IPU'S COMPLETE GUIDE TO THE RED DIESEL REBATE CHANGES



DISCLAIMER

All the information in this guide is accurate as per the latest draft of the HMRC legislation but may be subject to further changes.

According to the HMRC:

> *"This guidance will be reviewed in the run up to the introduction of the changes and amended as necessary. This may include further legislative changes (including secondary legislation to be laid in Spring 2022"*

The main points covered in this document are based on what we currently know due to our direct involvement with the consultation process.

If anything changes before April 1st, we will keep you as up to date as possible.

Our aim is to offer completely unbiased, impartial information on the changes and the future options, should you no longer be able to use Red Diesel.



WHAT ARE THE CHANGES TO THE RED DIESEL REBATE ENTITLEMENT?

As of April 1st 2022, most machines, vehicles & appliances will no longer be allowed to use rebated (red) diesel and rebated biofuels.

From this date, the current approach of red diesel being used in any off-road vehicle will end.

Instead, rebated fuel will be limited to certain vehicles, vessels, machines and appliances for specific purposes.

Those no longer allowed to use rebated fuel will need to switch to fuel on which the full rate of duty has been paid.

Rebated fuels affected by these changes:

- Red diesel
- Hydrotreated Vegetable Oil (HVO)
- Rebated biodiesel
- and fuel substitutes.

As of April 1st 2022, only the following sectors remain eligible to **use** red (rebated) diesel (11p duty per litre instead of 58p).

- Agriculture, forestry, horticulture and fish-farming.
- Rail transport.
- Fuel used for non-commercial purposes-heating & power generation.
- Community amateur sports clubs (CASC) and golf courses.
- Sailing, boating & marine transport (excluding private pleasure craft in Northern Ireland)
- Travelling fairs & circuses.

Businesses losing eligibility will also have to pay 20% VAT as opposed to 5%.

THE KEY CATEGORIES

Agriculture, horticulture, fish farming & forestry. (A.H.F.)

From 1/4/2022, rebated fuel can only be used in agricultural machines, special vehicles, unlicensed vehicles and appliances for “allowed uses”.

As per the legislation, the definition of an “agricultural” vehicle is:

- A tractor; a single-seat light vehicle (less than 1000 kg), designed and constructed mainly for off-road use; a vehicle registered only for use between different parts of land relating to A.H.F; a vehicle designed and constructed, for example, with built-in handling and processing equipment to be used for the purposed of A.H.F and fish farming.

The definition of a “special vehicle” is:

- Digging machines, mobile cranes, mobile pumping vehicles, work trucks or road rollers.
- An unlicensed vehicle that is not kept or used on public roads and must be SORNed.

“Allowed uses” for agriculcure purpose is defined as:

- Rebated fuel can be used in agricultural vehicles to cut verges and hedges that border a road, snow clearance, gritting, and flood clean-up work.





Rail

Rebated fuel can be used to propel and stop a vehicle or machine designed to run on a railway, but not on a tramway. However, rebated fuel may not be used to power any other machines used on a railway, such as heating/cooling units on railway freight wagons, and signals.

When a vehicle, machine or appliance uses the same fuel tank for allowed and non-allowed uses, you will have to use fully duty-paid fuels.

Non-commercial purpose – heating and power generation

Rebated fuel can be used for non-commercial power generation and heating of premises being used for non-commercial purposes.

Non-commercial

Non-commercial purposes mean that the activities carried out on the premises are not concerned with making a profit, e.g. premises being used to provide a public service or charitable fundraising. This includes NHS hospitals, town halls, public schools.

Commercial

Commercial premises would be where profit is being made, e.g. a private school or hospital, so rebated fuels cannot be used.





Community amateur sports clubs (C.A.S.C) & golf courses

Rebated fuel can be used in an agricultural vehicle and unlicensed vehicles kept and used on land maintained by a CASB, or on a golf course or driving range.

Rebated fuel can be used in any machine, including heating, lighting of clubhouse etc. it can also be used in special vehicles e.g. diggers, mowers and cranes, when used on the grounds.

