



DEPARTMENT OF ENERGY & CLIMATE CHANGE

EXTENDING THE CARBON EMISSIONS REDUCTION TARGET

PUBLIC CONSULTATION 21 DECEMBER 2009-14 MARCH 2010

Submission from The Builders Merchants' Federation

The Builders Merchants Federation (BMF) is the UK trade association representing the majority of companies in building materials' distribution. Our members sell everyday building, electrical, heating & hot water, insulating, plumbing and timber products and - together with major manufacturers & distributors - we represent over 400 companies with annual sales over £7 billion.

Investment in existing housing to improve conditions and retrofitting heat & energy saving devices are central to our businesses. Merchants earn a living from selling heating & hot water systems, loft & solid wall insulation, modern glazing & lighting, and renewables' equipment. In fact, most of what Secretary of State Ed Miliband MP sought industry advice about in spring 2009, we sell.

We are grateful for the chance to provide input again having participated in other consultations - for example, CESP & HESS. We confine our remarks to where the BMF has direct experience, practical knowledge and relevant interest/expertise. If ministers or officials seek extra information, wish to clarify, or develop further the arguments, we shall be pleased to meet face-to-face.

OVERVIEW

The BMF broadly welcomes the proposals in this extension, believing them to be sensible & logical. We urge ministers to widen the CERT thinking and consider how it sits alongside DECC's suite of related carbon reduction policies.

The importance of investing to improve housing condition and reduce emissions cannot be overstated. If the UK is to succeed in reducing carbon, policy-makers must pursue more determined and far-reaching actions. Worthy but low-level, soft options simply will not achieve the desired outcome.

Next week, we shall launch our "More Homes and Less Carbon" General Election manifesto. It is aimed at house building & home improvement policies. This Federation, together with our friends

- the British Precast Concrete Federation
- the Home Builders Federation
- the Construction Products Association
- the Modern Masonry Alliance
- the Federation of Master Builders

speak for over 50,000 firms employing approx. 860,000 people, with combined sales of £75 billion.

We believe the single most important policy commitment for the new Government is to concentrate on 'consequential improvements' to de-carbonise existing housing. The easiest route to accomplish this would be to selectively reduce VAT on home improvements where specific actions to take carbon out of the building envelope are completed.

A 5% VAT rate already exists for fuel and some energy-saving measures. Extending this to home improvement will encourage both private & public homeowners to invest in ways to (a) use less energy (b) use energy more efficiently or (c) obtain energy from renewable sources - at the same time as altering, extending or renovating homes.

This is good policy because spending is targeted effectively, where intended, offering maximum encouragement to voters to invest to bring properties up to modern standards. Such investment will continue to pay dividends for generations to come, over the lifetime of the building. Once this principle is established, demand can be regulated by simply fine tuning the list of qualifying improvements to reflect developing needs (either in product technology or price as markets unfold).

WHAT WE BELIEVE

Ministers ought to be in no doubt the BMF regards the CERT scheme as flawed. The way energy suppliers choose to fulfil their legal obligations causes merchants to seriously question certain activities. It is anti-competitive & discriminatory, and fosters a 'closed shop' to distort the insulation market with unfair subsidies.

Suppliers (and their DIY retail partners) are only interested in meeting their obligations as quickly, cheaply & efficiently as possible to comply with the poorly-drafted legislation and sub-standard administrative procedures. They claim to operate within the confines of CERT – yet the BMF and others know (to their cost) this is not true.

The single biggest culprit is the continuing arrangement between British Gas and B&Q. In this response, we enclose several illustrations of the problem - for example, a newspaper advert dated 19 December 2009 featuring loft insulation at 84p per roll.

We shall not repeat all our arguments here again - our submission dated 14 April 2009 responding to an earlier CERT consultation applies. But we continue to outline to DECC and OFGEM our concerns and analysis of the detrimental impacts, mistaken beliefs, inconsistencies & wrong assumptions we see enshrined in CERT.

We urge ministers to ask searching questions of the suppliers and not be timid to use sanctions, or amend CERT at source, to force them to change the way they operate.

DETAILED OBSERVATIONS ON THE CONSULTATION DOCUMENT

EXECUTIVE SUMMARY

Page 5 - last para - we agree Feed-In Tariffs and the Renewable Heat Incentive are likely to affect/complement CERT. But CERT activity must deliver additionality (and be shown to do so).

