

Seeing Red



Campaign for the retention of the current derogation on red diesel

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Chapter 1 – Introduction & Background

The Issue

The Council of the European Union has adopted a Directive (2003/96/EC of 27 October 2003) restructuring the community framework for the taxation of energy products. Previous Directives (92/81/EEC, 92/82/EEC, and 97/425/EC) specify minimum levels of excise duty that Member States must apply to mineral fuels. Reduced rates of duty may be applied to diesel fuel used for specific purposes, such as the sale of diesel fuel to commercial craft, including fishing craft. In the UK this fuel is known as 'red diesel'.

Derogations from these Directives permit the UK and four other Member States (Belgium, Ireland, Finland and Malta) to allow private pleasure craft to use diesel fuel on which duty has been charged at the reduced rate. Consequently, in the UK, owners of private craft may currently purchase 'red diesel'. This derogation is due to expire on 31 December 2006, and if it is not renewed private recreational boat owners will not be able to purchase red diesel after this date.

If the derogation is not renewed the cost of waterside diesel used by leisure craft (if available) will increase threefold overnight in the UK, from the current 30p-40p per litre to an estimated 95p-105p per litre. Although one of the Directive's primary purposes is to reduce distortions in the internal market caused by differences in the levels of taxation applied to fuels and electricity, there are serious concerns that it may have the opposite effect if it is applied to marine fuel in the UK.

There is serious concern, supported by recent research, that this dramatic increase in the cost of boating will lead to a decline in participation. This will have a detrimental impact on the industry that serves the boating and watersports markets, which in turn will give rise to significant concerns regarding safety at sea and inland. There will be an impact on jobs and tourism, with little or no gain to the Exchequer.

This Document

'Seeing Red' is a briefing document for Politicians, Government officials and others who need to understand and take an interest in this important issue. It has been produced by 4 national bodies who represent individuals and organisations who will be adversely affected by the loss of this derogation, namely:-

British Marine Federation - The National Trade Association for the leisure marine industry. Its 1,500 member companies provide the boats, equipment, facilities and services that enable an estimated 4 million people to enjoy boating and watersports in the UK.

Federation of Petroleum Suppliers Limited - The Trade Association for almost all of the oil distribution industry in the UK and Ireland. Its 270 member companies are responsible for all deliveries of petroleum products for commercial, industrial and domestic use.

Inland Waterways Association - The Inland Waterways Association was set up in 1946 to campaign for the British canal network to be saved and revitalised. It is the national representative body for those who enjoy boating on our country's inland waterways and has around 17,000 members.

Royal Yachting Association - The RYA is the national governing body for all forms of recreational and competitive boating. The RYA currently has over 100,000 personal members and approximately 1600 RYA affiliated clubs and class associations.

This document explains the issues, presents arguments for the retention of the derogation and provides details of research that has been undertaken to quantify the situation.

Red Diesel and the UK Boating Market

Annual research undertaken by BMF/RYA/Sunsail indicates that 4 million people (2004 study) participate in boating and watersports on UK coastal waters and inland waterways. A significant sector of industry has developed to serve the needs of this growing market. Marinas and boatyards, both on the coast and inland, along with inland hire fleets contribute significantly to UK tourism.

The lower cost of red diesel (so called because petroleum companies add a red dye to marine diesel to address the potential for fraud and misuse) has certainly benefited the boating market and assisted the growth of the industry. The origins of this benefit are not clear but it is believed that it goes back to the 1930's post war years. The modern day derogation is enshrined in European Directive 2003/96/EC, and applies to private recreational craft only. Owners of commercially operated craft will continue to benefit from a separate derogation and will still be able to purchase red diesel.

Waterside marinas and boatyards typically have only one (red) diesel pump to serve the needs of their customers and visiting boats. If the derogation is removed, these waterside businesses will no longer be able to supply red diesel to their leisure customers and leisure boaters will need to use ultra low sulphur diesel (ULSD), the same diesel product that is available from high street petrol stations. Petroleum companies will not be creating a new type of marine diesel for private recreational use, because of supply issues. The Federation of Petroleum Suppliers Ltd believes the supply chain will not be able to accommodate a third type of diesel manufactured and sold specifically for use in private recreational craft.

This will have significant infrastructure, supply and competition issues for waterside business. In addition, it will raise technical issues regarding the suitability of using modern ULSD fuel (which has less lubricating qualities) in older marine engines. This is likely to increase maintenance and conversion costs, and may affect the reliability, of older engines, giving rise to concerns about safety.

