Taxation of road fuels

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Excise duty is charged on most hydrocarbon oils. At present the two main categories of road fuel – ultra-low sulphur petrol and ultra-low sulphur diesel – are charged duty at 57.95p per litre. When VAT is included, tax represents just under 60% of the final pump price for petrol and diesel (as of August 2013).[1] Fuel duties are estimated to raise £26.6 billion in 2012/13; by comparison duties on all other excisable goods – tobacco products, beer, cider wine and spirits – are set to raise £19.7 billion in 2012/13.[2]

In its 2009 Budget the Labour Government announced that in future years fuel duties should rise by 1p a litre above inflation.[3] A commitment to increase excise duty rates in real terms each year is often termed an 'escalator' – and over the period 1993-1999 Conservative and Labour governments operated such a policy. This proved highly unpopular as prices rose strongly reflecting trends in world demand, and from 2000 the Labour Government increased road fuel duties sporadically, often deferring or cancelling proposed changes when oil prices were relatively high.

In his Budget the next year, the then Chancellor, Alistair Darling, proposed the escalator should apply at least until 2014/15, though the increase set for 2010/11 would be phased in over the coming tax year in 3 stages to "ease the pressure on businesses and family incomes at a time when other prices are increasing."[4] Fuel prices continued to rise strongly, driven by this increase in duty rates, as well as rising oil prices, a decline in the value of sterling, and the new 20% standard rate of VAT which took effect from 4 January 2011.

In his first Budget in June 2010 the Chancellor George Osborne did not change duty rates, but said the Government would be exploring options to stabilize road fuel prices, and to have a duty discount for remote rural areas. In his Budget on 23 March 2011 Mr Osborne proposed three changes to duty rates: an immediate cut in the rate by 1p, a suspension in the previous Government's duty escalator, and a delay in the two duty increases set for April 2011 and April 2012, to keep duty rates in line with inflation. These changes – estimated to cost around £1.9 billion in 2011/12 – would be funded by an increase in the supplementary charge paid by companies in the North Sea on oil and gas production. The Chancellor went on to state that if oil prices fell back down 'on a sustained basis', this extra supplementary charge would be removed, and the duty escalator would be reimposed.[5]

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1. For petrol the figure is 61%; for diesel the figure is 58%. Figures for the tax take of both fuels since 1990 are given in a statistical appendix to this note.
2. Office of Budget Responsibility, *Economic and fiscal outlook* Cm 8573, March 2013 p102 (Table 4.7)
3. HC Deb 22 April 2009 c244. In addition to the 1p real terms rise set for future years, duties were increased by 2p a litre in September 2009 (*Budget 2009* HC 407 April 2009 p153).
4. HC Deb 24 March 2010 c254
5. HC Deb 23 March 2011 cc964-5; *Budget 2011* HC 836 March 2011 para 1.145-49

Continued concerns about the level of fuel prices over the following two years has lead the Government on five occasions to postpone or cancel proposed duty increases, so that duty rates remain unchanged since Budget 2011.

First, in his 2011 Autumn Statement the Chancellor announced that one of the two duty increases set for 2012 would no longer go ahead: duty rates would rise by 3.02p per litre from 1 August 2012, rather than 1 January.[6] Second, while Budget 2012 saw no change in this policy, on 26 June 2012 at Treasury Questions the Chancellor announced that the 3p duty rise set for 1 August would be deferred until 1 January 2013.[7] Third, in his 2012 Autumn Statement the Chancellor announced that the 3p duty rise that had been set for 1 January 2013 would be cancelled. Although it remained the Government's policy to increase duty rates annually in line with inflation, Mr Osborne also announced that the increase for 2013/14 would take effect from 1 September 2013. Subsequent increases would take effect on 1 September each year, instead of 1 April.[8] Fourth, in his 2013 Budget Mr Osborne stated that the duty rise set for 1 September 2013 would be cancelled.[9] Finally, on 5 December 2013 the Chancellor confirmed duty rates would continue to be frozen for the remainder of the current Parliament.[10]

This note sets out the way in which road fuels are taxed in recent years, before discussing the recent debate about reducing the burden of high oil prices on road users and the approach taken by the Coalition Government.

Contents

A. The structure of road fuel taxation 3

B. Past approaches to taxing fuel 4

C. Hauliers & an 'essential user rebate' 4

D. A duty rate discount for rural communities 7

E. A fuel duty regulator 8

F. Budget 2009 & Budget 2010 11

G. The Coalition Government's approach 16

H. Budget 2011 20

I. Recent developments 25

  1. Duty rates 25

  2. Rural fuel duty rebate 35

J. Statistical appendix : fuel prices, duty rates & the tax burden 38

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[6] *Autumn Statement* Cm 8231 November 2011 p46 (Table 2.1 – item 7)

[7] HC Deb 26 June 2011 c146; HM Treasury press notice 52/12, *Chancellor announces support for motorists*, 26 June 2012

[8] HC Deb 5 December 2012 c881-2; Cm 8480 December 2012 paras 1.46-7

[9] HC Deb 20 March 2013 c943

[10] HC Deb 5 December 2013 c1112

A. The structure of road fuel taxation

Excise duties are levied on five major goods: beer, wine, spirits, tobacco and fuel. They are levied at a flat rate (per pint, per litre, per packet etc.).[11] Since flat-rate duties are expressed in cash terms, they must be revalorised - increased in line with inflation - each year in order to maintain their real value. VAT is charged on the full selling price of all excisable goods, excise duty included. Excise duty is charged on most hydrocarbon oils: leaded, unleaded, ultra-low and sulphur-free petrol; conventional, ultra-low sulphur and sulphur-free diesel; gas oil and fuel oil, aviation gasoline, biofuels and road fuel gas. Notably, aviation kerosene (AVTUR) which used in jet engines is exempt from duty under international agreement.

At present the two main categories of road fuel – ultra-low sulphur petrol and ultra-low sulphur diesel – are charged duty at 57.95p per litre. When VAT is included, tax represents around 59% of the final pump price for petrol (as of August 2013); for diesel, the percentage is 58%. During much of the 1990s, falling fuel prices and substantial real-terms increases in duty rates saw the tax take rise to a peak of 86% in early 1999. Since the mid 1990s, the rate of duty charged on petrol and diesel has generally been the same, although over this period pump prices for diesel have often been a good deal higher. This trend has been attributed to a number of factors, the most important of which is considered to be the long term increase in demand for diesel and limited refining capacity.[12]

The UK has long charged relatively high duties on road fuels compared to other EU countries, and pump prices in this country have been consistently higher than elsewhere in Europe. Three factors have changed this pattern in recent years: duty rate changes in other Member State; rising oil prices, shifting the balance from taxes to the pre-tax price; and, changes in the strength of the Euro against the £. It remains the case that UK diesel prices remain among the highest in Europe – though, again, the recent strength of the Euro has made the difference less dramatic. All other Member States have lower duty rates for diesel. In recent years the diesel 'discount' in some countries has been nearly 50%. In September 2013 the diesel duty rate in the UK was more than 23p (66%) above the simple (unweighted) average for the other 27 countries.[13] Figures on petrol and diesel prices since 1990, and comparative data on fuel prices and the tax take across Member States, is presented at the end of this note.