Page 6 - first para - water efficiency is mentioned. The BMF has learned EAGA issues "Shower Smart" devices that control the flow of hot water from shower heads. This is an accredited CERT measure (they claim) and the sample we possess is clearly designed to be mailed out.

Page 6 - third para - aligning the end of CERT with the end of the first 5-year carbon budget period is sensible.

Page 7 - last para - if another supplier obligation is contemplated post-2012, we urge ministers to think carefully to avoid basing any replacement on the same (wrong) footing. A successor must widen the route-to-market to (a) allow builders' merchants to play a more advanced role and (b) bolster the professional installers' option. To date, energy suppliers have succeeded to lobby for a less challenging CERT than is needed.

CONSULTATION QUESTIONS

The BMF is a business-led trade association and confines its response to what it knows most about. Consequently, we respond to only half of the 16 questions posed.

CHAPTER 1 - INTRODUCTION

Para.1.7 – Placing more than one obligation on suppliers is all very well. But consumers should be told what element of rising fuel costs pays for obligations passed into law. We urge DECC to do more to see suppliers separate out clearly on bills how much goes to comply with CERT, CESP, Renewables Obligation and so on. Over time, this will press home the message to voters about changing behaviours & attitudes if we are to succeed in getting carbon of our lives.

CHAPTER 2 - CERT EXTENSION AMBITION

Extending CERT

Para 2.2 - Is it true on current trajectories, energy suppliers will meet their existing obligation ? Let us hope when the post-scheme evaluation is completed, this assertion proves correct.

Para 2.3 - yes, it is essential DECC introduces a clean break between the end of CERT 2008-2001 and the extension to 2012. Energy suppliers should bank all relevant schemes with OFGEM.

Question 1 - we are neutral on this question. Our contention is CERT has to be made to be fairer.

More emphasis must be given to insulation installed by professionals. Relying on DIY enthusiasts looks enticing - but we believe trying to obtain carbon reductions by encouraging enthusiasts will result in diminishing returns as the number of people willing to do DIY will dwindle, no matter what the price of inputs.

CERT extension ambition

Para 2.5 – This is the first occasion of several made throughout this document where “supply chain constraints” is mentioned. We are puzzled by this and seek clarification.

Builders’ merchants are the supply chain, whether (or not) they subscribe to this Federation. For hundreds of years, merchants have been the single most efficient route-to-market. We sell:

- loft, cavity wall & solid wall insulation
- insulated wallpaper and thermal boards
- boilers, heating controls & radiators and associated water tank jackets & pipe lagging
- double & triple glazing and draught proofing
- efficient LED and halogen lighting
- renewables’ devices - i.e. solar collectors, solar pv & heat pumps.

Staff in our members’ companies have a good knowledge & understanding of solutions available.

We are not aware of any such “supply chain constraints” and question what is meant by this.

We suspect DECC really means installation capacity & capability - and other trade associations or companies that claim insufficient numbers of trained local fitters exist to do the work. If correct, this implies a shortage of funds allocated by energy suppliers to professional installers. Their mantra is to pursue the cheapest, quickest option with the lowest cost compliance.

The BMF recommends DECC ought to talk to different voices that it does at present - namely the Home Builders’ Federation or Federation of Master Builders - to explore how to bridge this real or perceived gap in the available labour force. With the heavy job losses suffered by their members, doubtless a way can be found to redeploy such staff (who will already have suitable, all-round skills) with relative ease to muster more squads of competent insulation installers.

Para 2.8 - Again, “supply chain constraints” are mentioned in connection with cavity wall insulation. The answer is not to be fixated on cavity or solid wall insulation - other solutions exist.

Question 2 - Yes, this is logical - but again, CERT has to be made to be fairer. More emphasis must be given to insulation installed by professionals. Relying on DIY enthusiasts has had its day.

CHAPTER 3 - INCREASING EQUITY AND ASSISTANCE FOR THE MOST VULNERABLE

The BMF represents businesses of all sizes - national names, regional chains, specialist outlets and small, local independent firms - in urban & rural locations thorough the whole of the UK.

As an economic trade association, we concentrate on business & finance; jobs, training & skills; unnecessary & over-regulation; and transport & the environment. We very rarely stray into social policy and have little to offer on this chapter. We do make a few points, as follows.

Helping energy suppliers find eligible households

Para 3.17 - We worry government does not understand the widely-held objection to sharing data with non-government bodies (irrespective of how reputable or trusted they are). The loss of CDs by the HMRC 2½ years ago is still fresh in people’s minds. Care is required if DECC decides to share such sensitive personal data with energy suppliers who (don’t forget) have a tarnished image with consumers – especially those who cannot benefit from online savings for non-paper payment.

