable energy from distillery by-products (such as pot ale and spent cereal grains (draff)). Over £170m in renewable energy has been invested at just three sites alone. Perhaps greater emphasis should be placed on resource efficiency rather than energy efficiency.

iii) Further action to improve energy efficiency (question g)

The bottling of Scotch Whisky accounts for over 26% of the industry's primary electricity usage⁸. Although distilleries, which account for over 90% of total primary energy usage within the industry, are eligible to join our CCA scheme, bottling operations are not. Extending the CCA scheme to the bottling operations will ensure that the most effective policy measure which focuses specifically on energy efficiency - the CCA process - will have greater coverage. Our previous comments explain more on this policy anomaly.

Additional points

We are surprised that the call for evidence paper does not make reference to the draft EU Energy Efficiency Directive which is currently being discussed by the European Parliament and Council. The Directive is likely to have an impact at Member State level, for example the setting of national energy efficiency targets (either mandatory or indicative), incentives for Combined Heat and Power and district heating, and energy audits for large businesses. We have fed our comments to DECC on the European Commission's draft which was published in July 2011.

The Scotch Whisky Association
28 March 2012

⁵ <http://www.scotch-whisky.org.uk/swa/files/EnvironmentalReport2010.pdf> (page 12-13)

⁶ <http://www.scotch-whisky.org.uk/swa/files/CSFossilFuels.pdf>

⁷ <http://www.scotch-whisky.org.uk/swa/files/CSGasEmissions.pdf>

⁸ Scotch Whisky Industry Environmental Strategy 2008 baseline data