Diesel for agricultural use or other off-road use is subject to a substantially rebated rate of duty. "Red diesel" as it is called is charged duty at 11.14p per litre (the technical term for this product is gas oil) – a duty differential of almost 47 pence, compared with ultra low sulphur diesel. When delivered from an oil warehouse normal 'white' diesel must have a red dye added to it, along with a chemical marker, before it can be sold as red diesel, so that its use can be detected. Red diesel can only be used in vehicles which are not generally used on the road, such as farmers' tractors.[14]

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[11] Tobacco products are subject to an additional ad valorem tax of 24% of the total retail price (including the flat-rate duty, VAT and the ad valorem duty itself).

[12] For more details see, *Petrol and diesel prices*, Library standard note SN4712,10 September 2013 pp10-13

[13] Library standard note SN4712, 10 September 2013 p10

[14] A list of the 'excepted vehicles' that may use red diesel is in HM Revenue & Customs' guidance on the fuel that may be used legally in road vehicles (*Notice 75: Fuel for road vehicles*, November 2013).

B. Past approaches to taxing fuel

In its Budget in March 1993 the Conservative Government introduced a 'road fuel escalator' - a commitment to increase duty rates on these fuels in real terms by a specified percentage each year. Initially the escalator was set at 3% then increased to 5% in November 1993. In his first Budget after the Labour Party's general election victory in May 1997, the new Chancellor, Gordon Brown, adopted the Conservative escalator, and announced that in future years it would be increased by a further 1 percentage point.[15]

Duty rates on the main fuel categories were increased over the next three years:

- between 8.2% and 9.3% from 1 July 1997;
- between 9.2% and 11.8% from 17 March 1998; and,
- between 7.3% and 11.6% from 9 March 1999.[16]

Over this period total receipts from excise duties on oils rose from £17.2 billion in 1996/97 to £22.5 billion in 1999/00.[17]

Complaints from private motorists and hauliers about the tax burden on road fuels led to the announcement by Gordon Brown, then Chancellor, in his March 2000 Budget that the escalator would be withdrawn, and that any real-terms rises in road fuel duties would be "an annual Budget decision."[18] In addition duty rates were increased only in line with inflation. The rising trend in pump prices led to a public campaign during summer 2000 for drivers to boycott petrol stations. Panic buying and blockades of refineries caused widespread shortages across the country by mid September. In his Pre-Budget statement in November 2000, Mr Brown proposed that the main duty rates would be frozen up to April 2002, and the rates on ultra low sulphur petrol and ultra low sulphur diesel would be cut in the March 2001 Budget – by 2 pence and 3 pence a litre respectively – changes he confirmed in his 2001 Budget. Although these low sulphur alternatives were relatively new to the market at this time, they quickly became the main categories of fuel used on the road.[19]

In the years following the fuel crisis – up until the 2009 Budget – the general pattern was for the main duty rates on road fuels to be frozen or to be increased in line with inflation only.[20]

C. Hauliers & an 'essential user rebate'

The haulage sector has been particularly concerned about the impact of high oil prices, and lobbied for compensation for UK hauliers competing against their Continental rivals.[21] In

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[15] HC 85 July 1997 p 37

[16] HM Customs & Excise Budget Notice C&E3, 2 July 1997; HM Customs & Excise Budget Notice C&E17, 17 March 1998; HM Customs & Excise Budget Notice C&E11, 9 March 1999

[17] HM Customs & Excise, *Hydrocarbon Oils Factsheet*, December 2006 p2

[18] HC Deb 21 March 2000 c868

[19] HC Deb 7 March 2001 c303

[20] Two Library notes provide a chronology: *Taxation of road fuels: the road fuel escalator (1993-2000)* SN3015 & *Taxation of road fuels: policy following the 'fuel crisis' (2000-2008)* SN3016, 21 January 2011.

[21] The wider concerns of the industry are discussed in, *The Road Haulage Industry: costs & taxes*, Library Research paper 08/68, 31 July 2008.

2005 the Freight Transport Association & Road Haulage Association commissioned a report on the taxes paid by hauliers which considered a number of options to mitigate the impact of fuel prices, including a substantial cut in fuel duty to match the EU average, offset by an increase in VAT, and the introduction of an 'essential user rebate'. The authors noted that the first of these would be illegal under VAT law:

> [A fuel duty/VAT switch envisages] a reduction in fuel duty to the EU average but offset by a proportionate increase in VAT on diesel fuel, to levels such that the overall rate of tax remained the same. As most operators are VAT registered and most private motorists are not, then this element of tax can be recovered by registered operators through their normal VAT transactions. However, Article 12 of the Sixth Council Directive of the EC (77/388/EEC) requires member states to impose a standard rate of VAT (which must not be less than 15 per cent and in the UK is currently 17.5 per cent), and only permits reduced rates of VAT for specific products. The directive does not allow a specific higher rate for one product. This would prohibit the increase of VAT above the current 17.5 per cent for fuel.[22]

The authors were more positive about the operation of an essential users rebate:

> The scheme is similar in essence to the Fuel Duty Rebate (FDR) which is already in operation for bus services … In addition, a number of EU states – including France – have introduced such schemes albeit with lower rates of rebate than would be necessary in the UK. Essential users (ie owners of O licences within the haulage industry) would be able to claim a rebate on their fuel used for all valid journeys equivalent to the difference between the UK current fuel price and the average EU price. Mileages could be relatively simply verified using the well-tried tachograph system. In order to make the scheme more palatable to the Government, alternative methods of funding the rebate were investigated and a report commissioned from the Centre for Economics & Business Research (CEBR) … A select committee had the opportunity to question Professor Douglas McWilliams, key author of the report in July 1999. The committee's findings were that the calculations were validated, but they believed it would be too difficult to administer and would cost the Exchequer too much.

It noted that the scheme could be operated by some form of smart card, or a paper-based claims system, but that there were serious difficulties with *any* scheme:

> However, all the … rebate schemes [mentioned here] are being scrutinised by the European Commission in respect of their legality under EU state aid rules. Member states wishing to offer such rebates are required to renew their permissions every two years. These schemes are also vulnerable to fraud and are accordingly limited to small amounts of money – 2p or 3p a litre.[23]

In late 2005 the then Labour Government responded to these concerns by setting up the Haulage Industry Task Group, to look at the operating costs faced by UK and EU hauliers.

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[22] The Burns Freight Taxes Inquiry, *The Burns Report*, December 2005 p45. This remains the case though these provisions are now recast in the 'principal' VAT directive (Council Directive 2006/112/EC of 28 November 2006).

