

Response to:

**Consultation on a proposed
amendment to the Motor Fuel
(Composition and Content)
Regulations 1999.**

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1. Foreword

Most petrol stations in the UK offer two petrol grades: standard unleaded (known as premium), which represents 95% of sales and super unleaded¹. Both premium and super petrol grades currently marketed in the UK contain up to 5% ethanol (known as E5).

Directive 98/70/EC (the Fuel Quality Directive), as amended by Directive 2009/30/EC, requires Member States to ensure the placing on the market of petrol with a maximum oxygen content of 2.7 % and a maximum ethanol content of 5 % until 2013. The Directive also states that Member States may require the placing on the market of such petrol for a longer period if they consider it necessary.²

This requirement was implemented in the UK in January 2010 by the Motor Fuel (Composition and Content) and Merchant Shipping (Prevention of Air Pollution from Ships) (Amendment) Regulations 2010 (SI 2010/3035), which amended the Motor Fuel (Composition and Content) Regulations 1999 (SI 1999/3107). This legislation requires the ethanol content of super unleaded petrol sold at certain filling stations to be no more than 5% by volume. This has been referred to as a requirement for a 'protection grade', as it provides additional protection for drivers of E10 incompatible cars who need to use E5 petrol.

In March 2013 a revised standard for petrol (EN 228) was approved by the British Standards Institution which increased the ethanol blend limit from 5% to 10%. This means that UK fuel suppliers can now supply blends with up to 10% ethanol (known as E10) should they choose to do so.

The roll out of E10 is a commercial decision for fuel suppliers. It is possible that in certain areas E10 will replace the premium E5 grade. The proposed measure of extending the current legal

¹ Standard unleaded has 95 RON while super unleaded has at least 97 RON. RON (Research Octane Number) is a measure of fuel performance, with some manufacturers recommending the use of high RON fuel for particular models.

² Recent proposals to amend the Fuel Quality Directive include an amendment to extend the protection grade requirement until the end of 2018, this was not known at the time of launching the consultation on the proposed amendment to UK legislation. It is uncertain whether the proposed amendment to the FQD will be approved.

requirement for a protection grade beyond 2013 would mitigate the risk of limited availability of an E5 grade, in the event that E10 is introduced while there are still a significant number of non-compatible vehicles in circulation.

This document sets out our final policy on extending the requirement for a petrol protection grade.

2. Executive Summary

This document summarises the responses to the questions posed in the “*Consultation on a proposed amendment to the Motor Fuel Composition and Content Regulations 1999*” and provides the Government’s response.

2.1. Summary of final policy for extending the end date of the current requirement for a petrol protection grade

Our final policy for extending the end of the protection grade requirement is described in full in section 3 of this document. In summary, we will extend the end date of the current requirement for a further three years until the end of 2016.

2.2. Timing

Subject to Parliamentary process, we aim to introduce the Motor Fuel (Composition and Content) (Amendment) Regulations 2013 by the end of this year. The legislation would come into force in early January 2014.

2.3. Contact details

If you have any questions regarding this response, please contact:

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3. Responses to each question in the consultation related to extending the end date of the current requirement for a petrol protection grade

Summary of proposal

We proposed to extend the end date of the current requirement for a petrol protection grade until 31st December 2016.

The consultation set out

3.1. Consultation questions and responses

3.1.1. Question 1: Do you agree with our proposal to amend the Motor Fuel (Composition and Content) Regulations 1999 to extend the requirement for a protected grade of super unleaded petrol with an ethanol content of no more than 5% to be available on the market until 1st January 2017?

Summary of responses

Yes:	18
No:	6
Unclear	7

Main messages from respondents

The majority of respondents agreed with the proposed extension of the end date for the E5 protection grade requirement. These included members of the public, associations of vintage and specialist older vehicles, a biofuel producer, a fuel supplier, a trade body, an industry representative group, fuel retailer representative associations, a non-governmental organisation and a research institute. The main message from this group of respondents was that the E5 protection grade should be made available for longer.

Those who did not agree with the proposed extension were mostly fuel suppliers and a fuel supplier association who perceived the

proposal as restricting industry's flexibility. A non-governmental organisation also disagreed with the proposal and suggested the requirement should not define the protection grade to apply only to super unleaded.

Seven members of the public replied to the consultation with comments but did not provide a view on the proposed extension of the protection grade. They mostly expressed concerns about the blending of any percentage of ethanol in petrol as potentially having adverse effects on classic vehicles and motorcycles engines.