Promoting meaningful energy bill savings

Page 21 - table - comparing cavity wall insulation (£128) to boiler replacement (£194) indicates a greater saving in annual running costs for the later. Householders ought to be encouraged to take a fresh look at their existing boiler. This, and the Boiler Scrappage Scheme, ought then to be more enticing for voters to spend money, industry to sell new boilers, and carbon emissions to drop.

Wider equity considerations: rural households

Big DIY superstores tend not to be in rural areas, and do not offer free home delivery. Builders’ merchants do (on both counts) putting us in a better position to reach rural households. Ministers ought not to forget before privatisation, energy companies (notably British Gas) used to maintain high street showrooms. This gave them a public face, something that has been lost over time.

But merchants are still on the high street where physical logistics are important. Our members can aggregate products accordingly and deliver for free. Most family cars are unsuitable - customers make long and/or repeat trips to edge-of-town superstores. Exhaust fumes from these journeys add to emissions.

Incorporating BMF members into eligible schemes increases CERT penetration into rural areas - and widens and enriches channels available to government to get its carbon reduction message over. We stand ready to explore avenues of mutual commercial & policy benefits with anyone.

To date, energy suppliers tend to ignore us, despite overtures individually & collectively, under both CERT and CESP. Correspondence or telephone calls are neither acknowledged nor responded to. Their trade association is little better. For example: a letter to its chief executive dated 20 February 2009 remains un-answered.

CHAPTER 4 - SCALING INSULATION DELIVERY

Insulation is a government priority

Para 4.5 - We agree to succeed with insulation, there must be pull-through consumer demand. Our contention is that the marketing and other tools used by government and energy suppliers is

skewed in favour of certain activities. The DIY loft insulation market is now less effective – though many homes do need insulation - as the ‘easy wins’ have been made.

Sheep wool products ought to be eligible. Its natural properties allow breathability, so preventing condensation. The principle should be on £ per λ , not on specific products.

If the UK is to meet (or surpass) its targets, policy-makers must pursue more determined and far-reaching actions. Worthy but low-level, soft options simply will not achieve the desired outcome. For example: if predictions of longer, hotter, drier & sunnier summers prove correct, efforts ought to be spent on ventilation & cooling that uses significant amounts of energy.

Builders’ merchants are well-placed in the energy efficiency supply chain to move to a low carbon economy. In addition to merchants mentioned earlier, this Federation represents manufacturers & distributors like Knauf, Rockwool, Superglass and Encon. All are significant names in insulation.

Setting an insulation minimum

Para 4.8 - The BMF welcomes new thinking about instigating a minimum insulation requirement. But in DECC’s previous consultation, it was mentioned after a certain thickness, warmth saved by additional insulation is a diminishing return, and ‘topping up’ existing levels is a low score in CERT.

Para 4.9 - We (again) argue for insulation to be specified and installed by professionals, not DIY enthusiasts. The arguments we made in our previous submission (14/04/2009) all refer.

Removing competing measures (i.e. CFLs) as eligible

Para 4.12 - The BMF agrees issuing unsolicited CFL bulbs was risky – who knows if, or where, they are fitted ? Flooding the market hindered the long-term route to market (especially on price). Lighting manufacturers are worried voters are accustomed to cheap deals - notably 5 for £1 supermarket deals, or redeemable coupons in newspapers. This renders them as low value goods, squeezing margins.

We firmly believe issuing free CFLs must end. It disadvantages the professional trade distributor who does not have access to the subsidies - but whose customers have access to supermarkets.

Question 9 - first part = yes to a minimum and second part = yes, CFLs must be made ineligible.

Question 10 - We accept a 60% figure but expect other respondents will ask for a higher level.

Discussion

Question 11 - Yes, our evidence is that relying on subsidised DIY loft roll insulation is misplaced - and the extent of double-counting currently going on will support this when CERT ends.

We recommend energy suppliers move towards professional fitting only - either specialist contractors or general builders. In our previous submission (14/04/2009), we presented more detailed arguments why we view steps to encourage DIY enthusiasts as outdated. We shall not repeat all our arguments here again.

The biggest risk is CERT (as currently constituted) does not put the bill payer or homeowner in charge to make the behavioural step changes necessary. Government ambition for the ‘demand-side’ to pull the market will falter - a politically unattractive outcome. The multi-millions of taxpayers’ money spent on ‘Action on CO₂’ and other publicity campaigns will have been in vain.

