Regulatory Policy Committee

# Proposed regulation of the sales, distribution and marketing of house coal and wet wood (>20% moisture) sold in units up to 2m³ and limits on sulphur content of smokeless fuels

## Department for Environment, Food and Rural Affairs

## RPC rating: fit for purpose

### Description of proposal

The objective of the proposal is to meet international obligations and to reduce the negative impacts on health and the environment caused by $PM_{2.5}$ and sulphur dioxide ($SO_2$) pollution. The Department proposes to achieve this by regulating the sale, distribution, and marketing of bituminous coal and wet wood sold in units up to $2m^3$. This will be supported by a government led communications campaign to raise awareness and to educate consumers. (The proposal only applies to England as air quality policy is a devolved matter).

The Department states that "The UK is obligated under the National Emissions Ceilings Directive (NECD) to reduce emissions of particulate matter with a diameter of 2.5 micrometers or less ($PM_{2.5}$)". The aim of the regulations is intended to shift consumption away from bituminous coal and wet wood to fuels which emit less $PM_{2.5}$, such as low sulphur smokeless fuels or dried wood.

The Department has considered two policy options in the impact assessment. The preferred option is to regulate the sale of fuels for domestic heating by banning the sale of bituminous coal and banning the sale of wet wood in quantities greater than $2m^3$. The regulation will apply to fuel manufacturers and will be implemented via an industry led certification scheme. This will involve inspections to assess fuel contents and quality control records. A transition period of one year will be applied to allow retailers to sell their existing stock. The regulation will be supported by an information campaign aimed at raising public awareness of highly polluting fuels.

The second option is a voluntary approach promoting the sale of cleaner fuels. This would maintain the 'Ready to Burn' scheme, which is the current voluntary industry scheme aimed at promoting the sale of dry wood and cleaner solid fuels.

## Impacts of proposal

Industry representative bodies have estimated that 3,706 businesses will be affected by this proposal. The Department's call for evidence indicated that most of those will be small or micro businesses.

Monitoring costs

The Department has calculated the monitoring costs based on estimates provided by Woodsure, a not-for-profit organisation which operates the Ready to Burn scheme. The Department takes Woodsure's estimates to provide the low scenario for monitoring costs, then increases those estimates by 20% for the central scenario, and 30% for the high scenario.

For monitoring the sale of wet wood, the estimates are £15m in the low scenario, £19.5m in the high scenario, and £18m in the central scenario.

The estimates for monitoring the sale of bituminous coal are £0.34m in the low scenario, £0.44m in the high scenario, and £0.41m in the central scenario.

Administration and familiarisation costs

The Department has estimated costs to business for quality control managers familiarising themselves with the legislation and participating in an inspection. Discussions with the industry have lead the Department to assume the average salary for a quality control manager is £50,000, and that they will be required to spend 1.5 days each year on familiarisation and inspections.

The estimates for familiarisation and inspection in the wet wood industry are £9m in the low scenario, £13m in the high scenario, and £11m in the central scenario.

For the bituminous coal industry the estimates are £0.16m in the low scenario, £0.21m in the high scenario, and £0.19m in the central scenario.

Non-traded $CO_2$ emissions

The assessment estimates that switching from bituminous coal to solid smokeless fuel will lead to an £11m increase in non-traded $CO_2$ emissions over the assessment period.

Household costs

The IA assumes that all consumers who comply with the regulation will switch from wet wood to dry wood, and from bituminous coal to solid smokeless fuels, rather than switching to alternative fuels such as electricity. Full compliance is assumed for coal due to the low number of coal suppliers. A lower compliance rate is expected for wood due to the high number of wood suppliers; the Department assumes 40% compliance in 2020, rising to 60% by 2023. This results in an estimated additional cost to households of £423m over the assessment period, which is due to these fuels being slightly more expensive to burn.

Government costs

The Department estimates a one-off cost of £0.5m for staff training.

A government communications campaign will run for the first three years of the proposal. The Department estimates the cost at approximately £2m per annum.

Monetised benefits

The monetised benefits refer to reduced damage to health and the environment as a result of improved air quality. They are calculated using the ‘damage cost’ approach which is set out in HMT’s Green Book guidance on valuing impacts of changes in air quality. The Department has provided low, high, and central scenarios for the monetised benefits due to uncertainty over the lag between improvements in air quality and the resulting improvement in medical and environmental health.

The Department estimates monetised benefits at £1,313m in the low scenario, £6,762m in the high scenario, and £2,798m in the central scenario.

Non-monetised benefits

The Department expects the proposal to benefit natural ecosystems, biodiversity, and the wider environment, however this has not been monetised.

The ‘damage cost’ approach captures impacts on mortality but fails to include morbidity, lost productivity and environmental damage.

The assessment states that reducing $PM_{2.5}$ emissions will have a cooling impact on the climate, however, this cannot be monetised as those emissions result from the burning of solid fuels which have a large black carbon component, where black carbon is not monetised.

