The Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
The Correspondence and Enquiry unit
1 Horse Guards Road
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Cc: Rt Hon Kwasi Kwarteng MP, Secretary of State for Business, Energy & Industrial Strategy

11/03/2022

Ref: Construction industry call for deferral of the removal of the red diesel rebate

Dear Chancellor,

The Government has correctly chosen to pursue decarbonisation as Britain's future and ending the red diesel rebate on targeted sectors is one of its first moves. Unfortunately, with oil prices rising rapidly, greatly down to the Russian invasion of Ukraine, and alongside all time high inflation and energy costs, the numbers don't stack up and we therefore urge the Government to act in these unprecedented times and defer its decision to remove the red diesel rebate for twelve months.

In the last year we have seen the annual price of gas and electricity increasing twenty nine percent and nineteen percent respectively, with the energy price cap going up by fifty four percent. Yet the increase of forty seven percent on red diesel since the beginning of pandemic looks modest when compared to the 190% increase which industry will now face when moving to white diesel (at the pump).

From a strategic point of view, it is impossible for the Government to ensure the extraction and production of energy is cheap and immediate but in the red diesel policy, it has a direct and immediate influence over the cost British business pays.

The case for deferral is clear and this recommendation chimes with HMRC and Treasury research when it considered this transitional policy.

In your February 2019 'Non-agricultural use of red diesel for non-road mobile machinery' report, 64% of surveyed businesses said they would switch to cleaner alternatives 'if the technology improves', yet this report was before the Covid-19 pandemic and makes assumptions that this technology is on a growth trajectory. It therefore doesn't account for Covid-19's impacts on semi-conductor shortages, which are expected to run until 2024, or the stagnation of global biofuel production which is now at peak demand and sees HVO biodiesel priced above white diesel.

Respondents in your report showed a clear desire to use non-red diesel machinery and vehicles but identified they were unable to. This has not changed, as despite global market share of e.g. electric excavators rising, the Government noted the reality of innovation and production limitation in its December 2021 'special vehicle' exemption policy for sectors still covered by the red diesel rebate which included digging machines, mobile cranes, mobile pumping vehicles. work trucks and road rollers.

Your report also highlighted the median cost of fuel in a typical year was £30,000. In 2019, the shift to white diesel would see and additional £21,300 added to business fuel costs with a new median of £51,300. In March 2021, with diesel now at 179p a litre [correct of 10.3.22], the cost difference in just two years has spiralled to £57,000, with a new median of £87,000.

The Treasury will be aware that construction, road haulage, cold storage, food retail and energy continued to operate throughout the pandemic and supported furlough directly by not being a major recipient and paying taxes throughout. For this and many other reasons, now is not the time to put those businesses in jeopardy, particularly as so many employees will be self-employed, working across multiple sectors.

With fuel prices rising so quickly, we also expect a further increase in fuel theft, something which has correlated to fuel price inflation and highlighted by a West Yorkshire Police FOI identifying a steady rise in forecourt and vehicle fuel thefts throughout 2021, and Nottinghamshire Police targeting rural area fuel theft under 'Operation Magna'. In addition, the Northern Ireland Affairs Committee raised concerns in 2012 about the higher incidence of fuel theft in Northern Ireland compared to the rest of the UK and smuggling of fuel across the border due to prices differences between the Republic of Ireland and the Northern Ireland, a situation that is likely to get worse in light of the Republic of Ireland's recent fuel policy announcements and the planned removal of the red diesel rebate in the UK.

Global events have changed many landscapes, and most are out of the Governments immediate control, yet the power of deferral is in your hands, and a pragmatic choice of deferring the removal of the red diesel rebate for the next twelve months must be taken to step British businesses away from the energy and fuel cliff-edge.

With the United States banning Russian oil and Europe also discussing it, oil prices have shifted 20 pence in four days, therefore industry stands ready to work with the Government on identifying how we practicably transition away from fossil fuels in the medium term, if global events do not normalise energy pricing.

British businesses will continue to invest in decarbonisation measures for climate and energy security reasons, but the financial pressures of inflation and global events are now too great, and we implore you to hear our and other industries recommendations to act now and defer the removal of the red diesel rebate by twelve months.

Yours sincerely, the undersigned representatives of the UK construction industry and their respective organisations:

Richard Beresford, Chief Executive of the National Federation of Builders (NFB)

Brian Berry, Chief Executive of the Federation of Master Builders (FMB)

Howard Button, Chief Executive Officer of the National Federation of Demolition Contractors (NFDC)

Vaughan Hart, Managing Director of the Scottish Building Federation (SBF)

David James, Director of the Right Fuelcard Company

Callum Mackintosh, President of the Scottish Plant Owners Association (SPOA)

Kevin Minton, Chief Executive of the Construction Plant-hire Association (CPA)

John Newcomb, Chief Executive of the Builders Merchants Federation (BMF)

Suzannah Nichol MBE, Chief Executive of Build UK

Ken Parkin, Chair of Construction Alliance Northeast (CAN)

Alasdair Reisner, Chief Executive of the Civil Engineering Contractors Association (CECA)

Mark Spence, Managing Director of the Construction Employers Federation (CEF)

Contact: James M. Butcher, policy@builders.org.uk co-ordinating on behalf of the co-signatories.