The sudden loss of this derogation in December 2006 will have negative impact both socially and economically. The following chapters set out the potential impacts of the loss of the derogation on:-

- a popular sport and recreation
- a successful sector of UK industry
- UK Tourism
- safety
- Inland Waterways
- Government policies

Chapter 2 – Impact on Participation (Social Impact)

UK Situation

It is crucial, when looking at the impact of the loss of the current derogation, to consider the nature of boating in the UK. Three key factors stand out which are:-

- 1 Expenditure on boating is entirely discretionary which makes the marine industry particularly vulnerable to external factors.
- 2 The annual BMF/RYA/Sunsail Participation Survey clearly demonstrates that
 - Boating is a family pursuit
 - Boating is predominantly a middle income activity
 - Boating participants are mainly middle aged
- 3 Ownership of a boat in the UK is considerably more expensive than in many other countries with significant increases in mooring costs and costs arising out of new regulation.

For these reasons, and others, any significant price rises in one area of boating will result in a reduction in consumption in other areas with a resultant reduction in tax revenue for the UK Government.

This was clearly evident when the imposition of 25% VAT on boating in the 1970's actually produced less tax income than at the standard rate and was eventually reversed. Governments in New Zealand and the USA had similar negative experiences with high taxes on boating.

RYA Survey 2003/04

In 2003/2004 the RYA conducted a survey of UK recreational boat owners and the boating public to evaluate their likely reactions to a price increase in marine diesel of 200%. We analysed a random sample of over 2000 responses. Of the respondents sampled, 41% either owned or used motor cruisers, and 37% owned or used sail cruisers.

The following figures are based on the survey results. The results are based on people's opinions and personal views, and hence will provide a strong indication of their likely reaction. The evidence demonstrates that there is a very significant body of boaters who may reduce or completely stop buying diesel in the UK.

In response to the survey, 43% of respondents claimed they will either:-

- Get fuel from abroad, and/ or
- Move their boats abroad, or
- Give up boating altogether

In addition, 54% of all people surveyed agreed they 'would or may' give up boating altogether. This figure was significantly higher in respect of individuals who participate in motor cruising (72%) or use RIBS / Sportsboats (64%).

The following provides a further analysis of the options open to boaters and their likely reactions based on the results of the survey.

a) Give up Boating

This apparently drastic measure might be considered unlikely, however our research indicates that some boaters are already considering this option. It may be the only option available to some, for whom the additional tax burden may price them out of the market. For others it may be sufficient to tip the balance of costs and benefits in favour of alternatives such as budget holidays overseas and other foreign travel.

The BMF/ IWA and RYA conducted research in 1998, and the findings support the premise that this may have happened in the past, in the early 1970's, when the costs of boating were subjected to an increase of broadly similar magnitude by the imposition of 25% VAT, at a time when other sports were subject to VAT at only 8%.

Boatbuilders and brokers are already reporting that speculation about the future of the derogation is having an impact on the powerboat market in respect of new and second hand sales.

b) Reduce Fuel Consumption

A boat owner could reduce fuel consumption either by reducing the amount an owner uses his/her boat, or by trading down to a smaller or more economical vessel.

This should be considered in conjunction with the fact that the UK consumes 20732 million litres of diesel as road fuel and a further 6.141 million tonnes (approx 7492 million litres) of gas oil for other purposes (UK PIA Statistical Review 2004)

Even if consumption of marine diesel by pleasure craft were completely eliminated, the effect would be a reduction of only 0.05% of the total UK consumption.

c) Reduce the capital tied up in his/her vessel by changing to a petrol-powered boat

Although the purchase price of a petrol engine is cheaper than a diesel engine, the fact that petrol is typically about three times as expensive as marine diesel at present is a powerful incentive for many boat owners to choose a diesel engine. The RYA Solent Suppliers Survey (1998) and by the BMF Marine Industry Statistics Report (1996) confirmed that diesel is sold to 83% of recreational craft owners, and 74% of all inboard engine sales in the UK were diesels.

Without the advantage of lower prices for diesel fuel, an increased proportion of owners may opt for petrol-powered craft, which raises concerns about increased risk from the hazards associated with the use of petrol on board small craft.