[23] *The Burns Report*, December 2005 pp 47-49. There does not appear to be any consolidated data on the use of this type of rebate in other countries; for example, no mention is made in the summary of oil taxes across Member States provided by European Commission's *Oil Bulletin*.

In its final report published in December 2006 the Group did not find compelling evidence that the haulage sector faced greater difficulties than other sectors from trends in competition, or that there was a pressing case for it being subject to special treatment by the tax system:

> 3.3 Margins in the haulage industry have tightened, and survey measures of confidence are markedly lower than in other service sectors. However, the current margins in the sector do not stand out as being particularly weak compared with a range of other manufacturing and service sectors. The average profit margin in the road haulage sector was 2.2 per cent according to data from Plimsoll Publishing (2005). Other sectors reliant on commodity inputs exhibited similar figures. For example the average margin in the courier sector was 2.1 per cent, in construction 2.4 per cent, and in metal fabrication 2.2 per cent. As the price of raw materials such as building aggregates, metals and fuels has risen in recent years (partly due to stronger demand in faster growing economies) all sectors dependant on such inputs have seen margins reduced.
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> 3.4 Other sectors open to international competition face large input cost differentials between countries as well. For example, the Department for Trade and Industry (DTI) estimated that operation costs for call centres in some countries are up to 40 per cent lower than in the UK.
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> 3.5 The Task Group has also considered the UK tax treatment of some other sectors: filmmaking, spirits, aviation and shipping. In some respects, these sectors are comparable to road haulage, as they are open to foreign competition. However the decision to implement specific tax regimes for these sectors reflects other factors too – including the international mobility of firms operating in these sectors, and the scope for policy action to bring about a significant increase in UK output in these sectors.[24]

Nevertheless hauliers organisations have continued to lobby for duty cuts. As oil prices rose strongly in the first half of 2008, the Freight Transport Association argued that diesel duty should be cut in half because "due to lower fuel and labour costs, foreign lorries working in the UK are able to do so at between 10 and 15 per cent lower cost than UK operators working in the UK."[25] These concerns were debated at the report stage of the *Finance Bill* on 2 July 2008, when the then Exchequer Secretary, Angela Eagle, argued against any scheme for helping the haulage sector through the duty regime:

> I have spoken to many hauliers and their representatives, and I am not unsympathetic, but why should the provision apply to hauliers and not to other equally deserving essential road users? Who would be in the scheme and how would we decide? The Government recognise the road haulage industry's concerns, and those of other businesses, over the current cost of fuel, and we continue to examine the position. Requests for reduced duty rates for road haulage operators are often associated with the relative competitiveness of the industry compared with foreign operators. Studies have shown that European duty differentials are in many cases offset by other costs such as lower labour rates and other employer costs. Furthermore, a scheme would require the introduction of an administrative

24 HM Treasury, *Haulage Industry Task Force: summary of evidence*, 6 December 2006 p7

25 FTA press release, *Fuel duty - 2p increase now unthinkable - 25p cut required*, 28 May 2008. See also, Road Haulage Association, *Open letter to the Exchequer Secretary*, 23 May 2008.

mechanism, with potentially high costs. Also any system would create significant compliance and fraud risks.[26]

D. A duty rate discount for rural communities

Many commentators have argued that those living in rural areas should be entitled to a discount on the rate of duty they pay. One of the principles behind excise duties is that they be charged in a universal fashion, on all those who purchase a particular good. In the case of fuel duties, the principle cannot fail to have distribution effects, given the greater reliance in rural areas on transport, both private and public. Even so, exemptions or reliefs tailored to particular areas would, from one perspective, subsidise - through the tax system - someone's decision to live in a given place, without attention to the circumstances in which they do so. One could argue that compensation for living in these areas, and support for businesses located there, could be better targeted through the benefits system, or by the provision of regional aid.

The case for a rural duty rebate was debated at considerable length in January 1995, when the then Conservative Government introduced a second round of duty rises, on top of those introduced in the November 1994 Budget. Many Members argued that people living in rural areas would be unfairly penalised by the rate increases. In response, the then Paymaster General, David Heathcoat-Amory, argued that this approach ignored the fact that fuel, while important, was only one element of household budgets, and that other costs from living in rural areas were relatively low:

> Petrol and fuel costs are but one component in the budgets of those who live in rural areas. Plenty of other things are cheaper in rural areas - certainly in Scotland, where housing costs are generally lower than they are in my constituency. I am not asking for the Government to intervene to try to correct that imbalance; it would be impossible for the Government to lay down by some prescriptive formula what petrol and fuel companies should charge in various parts of the country ... I accept that some things are more expensive in rural areas. Some things are more expensive in urban areas. That is the interplay of a market and the inheritance of the past.[27]

During its administration the Labour Government raised two further objections to introducing a lower rate of duty for rural areas. First, a differential duty rate would be difficult and expensive to administer, as at present duty is levied when oil leaves the refinery, not at the point of retail sale. During a debate on oil prices in June 2004 the then Economic Secretary, John Healey, described differential road duties as "an inappropriate and impractical solution" to the problem faced by residents of the Scottish highlands and islands by high oil prices.[28]

Second, a differential duty rate would require specific dispensation at a European level.[29] This might be difficult to obtain, particularly because EU tax legislation requires unanimous consent from Member States. At present, duty rates on hydrocarbon oils across all Member States are subject to certain EU-wide minimum levels, first agreed in 1992 as part of a series

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[26] HC Deb 2 July 2008 cc 951-2. See also, HC Deb 10 June 2009 c905W.

[27] HC Deb 23 January 1995 c04

[28] HC Deb 8 June 2004 c29WH

[29] This issue was discussed in Northern Ireland Affairs Committee, *Third Report: impact in Northern Ireland of Cross-Border Road Fuel Price Differentials*, 29 July 1999 HC 334 1998-99 paras 50-58.

of measures for ‘fiscal harmonisation’ which underpinned the creation of the Single European Market. The first EU-wide agreements on the harmonisation of duty rates were adopted in October 1992, and took effect from 1 January 1993. In the case of mineral oils, the relevant directives were directive 92/82/EEC, which established the minimum rates of duty that Member States could charge, and its companion directive 92/81/EEC which defined those oils to be charged duty. In October 2003 both directives were replaced by directive 2003/96/EC of 27 October 2003, known as the ‘Energy Products Directive’ (EPD).

