



SOLID FUEL TRADE GROUP  
— • Warming Ireland's Homes • —

## **DRAFT Pre Budget Submission August 2018**

The Solid Fuel market in Ireland has undergone significant change in the past 5 years. Two tranches of Carbon Tax, the first on 1<sup>st</sup> May 2013, and a second tranche on 1<sup>st</sup> May 2014 increased the cost of a standard bag of coal to consumers by €2.40.

This increase has been borne by the most disadvantaged groups in our society, who rely disproportionately on solid fuel to heat their homes. Census 2016 and SEAI report, Energy in the Residential Sector 2018, confirm 13% of households in the country depend on heating their homes with solid fuel. These 220,000 houses, primarily in rural communities, are home to almost 600,000 people. This is because some do not have, nor can they afford to upgrade to, modern home-heating systems. Many others cannot, and never will, access the national gas network.

Carbon Tax on solid fuel was intended to encourage more use of renewables (Wood), but such change is creating increased emissions of PM<sub>2.5</sub> and PAH's, which are injurious to Air Quality and Human Health. Additionally, Carbon Tax has driven significant growth in illicit trade with non-compliant and untaxed solid fuel forcing legitimate companies out of business and pushing down the tax revenue collected from the sector. Tedcastles (sold solid fuel business), Galtee Fuels (liquidation) and Bord na Móna (exit coal business) have exited or radically shifted from solid fuel in the past 2 years as a direct result of market pressures. Figures released by the Department of Finance (Tax Strategy Group, July 2018) confirm that that Carbon Tax receipts on solid fuel in 2017 dropped by 21.7% compared to the previous year.

SFTG expect significant challenge from sod peat in the forthcoming winter. SEAI estimates the sod peat market at approximately 400,000 tonnes annually, yet despite its size and the particularly polluting nature of this fuel, there is no evidence of carbon tax being collected from this sector despite the serious commercial enterprise that it represents. A simple search on DoneDeal shows almost 46,000 ads under "turf for sale"! Industry sources understand there has been a record harvest of sod peat this year given the hot and dry conditions and this fuel will further challenge the legitimate market over the next two years.

Minister Naughten has indicated that he will introduce a ban on bituminous coal in September 2018 with a 12 month period thereafter to allow for a run-down of stocks. SFTG has consistently pointed out the significant challenges this will bring to the sector and will likely lead to further growth in illicit trade and more polluting fuels.

Any increase in Carbon Tax on solid fuel will wreak havoc on an industry that is facing into a period of unprecedented change and volatility.

SFTG recommends to Government:

- **Suspend any changes to Carbon Tax on Solid Fuel for at least 36 months to allow for pending legislative changes to fully work their way through the sector**
- **Align Climate Change and Clean Air Policy, to prevent unintended deterioration of air quality, by incentivising Appliance Up-Grades for end users which will deliver higher efficiencies with lower fuel bills and reduced emissions**
- **Commit the required resources to ensuring full compliance with the current legislation**

## Introduction

Carbon Tax was introduced on solid fuel in Budget 2010, but its activation was deferred until Budget 2013, in recognition of the unique nature of the solid fuel market, and the potential impact of Carbon Tax on employment, fuel poverty and the exchequer. Whilst the concerns remained, Carbon Tax on solid fuel came into effect on May 1<sup>st</sup> 2013. As noted above there has been massive adverse impacts on the industry since with lower sales volumes, increased costs to consumers, growth in illicit trade, more polluting fuels, and loss of jobs. In short, the very worst fears of the industry have come to pass.

## Fuel Poverty in Ireland

In any consideration of Carbon Tax on solid fuels, the issue of fuel poverty must be front and centre of any debate. Fuel poverty occurs when a household needs to spend more than 10% of its income on energy in order to maintain an acceptable level of heat throughout the home<sup>1</sup>.

According to the Pre Budget submission (June 2018) by St. Vincent de Paul (SVP), in 2017:

- 48% went without heating due to cost
- 1 in 4 experience energy poverty
- SVP spent €4.3m on fuel and electricity supports

According to the Institute of Public Health (IPH) in Ireland, fuel poverty has a detrimental effect on health in a number of ways:

- Cold indoor temperatures place a ‘thermal stress’ on the body
- Cold damp houses aggravate respiratory and allergic conditions
- Living in cold damp housing has a negative effect on mental health
- Households experiencing fuel poverty cut back on spending in other important areas such as food, clothing and transport, which further contributes to poor health and social exclusion
- Households experiencing fuel poverty tend to occupy fewer rooms in the house, resulting in overcrowding and deterioration in the overall condition of housing. This is called ‘spatial shrink’

The IPH clearly states that fuel poverty remains a very important public health issue on the island of Ireland. Fuel poverty is unacceptably high and contributes to the social exclusion experienced by the unemployed, the old, the disabled and lone-parent families. It also contributes to significant ill- health. The IPH estimates that the island of Ireland has among the highest levels of excess winter mortality, with 2,800 excess deaths over the winter months.