CHAPTER 5 - INNOVATION, EVIDENCE AND REPORTING

Overview

Para 5.2 - Allowing free enterprise the scope to invest to create enduring demand and grow markets is critical if the Government's ambition to transform the market is to be realised. The Prime Minister repeatedly tells British business leaders to invest more in R+D, innovation and technology transfer if the nation is not to be left behind.

Para 5.3 - The BMF is as firm advocate of ministers' drive for more renewable energy. We sell the 'green technologies' being talked about nowadays - and shall stock new ranges as the market of such goods matures. Designers & manufacturers of low carbon products are already coming to realise builders' merchants are vital partners in getting new products to market. For example: impartial face-to-face advice in merchants' shops when shown a range of products.

Next month, we expect to meet the British Wind Energy Association about stocking micro-wind turbines. We see an opening to carry models at the lower end of their product range, so BWEA members find a convenient route to the household market.

Energy efficient appliances

Para 5.5 - We recognise the DECC/Defra mantra to embrace the 'best in class'. We agree those appliances with the highest energy rating be eligible for CERT. In case ministers do not appreciate, merchants sell kitchens & bathrooms inc. cookers and other items named in this paragraph.

Para 5.6 - Yes, we agree CERT must steer clear of 'deadweight' in favour of high-yielding steps.

Para 5.8 - Yes, we agree. No more mass mailings can be allowed under CERT. Don't forget, suppliers conduct in-store promotions and give free goods to the public in shopping precincts, county fairs or shows (e.g. Ideal Home Show) . Whilst getting round the unsolicited angle, there is still no way of verifying if or where they are fitted.

Question 12 - first part = yes and second part = no.

High efficiency lighting

Para 5.8 - Yes, we agree. BMF members will sell LED lighting.

The BMF believes ministers could approach this in a different way. Investment should be in the form of enhanced tax write-downs for manufacturers to invest in production equipment. This would speed new products to market without the risk of establishing downstream distortions, and allowing the new technologies to find a natural route to market. It would be jobs rich - something that DBIS ministers routinely tell us they are most interested in.

Question 13 - Yes, with the proviso such lighting is not given away free like CFLs were.

Micro-generation

Para 5.12 - Yes, we agree it has to be installed at scale to succeed. As stated earlier, the BMF supports the drive towards more UK micro-generation capacity.

This year, we have successfully launched a brand new 1-day training course for merchant this emerging market. As places on these courses sell out fast, we plan to offer more dates. If ministers or officials would like to see this learning for themselves, we could perhaps put one on for DECC.

Para 5.13 - Yes, there must be 'additionality'.

Para 5.14 - The BMF suspects the Boiler Scrappage Scheme will turn out to be a success. We appreciated being asked to come into DECC and help design the current scheme. In addition to

merchants, manufacturers & distributors mentioned earlier, this Federation represents Worcester Bosch & Baxi and Plumbing Trade Supplies & Plumbase.

Whether (or not) it is extended - and we hope it is, irrespective of who is the next Government - it is clear that replacing boilers is a sure way to help get carbon out of people's lives.

Para 5.16 - Again, cavity wall insulation & loft insulation "supply chain constraints" are mentioned. We are not aware of any constraints and we challenge DECC to explain this. If necessary, the BMF will happily act as 'honest broker' for officials to find the right trade/industry voices to reach out to identify and solve these real or perceived constraints.

Question 14 - Yes, we agree, but as before, equipment to be installed by professionals.

Evidence

Question 15 - The BMF is not qualified to answer - we do not have any economists, statisticians, engineers or social scientists on our payroll.

Reporting

Para 5.18 - The 'Best Practice Guidelines' mentioned between energy suppliers were initiated by British Gas. Their trade association promised to share this - but despite repeated requests, the BMF did not see them. We remain very disappointed not to have been given a chance to offer comment and input on what was being proposed.

The efforts by energy suppliers to police their arrangements with their preferred retail partners are woeful and OFGEM is failing too if it accepts these Guidelines. Their intentions are small - e.g. writing to installers reminding them not to buy from DIY outlets, or limiting the amount of insulation sold per person by their DIY retail partners.

Para 5.19 - The BMF regards it as essential to discover where (and under which mechanism) measures have been delivered after CERT ends.

Para 5.20 - The BMF regards the current reporting & monitoring process - and adherence to it by energy suppliers - as insufficient. A proper audit trail is not being established.