The original rates directive (92/82/EEC) made specific provision for regional duty rates in Portugal and Greece; article 9 allowed these States to charge duty below the EU minimum rates for products sold in the Azores and certain selected Greek islands. This provision is maintained in the EPD, under Article 18 paras (7) & (8). The companion oils directive 92/81/EEC – which specified which products had to be charged at least the EU minimum rate for each category of fuel – allowed Member States to apply for individual derogations (that is, charging a lower rate of duty that might or might not be lower than the EU mandatory minimum for that particular class of mineral oil). In practice most of these derogations have applied to oils used for particular purposes – such as for local public transport – though territorial exemptions were agreed for the regions of Val d'Aosta and Gorizia in Italy.[30]

Similar provision is now made in Article 19 of the EPD: this underlines that, in considering any application for any further duty exemptions or reductions, the Commission must take into account “the proper functioning of the internal market, the need to ensure fair competition and Community health, environment, energy and transport policies.” Any new exemptions granted under this procedure may be for “a maximum period of 6 years” subject to being renewed; in each case the process requires the unanimous consent of the Commission and Member States. In the 2011 Budget the Coalition Government submitted just such an application to the EC,[31] and following approval from the Commission and other Member States, introduced a scheme in early 2012, cutting duty by 5p a litre for the Inner and Outer Hebrides, the Northern Isles, the islands in the Clyde and the Isles of Scilly.[32] This is discussed in more detail in the last section of this note.

E. A fuel duty regulator

Along with calls for duty rebates for rural areas, there have also been calls for the introduction of a ‘fuel duty regulator’ – a mechanism to adjust fuel duties, to mitigate the impact of oil price shocks on pump prices. During the Committee stage of the Finance Bill in May 2008, Stewart Hosie MP put down a new clause to introduce a mechanism whereby any additional VAT receipts, accrued from long-term increases in oil prices, would be used to reduce duty rates.[33] In response the then Exchequer Secretary Angela Eagle strongly opposed the idea, in part because it was based on the notion of an Exchequer windfall from rising pump prices. Following this, at the report stage of the Bill, Members debated a number of new clauses tabled by Opposition parties, including a proposal by the Scottish

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30 The procedure was established under Article 4 of 92/81/EEC. A lists of derogations was agreed in October 1992 (Council Decision 92/510/EEC), and amended in December 1999 (Council Decision 99/880/EC).

31 HC 836 March 2011 para 1.150

32 HM Treasury press notice 16/12, *Fuel price cut comes into force for remote islands*, 29 February 2012

33 PBC (Finance Bill) 15 May 2008 cc233-248

National Party and Plaid Cymru for the introduction of a fuel duty regulator. Mr Hosie set out how this mechanism would work in practice:

> In new clause 8, proposed new subsection (1AA) would oblige the Chancellor at every Budget and pre-Budget report to provide both a forecast for oil prices and his anticipated yield from fuel duty and VAT from fuel. If we are going to use these forecasts, it is important that they are laid down in statute. Proposed new subsection (1AB) would oblige him through statutory instrument to reduce the level of duty in direct proportion to the value of the increase accounted for by VAT. I dislike in principle statutory instruments and regulation, too, but my overwhelming priority is that something must be done quickly, and this is the best mechanism by which to achieve that. Proposed new subsection (1AC) would ensure that when the price of a barrel of oil increases above the forecast, the next indexed fuel duty increase is automatically disapplied. That is important, because when the price goes up we can no longer have normal indexed duty increases withheld as a political whim; this must be an automatic consequence of a rise in fuel prices.[34]

Speaking for Plaid Cymru Adam Price argued "even against the underlying trend, which has to be upward, there may be dramatic surges and falls along the way":

> That is why we need a moderating regulator to provide people with the stability to plan for this new era. We have moved from an era of cheap oil and are now in an era of premium oil, and that will continue. We need to give people the ability to plan for a post-oil economy … However, we cannot do that if we are exposed to the vagaries of the international market. We need a planned transition to a post-carbon economy. A fuel regulator would be an important contribution towards enabling companies, families and individuals to do that.[35]

Speaking for the Liberal Democrats, Jeremy Browne argued that addressing spikes in oil prices was a "laudable objective", but this proposal had a series of drawbacks:

> SNP Members do not address the issue of what would happen if prices were to fall … [In addition, they] are considering the issue of oil revenue as though it were in a silo ... The Treasury has to consider the public finances as a whole. If a Government ring-fence every area where revenue has risen by more than was anticipated, and say, "We must artificially reduce that," but do not seek to ring-fence any areas where the revenue is less than expected, they will end up with an overall revenue shortfall …
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> [Finally] the Government have this mechanism in a rather cruder form already. One of the issues in this debate is whether the Government wish to implement, further defer or cancel altogether the 2p duty rise that is planned for the autumn. One of the considerations that they are presumably taking into account is the overall price of oil and the effects on businesses and private individuals. The Government already have the ability, if they so wish, to vary upwards or downwards the total amount of duty on petrol and diesel depending on wider economic considerations and the price of oil, without having to introduce a mechanism of this sort.[36]

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[34] HC Deb 2 July 2008 c932
[35] HC Deb 2 July 2008 c946
[36] HC Deb 2 July 2008 cc921-2

On this occasion the Conservative party did not take a position on this new clause, though a few days later the then Shadow Chancellor, George Osborne, published a consultation document on proposals for a 'fair fuel stabiliser' – a mechanism to ensure that "when fuel prices go up, fuel duty would fall. And when fuel prices go down, fuel duty would rise".[37] The document made the case that Government policy to generally increase duty rates in line with inflation created instability in economic policy and the public finances:

> Under the current system, instead of cushioning the blow and helping families to cope, the government adds to the rising cost of living. That's because fuel duty is planned to rise every year by at least the rate of inflation, regardless of what happens to the price of oil. In addition, the other tax levied on fuel, VAT, is charged at the standard rate. So as the price of fuel rises, the amount of VAT charged also rises. This means that when the price of fuel goes up, the amount of tax charged on it also rises. The result is annual pressure on the Chancellor and Prime Minister to postpone or cancel increases in fuel duty proposed in each Budget, a practice begun by Gordon Brown as Chancellor. This contributes to a sense of uncertainty and instability in government economic policy.
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> The current system also makes the public finances more unstable. This is because, when oil prices rise, the Government receives an unexpected windfall from taxes on North Sea Oil production. And when oil prices fall, the Government suffers an unexpected shortfall in revenues. This makes it more difficult for the Government to predict accurately the future state of the public finances.

The paper went on to ask for views on whether such a mechanism could be "transparent and simple to administer", while at the same time meeting three policy priorities: "stabilising the public finances, smoothing inflation, and helping to reduce carbon emissions."[38]

These proposals were debated during an Opposition day debate on fuel duty on 16 July 2008, following the Labour Government's announcement that duty rates would remain frozen for the remainder of the year. Speaking for the Conservatives, Philip Hammond argued that a stabiliser "makes the public finances more stable, by reducing the impact of changes in oil prices, upwards or downwards, on Treasury revenues, making it easier for it to project what future revenues will be and making those projections less vulnerable to the vagaries of the international oil market."[39]

The then Chief Secretary to the Treasury, Yvette Cooper, argued that analysis that predicted rising oil prices were boosting Exchequer revenues ignored the current trends in world food prices and the global credit crunch, all of which would have an impact on public finances: "In the face of a world slowdown, to take any one tax in isolation and claim that there is a windfall available to spend is economically illiterate, irresponsible or just disingenuous."[40]

Speaking for the Liberal Democrats Vincent Cable suggested that "petrol duty would have to be set in response to the predictions of the economic model in relation to the net windfall,

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37 "Tory tax pledge to 'share pain' of fuel rises", *Financial Times*, 7 July 2008

38 Conservative Party, *A Fair Fuel Stabiliser: a consultation on the future of fuel taxation*, July 2008 pp 4,3,14. Responses were invited up to 19 December 2008.