Individual responses/detailed points

An association representing the interests of businesses operating vintage and specialists vehicles, although agreeing with the proposal, suggested the Government should consider taking a number of additional actions. These included:

- not limiting the requirement to large filling stations,
- allowing fuel companies to continue to supply E0 (ethanol-free petrol),
- ensuring appropriate labelling at the pump and consumer information.

An association representing classic and historic vehicle owners, who supported the proposal, remarked that in 2017 there would be a greater proportions of vehicles classified as classic.

Several members of the public, particularly owners of historic vehicles and motorcycles, expressed concern about the introduction of E10 by fuel suppliers, due to the adverse effects of higher ethanol blends in certain engines. Of these, some also conveyed doubts about the environmental benefits of introducing higher blends of ethanol. They suggested that consideration should be given to the additional emissions from the construction of the new vehicles which would replace older, non-compatible ones.

An association representing the views of fuel retailers and an organisation representative of the motor industry, while supporting the proposed amendment, pointed to recent proposals by the

European Parliament to extend the E5 protection grade until 2018. In light of this, the Government should consider an extension of the UK requirement until at least 2018.

Another association representing fuel retailers, who supported the proposed extension, emphasised the importance of a planned introduction of E10. This would allow retailers to make informed decisions on the range of petrol grades to offer.

Three fuel suppliers and a fuel supplier industry association suggested that regulation was unnecessary. They pointed to the experience of other European countries' that have introduced E10 is that the new fuel has not exceeded 60% market share. They also suggested that fuel suppliers would continue to supply E5 in response to a significant market demand regardless of legislation.

They also suggested that the length of time for the continued supply of a protection grade should be a commercial decision. The proposed three years could be too long a mandate as the demand for an E5 grade could diminish to a level which would be uneconomic to produce. As an example they mentioned the phasing out of lead petrol, which fuel suppliers continued to supply in response to demand until it was phased out through legislation.

Finally, they added that restricting the amount of biofuel that can be added to super unleaded could impact on their ability to meet future Renewable Transport Fuel Obligation (RTFO) targets (particularly given the uncertainty caused by ongoing European negotiations on biofuel sustainability).

A non-governmental organisation, whilst supporting the principle to mandate a requirement for an E5 grade, suggested this should not apply to super unleaded only. They pointed out that there is no accurate data on whether non-compatible vehicles need higher octane (super) petrol grades or lower octane premium.

Another fuel supplier agreed that super unleaded should be maintained as the protection grade. This would be easily recognised as such by classic vehicle owners in the event of E10 being introduced, and moving away from this approach could create confusion. However, the same fuel supplier suggested the requirement should be limited to retailers supplying no less than 10 million litres rather than 3 million litres as in the current legislation. This is because the demand for fuel from non-compatible vehicles

would fall over the next three years and therefore the proposed coverage would be disproportionate.

Another fuel supplier agreed with the proposed extension because it offers a solution to concerns from stakeholders in the motor vehicle industry and users associations. The supplier added that this policy would ensure consumer confidence is maintained. However, the same fuel supplier requested that the regulation be reviewed in two years.

3.1.2. Question 2: Do you have any comments on this proposal or the costs and benefits set out in the attached Impact Assessment?

Summary of responses

Number of comments: 20

Main messages from respondents

A research institute said that they believed the Impact Assessment (IA) slightly underestimates conversion costs for consumers. However, as other assumptions are considered conservative, on balance they believed the overall costs in the IA are sound.

An association representing the views of historic vehicle owners remarked that the IA does not make a proper distinction among older vehicles. Only more recent vehicles (post-1945) are referred to as classic and may be able to be converted. Therefore the IA should recognise the possible scrappage or confinement of older vehicles (pre-1940). The association also questioned the reported estimates of historic vehicles in 2011 as estimates based on figures from DVLA reports appear higher. They also enquired whether the IA considers motorcycles and other petrol commercial and public transport specialised vehicles in the vehicle pool.

A biofuel producer believed the IA underestimates consumer costs as the calorific value of ethanol is lower than petrol and would increase the cost of living. They suggested a certain percentage of premium unleaded should be made available as E5 to minimise consumer costs.