Question 16 - No, definitely not and the next paragraphs explained our position.

The BMF's core belief towards CERT has not changed. Merchants have suffered experienced a discernable drop in sales of insulation - and trade customers have told them they go to DIY superstores to buy subsidised products. Our primary concerns are:

- anti-competitive behaviour: (a) selling at prices below what manufacturers can make insulation products for and (b) selling at prices below what merchants can buy it at
- bill-payers' money being channelled at government instigation to the benefit of some - to the detriment of others - which distorts the market
- 'closed shop' - namely deals between energy suppliers, national chains of DIY superstores and certain manufacturers & installers - to exclude others
- subsidising the price of at point of sale debases the value of products - e.g. BOGOFs and 3-for-1 price promotions squeezes margins further so buyers become used to cheap giveaways.

We articulate specific flaws in relation to OFGEM's Supplier Guidance document (31/01/2008):

- failure in DIY superstores to differentiate in store between trade sale & domestic buyer
- declaration that differentiation takes place - and marketing costs & plans
- 'additionally' - how do energy suppliers show this has been met ? DIY chains are likely to run a price promotion(s) at certain times of year anyway
- practice of small, repeat sales to same buyer without challenge = another 'measure' ?

- scope for products to go in new-build homes or commercial premises - rather than retrofitting to housing stock - defeating object of exercise to tackle thirsty dwellings
- 'double benefit' to installers - i.e. obtaining inputs from a discounted source, and receiving payment from energy supplier (or government grants) to fit into homes
- 'double counting' of measures to cut greenhouse gas emissions.

DECC does seem to recognise the market is open to distortion. The BMF contends loft insulation intended for DIY application is likely to be used in new-build homes, commercial premises or community buildings like scout huts. It is undeniable scope exists for products to go anywhere (including abroad) because DIY retail chains fail to do in store differentiation - and OFGEM is unable or unwilling to do its job properly.

We have passed on specific examples of evidence illustrating our concern, including:

- national paid-for advertising spend - i.e. newspapers, radio & TV and websites
- in-store promotional activity - e.g. signs, pricing, leaflets & assistance by staff
- collaborative marketing by energy suppliers & partners (notably websites)
- anecdotal feedback from builder's merchants, trade sources & customers.

Please find attached to this submission a selection to illustrate our point. DECC's attention is particularly drawn to a B&Q advert dated Friday, 3 April 2009 from the "Southern Daily Echo" offering British Gas CERT funding for insulation aimed at tradesmen - a clear violation of the rules.

IMPACT ASSESSMENT

Evidence

G: CERT 208-2011 latest position

Para 17 - The BMF is pleased to see a cost/benefit analysis will be commissioned in year 2011. We would like to see a post-project evaluation of CERT when it has run its full course.

I: Option 4 detailed consideration

Para 57 - Yes, we agree insulation schemes ought to be banked more regularly.

Cost and Benefits

J: Costs & Benefits

Para 64 - Yes, the BMF makes this very point in its CESP work - and we have raised it with OFGEM verbally. We await publication of the Ecofys report referred to here.

L: Competition Issues

Para 94 - The BMF is not aware of regional bottlenecks. This assumption ought to be tested.

M: Small Firms Impact Assessment

Para 97 - The remark that smaller players in insulation & lighting organised themselves to become 'bigger players' interests the BMF immensely. This is exactly what we tried to do in our dealings with energy suppliers. We went as far to offer to be a 'clearing house' for them so as to avoid having to deal with a number of small operators - but we were spurned by them.

O: Consultation

Para 101 - The BMF looks forward to the further engagement referred to here.

CONCLUSION

The BMF supports the objectives behind CERT - not least because builders' merchants earn a living from selling heat & energy saving products & solutions.

But ministers ought to be in no doubt the BMF regards current arrangements as flawed. The way energy suppliers choose to fulfill their legal obligations causes merchants to seriously question the market distortion and unfair trading enshrined in CERT. Suppliers and their DIY retail partners are only interested in meeting obligations as quickly, cheaply and efficiently as possible to comply.

The BMF is a small trade federation, with only 15 head office staff. We simply do not have the resources to conduct investigations to search for and gather extensive amounts of evidence. To date, energy suppliers have succeeded to lobby for a less challenging CERT than is needed.



Peter Matthews
Federation Secretary
The Builders Merchants Federation
15 Soho Square
LONDON
W1D 3HL
(020) 7439 1753
www.bmf.org.uk