

LeasePlan

# Diesel Briefing 2017

What's next for diesel?



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# Introduction

Several years ago, it was inconceivable that diesel vehicles would be major news around the world – yet that is what has happened. Thanks to rising concern about nitrogen dioxide emissions, as well as testing scandals involving major car manufacturers, diesel is now regularly hitting the headlines and frequently involved in parliamentary debates. In July, the Government even published an entire Air Quality Plan to help deal with the problem.

The policies within the Plan has the potential to drastically alter fleet thinking for years to come. Towards the end of next year, for example, 29 of the worst-polluted local authorities will have to draw up blueprints for reducing diesel emissions. It is largely up to the local authorities themselves to decide what measures to introduce, but they could include new charges for diesel motorists.

The Plan also hints at policies that could prove even more significant. It raises, for instance, the possibility of further tax hikes for diesel vehicles – but says that we shall have to wait for the Chancellor's Autumn Budget, later this year, for confirmation. It also recommended a scrappage scheme to help diesel motorists move to cleaner vehicles – but this is subject to a consultation. Change is certainly coming, but the nature and extent of that change is, as yet, uncertain.

Outside of the Air Quality Plan, there are already several pre-existing policies to limit diesel emissions. Fleet professionals are already used to the three-percentage point diesel supplement that the Government has added on to the rates of Company Car Tax. They will also have to get used to the special 'T-Charge' that London is imposing on older vehicles from this October, ahead of the full introduction of the capital's Ultra-Low Emission Zone in 2019.

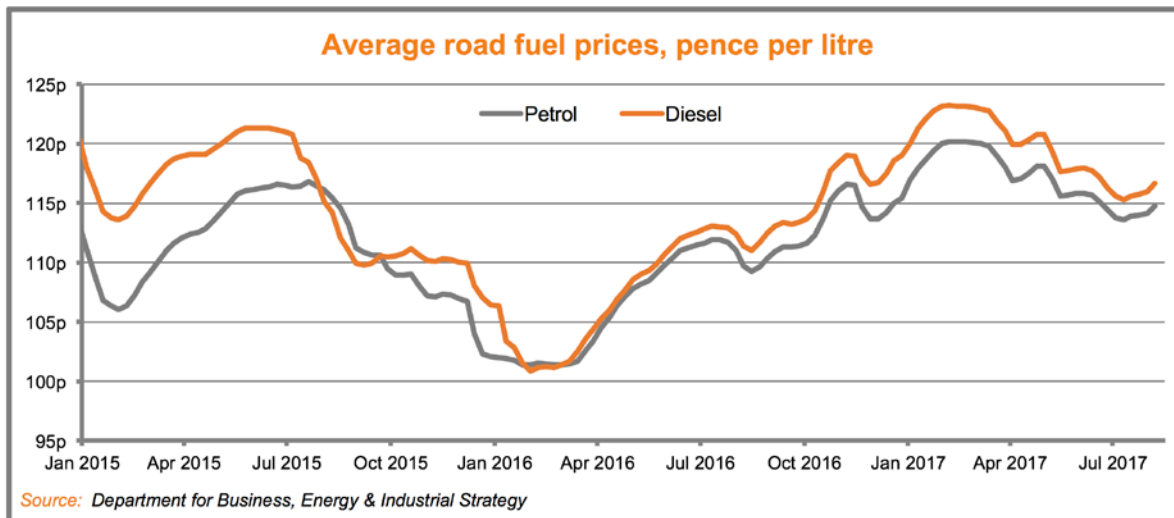
These policies already seem to be having an effect. The number of new diesel registrations has fallen by 7% over the past year, whilst the number of alternatively-fuelled cars registered has risen by 28%. Some manufacturers, such as Volvo, have even decided to stop making diesels altogether.

LeasePlan is eager to help its customers prepare for this new landscape, which is why we have produced this briefing document. It isn't meant to be a comprehensive account of everything that is going on in the world of diesel policy, but it does summarise what many of the main participants are saying and doing – from the Government itself to various industry bodies and think tanks. It will enable fleet managers to make more informed decisions.

And fleet managers do have big decisions to make. Is diesel still viable? Is ultra-low the way to go? What are the costs associated with new technologies? As during any period of great change, the answers may take some time to emerge. We at LeasePlan see it as our responsibility, in the meantime, to provide as much clarity as we can.