Even if initially, there may be a limited amount of petrol available at the waterside, boat owners may go to high street petrol stations and transport it to their boats, which has health, safety and environmental problems attached to it.

d) Increased Boating Abroad

At present, ownership of a boat in many other countries is already cheaper than ownership of a similar boat in the UK: the fact that prices for red diesel are amongst the lowest in Europe is a factor in keeping the differential low, and therefore discourages owners from taking their boats abroad. Any rise in the price of red diesel could be expected to shift the balance, and encourage more owners to take their boats abroad.

The RYA survey of boat owners demonstrates that a three-fold increase in the price of marine diesel will make the option of keeping a boat abroad considerably more popular: 51% of respondents analysed said they would or might do so. The proportion was higher amongst motor boaters, with 25% saying they would do so and a further 40% saying that they might.

e) Purchase fuel outside the UK

A 16-17 metre motor cruiser typically has fuel tanks able to contain in excess of 2000 litres. If the tax on marine diesel were to be increased to the level currently charged on road fuel, it would represent an increase of approximately £1270 per fill. Individuals will be able to save approximately £800 per fill by buying their fuel in France, or even more by buying fuel outside the EC (such as in the Channel Islands).

It may be argued that the price of road fuel within the UK does not affect the proper functioning of the internal market, because the English Channel and North Sea deter the owners of road vehicles from crossing national borders merely in order to benefit from the lower price. For boats, however, the Channel and North Sea are not a barrier, but a major thoroughfare. The fact that many have considerably larger tanks than road vehicles increases the incentive to find cheaper fuel. Many boats based on the South Coast regularly visit France and they will be filling their tanks there, rather than in the UK if the derogation is lost.

Part of the motivation behind the Directive is to reduce differences in the national levels of energy taxation between Member States, in order to reduce the detrimental effect of such differences on the proper functioning of the internal market.

As at September 2004, the difference between the price of marine diesel fuel in the UK and in France was about 20-22 pence per litre, with the UK price being lower.

If the tax on UK marine diesel is increased, the difference between the price of marine diesel fuel in the UK and the price in France will increase to about 39-41 pence per litre, with the UK price being the highest.

Consequently, instead of reducing the discrepancy between Member States, the application of Directive 2003/96/EC without the derogation will almost double it.

Removing the derogation will have exactly the opposite effect to the declared intention of the Directive.

Chapter 3 – Impact on the UK Marine Industry (Economic Impact)

The UK Leisure Marine Sector

The UK Leisure Marine Industry is mainly comprised of small and medium-sized enterprises (SME's). It generates an annual turnover of £2billion of which 42% represents exports and employs around 30,000 people (source: BMF 2004 statistics). The industry has grown consistently since 2000 at a rate of 8% per annum.

These companies are mainly located in coastal and rural areas around the country with some significant clusters in South East, South West, East Anglia and the Midlands. Scotland and Wales are also important boating areas.

A successful Manufacturing Story

Production boatbuilding has developed as an industry since the 1960's when composite manufacturing materials were introduced. Many leading boatbuilding companies are British including four of the worlds leading powerboat builders. The UK also boasts market leaders in the manufacturing of marine equipment, electronics and clothing.

UK boatbuilders and the supply chain that they support have been recognised by Government as a successful manufacturing sector. The Department of Trade & Industry is investing in the future competitiveness of the sector and has commissioned a major sector Competitiveness Analysis and is supporting individual companies in addressing efficiency and productivity issues.

This successful sector of industry will be damaged if there is a reduction in participation in boating due to the loss of the derogation. As mentioned previously, boatbuilders and brokers are already reporting that speculation about the future of the derogation is having an impact on the powerboat market in respect of new and second hand sales.

Boating Holidays and UK Tourism

Hire boats are strategically important to the boating industry as a boating holiday or a trip on a passenger boat is often many people's first experience of boating, which can lead to a lifetime interest in recreation afloat.

Hire fleets on our navigable rivers; canal network and the Norfolk Broads bring visitors to our inland waterways, contributing significantly to the rural economy and UK tourism. Small, often family owned, companies predominantly operate hire fleets.

These companies have faced an increasingly difficult market place over recent years with strong competition from foreign package holidays and the effects of the foot and mouth disease crisis. They now face increased operating costs due to a new code of practice being introduced by the Maritime and Coastguard Agency. It is estimated that the loss of the derogation will add at least £50 to the weekly cost of a boating holiday. Although this sum may appear relatively modest, recent research by the BMF indicates that it will have a significant impact on the future competitiveness of these small tourism businesses.

