

STATES OF JERSEY



GOVERNMENT PLAN 2021–2024 (P.130/2020): FIFTH AMENDMENT (P.130/2020 AMD.(5)) – COMMENTS

**Presented to the States on 14th December 2020
by the Council of Ministers**

STATES GREFFE

COMMENTS

The Council of Ministers opposes this proposal and urges States members to reject the Amendment.

Conclusions

- **Financial exposure to the impact of the amendment is vastly underestimated at the stated £56,000. A conservative estimate is that is more likely to be £1.25M in 2021 and will rise as more product becomes available. This would potentially rise to c.£10M in lost impot per annum, as product is replaced, this is the current level received from fossil diesel fuel. The likely impact of reducing taxes on the product (second generation renewable diesel/RD100) would be a significant increase in demand, with suppliers then increasing import volumes to the island to meet this demand.**
- **Council of Ministers support the uptake of policies to encourage an increase in second generation renewable diesel usage in order to reduce carbon emissions from road transport, however, these policies are not yet formulated. Further exploration as to the implications of these policies is required and they must be embarked upon with an understanding of the full financial implications.**
- **Trials are currently underway as part of the delivery of the Sustainable Transport Policy, using second-generation renewable diesel in Government of Jersey fleet vehicle trials and will report in Spring 2021 on technical performance and cost implications.**
- **Further related policies will be developed through the climate citizens' assembly process in 2021 which will set the target date for carbon neutrality. This will be set out in the long term action plan to be brought to the States assembly by the end of 2021, this will set out the policy route to achieve the carbon neutral ambition, including fully costed consideration of a set of policy levers.**
- **The Revenue Policy Development Board is already looking at the wider policy work; with electric vehicles becoming more prevalent our fuel impots receipts are likely to be significantly reduced so the board will be developing recommendations to replace that income.**

Background

- **The estimated financial impact of £56,000 assumes that the same amount of product would be sold in 2021 as in 2020 which is a flawed premise as follows:**
 - **In 2020, the sale of second-generation renewable diesel was limited to one supplier and began in June 2020. It is therefore not representative of an entire year of potential sales nor the fact that other suppliers could enter the market in 2021 if they could source the product.**
 - **The product was only available to the public at one forecourt at a price premium significantly higher than fossil diesel (but held as low as possible by the supplier for promotional purposes).**

- Commercial customers purchased second generation renewable diesel for their fleets at a negotiated but still premium rate.
- Discussions with the current supplier confirm that their experience in 2020 demonstrated that there is demand for this product and the main reason more customers have not taken it up is the price compared to fossil diesel. They reasonably conclude that if duty was removed, the price of second-generation renewable diesel/RD100 would drop closer to that of fossil diesel (but still some 20ppl higher than fossil diesel due to anticipated market movements) and the sale of second-generation renewable diesel/RD100 would substantially increase.
- The current supplier has confirmed they could supply up to 5M additional litres of second-generation renewable diesel which would be available across both Jersey and Guernsey in 2021. They are confident that a reduction in the price premium would increase sales and they would increase their imported volumes to match this.
- If this were the case, this would increase financial exposure due to lost import duty at well above £56,000 and in proportion to the amount of second-generation renewable diesel that could be sourced.
- The reduction of import duty to 0% for second generation renewable diesel could conservatively create a market for at least 2.5M litres of second-generation renewable diesel, making the financial exposure impact equal to c.£1.25M in lost revenue.
- Additionally, other suppliers could also import product in 2021 adding to the volumes sold and the exposure to lost revenue.
- We must, however, highlight the positive impact the increased usage of the second-generation renewable diesel/RD100 could have on our journey towards carbon neutrality on the island.
- The use of second-generation renewable diesel/RD100 should be encouraged with well thought out policy initiatives and economic instruments.
- The assembly unanimously adopted the Carbon Neutral strategy (CNS), in February 2020, endorsing a community participation programme and a citizens' assembly that will take place early next year. Here, carbon-reducing policy initiatives and revenue raising policies, including those regarding second generation renewable diesel, will be investigated and explored in detail. The suggestions will include presentations from subject matter experts.
- The citizens' assembly recommendations will inform the development of the long-term climate action plan which will outline Jersey's ambition and journey towards carbon neutrality. This will include examination of the costs of carbon neutrality and mechanisms to raise revenue to implement the policies through the Climate Emergency Fund, the plan will be debated by the States Assembly. The recommendations may include a proposal to provide incentives for second generation renewable diesel, but it will arise from a consideration of carbon reduction policies in the round.