39 HC Deb 16 July 2008 c322

40 HC Deb 16 July 2008 c331

which is an even more complicated exercise … May I suggest that there might not be any net windfall at all? The proposal would make tax policy unbelievably complicated and unpredictable, and in view of the Conservatives' long-term commitment to tax simplification I am surprised that they are proceeding with it with such enthusiasm."[41]

The issue was also debated in Westminster Hall in February 2010, when the then Exchequer Secretary, Sarah McCarthy-Fry reiterated the Labour Government's view that a differential duty rate would not be appropriate or feasible: "First, it is important that the Government remain consistent with the principle of UK-wide taxation. Secondly, there would be many practical difficulties with pursuing a reduced fuel duty rate in reality. Thirdly, it is uncertain whether there would be any benefit at the pump." On this last point, the Minister said:

> For small forecourts with stretched margins, there is a real risk that the administrative cost associated with a reduced duty rate could outweigh the benefits of the rate. In the light of that, there would be no guarantee that the benefits of any fuel duty reduction would be passed on to consumers, rather than simply being absorbed into fuel sellers' margins.
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> It has been suggested that one way out of the problem would be for the Government to define the agreed margin that individual fuel retailers could employ each year, but that would clearly constitute a major intervention by the Government into the fuels market and would be contrary to the Government's general policy of allowing free markets to determine prices. It is also difficult to understand why fuel sellers would choose to enter into such agreements with the Government over their margins.[42]

F. Budget 2009 & Budget 2010

In the 2009 Budget the then Chancellor Alistair Darling announced that the main road fuel duties would be increased by 2p a litre on 1 September 2009, and by 1p per litre in real terms on 1 April each year from 2010 to 2013. It was estimated that these increases would raise £600m in 2009/10, rising to £1.25bn in 2010/11, and £1.75bn in 2011/12. The Chancellor also announced a new 50% higher rate of income tax to come in from April 2010, and it was this measure which gathered the lion's share of attention in the days after the Budget, though its projected yield was not that much greater than the new duty escalator.[43] The Budget report noted that both of these measures would 'support consolidation' of the public finances, and, in the case of fuel duties, would "save 2 $MtCO_2$ per year by 2013-14."[44]

Notably receipts from fuel duties *fell* quite sharply in the months up to the Budget. At the time of the *Pre-Budget Report* in November 2008 duty receipts for 2008/09 were projected to be £25.1bn, but by the time of the 2009 Budget this estimate had been cut to £24.6bn. This trend was commented on in the Budget report:

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41 HC Deb 16 July 2008 c339

42 HC Deb 10 February 2010 c277WH, c279WH

43 At this time it was estimated that the 50% rate on incomes over £150,000, with a new 50% trust rate, would raise £2.4bn by 2012/13: HC 407 April 2009 p153 (Table A1 – item 44, footnote 3).

44 HC 407 April 2009 para 7.51

> Fuel duties in 2008/09 were £0.4 billion below their 2008 Pre-Budget Report projection and were lower than in 2007/08. Since fuel duty is charged on a per litre basis, this reflects a reduction in the demand for fuel. The first half of 2008/09 saw a sharp increase in global oil prices and hence pump prices. The drop in economic activity has also reduced the demand for fuel with nominal consumer spending on vehicle fuels falling 4.6 per cent in the final quarter of 2008. The near-term weakness in the economy will impact on the demand for fuel in 2009/10, although there will be an offset from the sharp drop in pump prices since summer 2008.[45]

Of course, fuel duties were not the only tax that saw a sharp fall in receipts in the second half of 2008/09: VAT receipts, for example, were £4.1bn lower in 2008/09 that forecast in the 2008 PBR; as the Budget report noted, "this reflected a smaller VAT tax base, higher time-to-pay requests and a rise in VAT tax debts."[46]

Robert Chope, then director of the IFS, took up this point, in the Institute's post-Budget briefing presentation; an extract is reproduced below:

> Much attention has focussed on the income tax increases on the rich, which the Treasury hopes will raise £7 billion a year.[47] Even if this estimate is correct, the gain will partly be offset by losses of VAT and other indirect tax revenues buried in other Budget forecasting changes. We should also bear in mind that increases in fuel duty and National Insurance[48] will raise a roughly similar amount – and from a much broader range of families. And all the tax increases announced to date will in total raise only about 10% of the money the Treasury is looking for by 2017/18. So the main burden of the looming tightening – at least over the next few years – is likely to fall on the users of public services.[49]

The reintroduction of the escalator, be it at a much lower rate than before, was strongly criticised by the haulage sector and motoring organisations, as the *Financial Times* reported:

> The Freight Transport Association, the haulage industry lobby group, said the increase could kill parts of the struggling sector. The group had argued strongly for the duty increase to be postponed, as happened during the ramp-up in oil prices. James Hookham, FTA policy director, said the number of insolvencies among logistics companies had almost doubled in the past year, while the number of heavy goods vehicle drivers looking for work had quadrupled. "What more evidence does the government need that parts of the sector are on their knees?" he said.
>
> There were also attacks from the Automobile Association and RAC Foundation, the motoring lobby groups. Stephen Glaister, director of the RAC Foundation, said Mr Darling was wrongly assuming motorists could easily afford the extra taxes. Research for the foundation had found the old and poor were increasingly heavy car users, he said.[50]

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45 HC 407 April 2009 p233 (para C.57)

46 HC 407 April 2009 p233 (para C.53)

47 [ie, the new 50% higher rate of income tax, the phased withdrawal of the basic personal allowance for incomes over £100k, and proposed restrictions to tax relief on pension contributions for incomes over £150k]

48 [The proposal in the 2008 PBR to raise NI rates by 0.5 percentage points from April 2011. The Labour Government announced in the 2009 PBR that the increase would be 1.0 percentage points.]

