EXPLANATORY MEMORANDUM TO

THE FUEL-TESTING PILOT PROJECTS (BIOBUTANOL PROJECT) REGULATIONS 2007

2007 No. 3098

1. This explanatory memorandum has been prepared by the Commissioners for Her Majesty's Revenue and Customs and is laid before Parliament by Command of Her Majesty.

2. Description

This instrument provides a partial relief from excise duty charged on biobutanol that is mixed with unleaded petrol. The mixture is to be used for the purposes of a fuel testing project approved by Her Majesty's Revenue and Customs to evaluate the emission benefits of the mixture.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None.

4. Legislative Background

4.1 Biobutanol is a fuel substitute on which excise duty is chargeable by section 6A of the Hydrocarbon Oil Duties Act 1979 ("HODA"). Currently the rate of duty is 50.35 pence per litre.

4.2 Section 20AB HODA provides that the Commissioners may make regulations allowing relief as regards excise duty charged in respect of experimental fuel that is to be used in a fuel testing project approved by the Commissioners. The relief may be in the form of a repayment or rebate of the duty. The relief is subject to any conditions imposed by the Commissioners and directions made by them.

4.3 This instrument is made under the powers conferred by section 20AB(1) to (3), (5)(a) and (12). It provides for relief by way of a partial rebate of duty charged on biobutanol when it is used in the fuel testing project approved by the Commissioners on 29th October 2007. The amount of rebate per litre of biobutanol is equivalent to the difference in the rate of duty specified by section 6AD(3) of HODA (duty on bioethanol) (currently 30.35 pence per litre) and the rate specified by article 4(2)(c) of the Other Fuel Substitutes (Rates of Excise Duty etc) Order 1995 (currently 50.35 pence per litre). This currently results in a rebate of 20 pence per litre and an effective rate of duty of 30.35 pence per litre.

5. Extent

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

As the instrument is subject to the negative resolution procedure and does not amend primary legislation no statement is required.

7. Policy Background

7.1 Biobutanol is an alcohol derived from the fermentation of biomass, and is a lower carbon emitting substitute for petrol. It is currently treated as a fuel substitute to petrol and subject to duty at 50.35 pence per litre.

7.2 Interest has been expressed in testing the use of biobutanol as an environmentally friendly road fuel. In order to facilitate trials, the 2007 Pre-Budget Report announced that the Government would extend the current duty incentive for biofuels to biobutanol on a pilot project basis. Biobutanol used in approved pilot projects will be eligible to duty at 30.35 pence per litre.

7.3 The pilot project, which will last from 23rd November 2007 to 1st April 2009, seeks to establish the extent to which biobutanol in differing proportions can be mixed with unleaded petrol and used as fuel for road vehicles. The duty relief will enable participants to carry out extensive tests to provide an indication of the potential environmental benefits and issues associated with using this fuel in road vehicles.

7.4 Details of each proposed trial must be supplied to the Commissioners. They will evaluate the proposals of each applicant and, if satisfied that the evidence provided by the trial will be useful in meeting the objectives of the pilot project, give written approval.

8. Impact

8.1 An Impact Assessment has not been prepared for this instrument as no impact on the private or voluntary sectors is foreseen.

8.2 The impact on the public sector is that HM Revenue and Customs staff, as part of the assurance of the businesses that are liable to pay hydrocarbon oil duty, will monitor compliance with the Regulations.

9. Contact

Ann Little at HM Revenue and Customs Tel: 020 7147 0383 or email ann.little@hmrc.gsi.gov.uk can answer any queries regarding this instrument.