PORTLAND MARKET REPORT

"ALL OF THIS EXTRA REVENUE IS SIMPLY GOING INTO THE "BLACK HOLE OF GOVERNMENT"

March update

Civil servants are not normally known for their alacrity and, in fact, are often ridiculed for their inactivity. Indeed, the popular BBC comedy series "*Yes Minister*" was basically just a long, drawn-out joke on how civil servants spent their entire careers ensuring nothing actually ever got done *("there are two types of files in this Ministry…'under consideration' means we have lost the file. 'Under active consideration' means we are trying to find it…!")*.

So, there is obviously something in the water at the Department of Transport (DfT), because the current speed of legislative change being enacted around biofuels is nothing short of miraculous. Up until April 2018, the mandated biofuel level in diesel and petrol (ie, road fuels) had been at 4.75% for the previous 8 years. It was at this point though that the DfT mandarins started to take their legislative amphetamines! Firstly, they increased the mandated biofuel level to 7% but they also introduced a crop cap of 4% (so that there is a limit to how much fuel can be generated from food producing crops). Then on January 1st 2019, the biofuel level was increased again (this time to 8.5%), but even this wasn't enough for the DfT, who also introduced a 0.1% Development Fuel requirement (0.1% of fuel must now be derived from 100% waste). And then finally for good measure, they chucked in the Greenhouse Gas (GHG) tariff on all road fuels. Woah boys and girls…slow down!!

Some of these new targets are really, really difficult to understand and often rely on comically complicated measurements, such as "Grams of CO2 equivalent per Megajoule of Energy" (gCO2e/MJ)! But in their simplest form, the new rules are seeking to reduce the greenhouse gas intensity of road fuels (diesel and petrol) versus a government set baseline. So, for example, if we take standard (neat) diesel, then on average this grade of fuel has a greenhouse gas intensity of around 95 gCO2e/MJ. The initial 2019 target set by government is that road fuels should have an intensity of 90gCO2e/MJ, which means that suppliers have to blend a higher volume of lower greenhouse gas fuels – which at present, just means biofuels.

But simply blending fuel to the required biofuel minimum is not enough to generate sufficient GHG savings. In fact, "standard" bio lending only generates between 60% to 70% of the required GHG target. Which logically means that to meet the GHG targets, extra biofuels have to blended into the UK fuel pool. This sounds all well and good, until you realise that fuel suppliers are not actually legally permitted to blend at higher biofuel levels, because that would make their fuel "off-spec" and thus invalidate automotive engine warranties. In fact, the legally permitted maximum of biodiesel in the UK is 7% – even though the mandated target is 8.5% – go figure!! These "impossible" specification targets not only massively complicate things, but they also make a mockery of the new legislation. Therefore, to address this, the government allows fuel suppliers to pay a GHG buy-out – basically a direct tariff of 0.70ppl on petrol and 1.27ppl on diesel.

Then there is a similar "impossible" problem that applies to the 0.1% Development Fuels target. On the surface, this sounds another progressive step and a powerful way of diversifying biofuel supplies towards lower carbon waste solutions. But the fairly major problem here is that these fuels literally do not exist in sufficient quantity anywhere in the world – confined as they are to the development stage of laboratory experiments. Which once again means that suppliers are forced to simply opt for the government buy-out, which on Development Fuels is 80p, multiplied by the number of litres that make up 0.1% of sales. Phew…we did say it was complicated!

"A PAINFUL END-RESULT FOR FUEL CONSUMERS"

Add all of this together and you have a painful end-result for fuel consumers. Step 1; increase biofuels content of fuel = price rise by circa 1.00ppl (because biofuels cost more than diesel and petrol). Step 2; force suppliers to pay the Development Fuel 80p buy-out because the fuel actually doesn't exist = price rise of 0.10ppl (80p x 0.1%). Step 3; set the GHG target higher than is possible to achieve with the mandated biofuels obligation, thus requiring a further payment to government = price rise of circa 0.50ppl (0.70ppl / 1.27ppl levy minus the credits generated by bio-blending). Result = a total price rise of 1.60ppl. Multiply that by the total consumption of road fuels on the UK (48bn litres) and you have an overall increase in cost to the British Motorist of £770m. If ever there was a better example of a stealth tax, then Portland would like to see it! Certain consumer groups would be up in arms (if they could understand it) and they would probably be even more dissatisfied, if they found out that all of this extra revenue is simply going into the "Black Hole of Government" and none of it is actually being earmarked for Research & Development into renewable fuels…

If we ignore that last issue though (which surely is inexcusable?), it may be that the cynics and critics are missing the point. In a climate where most government departments are currently taking a Brexit induced holiday ("we will have to defer action on that issue, until we know the outcome of Brexit"), credit must go to the Department of Transport for at least trying to implement change. The most common refrain from green activists at the moment, is that "nothing is being done" on the environment, but in fact nothing could be further from the truth when it comes to alternative fuel legislation. More thought is still needed to remove some of the technical contradictions for sure, but in this action-packed corner of North Yorkshire, we say hats off to the DfT for implementing an action-packed agenda for change.

For more pricing information, see page 22

Portland Fuel Price Protection
www.portland-fuel-price-protection.com