Practicalities for Waterside Fuel Retailers

Waterside businesses (whether on the coast or inland) that currently supply red diesel to the boating public will face some hard commercial decisions if they can no longer sell red diesel to leisure boaters from 1 January 2007. These companies will typically have one red diesel storage tank and pumping facilities which will only be of ongoing use to them if they intend to continue to supply red diesel to commercial customers.

They will not be able to use their existing tanks to store ULSD because that tank will be tainted with red dye, which would contaminate the ULSD. If these companies decided to sell ULSD fuel to leisure customers, they will have to have their existing (red diesel) tanks industrially cleaned (at a cost in excess of £1,000) or make a capital investment in new tank and pumping facilities specifically for ULSD.

Waterside diesel will therefore be less available, particularly in more remote and rural areas such as the West Coast of Scotland. This has serious consequences for safety, and is likely to make boating in these areas less attractive and less popular.

BMF Survey 2005

The BMF has endeavoured to quantify the input on this sector of the industry by undertaking a survey of a sample of red diesel retailing members to assess their thinking on the impact on their business if the derogation ends.

114 red diesel selling companies responded, of which 64% currently sell to both commercial and leisure customers, with the remainder retailing to leisure boaters only. Asked about their future intentions if the derogation ends, taking into account their assessment of the impact on the market and potential capital costs of changing infrastructure, respondents stated:-

- 24% would continue to supply red diesel and in addition ULSD, serving both commercial and leisure customers
- 44% would stock ULSD only, serving only the leisure market
- 32% would stock red diesel only, for sale solely to commercial users

This has huge implications for the boating market if a third of suppliers stop supplying fuel to leisure boaters; in addition to loss of sales for the industry, it means boaters themselves will no doubt risk their own safety and the environment by transporting diesel from petrol stations or storing it on board.

92% of diesel retailing companies said that the loss of the derogation would have a detrimental impact on their company. 94 companies responded to a question asking them to estimate the financial loss to their company. The financial impact on these companies is significant, totalling £9,734,000, which represents 15% of their current total turnover.

The additional comments that this survey elicited gives an indication of the strong concerns that are held by businessmen running these small firms. They believe the reality will be:-

- a reduction in participation and boat usage resulting in less boats visiting their premises and a reduction in the related spend they currently receive from these boats (service/repair, chandlery, boat supplies etc)
- they will not be able to compete on price with high street petrol stations and supermarkets and envisage boat users transporting large amounts of fuel in unsuitable receptacles. There is strong concern about safety surrounding the carriage of fuel (particularly petrol) and the environmental impact of spillage.
- Businesses feel very vulnerable to an increased threat of theft if they have to ULSD that can be used in road vehicles. Their businesses cannot sustain the capital cost of security measures such as CCTV that are common place at high street petrol stations. This would impact negatively on crime statistics.

Chapter 4 – Safety Implications

A significant rise in the price of marine diesel fuel constitutes a direct threat to safety at sea and inland.

Availability

The practical difficulties faced by waterside diesel retailers are covered in Chapter 3, above. In areas where leisure craft are the main users of diesel, it is likely that supplies of red diesel will become scarce. In areas where commercial craft dominates, USLD is likely to become scarce.

If the derogation is lost it is very likely that waterside diesel will be less available to private recreational boaters, particularly in more rural and remote parts of the UK, and especially where coastal harbours cater predominantly for commercial (fishing) craft. Such areas include Scotland, Northern Ireland and the West Country.

Recreational boaters will be faced with having to make longer passages between fuel stops, which in the case of adverse weather, unexpected gear failure or other unforeseen events, is likely to result in an unacceptable risk to safety. This may lead to boaters carrying greater quantities of fuel in containers, if they have the storage capacity to do so. Spillage may occur when fuel is being decanted into tanks, especially if this is carried out when the vessel is under way, and the carriage of large quantities of fuel may give rise to additional safety concerns.

The BMF survey (2005) amongst red diesel suppliers found there are between ¼ of a mile and seventy miles between waterside diesel suppliers, with the average distance being 12 miles.

Switching to petrol

A switch to petrol engines from diesel engines will give rise to three main concerns: fire, reliability and CO poisoning.

Although the initial cost of a new petrol engine is considerably lower than that of a comparable new diesel engine, diesels are considerably more popular than petrol engines. Whilst safety considerations may play a part, it must be assumed that at least part of the explanation rests with the significant price advantage of red diesel compared with petrol. It must also be assumed that if the differential is removed or reversed, its effect will also be removed or reversed, and the popularity of diesel engines will fall. To illustrate this point, petrol-engined boats are far more popular in the USA because of the significantly cheaper cost of petrol compared to the UK.

