# CPL FUELS IRELAND

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Eugene Ó Cruadhlaoich Uasal,
Cléireach don Choiste,
Oireachtas Joint Committee on Environment, Culture and the Gaeltacht,
Kildare House,
Kildare Street,
Dublin 2

Tuesday 30 April 2013

Dear Sir,

**Re: CPL response to call for comment on (Draft Heads) Climate Action and Low Carbon Development Bill 2003**

The Irish market for solid fuel for domestic use is currently estimated at 500-600kt pa of coal based products with a further 250kt pa of peat briquettes and additional burning of cut peat. The coal based market is currently lead by bituminous (smokey) coal which represents c 350-400kt pa which has been identified as a significant contributor to the very high $CO_2$ emissions in this country CPL has developed blended fuels with 50% biomass in their production which have burning characteristics that are superior to coal and are suitable for open fires and stoves. These fuels provide a c40% reduction in CO□ when burnt on a domestic fire compared to coal. These fuels are smokeless and reduce smoke emissions by at least 80% compared to coal and hence are in line with the drive for a smokeless Ireland and with the programme to reduce $CO_2$ emissions as per our 2020 targets.

CPL Industries is the largest producer of domestic fuels in Europe (sales c€150m, EBITDA €20k, staff c500) and has been producing these blended fuels at its Immingham plant for over 3 years. We are considering a planning application to build a similar plant in Foynes. We have made representations to the Government (Annex I) to implement an exemption for cleaner fuels from the Carbon Tax due to enter into force on 1 May 2103 so as to render eCoals in particular a competitive alternative to smokey coals. Indeed the Interim NESC Report notes "*In summary, the carbon tax is implemented to support emission reduction, reduce demand for high carbon fuels and encourage substitution to low-carbon alternatives. The exemption of solid fuels is contrary to that and should not be continued. The extension of carbon tax, at the current level of €20, to solids fuels should result in only moderate increases in household costs. However, if carbon tax increases in level, measures to support substitution (through fuel switching) or decrease demand (through increased energy efficiency such as home insulation) are recommended to mitigate the impact for lower income or credit-constrained households.*"

Against this background we read with interest the Draft Heads Climate Action and Low Carbon Development Bill 2003 and provide here our position on same.

In general terms we are supportive of the aims and objectives of the draft Heads of Bill not least with regard to the publication of agreed roadmaps and periodic reviews. We are of the view that the usefulness of these roadmaps and reports will depend in no small part on proper consultation with industry experts who can advise on cutting-edge technologies and processes which can assist in achieving low carbon targets. It is therefore surprising that the draft Heads of Bill does not make provision for greater consultation with and involvement by industry in the work of the Expert Advisory Group. Indeed as the current text stands, the only public consultation provided for would happen after the finalisation of roadmaps and/or periodic reports (Head 2, para 15) which we do not believe constitutes the best use of industry expertise. With that in mind we would propose the following amendments to the draft Heads of Bill:

Head 5 National Low Carbon Roadmap

Proposed amendment:

*10. The Minister and the Government shall take account of the following matters when performing functions under this Head: [..]*

**INSERT:** ***10(h) the need to consult with sectors contributing to emissions reduction***

Head 6 National Expert Advisory Body on Climate Change

Proposed amendment:

*12. In appointing ordinary members of the Expert Advisory Body, the Minister shall have regard to the range of qualifications, expertise and experience necessary for the proper and effective performance of the functions of the Expert Advisory Body [insert]* ***and shall have regard to sectoral knowledge and expertise***

Head 7 General functions of the Expert Advisory Body

Proposed amendment:

*2. For the purposes of the performance of its functions, the Expert Advisory Body may, having regard to any advice given to it by the Director General of the Agency—*

> *(a) gather such information, or request the Agency to gather such information, as the Expert Advisory Body considers necessary or appropriate,*
>
> *(b) request the Agency to conduct such research as the Expert Advisory Body considers necessary or appropriate, or to arrange for such research to be conducted, and*
>
> *(c) meet and consult with such persons (including members of the public) as it considers appropriate.*
>
> *[insert]* ***(d) meet and consult with sectors contributing to emissions reduction***

Head 8 Annual Report of the Expert Advisory Body

Proposed amendment:

***1(a)***. The Expert Advisory Body shall, not later than 30 June each year, prepare, and submit to the Government, a report (in this Head referred to as an "annual report") on progress made in achieving emissions reductions and furthering transition to a low carbon, climate resilient and environmentally sustainable economy.