49 *Reactions to Budget 2009 : Opening remarks, Robert Chote*, IFS 23 April 2009

50 "Fuel increases draw wrath of car and haulage lobbies", *Financial Times*, 23 April 2009; see also, "Petrol price hikes will put cash in No 11's tank", *Independent,* 22 April 2009

Although there was some support from environmental groups, there was also criticism that the increase was not directly linked with wider policies to promote alternatives to car use. The *Times* quoted the Campaign for Better Transport as saying, "it's right that tax rises should target pollution but the money raised must be used to invest in alternatives."[51] In their response to the Budget, Friends of the Earth argued that although the rise was 'welcome', "in tandem with fuel duty increases, people must be given decent, affordable, safe alternatives to private motoring and we regret that the Government has done nothing at this budget to improve these alternatives."[52]

In his immediate response to the Budget speech, the leader of the Conservatives, David Cameron said, "the Government are reintroducing the fuel duty exercise … escalator. That is going to hit everyone who has to drive to work. Those people are not rich; they have to work hard, and they are going to pay the price for Labour's failure."[53] Speaking for the Conservatives in the following day's debate, David Gauke argued that the announcement of the new 50p higher rate in 2010 was a cynical move, in part, because, "because it is a distraction from other taxes. In truth, even before the next general election, most of the taxes imposed will apply across the board, such as the fuel duty increases, and the increases in the cost of alcohol and tobacco. However, the really big tax increase will happen after the next general election [with increases in the rates of NICs from April 2011]."[54]

Speaking for the Liberal Democrats during the Budget debates, Vincent Cable gave limited support for the duty rise, noting that in the current economic climate, "harsh choices will have to be made about both taxation and public spending. We have taken the view that the burden of those hard choices will have to fall on public expenditure … In both cases the choices will be very difficult. There will be tax increase proposals, some of which, such as the fuel duty increase, we will not oppose given the extremity of the situation. In such cases, measures need to be taken to protect people who are particularly vulnerable. That is why we will again propose a rural exemption based on the EU rules, to help people in remote rural areas who will be damaged by the situation.[55] Speaking for the SNP, Stuart Hosie argued, "the reaffirmation of a fuel duty escalator will not be welcome at all. I would have thought that with the barrel price sitting pretty stable at about $50 and the litre price at the pump sitting stable at about 95p, this was the time—the stable time—to put in the fuel duty regulator to deal with the spike when it happens next year, the year after that or the year after that. Instead, there seems to be simply another attempt to bring in more cash."[56]

Provision to set the higher rates of fuel duty from 1 September 2009 was included in the *Finance Act 2009* (section 16).[57] These changes were debated by the Committee of the Whole House on 13 May, when Opposition Members repeated calls for the impact of the fuel prices to be mitigated, either by some form of duty regulator or stabilizer (advocated by the SNP and the Conservatives, respectively), or a duty rebate for drivers in rural areas

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[51] "Petrol prices accelerate in direction of £1 a litre", *Times*, 23 April 2009

[52] *Budget 2009: Analysis from Friends of the Earth*, April 2009 p5

[53] HC Deb 22 April 2009 c252

[54] HC Deb 23 April 2009 c463

[55] HC Deb 28 April 2009 c749

[56] HC Deb 22 April 2009 c313

[57] Section 15 of the Act enacts the duty rate increase from 1 April 2009. Retrospective authority for this increase in duty rates was obtained by one of the Ways & Means resolutions approved after the conclusion of the Budget debates (Resolution 13 – HC Deb 28 April 2009 cc818-822).

(supported by both the SNP and the Liberal Democrats).[58] The Labour Government strongly opposed amendments for both of these proposals. The then Exchequer Secretary, Angela Eagle, suggested that the pattern of price changes in the industry made any regulator unworkable in practice, noting that prices fell sharply in late 2008:

> The fact that the oil price has done something unexpected—something that perhaps could not have been predicted at the height of the spike last year—shows precisely the problem with seeking to take the volatility out of what is, after all, a commodity that is traded in a completely free market and has notorious price fluctuations. They are always very difficult to predict with any degree of certainty. Oil prices can be affected by sudden events—weather events, political instability in a particular area and a whole range of other things. It is very difficult to stabilise something so volatile…
>
> If fuel duty were altered on a monthly or bi-monthly basis, it would be highly unlikely to result in a constant fuel price, as oil prices often rise and fall at very short notice. If the stabiliser were to alter on a six-monthly basis, it might not respond to oil spikes at all. For example, imagine that in 2008 the Budget oil price forecast of $84 a barrel had been used as a baseline, but the fuel duty rate was adjusted only every six months, on 1 April and 1 October, say. On 1 April 2008 the Brent price was $100 a barrel, but on 1 October 2008 the Brent price was $95 a barrel, so had a stabiliser been operating on a six-monthly basis, it would barely have changed, yet we would have had the huge spike in the middle, with no response to it whatsoever. That is a funny definition of stability, or lack of bumps, so to speak.[59]

The Minister went on to acknowledge that petrol prices in rural areas tended to be higher, but the relationship was not clear cut, and therefore not a practical basis for reforming the tax structure. John Thurso, for the Liberal Democrats, had proposed basing the duty differential on the method chosen by the Scottish Government to distinguish between urban, rural and remote areas, putting the country into eight categories. In the Minister's opinion, this would create a tax structure that formed illogical patchwork across Scotland, without targeting relief to drivers least able to pay:

> Great variation in price exists across the country and sometimes from one petrol station to another ... It is greater in the highlands and islands than anywhere else, but there is a lot of variation and there is no obvious logic to the prices that one pays at the pump, despite the fact that fuel duty is the same across the country … [Mr Thurso's] eightfold classification would produce many tiny little pockets scattered all over Scotland, especially south Scotland, where the duty differential would apply. Not all of those areas experience higher fuel prices than the norm, within a reasonable fluctuation. Not all of them have similar prices either, as there is a wide variation. Some of that variation has to do with the normal workings of the petrol market and the fact that we do not mandate a single price for petrol across the country. Some of it may well have to do with rurality, but that is difficult to distinguish. Drawing boundaries on that basis would create many tiny little areas where fuel duty was lower than in other areas.

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[58] HC Deb 13 May 2009 cc905-63.

[59] HC Deb 13 May 2009 c918, c921

> Another aspect of the plan produced by Opposition Members is to move the duty point from petrol distribution networks and oil companies to individual petrol stations, but that would be very difficult to achieve administratively and is not something that I would wish to do unless I could see major benefits accruing from the change … [which I do not].[60]

Despite these criticisms of the way road fuels are taxed, in a report published at this time, the Transport Committee suggested that relatively high fuel duties were probably the best way to tax road users – though it took the view that there was little scope for cutting other motoring taxes:

> All the motoring organisations that appeared before us agreed that fuel tax is the most efficient, equitable and effective way to tax road users [In addition] … motoring groups state that drivers prefer fuel duty to road pricing. Fuel duty is the most effective way of encouraging fuel efficiency and reducing carbon emissions. However, a basic maxim of taxation is that taxes should be broadly-based and reliance on a single tax is unwise. Indeed, as cars become more fuel-efficient, revenue from fuel duty and VAT on fuel may fall. This may be one of the reasons for the recent increases in VED. With the prospect of growth in the number of vehicles powered by electricity or alternative fuels, reliance on revenues from fuel duty is likely to become more problematic.
>
> Fuel duty is, in most respects, the better way to raise revenue, to encourage fuel efficiency and reduce CO2 emissions. Those who consume the most and pollute the most, pay the most. Motoring organisations and others see it as a fairer tax and suggest that there should be a switch from Vehicle Excise Duty to fuel duty. However, raising the same overall sum would involve a substantial hike in fuel duty. Given existing high levels of fuel duty, it is not clear if such an increase would be supported by motoring organisations or the public. We recommend that the Government focuses future measures on taxes that vary with use, such as fuel duty.[61]