Fire risk

Petrol is more volatile than diesel fuel. In road vehicles, the fire risk is reduced because the engine and tank are in well-ventilated compartments, effectively outside the body of the vehicle. In boats, that is impracticable (except in the case of outboard motors) so there is a real risk that potentially explosive fuel vapours may accumulate in a petrol-powered vessel.

Research conducted by the RYA (1998) has demonstrated that a petrol-powered vessel is more than 3.7 times as likely to suffer a fire as a diesel-powered vessel.

Currently, waterside petrol is more expensive than roadside petrol. Consequently, if petrol becomes more popular among boat owners there will be the obvious temptation for boat owners to buy ULSD from roadside filling stations because it will inevitably be cheaper than buying it at the waterside. Even if people take reasonable care and comply with all relevant legislation, any increase in the carriage of petrol in cars and other road vehicles will be unacceptable in terms of safety.

Boaters on the inland waterways and navigations are particularly concerned about the risks created through the increased use of petrol, and the main inland navigation authorities (British Waterways, the Environment Agency and the Broads Authority) and the Association of Inland Navigation Authorities, have all expressed their concern if the UK were to lose the derogation.

The DFT Codes of Practice for Small Commercial Craft states a clear preference, on the part of HM Government and its advisors, for diesel power. Outboard petrol engines are accepted, subject to specific conditions regarding the need to be able to jettison the fuel. Inboard petrol engines require special consideration by the certifying authority. No such constraints apply to diesel engines.

Reliability

Petrol engines depend on high voltage electricity in order to operate: diesels do not. In a damp and salt-laden atmosphere, petrol engines can be expected to be less reliable than their diesel counterparts.

Previous research conducted by the RYA demonstrates that a petrol-powered vessel is approximately 1.3 times more likely to suffer machinery failure requiring assistance from the search and rescue services than a diesel-powered vessel.

Even if owners did not change to petrol engines, the reliability of older diesel engines may be put at risk if they have to run on ULSD. Older engines were not designed to be run on this modern fuel, and there are concerns that ULSD may deliver less lubrication to the engine, adversely affecting an engine's rubber seals and pumps. This will result in increased costs in terms of maintenance and corrective work, and a vessel could be placed in danger if an engine malfunctions at sea.

Carbon monoxide poisoning

Carbon monoxide is a colourless, odourless, and potentially lethal gas, present in small quantities in the exhaust emissions of diesel engines, but in considerably greater concentrations in the emissions of petrol engines. The engines and exhaust systems of road vehicles are generally outside the passenger compartment, so exhaust gasses are diluted to safe levels by the outside air.

In the case of boats, the engine and exhaust system are generally within the hull. Any leak in the exhaust system thus results in exhaust emissions including potentially lethal concentrations of carbon monoxide to be released into the accommodation spaces.

Moreover, there have been cases in which the airflow around the hull and superstructure of a boat has led to high concentrations of carbon monoxide within the accommodation, even when the exhaust system is sound.

In the USA where petrol-engine boats are more popular than in the UK, Carbon Monoxide poisoning was responsible for 8 of the 750 recreational boating fatalities recorded by the US Coastguard in 2002 (US Coastguard Boating Statistics 2002).

Summary

Given the compelling preference for diesel engines, any pressure to encourage owners of private craft to change from diesel to petrol engines appears to be counterproductive in terms of safety, seamanship and common sense.

Chapter 5 – Impact on Government Policies

If the derogation were to cease the expected resultant downturn in participation, and the consequences upon the UK domestic economy that will flow from it, are likely to impact upon the following government policy areas:

Tourism

Boating in the UK contributes significantly to domestic and international tourism. Coastal marinas bring high spending visitors to seaside towns and marine businesses on our inland waterways drive revenue in the rural economy.

- The Department for Culture Media and Sport (DCMS) aspires to increase tourism spend sharply by 2010, according to Tomorrow's Tourism Today, a 2004 strategy document:

"We believe that this £76 billion a year industry has the potential for rapid growth. It can make better use of its assets to increase efficiency and profitability. If we only slightly exceed the anticipated growth rate of tourism in Europe, the UK tourism industry will be worth £100 billion by 2010."

- This is part of the DCMS strategic framework for 2003-2006, a stated aim of which was

"to improve marketing of English tourism to the domestic market; develop overseas tourism market in short and longer term."