Solid Fuel predominates as a source of fuel for those who are least able to afford it, and Carbon Tax, is an added burden on those in this most exposed sector of Irish Society.

According to the latest SILC, 29% of people living in consistent poverty are unable to afford to keep their house adequately warm<sup>2</sup>. Recent weather events have served as a stark reminder of the stress many households continue to face being able to meet their utility costs.

We note from the SVP submission that the Winter Fuel allowance, for qualifying households, is now €607.50 but there has been an average increase in energy costs of 24.2% since 2010<sup>3</sup>.

SVP proposes additional arrangements for such households in the event of adverse weather.

- Increase Fuel Allowance to a value of €795 to restore purchasing power parity to 2010 levels. This can be achieved by increasing the rate to €24.85 and reintroducing the 32 weeks payment period. Estimated cost is €62 million.
- Introduce a new Cold Weather Payment scheme for those in receipt of Fuel Allowance and Working Family Payment, providing a guaranteed extra one-week of fuel allowance payment in the event of extreme cold weather. Estimated cost is €13 million.

SFTG are supportive of initiatives as proposed by SVP to provide for the poorest in our society. We would add an additional recommendation:

- **Suspend any changes to the current Carbon Tax payable on Solid Fuel thereby having a direct impact on the cost of Solid Fuel to end users. Estimated revenue forgone based on 2017 volumes is less than €10 million assuming a €10 / tonne carbon tax increase.**

## Environmental Impact

Carbon Tax was introduced as a 'disincentive' to use fuels with higher CO<sub>2</sub> outputs. The Tax is calculated based on the Carbon Content of the fuel. The well intentioned policy was intended to reduce the output of CO<sub>2</sub> to atmosphere. Fossil fuels are taxed, but renewable fuel (Wood) is exempt even though wood emits more CO<sub>2</sub> per unit of energy than fossil fuels. The rationale for exempting renewable fuels is based on the fact that wood can be re-grown over a timescale, and will sequester CO<sub>2</sub> during that timescale.

In theory, and from the narrow perspective of CO<sub>2</sub>, the Policy, and associated tax are to be applauded, but there are other unintended consequences when air quality is analysed.

The WHO has set guidelines for PM<sub>10</sub>, PM<sub>2.5</sub>, PAH, NO<sub>x</sub>, and SO<sub>x</sub>. While these guidelines have not yet been incorporated into Irish legislation, they provide a useful reference for the EPA to report against.

Ireland has some improvements to make to reach the WHO guidelines for PM<sub>2.5</sub> and PAH. The issue is that wood emits substantially more PM<sub>2.5</sub> and PAH than Fossil Fuels, including Coal, per unit of heat.

In a recent report by UCC on the SAPPHIRE Project (Source Apportionment of Particulate Matter in Urban and Residential Areas of Ireland) the very detailed analysis clearly indicates that in the towns (Killarney, Birr and Enniscorthy) where the study was conducted, wood had higher PM<sub>2.5</sub> readings than coal. With sod peat and wood burning bigger contributors to PM<sub>2.5</sub> in these towns further disincentives, such as higher carbon tax rates, to use coal could in fact create much more serious air quality issues.

The message is clear – while there is a benefit in terms of CO<sub>2</sub> output, from switching fuel source from Fossil to wood, there is a consequent increase in emissions to air of PM<sub>2.5</sub> and PAH.

It can be challenging to manage the tensions that exist between Clean Air Policy, and Greenhouse Gas Policy, whilst at the same time allowing citizens to provide for their most basic need after Food and Water.

While measures to protect the environment are necessary, the fact is that solid fuel emissions from households are a small and easy target. A target that puts the greatest burden on society's less well-off as well as those who are geographically more isolated. Solid fuel providers are already pulling their weight with the Government since 2002 to introduce solid fuel standards such as, low sulphur, low smoke coals and collecting carbon tax revenues.

One strategy that all agree on is 'improved appliance efficiency'. The Eco Design Directive will be a major step on this journey when it is introduced in Jan 2022.

In the intervening years, Government Policy should aim to incentivise the upgrading of appliances. Stoves can increase the efficiency of fuel use by a factor of three. SEAI produce

figures which demonstrate that the efficiency of an open fire averages 25%, whilst the efficiency of stoves averages 65%, (comparable to average gas boiler efficiency) and can reach 80%, with high efficiency stoves.

There is currently no incentive to upgrade solid fuel appliances, and SFTG calls on the Minister to introduce a scheme to incentivise upgrades.