# The marketplace

## The price of diesel

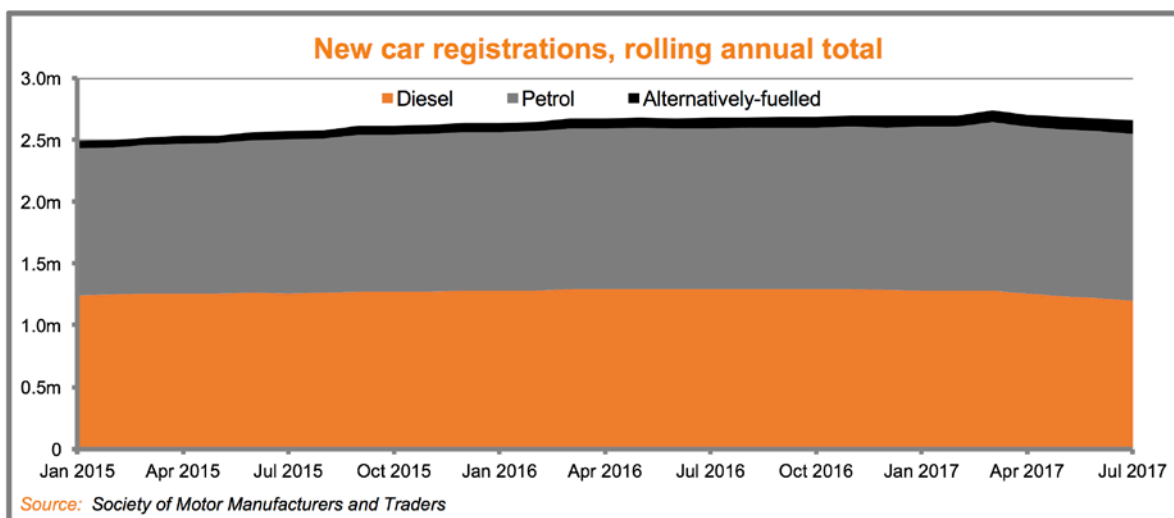


The price of diesel, like the price of petrol, has fluctuated with the underlying cost of the crude oil that goes into its production, as well as the relative value of the pound. In the past two years alone, the average cost of a litre of diesel has fallen from 115p to 101p, then risen to 123p before falling again to 117p now.

As our graph above shows, diesel is generally more expensive, litre for litre, than petrol. The average price of a litre of petrol is currently 115p – 1.6% cheaper than a litre of diesel. However, the average new diesel car can go approximately 18% further on a litre of fuel than its petrol counterpart.

A journey in a diesel car therefore currently costs around 14% less in fuel than it would in an equivalent petrol car.

## Registrations of diesel cars



The number of new diesel cars being registered has begun to decline over the past year. In the 12 months to July 2017, there were 1,200,436 registered – down 7.0% on the 1,290,859 registered in the previous 12 months.

In the same period, the number of petrol registrations has risen by 3.6%, while the number of alternatively-fuelled cars registered has risen by 28%, contributing to a reduced market share for diesels.

In fact, diesels have gone from accounting for 50% of all new car registrations in 2014 to just 44% of them in 2017 so far.

However, this decline needs to be put into a wider context. While registrations of new diesels have fallen recently, their share of all vehicles on Britain's roads has continued to rise. As of 2016, 40% of cars and 96% of vans in the UK were diesels.

## The politics

### The courts

In 2011, the legal group ClientEarth launched a case against the UK Government for consistently failing to meet the European Union's limits on nitrogen dioxide (NO<sub>2</sub>) levels. This case eventually reached the Supreme Court in 2013. The Supreme Court's final ruling came in April 2015, and found in favour of ClientEarth. The judges ordered the Government to produce a new Air Quality Plan by 31 December 2015.

The Government's response to this ruling was a policy paper entitled *Improving air quality in the UK: Tackling nitrogen dioxide in our towns and cities*. This set out policy measures to bring down NO<sub>2</sub> pollution and projected that, as a result of these measures, 35 of the UK's 43 air quality monitoring zones would be compliant by 2020.

This wasn't sufficient for ClientEarth, who launched another legal challenge against the Government. In November 2016, the High Court ruled that the Government would have to produce another, more ambitious Air Quality Plan by 31 July 2017. In the run-up to the General Election on 9 June 2017, the Government applied to the Court for an extension to this deadline. Its request was denied, however, and the new Air Quality Plan was duly published on 26 July 2017.

### The UK Government

The new Air Quality Plan was set out by two government departments – the Department for Environment, Food and Rural Affairs (DEFRA) and the Department for Transport (DfT) – in a report entitled *UK plan for tackling roadside nitrogen dioxide concentrations*. The document contained a long list of policies – some already implemented, many yet to be fleshed out – but the most significant was the introduction of Clean Air Zones in the parts of England with the worst air pollution problems.