When the land is on either side of a public road, rebated fuel can be used in a vehicle, if the shortest possible route is used, but such vehicles must be licenced for use on the road.







Sailing, boating and marine transport (exc. Private pleasure craft in Northern Ireland)

Except for private pleasure craft in N.I, all types of boats may use rebated fuel in their engines and other appliances.

From 1st October 2021, you may not use rebated fuel to propel a private pleasure craft in Northern Ireland.

Travelling fairs and circuses

Rebated fuel can be used in machines and appliances associated with a fair or circus.

A travelling fair must be dismantled at least once per year and travel from place to place.

This includes fuel for powering the rides, providing electricity & heating for caravans, in mowing machines or unlicensed vehicle, but not in any road vehicle.

PREPARING FOR APRIL 1ST 2022

PREPARING FOR APRIL 1ST – FUEL USERS

From 1st April 2022, it will be illegal to put rebated fuel into the tank of a vehicle, vessel, machine or appliance that is not allowed to use it.

If fuel users are no longer able to use rebated fuel, they should plan to run down the fuel in their vehicle or machine to close to nil by this date. Only fully duty paid fuels & biofuels are allowable from this date.

A fuel user will NOT be expected for flush out all traces of rebated diesel from the vehicle or machine fuel tank.

Fuel users – rules around rebated fuel in storage tanks

Users are encouraged to use up all rebated fuel before the cut-off date. They will *not* be expected to flush out all traces of red diesel from storage tanks.

They are however expected to review weekly or monthly usage to determine the expected usage of rebated fuel by 31st March 2022, and plan how to manage surplus stock.

Fuel users should only order fuel supplies of rebated fuel between now and 1st April 2022 in volumes they expect to use.

If fuel users have surplus rebated fuel in tanks from April 1st and they are not legally allowed to us it, they will need to:

- sell it or give it to someone who is allowed to use it.
- sell it or give it to any Registered Dealer in Controlled Oil (RDCO)
- dispose of it via an approved waste oil recycling or disposal company.

They will need to keep a record of how the fuel was disposed or who it was sold to and when. Anyone can sell or dispose of fuel without needing to be approved by HMRC as an RDCO.

Should fuel have large volumes of rebated fuel already in reserve and are concerned that you will not be able to use or dispose of it before April 22, you should contact oils.policymail@hmrc.gov.uk.

An exemption applies to fuel in storage tanks used for contingency back-up electricity generation and critical safety or environmental protection equipment used in commercial premises. This will be covered in more detail on page 12.







PREPARING FOR APRIL 1ST – R.D.C.O'S

The section relates explicitly to Registered Dealers on Controlled Oil (RDCO) ie. A registered F.O.D (Fuel Oil Distributor).

R.D.C.O's need to comply to ensure they do not supply rebated fuel only to those allowed to use it.

It is the responsibility of the R.D.C.O to ensure customers understand these changes and help them to prepare.

Fuel supplier's *cannot*:

- Agree to customers stockpiling fuel
- Agree to customers increasing usual order quantities
- Sell large volumes of rebated fuel just before the cut off date.





Regional depot storage tanks will need to be assessed. If these tanks are being used to store white diesel, they ***will*** need to be flushed out to remove fuel marker traces. R.D.C.O's need to keep a record of this work being done.

As there will be an increased demand for these services in the run up to April 2022, R.D.C.O's should consider organising this in advance. IPU's Fuel and Tank Cleaning Service can ensure your fuel storage infrastructure is fully compliant ahead of the deadline. Booking early will give us time to assess and complete the work.

Request a priority site survey & tank and fuel clean by visiting:
www.ipu.co.uk/red-diesel

If an R.D.C.O chooses to no longer supply rebated fuel as a result of these changes, they will need to deregister from the R.D.C.O scheme. The HMRC will need to be notified as to how they plan to dispose of fuel stock & records need to be kept.

GUIDANCE ON APPLICATIONS FOR "ALLOWED AND NON-ALLOWED" USES

If you use a vehicle, machine or appliance, which is used for both allowed and non-allowed purposes, you will need to make a decision on how YOU manage the fuel.