- Road transport emissions account for 32% of Jersey's greenhouse gas emissions. Diesel use in Jersey has been steadily increasing since the early 1990's due to an increase in heavy duty trucks and buses, and in 2018 made up 45% of road fuel used in the island. It is therefore recognised that the use of second-generation renewable diesel could have a significant impact on reducing emissions.
- As part of the STP strong start initiatives, the use of second-generation renewable diesel is being trialled in Government of Jersey fleet vehicles. The outputs from this trial will inform multiple workstreams, including discussion on the potential impacts of, and timing for, introducing a ban on the registration of new petrol and diesel vehicles in Jersey, consideration of fiscal levers as part of the Citizens' Assembly process and will also inform the Government liquid fuel re-tender process.
- The Revenue Policy Development Board is already looking at the wider policy work; with electric vehicles becoming more prevalent our fuel impots receipts are likely to be significantly reduced so the board will be developing recommendations to replace that income.
- It is the view of the Council of Ministers that the impacts of the proposed amendments would be better incorporated into this wider piece of work which will be completed during 2021.
- To conclude, Ministers agree the product has potential to be used within carbon-reducing policies, however, the right mechanism has not been suggested within this amendment and therefore should be rejected

Practical consideration

- We have been advised that developers won't be able to make the required software changes (development, testing and delivery) to CAESAR to take account of the new category of biofuel, if Deputy Ward's amendment was to be successful, until after 1st January 2021.
- There is a significant backlog of development work for Brexit as well as a Government Modernisation & Digital change freeze from 11 Dec until 11 Jan.
- However, if the amendment was successful, we anticipate that the changes could comfortably be achieved by 1st March 2021 and probably earlier but customs and Immigration advice that they would not be able to administer the changes until CAESAR development is complete.

Financial and Manpower Implications

The financial implications of this amendment if it was approved would be that the estimated income in 2021 for Impots Duties Fuel will be reduced by an estimated £1.25 million. **This would potentially rise to c.£10M in lost impot per annum, as product is replaced, this is the current level received from fossil diesel fuel.**

If this amendment is adopted by the Assembly then the reduction in the forecast Consolidated Fund balance for 2021 will be managed in the first instance by adjusting

the Consolidated Fund working balance in that year, without proposing to increase the maximum borrowing requirement proposed in part (c) of P.130/2020.

Depending upon which amendments are adopted by the Assembly, the Chief Minister or Minister for Treasury and Resources may request an adjournment of the debate for a specified period to consider the consequences of the amendment under Standing Order 70A. Under Standing Order 80A the Chief Minister or Minister for Treasury and Resources may propose, without notice an amendment to the Government Plan at any time during the debate.

Reducing income in this way increase the level of borrowing required by an equivalent amount each year over and above the amount of borrowing otherwise required.

The Council of Ministers will be bringing a proposition to the Assembly during 2021 seeking approval for long-term financing relating to Our Hospital. In the event that the maximum Covid-related borrowing requirement as approved in part (c) of P.130/2020 needs to be adjusted as a result of the value of amendments approved by the Assembly and updated forecasts, as well as the 2019 outturn, then approval will be sought for an amendment to the approved Government Plan at that time in accordance with Article 16 of the Public Finances (Jersey) Law 2019.

There are no manpower implications.