As announced in the previous Air Quality Plan, the Government expects five cities to implement Clean Air Zones by the end of 2019: Birmingham, Leeds, Nottingham, Derby and Southampton. It has also identified 24 other councils that must introduce policies to reduce NO<sub>2</sub> pollution, which may include their own Clean Air Zones. All 29 councils have until March 2018 to produce drafts of their plans, and until December 2018 to publish the final versions.

The Government is leaving it up to councillors to decide what specific measures to implement, although it has published a range of suggestions in its Clean Air Zone Framework. Councils will be allowed to charge the most polluting vehicles to enter these Zones, but the Air Quality Plan makes clear that councils should impose such charges as a last resort only.

The new Air Quality Plan also announced that the Government 'will end the sale of all new conventional petrol and diesel cars and vans by 2040', following a similar announcement by the French government earlier in July. Although it sounds radical, this policy largely reflects the rapid growth of electric and hybrid cars that's already underway. As the technology improves and prices come down, more and more motorists will turn away from petrol and diesel anyway.

The Government does acknowledge that the various clean air measures will place extra costs on some motorists, and promises to consult in the autumn on measures to mitigate these costs. That consultation will include the possibility of a targeted scrappage scheme for diesel vehicles, although the Plan warns that 'analysis of previous schemes has shown poor value for the taxpayer and that they are open to a degree of fraud'.

DEFRA and DfT aren't the only government departments with a role to play in tackling air pollution. In 2015, the then-Chancellor of the Exchequer George Osborne announced that the diesel supplement – a three-percentage point surcharge added on to the Company Car Tax rates of diesel company cars – would persist for another five years until 2021. It was originally meant to have expired in 2016. And, in his 2017 Spring Budget, Osborne's successor Philip Hammond promised to 'explore the appropriate tax treatment for diesel vehicles' and suggested that changes may come in his Autumn Budget later this year.

### **Environment, Food and Rural Affairs Committee**

The Parliamentary watchdog that supervises the work of DEFRA – the Environment, Food and Rural Affairs Committee – published its own report on air pollution in April 2016. It agreed with the general principle of Clean Air Zones, although it wanted them implemented more extensively and effectively than the Government had planned in its 2015 Air Quality Plan. 'Charging powers are planned for only the five cities with the worst pollution yet dozens of areas breach EU limits,' the committee noted. 'We recommend that DEFRA extends these powers to other councils in its Clean Air Zone legislation so that communities which wish to do so can tackle pollution hot-spots in this way.'

In April 2017, the chair of the Committee, Neil Parish, led a parliamentary debate on the introduction of a diesel scrappage scheme. He argued that 'it will not only help with air quality but provide some recompense for people, in that those who were moved towards diesel will get a carrot as well as a stick.' In response, John Hayes, the Minister for Transport, simply said: 'I note his points and I will ensure that they are considered as part of our consultation and as part of our work.'

### **Scotland**

The Scottish Government has also published its own plan for dealing with air pollution, entitled *Cleaner Air for Scotland - The Road to a Healthier Future*. This includes a range of measures, but it rests on two frameworks: the National Modelling Framework, which looks to establish a standard approach for evaluating air quality, and the National Low Emission Framework, by which local authorities can assess their own needs and introduce policies as they see fit.

And, in its *Programme for Government* published in September 2016, the Scottish Government committed to introducing Scotland's first Low Emission Zone by 2018. A consultation on this proposal will begin in August 2017.

## Wales

The Welsh Government is developing a Clean Air Framework for Wales, and is due to consult on its proposals within the next year. It is likely that a Clean Air Zone will be introduced in Cardiff by the end of 2021, with plans due to be finalised by the end of 2019.

## Northern Ireland

In October 2016, the Northern Ireland Executive published a draft *Programme for Government*, which included the goal of improving air quality. It proposed to do this by devising an Air Quality Action Plan and by promoting the use of electric vehicles, among other policies.

However, the Executive collapsed with Deputy First Minister Martin McGuinness's resignation in January 2017, and no new government has yet taken its place. The *Programme for Government* therefore remains merely a draft.

## London

London has been the main site of recent action against diesel emissions. Most of Greater London is already a Low Emission Zone, with the most polluting vans, lorries and coaches facing a daily fee of £100 or £200 to drive within it. And even before the Supreme Court's 2015 judgment, the capital's Mayor at the time, Boris Johnson, announced that the city centre would become the world's first Ultra-Low Emission Zone (ULEZ) in 2020. His successor, Sadiq Khan, now intends to introduce the ULEZ a year earlier, in April 2019, before expanding it to cover a larger area in 2020.