- You must either:
    a. flush out the tank to remove all traces of rebated fuel when switching uses.
    b. Or use fully duty-paid diesel/biodiesel for everything.

If you opt for Option A, you should retain the necessary evidence to prove this action was taken, e.g: if you hire a machine which can use rebated fuel for specific purposes, you will need to retain evidence.



CONTINGENCY BACK-UP ELECTRICITY GENERATION AND CRITICAL SAFETY OR ENVIROMENTAL PROTECTION EQUIPMENT

You will *NOT* be expected to flush out all traces of rebated fuel from the tanks of back-up generators or critical safety & environmental appliances, or from fuel storage tanks used to supply them.

As per the draft legislation, contingency back-up electricity generation means:

a. Using contingency back-up generators when necessary to ensure continuity of power. This does not include generators used as the main source of everyday electricity.
b. Commercial electricity generators as those activated to manage pressures to the National Grid.
c. Where a volume of back-up fuel is required to be held in reserve for security and regulatory purposes to maintain essential electricity supply.

And critical safety and environmental appliances include:

- Fire protection systems
- Medical & life support equipment
- Auxiliary boilers designed to provide safety & environmental protection





As stated previously, rebated fuel can be used for power generation in premises being used for non-commercial purposes, but not for commercial purposes.

However, you CAN use up your stock of rebated fuel after the rules change, providing you obtained and stored it before 10th June 2021 (when the Finance Act 2021 introducing these changes received Royal Assent) for the following:

- contingency back-up electricity generation in premises for commercial purposes.
- critical safety and environmental protection appliances or machines in premises used for commercial purposes.

If you have stocks of rebated fuel held for contingency back-up which were obtained after 10th June 2021, you may be granted a licence by HMRC to continue using rebated fuel.

You will need to apply to HMRC, and if they approve the use, pay the difference in duty.

If you are concerned that you will not be able to use or dispose of the fuel obtained after 10th June by 1st April 2022, you should contact oils.policymail@hmrc.gov.uk.

HMRC'S APPROACH TO COMPLIANCE

The HMRC do acknowledge that there will be traces of rebated fuel in tanks after the change.

HMRC accept that a "red indicator" may well be present beyond 1st April 2022.

HMRC may carry out checks to ensure compliance.

Fuel users will need to prove that they are using the correct fuel.

HMRC will specifically target users who deliberately use rebated fuel illegally. Offenders will be subject to civil or criminal sanctions and vehicles, machines or appliances illegally using rebated fuel are liable to seizure.

THE ALTERNATIVES

SWITCHING FROM RED TO WHITE

Switching from Red to White Diesel seems to be the preferred option according to Government guidance.

The specification of Red and White Diesel is *exactly* the same. The only difference is the added dye.

Next steps

Switching to White Diesel is the cheapest option, and users can be assured there is absolutely no risk to equipment that currently runs on Red.

For end users, according to the legislation, no fuel tank cleaning is required to remove residue of Red Diesel.

For fuel distributors however, tanks must be cleaned – there can be no cross contamination.

SWITCHING FROM RED TO HVO

Despite HVO being a synthetic diesel alternative, it is classified as a fossil fuel and will therefore be eligible for the full rate of duty.

There is no bottomless pit of HVO. There is a finite supply and we do have concerns that if the entire industry switches to it in one fell swoop, prices are going to rocket and availability will become limited. HVO is a more expensive choice than White Diesel, without adding the potential supply/demand uplifts.

Next steps

Although marketed as a drop-in replacement, we would always recommend seeking guidance from Engine Manufacturers before switching to an alternative fuel.

SWITCHING FROM RED TO GTL

GTL is a synthetic diesel alternative from Shell (and other oil and gas companies). It turns natural gas into a liquid fuel suitable for use in unmodified diesel engines.

It is seen as a greener fuel, with many emissions benefits. It boasts up to a 25% reduction in NOx and a 90% reduction in particulate matter in certain applications. It is however a more expensive alternative to Diesel.