The reduction in other pollutants such as $SO_2$ and nitrogen oxides ($NO_x$) has not been monetised due to uncertainty on emission factors.

## Quality of submission

This IA assesses impacts over an 11-year period, from the proposed date of implementation in 2020, to the 2030 deadline in 2030 for the UK’s legally binding targets. This allows the Department to estimate costs and benefits over the lifetime of the proposal.

The Department has provided a clear assessment of the impacts of the proposal. The IA is fit for purpose for informing consultation and decision-making. The overall net present value (NPV) is only a partial and unrepresentative estimate of the full impacts due to the difficulty of monetising the benefits. The Department explains clearly why this is the case and describes the non-monetised benefits in full. The business NPV and equivalent annual net direct cost to business (EANDCB) figures are proportionately evidenced, but the Department could have been clearer on where figures were rounded and how it calculated the central scenario for costs and benefits.

The rationale for the proposal is clear and concise. The objectives are logical and all are considered within the body of the IA. The Department has provided a full summary for two options – one of which is an alternative to regulation - and argued effectively, with evidence, for its preferred option. The preferred option is to regulate the sale, distribution and marketing of bituminous coal and wet wood; the other option, which is the alternative to regulation, will maintain the Ready to Burn voluntary industry scheme alongside a government communications campaign. The Department will, however, have to strengthen the evidence for estimated emission reductions on both options.

The Department has explained why four other options were dismissed, but those explanations are very brief and could have been expanded upon to strengthen the Department’s argument. In particular more evidence could be presented for discarding ‘regulating the sale of fuels in urban areas only’ at this stage, given indications that costs are likely to be higher and health benefits lower in rural areas. The Department should consider providing further explanations on these options to assist consultees. The baseline option is correct and has been applied consistently.

The compliance rate of bituminous coal suppliers is assumed to be 100% due to the low number of those suppliers. This approach is standard practice. The IA deviates from that standard practice in regard to wood suppliers’ compliance rate, by assuming a 40% compliance rate in 2020, rising to 60% in 2023. The assumed rise in compliance is presumably a result of the government information campaign, though the IA does not make that explicit. The RPC is content with this approach, but the Department should seek to justify these figures through consultation.

The small and micro business assessment is just sufficient for consultation stage, but it does not go further than acknowledging that most of the affected businesses will be small and micro. The Department should use the consultation to improve this assessment. This must be strengthened significantly for final stage.

The Department has provided a discussion of the distributional impacts of the proposal, which identifies possible regional asymmetries, and the prospect of certain fuel-poor households being harder hit by the proposals than others. The Department states in the IA that the distributional impacts, particularly regional differences and impacts on households in fuel poverty, will be investigated in more detail through consultation and stakeholder meetings. At final stage, the IA could be strengthened with analysis of the impact on rural areas using the Department's own 'rural proofing' guidance.[1]

The Department highlights capital costs surrounding the expected costs to manufacturers who must purchase new equipment to dry out their wood. Information constraints have prevented the Department from monetising these costs, but it has stated its intention to collect evidence to support appropriate monetisation via the consultation. The Committee welcomes this and emphasises that such costs should be monetised for final stage.

The IA also refers to the costs to suppliers of having to switch to kiln dried or seasoned wood, or to selling wet wood only in volumes greater than $2m^3$. The assumptions around the possible costs and benefits of this impact are not fully supported by evidence in the present IA and must be strengthened for final stage.

This proposal alone is not intended to meet the targets of NECD, but rather to contribute towards them. The IA would benefit from a brief description of the consequences should this approach, and others, fail. A comparative discussion on approaches taken by other EU states to fulfil their NECD obligations would further benefit the IA. The IA refers to a review in December 2025, but the IA would benefit from a description of the plans for a post implementation review, including what data

[1] https://www.gov.uk/government/publications/rural-proofing

will be monitored (and by whom) and how progress towards the objectives will be judged towards the target.

The following should be tested or strengthened through consultation for use at final stage:

i. Comparisons between emissions reductions expected from options 1 and 2.
ii. Assumed compliance rates for both coal and wood suppliers.
iii. Projected estimates of coal and wood consumption in England.
iv. Assumptions around the effectiveness of the government communications campaign.
v. The risks, assumptions and uncertainties contained in the IA should be strengthened for final stage.
vi. The increase in greenhouse gas emissions caused by the proposal should be tested and discussion strengthened around the relative cost when compared to the benefits offered by the proposal.
vii. Monitoring costs, administration and familiarisation costs, and household costs should all be further tested.
viii. The small and micro business assessment should be strengthened for final stage.

**Departmental assessment**

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| Classification | To be determined |
| Equivalent annual net direct cost to business (EANDCB) | £2.6 million |
| Business net present value | -£30.18 million |
| Overall net present value | £2,327 million |

**RPC assessment**

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| Classification | To be confirmed at the final stage and once the better regulation framework for the present parliament is agreed |
| Small and micro business assessment | Sufficient |

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