***1(b) The Expert Advisory Body shall provide for public consultation on its annual report prior to submission to the Government***

Head 9 Periodic Reviews by the Expert Advisory Body

Proposed amendment:

*5(a). The Expert Advisory Body shall, not later than 30 days after the completion of a periodic review, prepare and submit to the Government a report of its findings and recommendations consequent upon that review.*
***5(b) The Expert Advisory Body shall provide for public consultation on its periodic reviews prior to submission to the Government***

We would like to take this opportunity to thank you for taking the time to read this short submission. We are available to meet to discuss further should you require.

Sincerely yours,

Niall McGuiness

In annex:
CPL paper: **"A compelling case to make Ireland a smokeless zone"**

## A compelling case to make Ireland a smokeless zone

***Executive Summary***

- Ireland has the highest rate of respiratory deaths in the EU.
- Ireland also has an unusually high reliance on solid fuel products for domestic heating.
- 2013 marks European Year of Air and we hold the presidency of the EU for the first half of this year. An informal Council of Environment Ministers is planned for early April in Dublin on the theme of air quality
- A study published in the Lancet in by Dr Luke Clancy and Prof John Goodman showed that the ban on smokey coal in the Dublin area had reduced deaths by some 359 each year.
- Burning of bituminous coal has a significant negative effect on air quality on urban areas outside the areas covered by the current list of smokeless zones. The EcoEye on RTE 1 highlighted the effects on one such town Enniscorthy and had commentary for the EPA and Prof. Goodman of DIT both of whom called for a ban on smokey bituminous coal.
- More recently the Asthma Society of Ireland called for a ban at a meeting of the Joint Oireachtas Committee on Health on the topic of Lung Health.

The current system evolved from an agreement with the Solid Fuel Trade Group and the Department some years ago that effectively bans the sale of bituminous coal in listed urban areas. There has been evidence of this ban being flouted by unscrupulous operators and illicit coal smugglers. In recent years a range of greener solid fuel products have emerged onto the Irish market which are smokeless and combine coal with sustainable products such as molasses and olive stones. These have as much as 50% biomass content and thus a reduced carbon footprint. These are an alternative for Irish consumers.

The emergence of these new fuels combined with the introduction of the carbon tax offer the government a window to take the final decisive step to make Ireland one of first smokeless countries in the EU. This would act as an incentive for the solid fuel industry to switch to greener fuels and offer the hard pressed consumer a source of solid fuel not subject to carbon tax.

***Background***

The introduction of a carbon tax on solid fuel now offers a unique opportunity for the government to incentivise new green fuels and reduce CO2 emissions, creating a new fuel manufacturing business in Ireland with additional 260 jobs and make Ireland the first smoke free country in Europe by 2016. A proposal has been made to the Department of the Environment by CPL Industries to give a time limited three year incentive to get consumers to switch to these new sustainable smokeless fuels and replace smokey bituminous coal. The consumer has a strong loyalty to premium coals as a fuel and Ireland has one of the largest solid fuels markets in Europe and an incentive is required to ensure there is an effective switchover and to ensure these fuels are priced competitively. New fuels have been developed in the U.K. and in Ireland that are equivalent or better than coal in use and contain up to 50% renewable green biomass.

- A three-year initial exemption would act as a market mechanism that could lead to a ban on bituminous coal by 2016 and a smoke free Ireland.
- A competitively priced clean coal product would help eliminate illicit imports of dirty high sulphur coal from Northern Ireland, estimated at 100,000t and a potential loss of revenue of some €5 million to the exchequer as a result and reduce the earnings of legitimate solid fuel distributors.