- Labour's business manifesto also praised rural tourism. *"[It] has also never been stronger with diversification of the rural economy offering more choice and better quality to British overseas visitors."*

Significant efforts and resources have already been committed to aid the development and promotion of tourism, especially in more remote and rural areas, such as the West Coast of Scotland, Northern Ireland, the West Country and Wales.

Recreational boating makes a significant contribution to local economies that border coastal and inland waters, and many smaller communities, especially island economies, rely upon visiting boats for a significant part of their overall income.

It is beyond dispute that the loss of the derogation will have potential adverse implications for tourism, jobs and local economies, especially in areas such as Scotland, because of a reduction in participation and visitor numbers; however the scale of the impact has yet to be fully evaluated by Government.

Examples from Scotland:

The West Coast of Scotland is currently a popular venue for cruising and visiting craft. During a two week cruise an average forty-foot Clyde-based motor cruiser would expect to cruise from the Clyde to, for example, the Isle of Skye. Currently, the fuel costs for such a holiday are in the region of £500. These will increase to over £1600 if the derogation is lost.

The cost of a typical weekend cruise, with a motor vessel cruising from Largs to Tarbert, is likely to increase from approximately £75 to £250. Tarbert relies heavily upon visiting craft, and any reduction in numbers will have a significant adverse effect.

The Island of Muck has a small isolated community that provides facilities for visiting boaters in the village hall. This brings in much needed cash to the local economy.

There are only four marinas north of the Crinan Canal that sell diesel and currently no marina sells ULSD or petrol. Inhabitants of some coastal villages have to drive for a round trip of approximately 50 miles to get to the nearest road side garage to buy fuel.

Regeneration and renewal of Inland Waterways

The Department for the Environment, Food and Rural Affairs (DEFRA) published a consultation policy in 2000 entitled “Waterways for Tomorrow” which highlights the importance and value of tourism and business to help regenerate the inland waterways.

This is best summarised by a chapter on the Government's vision, which begins as follows:

“The inland waterways are an important asset for future generations to enjoy and the Government is keen to see them maintained and developed in a sustainable way so that they fulfil their social, economic and environmental potential. We want to ensure that the many benefits and opportunities they provide are used to the full.”

The document includes a summary of policy aims, which included the following:

- “The Government wants to encourage people to make use of the inland waterways for leisure and recreation, tourism and sport.
- “We will support the greater recreational use of the waterways for all, including the towpaths and waterside paths, where practicable.
- “We will encourage navigation authorities to increase access to the waterways for the young, disabled and disadvantaged.
- “We will look to holiday hire-boat operators to respond to customer demands and help contribute to the development of tourism on the waterways.
- “We will promote the waterways as a catalyst for urban and rural regeneration.
- “The Government supports the provision of passenger boat services on the inland waterways, wherever practicable and economic.”

There is genuine concern that the loss of the derogation will work against the Government's vision for Inland Waterways. There will be an adverse impact upon the competitiveness of hire-boat operators and other inland marine businesses and, in addition, the number of recreational boat owners is likely to decline.

Small Firms

The Government is committed to supporting small firms and reducing burdens on business through a range of policy initiatives and deregulatory measures.

The marine leisure industry is predominantly comprised of small and medium sized enterprises. Many of the waterside businesses that populate our inland waterways are family owned micro companies. The BMF survey (2005) demonstrates that failure to renew this derogation will have a direct and adverse impact on the well being of these small firms.

Activity and Exercise

Any decline in participation caused by an increase in the price of diesel or the potential problems of availability is likely to have an adverse impact upon participation in boating, and watersports generally, at all levels.

Most newcomers to boating are introduced to the sport via family or friends. It is popular to start with an initial experience aboard a larger craft, such as a motor or sail cruiser, because it is relatively easy to take part and people can initially be carried as a passenger. People are then more likely to go on to try other forms of boating, such as dinghy sailing or windsurfing which are more physically active, and they may also introduce further people (such as family and friends) to their new-found sport. Most people join a local sailing or cruising club regardless of their boating interests.

A decline in the number of people taking part in recreational boating will inevitably reduce the number of people who join these clubs. Clubs play an important role in local communities, providing access to sport at the grass roots level, as well as providing important social programmes for people of all ages and backgrounds. A decline in membership at any level will reduce the level of financial and volunteering support and may result in some clubs having to reduce their levels of activity and facilities on offer to young people. In the worst case, some may have to close down altogether.