A fuel supplier thought the IA had not fully considered the operational and supply cost to business of the proposal. For example, should the supplier in question choose to supply E10 for the premium grade, the requirement to supply super as an E5 grade would imply higher blending costs. Alternatively it could require a reconfiguration of the supply chain and logistics. The same fuel supplier also suggested that fuel retailers may incur higher costs due to increased demand of super E5 by older vehicle owners.

On the issue of estimated costs to consumers, they suggested that the cost of buying super unleaded by all older non-compatible vehicles over four years may be higher than conversion costs compared to current IA estimates. The latter may increase due to owners of compatible cars deciding to conservatively buy super unleaded. For this reason the fuel supplier emphasised the importance of a communication campaign that would provide objective information and support for a smooth introduction of the new fuel grade in the UK. Other costs to be taken into account include the devaluation in resale price of non-compatible cars and the opportunity cost to business of maintaining E5 super when E10 would have a cost advantage for blenders.

Another fuel supplier considered the NPV estimate to be low. In particular, conversion cost savings may be offset by the additional costs of buying more expensive super unleaded. They also suggested that in evaluating the scrappage rate the analysis should take into account of the financial incentive provided by the Government to scrap older cars in place during 2009-10.

An association of fuel suppliers indicated that should there be only two grades supplied, E10 and super E5, this may require a quantity of super production which the UK infrastructure might not be physically able to supply. In addition the association believed that the costs in the IA were underestimated as they did not properly take into account restricting the ethanol blend in super. This would lead to more supply of crop based biodiesel, with higher costs and lower GHG savings.

3.2. Government response

In our consultation we proposed to amend the Motor Fuel (Composition and Content) Regulations 1999 and extend the existing requirement for a fuel protection grade for a further three years, until the end of 2016.

We have considered the comments and further evidence provided by respondents to the consultation. A wide range of stakeholders, including older vehicle owners' representative groups, motor industry and fuel retailers associations, some biofuel and fuel suppliers, and several members of the public have expressed support for the proposed extension. The majority of respondents saw this as necessary to ensure the continued availability of an E5 petrol grade and to minimise costs to the consumer. Several respondents who agreed with the proposal also emphasised that the policy should be reviewed in due course to consider further extension of the requirement beyond 2016.

We are aware of the concerns from some fuel suppliers that the proposed extension reduces flexibility and can potentially increase operational and supply costs. We also appreciate that the requirement may be considered unnecessary, as E10 is not expected to completely replace the premium E5 grade in the immediate future.

Having considered the various responses, we intend to continue with our preferred approach. This would extend the existing requirement for super unleaded to function as petrol protection grade until the end of 2016. This will ensure non-compatible vehicle owners have continued availability of an E5 grade should E10 be widely introduced whilst a significant number of older non-compatible vehicles are still in circulation. We will keep under review whether this requirement needs to be extended further, particularly if proposals to amend Directive 2009/30/EC to extend the end date of the protection grade until 2018 are approved.

The requirement will only apply to large petrol stations with no less than three million litres total sales. This constitutes continuation of existing policy and will minimise the burden on industry while at the same time ensure an appropriate geographic coverage. Limiting the requirement to filling stations with higher throughput (for example over 10 million litres) could mean large areas of rural

Scotland, Wales and Northern Ireland would not be covered by the regulation.

As pointed out by some fuel suppliers, it is unlikely that E10 will be introduced at a large scale in the immediate future. In the case of a limited introduction of E10, E5 would continue to be supplied in response to market demand. In this case, extending the requirement would have limited or no impact on industry given that it would be a commercial decision to continue supplying E5. By keeping the existing requirement in place the policy will ensure consumer protection should the scenario of widespread E10 introduction in all petrol grades materialise.

Other comments raised

Some respondents to the consultation suggested that petrol grades with higher ethanol blends should be clearly labelled at the pump allowing consumers to make an informed choice.

The Biofuel (Labelling) Regulations 2004 already require that pumps dispensing petrol containing more than 5% ethanol must be labelled "Not suitable for all vehicles: consult vehicle manufacturer before use". This notice must be displayed prominently on any dispenser from which such fuel is sold or offered for sale to the ultimate consumer. This will continue to be the case should suppliers decide to roll out E10 following publication of the new industry standard for petrol.

An additional remark was that fuel suppliers should be allowed to continue supplying petrol with no ethanol content. It is worth noting that UK legislation does not prohibit the supply of petrol with no ethanol content. The Motor Fuel (Composition and Content) Regulations 1999 set a maximum permissible ethanol content of petrol – there is no minimum content.