- The government has already given incentives for electric cars and energy improvements in the home, this is a simple low cost measure that could reap significant environmental and health benefits.
- We estimate that at least two plants would be built in Ireland employing some 260 persons to manufacture these fuels with about 300 jobs in construction, creating a long term high tech manufacturing industry in Ireland. CPL has plans to build one such plant at Foynes.
- The tax take and welfare savings that would arise from these plants in the order of €10 million would help offset any loss due to carbon tax. In addition the government would save on the EPA monitoring programme of air quality in all the smokeless designated 27 towns and cities. The exchequer would also gain from any foregone VAT and Carbon Tax on illicit imports.
- These new fuels would substitute imported Polish and Colombian coal not indigenous fuel such as turf or timber.
- The fuels reduce $CO_2$ emissions by 40% (compared to coal) contributing c3-5% to Irelands' 2020 target.
- The Irish plants would create a demand for significant (up to €4m pa) biomass potentially supporting agriculture.
- Ireland has one of the highest rates of respiratory deaths in Europe and it is a bigger cause of deaths than coronary disease (Inhale 2008 Report DOHC)
- About 500,000 people die in Europe each year because of poor air quality and RTE Eco Eye estimated that some 360 lives have been saved due to the 1990 smokey coal ban by Mary Harney (EcoEye 5th February)
- 2013 marks European Year of Air and the informal Environment Ministers meeting in April has improving air quality as it's theme.

CPL Ireland (part of CPL Industries the largest manufacturer of smokeless domestic solid fuels in Europe) has requested an amendment to the Finance Bill to give a three-year exemption from Carbon Tax for fuels made from blending fossil carbon with at least 30% biomass. We understand that other domestic solid fuel companies will support such an initiative. Such fuels reduce $CO_2$ emissions by c40% when burnt as a domestic fire compared to coal, while providing an improved performance for the consumer.

These fuels are also competitive for consumers and are in line with the ongoing program to reduce the use of smokey coal in Ireland and improve air quality. The three-year exemption will allow industry to develop low carbon smokeless fuels prior to the implementation of policies to deliver a smokeless Ireland.

The proposed exemption would also help counter illicit grey market imports of poor quality coal principally from the U.K. These illicit imports have been estimated by the Solid Fuel Trade Group at some 30% of the market or 100,00 tonnes and have been a source of concern to the Departments of the Environment, Community and Local Government, to the Department of Finance and to the Revenue Commissioners. One of the main concerns must be not to exacerbate further these imports and over time to use market mechanisms (such as exempt blended fuels) to help ensure that all market operators are fully tax compliant.

We believe that the combination of the revenue streams created by a new indigenous manufactured green fuel sector coupled with the avoidance of revenue leakage from the illicit fuel trade may result in the exemption being revenue neutral.

The combination of such a progressive Carbon Tax structure with the substantial market for domestic solid fuel in Ireland (c500kt pa of coal based products with an additional 300kt pa of peat briquettes and an additional burning of cut peat) provides the background for investment in a substantial production plant to produce smokeless fuels incorporating biomass blended with fossil carbons and fuel derived entirely from modified biomass. We believe that at least one plant will be built as a result by the fuel industry.

The proposed CPL plant would alone employ c100 staff directly and create c30 additional jobs in haulage with further employment in engineering services and port operations. We have identified a suitable site in Foynes which would be our ideal location as a deep water port that already imports molasses.

The proposed plant would manufacture c300kt pa when fully operational and its product would replace coal which is currently entirely imported. The low carbon solid fuels produced would be the most advanced in Europe and it is expected that over a three to five year period (to allow for certification and market acceptance) that exports would be considerable (up to c20% of production), mainly to France and Germany where the products would represent a low carbon replacement for lignite.

The plant would import fossil carbons and some biomass but would source biomass from Irish farmers, the quantities required are considerable at c100kt pa, increasing to potentially 200kt pa when full production of the 100% biomass is achieved (providing revenue of €2-4m for farmers).

Employment within the current coal importation, bagging and distribution sector are projected to be largely unchanged as current packing operations would be retained to pack the blended briquettes and the current distribution structure through merchants and bell men would not be affected by the change of fuel type.

The plant when fully operational will have a turnover of €70-85m contributing 0.07% to total ROI GNP. As this is either a replacement of imports or will result in new exports this will all constitute new economic activity not simply a displacement for current activity. Due to the market leading nature of the products exports are projected at €20m pa, while imports will be reduced by c€20m as lower cost raw materials replace coal and c20% of raw materials are sourced from within Ireland in the form of Biomass.

