

Annex B

Licences, supply chain and international comparisons

Red diesel licences

In exceptional cases, HMRC issues licences to allow use of red diesel as fuel to propel vehicles, including road vehicles.

Such licences are intended for vehicles that have no entitlement to use red diesel. Authority to use red diesel is given only in exceptional circumstances where the vehicle's owner is unable to access or use white diesel and it would be unnecessarily obstructive to refuse the user permission to use red diesel in their vehicle.

Licence holders are required to pay the duty differential between red diesel's rebated rate and the full diesel rate in advance of the fuel being used. This means they must provide HMRC with an estimate of the fuel they will use together with payment for the additional duty. Further payments will be required if the estimate of consumption proves insufficient

The supply chain

Red diesel is supplied to users through a controlled supply chain, where there is oversight of both wholesale and retail suppliers. HMRC approve suppliers under the Registered Dealers in Controlled Oil (RDCO) scheme before they can supply red diesel. Suppliers who only supply fuel in small pre-packaged containers of 20 litres or less do not need to be approved. HMRC will only grant approval where the applicant is assessed as being a fit and proper person to supply controlled oil. Approved suppliers are required to take reasonable steps to make sure that their customer is properly entitled to receive the oil that is being supplied. Under the RDCO scheme suppliers are required to make periodic returns of the controlled oils supplied.

The government is aware in broad terms of which industries are supplied with red diesel but does not collect information from the users themselves. For example, when red diesel is supplied to a construction site that is not connected to mains power, there is no information on the proportion used in site vehicles such as digging machines and mobile

cranes as opposed to that used in generating sets to heat the portable buildings for site staff.

International comparisons

The UK is not unique in offering a tax reduction for fuel marked for use off-road. Examples of other countries that allow the use of such fuel and the circumstances in which it may be used include:

- Republic of Ireland – there is a red diesel equivalent which is referred to as green diesel as the dye used to mark it is green. It can be used for non-road mobile machinery
- Canada – there is ‘coloured fuel’; diesel mixed with a specific dye which is taxed at a lower motor fuel tax rate. This can be used in ships and boats, locomotives, tractors and unlicensed motor vehicles. Industrial machines are also eligible when used off the road. Coloured fuel can also be used to operate an engine separate from that used to power a motor vehicle
- United States – ‘dyed gas’ is available for use in off-road vehicles such as farm tractors, heavy construction equipment and generators. This fuel is not taxed