

Removing Red Diesel for construction

Site security, due to the increased risk of fuel theft, and passing on the increase in costs to clients are the biggest concerns for contractors when Red Diesel is withdrawn from use in construction in April 2022. 17-Mar-2022

The removal of the tax discount on diesel used in construction plant (Red Diesel) will have a significant effect on the cost of construction, particularly the plant heavy building trades and civil engineering (see details of changes below).

BCIS carried out a survey in February-March 2022 to understand the challenges facing construction and inform the adjustments required to its indices, particularly the Price Adjustment Formulae Indices (PAFI).

All the responses came from the civil engineering sector, which itself suggests that this is where the biggest impact is expected. The survey responses provide an insight into the fuel use challenges facing contractors as they grapple with reducing carbon emissions.

The respondents' current use of Red Diesel ranged from 10% to 95% of their site plant fuel use. Currently more than a third of the respondents already use alternative fuels - Hydrotreated Vegetable Oil (HVO) - in their site plant. For one survey respondent HVO represents 25% of their fuel use, for the remainder, HVO represented 5% or less of the total fuel consumption. One fifth of respondents mentioned the use of other fuels, which included petrol and QP5.

From April 1st, most respondents intend to switch to White Diesel (DERV) although one fifth say they will increase their current use of HVO to between 50% and 100% of total consumption. The latter are currently using HVO in variable proportions and plan to significantly increase the share of this fuel type after April, with one planning to increase the usage 14-fold. Crucially, respondents who currently are not using HVO have no plans to start using it as an alternative from April.

From April 1st, the tax will increase from 11.14p to 57.95p per litre, the overall increase in fuel costs in percentage terms will depend on the cost of the diesel at that point of time. As the duty is a fixed amount the percentage increase will fall as the cost of the fuel increases.

When asked about the expected increase in fuel costs, respondents anticipate the cost increase to be in the range of 55% to 93%, with an average increase of 73%. Responses to this question have been submitted at Mid-March prices. BCIS will follow up with the respondents in the beginning of April to understand if the actual increase is in line with the estimates provided.

The key challenges in switching from the red diesel cited by the respondents were:

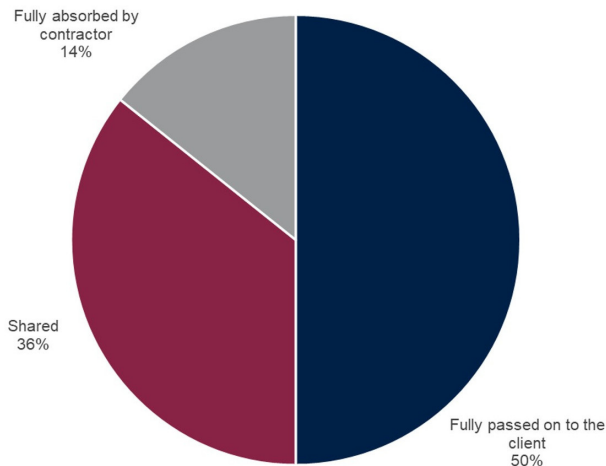
1. Theft and associated increase security risk on sites concerning the storage of diesel
2. Depleting existing supplies
3. Increased fuel cost
4. Possible additional upfront cost of purchasing new tanks
5. Passing on price increase to clients.

In addition, concerns were raised around risks of environmental incidents as well as the lack of alternative technology/infrastructure and supply chain's capability to provide alternatives.

The change in red diesel rebate will also affect haulage industry and crucially, the production of energy intensive construction products including quarrying, asphalt, and concrete, at a time when the industry is dealing with a broad range of spiralling material costs.

Although passing on price increase to the clients was identified as one of the main challenges, half of survey respondents stated their intention to pass on the full price increase to their clients. As presented in the chart below, some contractors expect to absorb a part of the increase in the short term and are concerned that there is potential for delays to projects where clients have not budgeted for the increase.

Meeting the rising costs from April 2022



One contractor commented that even if some works qualify for rebated fuel usage it is impractical to switch fuels and clean tanks between operations so they will need to use white diesel and pass on price rise.

85% of respondents consider a full switch to alternative fuels to be viable but give no timescale. The eventual substitutes for diesel are expected to be electric vehicles, Hydrogen and HVO. One of the respondents cited HVO to be an interim solution until Hydrogen becomes viable. The barriers to the take up of these alternatives were seen as cost, availability, and practicality.

Numerous concerns have been raised across the construction industry regarding the risks associated with removing the red diesel rebate. Earlier this month, a dozen representatives bodies of the UK construction industry wrote to the Chancellor asking the Treasury to reconsider the removal of the red diesel rebate. As of the publication date of this article, the decision on the end of the red diesel rebate still stands.

BCIS would like to thank all the respondents and the Civil Engineering Contractors Association (CECA) and the Road Safety Marking Association (RSMA) for their help with the survey.

Notes - details of legislation changes

General description of the measure:

The Finance Bill 2021 and subsequent secondary legislation has restricted the entitlement to use red diesel and rebated biofuels from April 2022 to the following qualifying purposes:

1. for vehicles and machinery used in agriculture, horticulture, fish farming and forestry. This includes allowing vehicles used for agriculture to be used for cutting verges and hedges, snow clearance and gritting roads
2. to propel passenger, freight or maintenance vehicles designed to run on rail tracks
3. for heating and electricity generation in non-commercial premises - this includes the heating of homes and buildings such as places of worship, hospitals and townhalls; off-grid power generation; and non-propulsion uses on permanently-moored houseboats
4. for maintaining community amateur sports clubs as well as golf courses (including activities such as ground maintenance, and the heating and lighting of clubhouses, changing rooms etc.)
5. as fuel for all marine craft refuelling and operating in the UK (including fishing and water freight industries), except for propelling private pleasure craft in Northern Ireland
6. for powering the machinery (including caravans) of travelling fairs and circuses.

Source: <https://www.gov.uk/government/publications/reform-of-red-diesel-entitlements/reform-of-red-diesel-and-other-rebated-fuels-entitlement>.