An overarching strategy of the Government's policy for delivering its sport and physical activity objectives ("Gameplan" a joint DCMS/ Strategy Unit Report, December 2002), is to achieve a major increase in participation in sport and physical activity, primarily because of the significant health benefits and to reduce the growing costs of inactivity.

This strategy is reflected in a Department of Health PSA target to *"halt the year-on-year rise in obesity among children under 11 by 2010 in the context of a broader strategy to tackle obesity in the population as a whole."*

This to be achieved in tandem with the Department for Education and Skills and the DCMS.

The recent physical activity plan reiterated the government's intention to promote five bouts of moderate intensity a week, and to increase participation in sport and cultural activity among deprived groups by three percent per year, and to increase walking.

The government intends to increase activity at a community level: "Providing a wide range of physical activity and sporting opportunities within the local community, close to where people live, together with creating cleaner, safer and more activity-friendly local environments will be at the heart of building more active communities."

The same document continued: "achieving more active communities leads to wider social benefits than simply public health gains. Physical activity and sport programmes are already contributing to a range of agendas including crime reduction and youth justice, social inclusion and urban regeneration."

Chapter 6 – Avoidance of Fraud and the Implications for Theft

Enforcement

At present, fuels on which the lower rate of duty has been paid (including marine diesel fuel) are distinguished from those on which the higher rate of duty has been paid by the addition of red dye which gives the fuel a distinct pink colour.

It might therefore seem that enforcement of the discrimination between "pleasure" and "commercial" navigation would involve a simple visual inspection of the contents of a boat's fuel tank. In practice it is more complicated, normally involving a chemical test, and the costs of checking compliance are likely to be significant and disproportionate.

With regard to the cost of enforcement, additional expense would no doubt be incurred when compared to the current regime, but it is impossible to estimate the precise costs because it would depend on how many checks would be carried out, how many offenders would be prosecuted, how many prosecutions would be actively defended, and how many of those prosecutions would result in convictions.

It should be noted that the mere presence of dyed fuel in a pleasure craft's tanks would not necessarily constitute proof of evasion, because there could be several legitimate explanations for its presence. These include (but are not limited to):

- Dyed fuel purchased in the UK prior to the expiry of the derogation
- Dyed fuel purchased abroad, in a state where the use of dyed fuel in pleasure craft is legitimate (Jersey, for example)
- Dyed fuel purchased legitimately while the vessel was engaged in some commercial activity (Note that some boat owners charter their vessels)

The absence of visible colouring would not, by itself, be a reliable indicator that evasion had not taken place. Use of the visual test alone could be expected to lead to criminal elements setting up "laundering" operations, and to quantities of fuel from which the dye had been removed entering the marine fuel market. The presence of such "bleached" or "laundered" fuels in a boat's fuel tank could be detected by chemical tests, but would not constitute proof of evasion by any particular individual because there could easily be residual traces of chemicals present in the tank from dyed fuel purchased legitimately.

It is possible for fuel suppliers and owners of recreational craft to have their tanks cleaned to remove the dye if the derogation were to cease, although the results of such cleaning may not be guaranteed. If it is not completely effective the tank owner may still face prosecution. In addition, the cost of professional cleaning is likely to be in the region of £1000 and for many boaters and outlets this cost is likely to be prohibitive. In practice people may only rinse their tanks with ULSD instead of incurring these costs.

Fraud

The Treasury Select Committee Fourth Report of 15 March 2005 received very little evidence on oils fraud during its inquiry, and its report was therefore based on estimates from Customs and Excise. The Committee noted that Customs' strategy for tackling oils fraud is

“focused on stopping large-scale criminal and commercial fraud by combining law enforcement action, centred on the large-scale supply and use of illicit fuel, with a better control of the sale and distribution of red diesel, kerosene and 'tied oils'”.

The Committee went on to support the approach adopted by Customs, which is that efforts to tackle fraud must be based on an accurate assessment of the size and nature of the problem.

Select Committee hearings on the subject to-date have heard that the most common form of fraud is the diversion of red diesel into the general market (i.e. for use in road vehicles) by laundering the fuel to remove the red dye (*Public Accounts Committee, HM Customs and Excise 2 February 2005*). No evidence has yet been presented to connect the sale of red diesel to recreational craft with oils fraud.

It should be noted that the sale of red diesel to commercial craft will continue, and despite accurate figures not being available, the volume of red diesel sold to recreational craft is undoubtedly far lower than the volumes sold to commercial craft.