Next steps

We would always recommend seeking guidance from Engine Manufacturers before switching to an alternative fuel.

NEXT STEPS & IPU'S RECOMMENDATIONS

FUEL HOUSEKEEPING

The key to reducing the risks of contamination is good housekeeping. Good fuel housekeeping is a combination of effective processes, a little technology and some good old-fashioned common sense. We recommend the following measures:

- Ensure all tanks are well maintained, in good condition and leak-free.
- Avoid contact between fuel and copper or zinc as they promote oxidation.
- Always follow recommended methods when refilling tanks to avoid the accidental introduction of contamination.
- Keep fuel tanks as full as possible to reduce water condensation from moisture-laden air.
- Seal tank correctly, ensuring there is little possibility of water ingress during heavy rain.
- Filter fuel every time it is moved – this is considered to be 'best practice' as fuel is at most risk from contamination when it is being transferred.
- If storing fuel in multiple tanks, employ a rotation system to use the oldest fuel first (if you are confident of its condition).







OFTEC INSPECTIONS

No matter what the fuel you are storing, it is crucial to look after the fuel tank infrastructure and keep it in good condition.

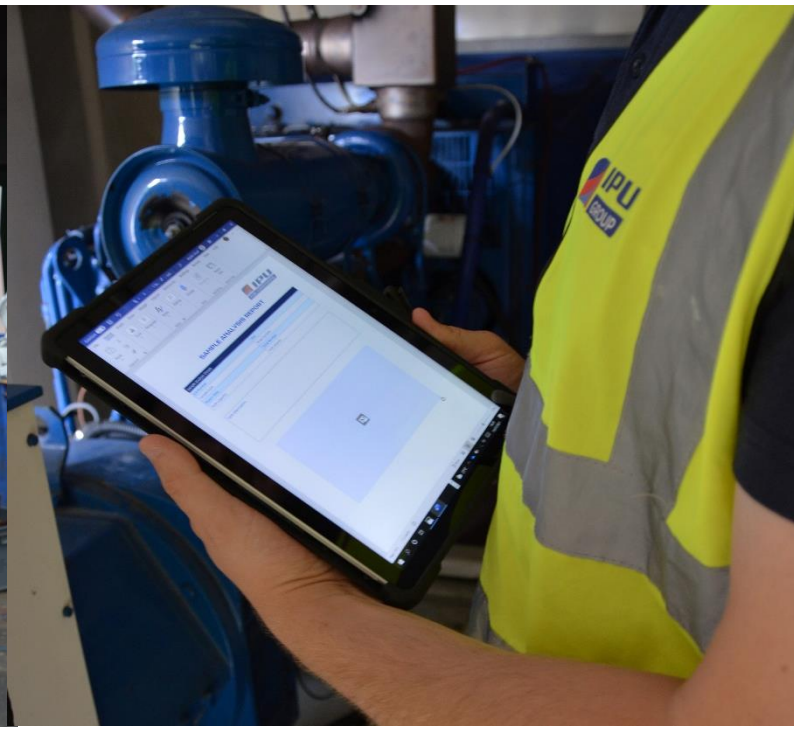
Every site that stores diesel needs an annual OFTEC inspection.

OFTEC is the industry association that governs the inspection and certification of fuel pipework, storage and pumping systems.

IPU's fuel team regularly services generator diesel tanks which are connected to buildings through their pipework infrastructure. Our engineers are in an ideal position to advise customers on problems they might have with building and fire regulations.

Get advice from the experts with a detailed OFTEC survey:
www.ipu.co.uk/red-diesel





DIESELCHECK FUEL SAMPLING

If you need to switch from Red to an alternative fuel, the first step *must* always be to establish the existing state of your fuel.

Fuel is soon to become one of your most expensive assets. You cannot spend significant money on new fuel only to add it to a dirty tank.

Sampling is an inexpensive way of learning the condition of your fuel.

IPU recommends that three fuel samples are taken from every tank: top, middle and bottom. This is especially important for larger tanks where parts of the fuel can separate during long periods of storage. A sample taken from the bottom of a tank typically shows higher concentrations of water, particulates and other heavy contaminants. A sample taken from the top of the same tank would give a misleadingly positive impression of the condition of the stored fuel.