Under these plans, diesel vehicles travelling through the ULEZ will have to meet the latest EU emissions standards or pay a fee. That fee will be £12.50 per day for cars, vans and motorbikes, and £100 per day for lorries, buses and coaches – on top of the existing Congestion Charge. Before the ULEZ comes into effect, Khan is introducing a £10-a-day 'T-Charge' on the dirtiest vehicles in the centre of London, as of 23 October 2017.

Khan has also recently published a draft *Mayor's Transport Strategy* for the capital, which is open for public consultation until the beginning of October. This proposes further action to improve air quality, including an ambition to cut London's transport emissions to zero by 2050. In the document, Khan also calls on the Government to introduce a 'national diesel scrappage fund'.

## The European Union

The EU sets limits on NO<sub>x</sub> and other emissions, which all new vehicles have to meet. The current Euro 6 standards apply to all new cars and light vans registered since September 2015, and to heavier vans registered since September 2016, and these are the standards that diesels will have to meet to avoid London's ULEZ charge. New Euro 7 standards are currently under development, and are due to be introduced before 2021.

However, as the 2015 Volkswagen scandal highlighted, NO<sub>x</sub> emissions from diesel vehicles can be much higher on the road than in laboratory tests. For example, the average Euro 6 diesel car emits around 560mg/km of NO<sub>x</sub> – seven times the legal limit.

The EU is therefore introducing new Real Driving Emissions tests, which will apply to new models from September 2017, and all new vehicle registrations from September 2019. They aim to reduce the gap between emission levels recorded in laboratory conditions and those actually produced on the road.

## Industry organisations

### The British Vehicle Rental and Leasing Association

The BVRLA, the trade body for the vehicle rental and leasing sector, has taken a proactive approach to the problem of NO<sub>2</sub> emissions. Indeed, as far back as two years ago, it had already produced a five-point strategy for achieving reductions. Here are those five points in full:

- Help regional authorities to use their newly devolved transport powers by providing a national framework for ultra-low emission zones.
- Adapt the current tax regime to cover NO<sub>2</sub> emissions (incentivising the adoption of new Euro 6 standard for diesel engine emissions, for example), ensuring that any changes are well-signposted and non-retrospective.
- Re-introduce 100% first-year allowances for companies renting or leasing ultra-low emission cars.
- Provide better in-life incentives – for example, freedom from tolls, congestion charges or parking fees – to encourage greater uptake of ultra-low emission vehicles.
- Do more to support car clubs, car sharing and other alternatives to car ownership, and provide more low-emission public transport.

Some of these measures have since been turned into legislation or included within the Air Quality Plan – which the BVRLA has judged accordingly. It welcomes the Government's 'clear' 2040 deadline on the sale of petrol and diesel vehicles, as well as the overall shift towards localised Clean Air Zones that do more than just impose new charges on motorists. It is also pleased that the Chancellor is looking only at the tax treatment of *new* diesel vehicles, which avoids 'punishing fleets and motorists for decisions they have already made'.

However, the BVRLA does raise some caveats. It is particularly concerned that the new Clean Air Zones are 'consistent across the UK – not only having the same emissions standard requirement, but also in terms of their signage, enforcement and penalties for non-compliance.' And it believes that 'well-targeted' scrappage schemes should be introduced.

Its response to the Plan ends by calling for more information from politicians: 'With so many unanswered questions about charging infrastructure, grid capacity and the affordability and availability of electric vehicles, we need a clearer roadmap on the government's 2040 vision.'

### The Society of Motor Manufacturers & Traders

In its response to the Air Quality Plan, the SMMT focused on the Government's proposal to ban the sale of all new petrol and diesel cars by 2040. It isn't opposed to the alternatively-fuelled vehicles that will be required to replace those traditionally-fuelled ones – in fact, its Chief Executive, Mike Hawes, notes that the automotive industry is already working to ensure that the 'right consumer incentives, policies and infrastructure are in place' to encourage the uptake of cleaner alternatives.

But Hawes also warns that the Government's plan might be too quick and too punishing for consumers and manufacturers to properly adjust. This, he says, could have damaging economic consequences: 'Outright bans risk undermining the current market for new cars and our sector which supports over 800,000 jobs across the UK.'



## The AA and RAC

To some extent, both the AA and the RAC share the same general position: that the 2040 ban is worthwhile, but that a lot needs to be done, in the meantime, to make it achievable – particularly when it comes to infrastructure. The AA's roads policy spokesman, Jack Cousens, has argued that the National Grid would struggle to 'cope with a mass switch-on after the evening rush hour'. His counterpart at the RAC says, similarly, that 'there is little evidence to suggest that the UK's energy infrastructure will be ready for the largescale shift to electric vehicles'.