In the weeks prior to the 2010 Budget, road fuel prices continued to rise, and there were calls for the Government to abandon this policy, or simply freeze rates for the coming year.[62] As it transpired, Mr Darling announced in his Budget speech that the 1p duty increase for 2010/11 would be phased in over the year: so, the duty rate on petrol and diesel will be 57.19p/litre from 1 April, 58.19p/litre from 1 October, and 58.95p/litre from 1 January 2011.[63] Mr Darling also proposed that the 1p duty escalator would apply for an additional year:

> Budget 2009 announced that fuel duty would increase by one penny per litre in real terms on 1 April each year from 2010 to 2013, equivalent to 2.76 pence per litre this year. Budget 2010 announces that the 2010-11 fuel duty increase will be staged, so that main fuel duty will increase by one penny per litre on 1 April and one penny per litre on 1 October 2010, then by 0.76 pence per litre on 1 January 2011. This will ease pressure on business and household incomes at a time when other prices are rising. Rebated oils duty will rise in proportion to main road fuel duty ... Budget 2010

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60 HC Deb 13 May 2009 c951

61 *Sixth report: Taxes and charges on road users*, 24 July 2009 HC 103 2008-09 paras 66-68

62 Two EDMs on this issue were laid at the time (EDM 1106 of 2009-10, 16 March 2010 & EDM 1152 of 2009-10, 22 March 2010).

63 HM Revenue & Customs Budget Note BN58, 24 March 2010. The delay was estimated to have a one-off cost of £550 million in 2010/11: HC 451 March 2010 p120 (Table A1 : item 11).

> also announces that fuel duty will increase by a further penny per litre in real terms in April 2014. In addition to supporting the public finances in the medium term, fuel duty increases from 2010 onwards are expected to save 1.7 MtCO2 per year by 2014-15.[64]

(When uprating road fuel duties, as well as excise duties on alcohol and tobacco, the measure of inflation used is the projected annual change in the Retail Prices Index (RPI) in the year to the third quarter, *following* the respective Budget. By contrast, the indexation of income tax allowances and thresholds has generally used the change in the RPI in the year to the September, *prior* to the respective Budget.[65])

Motoring groups generally welcomed the measure,[66] though in general reaction to the Budget focused on the prospects for the public finances as a whole, in the anticipation of the General Election some weeks ahead. In fact, the confirmation a few days later that the country would go to the polls on 6 May meant that the legislation to increase the main duty rates by 1p/litre, as with nearly all of the Finance Bill, was approved without any debate. The Bill had been published on 1 April, but with the Dissolution of the House happening on 12 April, the Government obtained cross-party consent to rush through the entire Bill in a three hour debate on 7 April.[67]

G. The Coalition Government's approach

In their 2010 General Election manifesto the Conservative Party said it would "consult on the introduction of a 'Fair Fuel Stabiliser' [which] … would cut fuel duty when oil prices rise, and vice versa … [and] ensure families, businesses and the whole British economy are less exposed to volatile oil markets, and that there is a more stable environment for low carbon investment."[68] In their manifesto the Liberal Democrats proposed "a rural fuel discount scheme which would allow a reduced rate of fuel duty to be paid in remote rural areas, as is allowed under EU law" as well as preparing for a system of road pricing to be introduced "in a second parliament." The receipts from cars paying this scheme could be used to abolish vehicle excise duty and "reduce fuel duty, helping those in rural areas who have no alternatives to road travel."[69] The Labour Party did not mention road fuel taxation in its own manifesto.

The Coalition Government's agreement made a single mention of road fuel taxation, noting the new Government would "investigate measures to help with fuel costs in remote rural areas, starting with pilot schemes," as well as working "towards the introduction of a new

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64 HC 451 March 2010 para 7.39

65 HC 451 March 2010 para A.208 pp142-3. The Coalition Government has moved to using the Consumer Prices Index (CPI) rather than RPI for many indexation purposes – though this remains the default assumption for uprating excise duties, including road fuels (HM Treasury, *Budget 2013 policy costings*, March 2013 pp53-6).

66 ""Motorists applaud fuel duty rise delay", *Financial Times*, 25 March 2010

67 HC Deb 7 April 2010 cc 1058-1105. Provisions relating to fuel duty are in ss12 & 13 of the *Finance Act 2010*.

68 Conservative Party, *2010 Election manifesto: Invitation to join the Government of Britain*, April 2010 p24

69 Liberal Democrats, *Liberal Democrat Manifesto 2010*, April 2010 p80

system of HGV road user charging to ensure a fairer arrangement for UK hauliers."[70] In its first Budget in June 2010, the Government reiterated this pledge, and went on to announce that it had asked the Office of Budget Responsibility (OBR) "to undertake an assessment over the summer of the effect of oil price fluctuations on the public finances" and that informed by this assessment, it would "examine options for the design of a fair fuel stabiliser."[71]

In September 2010 the OBR published its report, in which it argued that far from creating a 'windfall' for the Exchequer, a permanent increase in oil prices would have a *negative* impact on the public finances after a year, as "the detrimental effect on receipts from lower output more than offsets the boost to UK oil and gas revenues." Although higher oils prices boosted revenues from North Sea oil taxation and corporation tax, there would be "a number of offsetting effects on the public finances":

- higher pump prices will reduce the demand for fuel, lowering fuel duty receipts;
- temporarily higher inflation will push up the indexation of tax thresholds, benefits, public service pensions and index-linked gilts; and
- higher oil prices are likely to reduce real household income and the supply potential of the economy, with detrimental effects on receipts from labour and capital income as well as from consumer spending.[72]

The report compared the impact of oil prices rising by £10 a barrel, first for just one year, and then permanently:

Table 1: Overall Effect on the Public Finances of a temporary £10 increase in the oil price[1] (£ billion)

	Year 1	Year 2	Year 3	Year 4
UK Oil and Gas Revenues	2.4	0	0	0
Other Effects[2]	-0.6	0.4	0	0
Economy Effects	-1.7	-1.1	0	0
Overall Effect	0.1	-0.7	0	0

1 An improvement in the public finances is shown as positive
2 Includes effect on fuel duty, VAT and from indexation effects

Table 2: Overall Effect on the Public Finances of a permanent £10 increase in the oil price[1] (£ billion)

	Year 1	Year 2	Year 3	Year 4
UK Oil and Gas Revenues	2.4	2.4	2.4	2.4
Other Effects[2]	-0.6	-0.2	-0.1	-0.1
Economy Effects	-1.7	-3.5	-4.1	-4.5
Overall Effect	0.1	-1.3	-1.7	-2.2
Potential Range	1.2 to –0.7	0.1 to –2.5	-0.9 to –3.1	-1.5 to –3.5

1 An improvement in the public finances is shown as positive
2 Includes effect on fuel duty, VAT and from indexation effects

[70] HM Government, *The Coalition: our programme for government*, May 2010 p18, p31. For details on the Government's proposals on road user charging see, *Roads: lorry road user charging*, Library standard note SN/BT/588, 6 September 2010.