Three samples ensures you see an accurate analysis of your fuel.

Fuel samples should be analysed quickly once they have been taken from the tank. Delays can allow changes to develop in the fuel sample's composition, especially its biological content.

IPU will sample your fuel and can instantly analyse it with our DieselCheck Portable Fuel Analyser. Using the DieselCheck, you can guarantee:

- Fast results
- Accurate and reliable analysis
- Clear readings displaed on the screen

We can then analyse it in-house or at an independent laboratory and provide a detailed report on the results.

Book a complete insight into your fuel with a sample & analysis:
www.ipu.co.uk/red-diesel







FUEL CLEANING

Dedicated IPU Fuel Engineers will come to site with our own, purpose-built equipment to clean the fuel.

IPU's fuel cleaning team have a large fleet of cleaning rigs, designed and built in-house by the IPU team. We have the fastest and most powerful cleaning rigs on the market at 700 l/min. Even the dirtiest of fuel can be cleaned in a matter of hours, because our high flow-rate systems generate turbulence within the fuel storage tank. This technique disrupts the pockets of contamination that build up in low turnover tanks and forces contaminants into the cleaning systems.

Our field team have years of experience cleaning fuel, and we have been to almost every type of site – from the bottom of a basement to the most sensitive site requiring security clearance. They are supported by in-house project managers, service coordinators and an engineering team to ensure every eventuality is considered and every job goes smoothly.

Fuel is left clean, with both solid and water contaminants removed.

Never worry about the reliability of your fuel again. Book a fuel clean now: www.ipu.co.uk/red-diesel







FUEL POLISHING - IPU EKO SYSTEM

The EKO System with Kapture technology is a high-performance fuel polishing system that represents a major step forward in protecting diesel fuel from harmful contaminants in storage tanks up to 10,000 litres capacity.



The system builds on IPU Group's extensive expertise in fuel management and brings together a compact high-performance fuel polishing unit with an intelligent microprocessor control module, known as Kapture. This specialised combination is custom designed to monitor and control fuel cleaning systems with a lower purchase and lifetime maintenance cost in mind.

But this is achieved without compromising on performance. The EKO System delivers an exceptional cleaning capability that is 87% higher than the industry standard, achieving a 13/11/18 level of cleanliness at both high and low flow rates.

It's the perfect polisher to ensure your stored fuel remains in its best condition, in many applications, including:

- Agriculture
- Critical back-up power generation
- Construction & rental markets
- Marine
- Transport (depots & rail)
- Industrial sites