Both organisations also have concerns about the rollout of Clean Air Zones around the country. The AA fears that this could be done 'unfairly', whilst the RAC warns that 'there is a real risk that authorities will rush to implement ill-thought-through solutions to meet the Government's deadline for final plans at the end of next year'.

## Think tanks

### Policy Exchange

The centre-right think tank Policy Exchange has published one of the most detailed reports on the subject of transport emissions, entitled *Driving Down Emissions: How to clean up road transport?*. The report tackles both climate change and air quality, arguing that 'it is essential that we tackle the twin problems of greenhouse gas emissions and air pollution from road transport,' and that 'The Government must not repeat the mistakes of the past, pursuing CO<sub>2</sub> objectives at the expense of air quality.'

In *Driving Down Emissions*, Policy Exchange calls for both a diesel scrappage scheme and Clean Air Zones, but it also cautions against setting targets for the number of ultra-low emission vehicles (ULEVs). 'The uptake of ULEVs should be determined by market forces, not by Government decree,' it argues.

The report makes the case for basing vehicle taxes not only on tailpipe emissions, but also the indirect emissions resulting from power generation. It also suggests that a new system of road user charging – perhaps involving more toll roads or congestion charges – may be needed to make up for lower fuel duty receipts as motorists move away from petrol and diesel.

### The Institute for Fiscal Studies

The IFS, a research group that focuses on the economy and the public finances, hasn't said much – if anything – that is specific to the recent situation with diesel and NO<sub>2</sub> emissions. But they are held in such esteem by politicians and commentators that one of their old reports, *Fuel for thought*, published in conjunction with the RAC Foundation in 2012, could still prove to be influential.

This report proposed an entire shift away from taxing fuel, be it petrol or diesel, and towards taxing congestion. The justification? 'Without action, there is likely to be a long-term erosion of the motoring tax base. Road use, though, is expected to continue to increase. Road pricing not only targets the external costs of motoring more precisely, generating the potential for significant welfare gains, but also provides a more robust revenue source.'

*Fuel for thought* also criticised the diesel supplement on BIK rates for its inconsistency with other forms of motoring taxation: 'The oddest part of the structure remains the 3 per cent diesel supplement which is at odds both with the tax treatment of fuel and the VED system, and should be removed.'

## IPPR North

In July, IPPR North – a centre-left think tank that focuses on the north of England – published a report on four big problems associated with transport: air pollution, congestion, carbon emissions and spatial inefficiency. The paper, entitled *Gearing up for the transition*, argues that the solution to these issues lies mainly in switching to cleaner fuels and using vehicles more efficiently.

As for specific policy recommendations, IPPR North calls on the Government to introduce a Clean Air Act, pledge to phase out diesel vehicles, and mandate the introduction of Clean Air Zones covering all major UK towns and cities.

## Pressure groups

### Clean Air in London

The thinking of the longstanding campaign group Clean Air in London is encapsulated by the ‘manifesto’ it published ahead of last year’s Mayoral election. Among its recommendations was a more extensive system of emissions-based road charging than is currently planned for the ULEZ, and which would involve banning diesels from ‘the most polluted places’, as well as ‘payments to walkers and cyclists’.

### FairFuelUK

The position of FairFuelUK, a group that primarily campaigns for lower fuel duty, was summed up by its spokesman Quentin Willson during a radio interview last year. ‘I’ve got to argue for clean air, here; I can’t take completely the driver’s position because I’ve got to be responsible,’ he explained. ‘But drivers should not be penalised for doing what they thought was the right thing.’ Hence why FairFuelUK’s current campaign objectives include both ‘an old diesel car fair scrappage scheme’ and ‘diesel pricing parity at the pumps’.

FairFuelUK has also come out against the 2040 ban on new petrol and diesel cars and vans, claiming that it ‘will cost trillions to consumers and the economy.’ It argues that ‘It is inevitable that carbon-based fuels will be phased out to favour cleaner fuels, but to do it as a cliff-edge in 20 years is naive and ill thought.’

### ClientEarth

ClientEarth, the environmental group that took the Government to court to force it to produce proper air quality plans, is less than impressed with the new Plan. Its CEO, James Thornton, described it as ‘little more than a shabby rewrite of the previous draft plans’ and ‘underwhelming and lacking in urgency’.

Thornton accused the Government of ‘passing the buck to local authorities to come up with their own schemes’, and said that the 2040 ban ‘is a diversionary tactic and doesn’t deal with the public health emergency caused by illegally polluted air, now.’ It remains to be seen whether ClientEarth will bring a further legal challenge against the latest Air Quality Plan.

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