Consequently, the removal of the derogation is unlikely to have any meaningful or significant impact upon oils fraud in the UK.

Notwithstanding the low risk of fraud which may be connected with, or arising from, the sale of red diesel to recreational craft, if the derogation were to be extended then the marine industry, through the BMF, could reach an agreement with HMRC in order to help tackle such fraud where it exists. The terms of such an agreement would need to be recorded in a Memorandum of Understanding. Both the recreational users and the industry want to help the Government tackle the illegitimate use of rebated fuels, and this would be a positive way forward for all concerned.

Theft

Research conducted by the BMF has highlighted a concern among waterside fuel suppliers that predominantly sell red diesel to recreational craft. Typically, their premises have relatively less security than a high street petrol station because the product they sell – red diesel – is not sufficiently attractive to place it at risk of theft. If they had to sell ULSD, then most suppliers fear they will be exposed to an increased risk of criminal activity, because it would be more desirable to steal.

This will mean that retailers will have to incur additional costs to safeguard their premises. For most retailers these costs may prove to be prohibitive.

In addition, most recreational craft do not have any security measures, such as anti-siphon fillers or locking devices, to prevent access to their tanks. Normally, this is not an issue and theft of red diesel from a recreational craft is almost unheard of. If a craft carries white diesel, then there is a genuine concern that it is more likely to be targeted by criminals because it would be relatively easy to steal the fuel. Craft moored in isolated or out of the way locations would be especially vulnerable. It may be possible to introduce security measures, but this would be additional cost to the boat owner and such measures, if available at all, may not be suitable for all craft. The loss of the derogation is likely to lead to an increase in marine related crime that will impact on crime statistics.

Chapter 7

Revenue implications for the Treasury

Participation in boating is entirely dependant on discretionary spend, making it particularly vulnerable to any factors which increase the costs of participation. If the price of marine diesel rises significantly as a result of the loss of this derogation, reductions in leisure marine fuel consumption will be inevitable and this will have a direct economic impact on marine companies.

We do not believe that there will be an overall net gain to the Exchequer if the derogation is removed. The potential for any increase in duty revenues will be negated by the loss of other taxes if participation in boating and related discretionary spend reduces and marine businesses face a downturn.

On the estimation that 15 million litres of marine diesel is sold to leisure craft (RYA Research, 1998), if participation levels and fuel purchase remain unchanged, there would be a maximum of £9.1 million additional revenue to the treasury.

However, taking into account the loss of diesel sales amongst those who claim they would *definitely* stop purchasing diesel if the price of diesel increased ie give up boating, use boats less or buy diesel abroad, the potential income to the Government would only be £2.47 million. If all those who claim they would *definitely or may* stop purchasing diesel actually follow through with their intention, there would be a potential loss of revenue of £0.39 million (RYA Survey 2003/04).

Furthermore, boater spend is estimated at £700 million per year which is estimated to fall to £550 million if there is a decrease in participation and boat usage. This will obviously have a detrimental impact on the viability of marine companies and implications for job losses for the marine industry and related beneficiaries, resulting in loss of less tax revenue to the treasury.

When this is offset against the cost of enforcement, it can be seen that ending the derogation might raise negligible sums for the Treasury or more likely reduce revenue to the Exchequer and damage the industry.

Chapter 8 – Conclusions

If the current derogation that provides for a lower rate of duty on red diesel used for marine leisure purposes expires on 31 December 2006, it will have significant consequences for a great many UK citizens who enjoy their sport and recreation afloat or earn their livelihood from the leisure marine industry.

This document has set out and substantiated the social, economic and safety impacts that the loss of the derogation would have on UK boaters, citizens and business interests. The four national organisations associated with this document are seeking the support of UK Government Ministers to negotiate with the European Institutions for the retention of the derogation.

The derogation should not be viewed as a subsidy for very affluent people who own large boats. This high value sector of the market is important to wealth creation and is internationally mobile. This is borne out by the fact that the UK's largest power boat builders export in excess of 90% of their output. The derogation is a domestic market issue. The RYA research demonstrates that boating in the UK is a middle-income family pursuit. The reality is that it will be the family that may have saved for many years to achieve their dream of owning a boat, who will be priced off the water.

We do not believe that there will be an overall net gain to the Exchequer if the derogation is removed. The potential for any increase in duty revenues will be negated by the loss of other taxes if participation in boating and related discretionary spend reduces and marine businesses face a downturn.

We urge officials, politicians and Government Ministers to fight for the retention of this derogation.