Adoption of low carbon blended fuels reduces $CO_2$ emissions from the c 0.5m tonnes pa which represents c6% of the total Ireland $CO_2$ reduction target under 2020. The adoption of these blended fuels is extremely cost effective in terms of cost per tonne of reduced $CO_2$ emissions or renewable kWh's produced.

The cost per tonne of $CO_2$ emissions reduced is c€0.03/tonne which equates to c €0.1/kWh. These values are 10-20% of the support offered to renewable technologies through the UK RHI Scheme, (launched In November 2011 to support renewable Domestic Fuels in the UK) and comparable European support structures for renewable fuels. Hence if it is assumed that Ireland will need to support renewable technologies to meet 2020 objectives and in particular the obligations, blended fuels represent a low cost investment.

***Fiscal Calculations***
CPL has considered the potential for the exemption proposed to reduce carbon receipts but also the balancing incomes provided by the development of low carbon solid fuels and the location of a production plant in Ireland.

The following seeks to outline the significant incomes from the plant compared to projected loss of revenue.

1) Loss of Potential Carbon Tax Revenue

It is proposed that with a Carbon Tax exemption for blended fuels, such fuels would achieve a growing share of the current coal sales over the period. This is based on the increasing value of Carbon Tax and acceptance/knowledge of the fuels.

On the above basis

| | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| Share Gain from Coal (%) | 7.5% | 30% | 50% | 60% |
| Tonnage Blended Fuels (k tonnes) | 25 | 100 | 170 | 200 |
| Carbon Tax rate €pt (coal) | 26 | 52 | 52 | 52 |
| Loss of Carbon Tax Receipts €m | 0.74 | 5.9 | 10 | 5.9 |

**Notes**

1. Assume a coal market of 335kt pa – in line with assumptions for Carbon Tax revenue "reflections on the implementation of the Carbon Tax in Ireland" Eric Gargan 16 May 2012.
2. Loss of Carbon Tax receipts includes vat of 13.5%.
3. Full exemption reduces to 50% exemption in year 4.
4. Assumes all applicable Carbon Tax is collected.

2) Key Incomes from Manufacturing of Solid Fuels in Ireland

a) Income tax from c130 jobs at €45k pa @ c35% tax
Income c€2m pa

b) Using the published cost of welfare payments in Ireland to 1.2m recipients the cost per recipient is €18kpa hence the saving from 130 being removed from benefits is €2.4m

c) Corporation Tax
Projected plant profits c€4-5m
Corporation Tax at 12.5% = €0.6m

d) The plant when operational will spend c€0.8 – 1m with local engineering contractors for maintenance/servicing.

e) The combined effects of the post tax income of direct employees and expenditure with local contractors is projected to increase disposable income in the local area by c€5m increasing tax revenue through VAT & other tax receipts by an estimated €750k pa.

In summary the receipts from the plant approximately balance the loss of Carbon Tax receipts following the initial 3 year support period. The loss of Tax receipts over years 1-3 is in part offset through the plant construction, the costs of which are estimated at c€20m with a considerable proportion of the build likely to be provided by Irish contractors and equipment suppliers. The downstream economic benefit of such construction projects is significantly in excess of the capital spend.

The exemption of such fuels provides a market based mechanism that can counteract the "grey" import of coals principally from the UK. Some trade sources have estimated that the combined VAT and Carbon Tax could drive such imports to 30% of the total market (c100kt pa) at these levels the cost of VAT and Carbon Tax revenues would be c€5m. The availability of Irish produced tax exempt low carbon fuel would be a very significant deterrent within the market place.

***Conclusion***

The implementation of a progressive Carbon Tax with the exemptions outlined will, combined with the substantial Irish solid fuel market, create an environment for improvement in the manufacture of advanced fuels replacing imported smokey coals thereby assisting in achieving CO2 emissions in this country. Such an investment will create high quality long term employment and give Ireland a leading European position in this technology, hence providing valuable exports and reducing dependency on imported coals.