

## **Red diesel consultation - Question 7. Response from Confor: Confederation of Forest Industries UK**

**a. Your organisation/sector's current red diesel consumption and costs, including as a proportion of total costs, and broken down by different uses (i.e. what types of vehicles and machinery)**

The wood processing sector mainly uses red diesel for:

Mobile plant: to move materials, feedstock and finished products internally within the facilities.

Other: primary processing machinery such as wood-chippers/shredders/screening machines.

Kilns: As a back-up fuel for heating kilns for drying timber. Please note most kilning capacity has been converted to biomass power where practicable and financially feasible, however there are businesses in the sector that are off grid and red diesel power is the only viable option at this time.

The types of mobile machinery used includes Volvo Shovels, Liebherr front loaders, Forklifts, maintenance cranes, cherry pickers, mobile screening equipment and trucks.

It has not been possible to gather precise data from all the processing facilities in the UK, but the following figures are an interpolation based on returns from some of the largest red diesel using sawmill/processors in the sector.

The estimated figures for the sector in 2019 over 204 active sites:

Approximately 1400 pieces of plant/equipment using red diesel within the sector.

Total red diesel usage: Approximately 21 million litres

- Mobile plant: 65%

- Kilns: 15%

- Other: 20%

Cumulative Red diesel costs - approximately £10m

Proportion of total costs – This was a difficult figure to calculate accounting for the large variance in size and scale of the businesses that could be affected by the change in tax treatment. However, a number of our members have reported that the additional cost to their operations will be as much as £700,000 per annum and add between 15-20% to processing costs. Overall, the estimated (based on variable estimated white diesel price) total additional cost to our sector could be up to £10,000,000 per annum.

**b. The operational and financial capacity of your organisation/sector to shift to alternatives to red diesel (specifying what these alternatives are)**

Timber and wood products mainly compete in a commodity market that is significantly influenced by the price of imports, therefore historically unit margins are relatively low and import price is key – if UK mills are hit by additional costs they can't pass this cost on if import prices are not similarly affected. The UK imports around 80% of its wood related demand, and the domestic sector has worked hard to achieve

even its current modest level of market share through increasing its competitiveness against imports. The sector has greatly reduced its reliance on fossil fuel based energy over the last 5 years through investment in more fuel efficient machinery and plant, and has invested heavily in biomass energy systems that are used to heat kilns and buildings, as well as providing energy into the national grid. Some of the businesses have also started to move from diesel to electric powered forklifts which comes at a cost, both in price and reliability at this time. However, it is not possible for the adoption of the larger electric powered mobile plant such as front loaders and cranes because they have technical shortfalls (lack of battery power), they are prohibitively expensive, and availability is limited at this time.

As with many other industries, the profitability of the sawmill and wood processing sector has suffered significantly throughout the current Covid-19 crisis and combined with the uncertainty of how the markets will respond in the short and long term the future viability of many of these businesses is unknown. Any additional expense incurred through increased cost of diesel use and/or investment in alternative powered machinery and plant will further impact on the profitability and viability of many of the businesses in the sector.

The industry does recognise and support the intention to move away from diesel powered machinery, but in these times of economic uncertainty and given the technical and cost constraints listed above we strongly request a deferral to when this new policy is implemented in our industry of three years and/or for Government to provide a financial support mechanism to facilitate this transition without putting our businesses' viability in doubt.

Alternatives that could replace current use of red diesel in the sector:

- Mobile plant – Electricity. However, the options to replace the large machinery such as front-loading shovels and cranes with electric power are very limited and the cost of technology is prohibitive.
- Kilns – Most mills that can be cost effectively converted to biomass heating have done so. Alternative fuels if the reduced tax treatment of red diesel is lost will include white diesel and gas where available. However, a few businesses are located off-grid.
- Other (Chippers, screening machines, etc) - Electric battery power and in some cases grid sourced power.

### **c. Capacity to pass on costs down the supply chain**

As previously mentioned, this sector is based on commodity trading and low margins and competes directly with imported wood products that currently command the majority of the market. In order to be competitive, prices of UK processed and manufactured wood products have to follow imported prices. Therefore, any additional cost transferred to the customer (mainly wholesaler) immediately impacts on the competitiveness against imported timber and wood products. It is also likely to affect final customers' decisions on material choice based on cost alone and that could have a knock-on effect on meeting the UK climate change targets if they choose to use high embodied carbon materials like brick, plastics, steel or concrete instead of UK wood. The environmental benefit of sustainable sourced timber and wood products is recognised by the Government's advisers the Committee on Climate Change as an opportunity to both store carbon in long life uses such as construction and as a low carbon substitute for high embodied energy products such as concrete and steel.

**d. Capacity to absorb costs**

To reiterate the point made above about the sector operating on low margins means that any additional cost associated with this proposed change in the tax treatment of red diesel will impact on the profitability and of the sector as a whole and potentially affect the viability of many businesses in the sector, particularly when compounded with the financial effects of Covid-19.