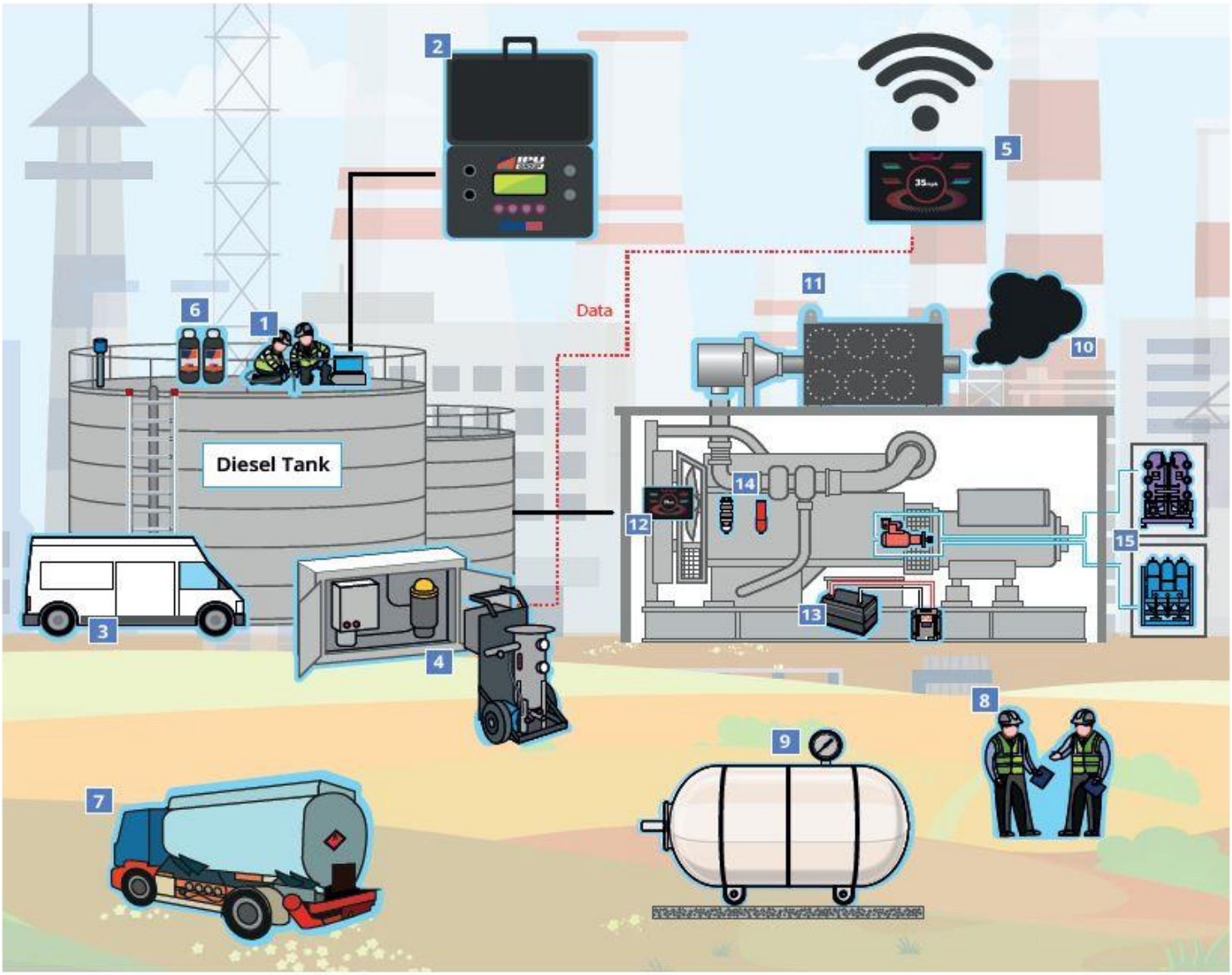


Why is the EKO better?

- 50 l p/m flow rate, for storage tanks up to 10,000 litres capacity.
- Continuously monitor fuel contamination for Kapture Technology.
- Reduce costs & plan maintenance through trend analysis.
- Complete Plug-n-Play system, software and all.
- Rugged reliability for off-road, heavy-duty industrial, recreational and agricultural applications.
- Huge I/O capability, future proofing against changes on site.
- Get all the technology with a genuinely affordable price tag

The EKO offers so much more than an average polisher. Get a quote here: www.ipu.co.uk/red-diesel

TOTAL FUEL MANAGEMENT



Respond

- 1 DieselCheck Fuel Testing
- 3 Tank & Fuel Cleaning
- 7 Fuel Uplift
- 10 Gas Testing

Design & Build

- 4 Diesel Defence Fuel Polishing
- 5 Cloud Based Fuel Monitoring
- 9 Tank Decommissioning
- 11 Emissions Reduction

Maintenance Services

- 2 DieselCheck Fuel Analysis
- 3 Tank & Fuel Cleaning
- 6 Diesel Defender Fuel Additive
- 8 Tank Testing & OFTEC Inspections

On-engine solutions

- 12 Enovation Displays
- 13 Battery chargers & other components
- 14 Parker Racor & Baldwin filters
- 15 Air & Hydraulic starter motors & systems

IPU know diesel inside and out. Learn more about our site services here:
www.ipu.co.uk/products/total-fuel-management/

FOR FURTHER DETAILS ON ANYTHING COVERED IN THIS GUIDE:

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