The benefits of a scheme would be manifold, and include:

1. Benefit to Air Quality, through reduced fuel consumption, and increased efficiency of burning leading to reduced PM<sub>2.5</sub>, and PAH emissions
2. Reduced CO<sub>2</sub> emissions due to greater useable heat output from reduced fuel use.
3. Reduction in Fuel Poverty, as increased fuel use efficiency, reduces the household expenditure required to heat the home

SFTG recommend to Government:

- **Introduce an Appliance Upgrade Scheme, incentivising higher efficiencies with lower fuel bills and lower emissions**

## Compliance

Solid Fuel tax treatment now varies substantially between the United Kingdom and the ROI market. In the United Kingdom there is no carbon tax, as residential solid fuel was specifically excluded from the chancellors Finance Act in 2000. The UK Department for Environment Food and Rural Affairs (DEFRA) have clearly set out their position once again in their recently published paper – Consultation on cleaner domestic burning of solid fuels and wood (August 2018), where they state that they are not considering the introduction of a carbon tax or any change to the current tax regime for solid fuels. In Ireland the impact of Carbon Tax has been an increase of €2.40 on a standard bag of solid fuel. A further difference occurs with VAT which is levied at 13.5% on solid fuel in ROI, and at 5% in the United Kingdom.

With such a significant difference in tax treatment of solid fuel between the UK and Ireland, there is increasing evidence of unscrupulous operators based in the market, supplying solid fuel that does not comply with the operable tax code. Increased resources are required to augment the current activities of the Revenue Commissioners, and the Local Authorities, to ensure that the solid fuel market is uniformly regulated for all suppliers. A dysfunctional market is of no benefit to suppliers, Government, or the environment.

We welcome the update and publication by Revenue of the Solid Fuel Carbon Tax (SFCT) Compliance Procedures Manual in May of this year. However given the scale and growth in illicit trade it is clear that there is continued and widespread ignorance and / or deliberate evasion of the rules. Irish consumers order solid fuel online from NI based businesses and courier companies deliver the fuel without charging carbon tax. Irish based businesses “export” solid fuel to NI, do not charge carbon tax, but the product never leaves the jurisdiction. SFTG cannot find any evidence of prosecutions in this area and as such rogue operators continue to profit from the price gap created by carbon tax in Ireland.

To ensure compliance with current legislation:

- **Ensure adequate resources committed to enforcement to ensure compliance with current regulation, through the Revenue Commissioners, Local Authorities and EPA.**

We are concerned that if indeed there is a plan to increase Carbon Tax on solid fuel in the forthcoming Budget then it must be deferred for at least 36 months given the unprecedented and unique challenges the solid fuel industry is facing over the coming period. With a ban on bituminous coal, which currently accounts for approximately two thirds of coal purchased in Ireland, the market will undergo radical change. This 3 year period would allow for the introduction of the promised enforcement of current legislation and the continuation of home retrofits for the most vulnerable in our society. Furthermore it would allow for the managed sell through of bituminous coal stocks and the orderly transition to alternative fuels.

- **Any increase to Carbon Tax rates must not apply to Solid Fuel for at least 36 months to allow for pending legislative changes to fully work their way through the sector**

## Conclusions

SFTG asks the Minister for Finance to consider the points above. The arguments are real and valid, and should not be dismissed. SFTG recognise the Ministers decision to activate carbon tax in May 2013, and 2014, but we request that you now address the impact of your decision on those suffering fuel poverty, by excluding or delaying the introduction of any further increases in this tax on solid fuel.

Given the proposed ban on bituminous coal the solid fuel industry in Ireland simply cannot take further hits and an increase in carbon tax in Budget 2019 may well prove terminal for the remaining legitimate suppliers. The price differential with NI will widen, illicit trade will increase exponentially, carbon tax revenues will drop further and there will be little or no control on fuel quality.

We acknowledge the intent of Carbon Tax to reduce CO<sub>2</sub> output, and acknowledge its role from this narrow perspective. However the evidence, both international and local, highlights that increased substitution of biomass in domestic solid fuel use causes increased levels of PM<sub>2.5</sub> and PAH in our air.

We believe the solution to reduced CO<sub>2</sub> output, coupled with reduced emissions of PM<sub>2.5</sub> and PAH, rests not with regressive taxation increases that impact most on those in Fuel Poverty, but in increased efficiency of fuel use, through the upgrading of appliances.

We call on you to introduce an incentive scheme to financially assist households to upgrade their solid fuel appliances, thereby reducing fuel use, CO<sub>2</sub>, PM<sub>2.5</sub> and PAH output. The added benefit is that such upgrades would benefit those in fuel poverty, reducing their consumption of fuel. Policy needs to remove households from fuel poverty, and simultaneously benefit our environment.

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<sup>1</sup> Department of Communications Energy and Natural Resources 'A Strategy for Warmer Homes in Ireland' Reference Indecon 2009

<sup>2</sup> CSO (2018) Survey of Income and Living Conditions 2016, Table 7c.

<sup>3</sup> CSO (2018) Consumer Price Index - Division 04 Housing, Water, Electricity, Gas and Other Fuels - March 2018