[71] HC 61, June 2010 paras 1.122, 1.121

[72] OBR, *Assessment of the Effect of Oil Price Fluctuations on the Public Finances*, 14 September 2010 (Executive summary)

If the £10 rise was fully passed through, pump prices could rise by 7.4p a litre; offsetting this would cost around £3.7 billion – which would be £1.3 billion *more* than the consequential rise in oil and gas revenues. In addition, designing a fair fuel stabiliser would require the Government to distinguish between 'temporary' and 'permanent' changes in oil prices, though this would be highly subjective:

> It is extremely difficult to identify in real time whether movements in the oil price are temporary or are likely to persist beyond the near term. This is particularly the case given that oil prices have shown substantial volatility both within years and between years, with oil prices ranging from $40 to $140 a barrel over the last three years.[73]

In an interview with the *Financial Times* in January 2011 the chairman of the OBR, Robert Chote, noted that this analysis "suggested that a fair fuel stabiliser would be likely to make the public finances less stable rather than more stable … even if higher oil prices did boost the public finances, there would still be the practical problem of deciding at what price you wanted to start increasing or reducing fuel duty."[74]

In their Green Budget published in February 2011, the Institute for Fiscal Studies noted that "high fuel taxes in themselves help stabilise pump prices of fuel … [as] the cost of oil acquired by refineries is such a small fraction of the final pump price." The authors acknowledged that a fair fuel stabiliser could stabilise household finances, but raised practical concerns similar to those mentioned by Mr Chote:

> Trends in oil prices can be hard to forecast accurately and are probably not stable over time. For example, the large spike in prices in 2008 appears to have been temporary, though it may not have been obviously so at the time. If the government gets the trend wrong, or fails to adjust to a new trend, fuel taxes could rise or fall significantly before the 'mistake' is realised. This might then require big sudden policy adjustments, which would undermine claims to greater stability.[75]

As a wider campaign for a freeze in petrol duty gathered momentum,[76] the IFS noted the significant costs to removing the duty escalator:

> Fuel duties are set to rise by one penny *above inflation* each April up to 2014-15 as part of a duty escalator introduced by Labour in the 2009 Budget ... Even with no real increase, duties would rise by just over 2p/litre to reflect inflation (the inflation rate used is the expected RPI in the third quarter following the Budget, currently forecast at 3.5% by the … OBR). Cancelling the one penny real increase would cost about £500 million. Freezing duties in cash terms would cost just over £1.5 billion. The latter figure would be higher if inflation forecasts for the third quarter are revised upwards in the Budget (RPI inflation was 5.1% in January 2011). If oil prices remain high, future planned increases in duties would also come under pressure. Cancelling all the real rises to 2014-15 would leave revenues about £2 billion lower each year from then.

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73 *Assessment of the Effect of Oil Price Fluctuations …*, 14 September 2010 (Executive summary)

74 "Inflation no fix for deficit, says Chote", *Financial Times*, 24 January 2011

75 *The IFS Green Budget 2011*, February 2011 p264, p266

76 For example, "Do your duty", *The Sun*, 13 January 2011 & "The politics of petrol is highly inflammable", *Times*, 1 March 2011. At this time 48 Members signed an EDM arguing a fuel price stabiliser should be implemented "as soon as practically possible" (EDM 1241 of 2010-11, 10 January 2011).

> Cancelling all inflation-adjustments as well would leave revenues about £6 billion lower.[77]

The issue was often raised in the House in the weeks leading up to the Budget, though the Government said little more than it was considering the OBR's assessment and would report back "as part of the usual Budget process."[78] At an Opposition Day debate on fuel costs on 7 February the Exchequer Secretary David Gauke noted the OBR's work on the impact of rising oil prices on the Exchequer: "the reality, as set out by the OBR, is that there is no sudden windfall for the Exchequer as a consequence of higher oil prices. None the less, we recognise the strains that this situation causes and we continue to examine a range of options, including the fair fuel stabiliser."[79]

For its part the Labour Party argued that in response to rising oil prices, the Government should cut the rate of VAT on road fuel to 17.5%.[80] Angela Eagle set out the party's case in a debate on fuel prices on 16 March: "the Conservative Government's 2.5% increase in VAT has added nearly 3p to the cost of a litre of petrol when people are least able to absorb that extra cost … The Chancellor should take immediate action on fuel prices to ease the cost of living crisis in Britain. He does not even have to wait until the Budget."[81] At present doing this would be contrary to EU VAT law, which limits the discretion of all Member States to set VAT rates: there is no dispensation to have two standard rates of VAT on different groups of goods and services, and although Member States may apply a reduced VAT rate – anywhere between 5 and 15% - on certain supplies, road fuel is not on this list, as the then Economic Secretary to the Treasury, Justine Greening said on this occasion:

> The EU directive on VAT states: "Member States may apply either one or two reduced rates...The reduced rates shall apply only to supplies of goods or services in the categories set out in Annex III." That annex does not include road fuel, and other amending articles do not permit a reduced rate or exemption to be applied to transport fuel. That in is European Council directive 2006/112/EC of 28 November 2006 on the common system of value added tax, at article 98 and annex III.[82]

In response the Shadow Chancellor, Ed Balls, noted that these rules have been changed to allow other items to attract a reduced rate – such as a change in 2009 which added restaurant meals to this list, after strong lobbying from the French Government.[83] However all EU tax law must be approved unanimously between Member States, and strong divisions between countries about worthy candidates for VAT relief, as well as concerns about undermining the tax base, has meant that agreements to amend these rules have always taken a considerable amount of time. This point was made at the close of the debate by the Exchequer Secretary, David Gauke:

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77 *Fuel duties and a fair fuel stabiliser: fuel for thought*, IFS Observations 8 March 2011

78 eg, HC Deb 17 January 2011 c573W. see also, comments by David Cameron at Prime Minister's Questions at this time (HC Deb 12 January 2011 c285) & "We must share pain with drivers on fuel costs, says Cameron", *Times*, 18 January 2011

79 HC Deb 7 February 2011 c90

80 "Balls calls for cut in fuel VAT to ease motorists' pain", *Sunday Times*, 27 February 2011

81 HC Deb 16 March 2011 c313, c317

82 HC Deb 16 March 2011 c320. More details on this legislation are given in, *VAT : European law on VAT rates*, Library standard note SN2683, 19 October 2012.

83 HC Deb 16 March 2011 c324

> It is true that a new agreement was reached in 2009 on the list of excepted activities, but that agreement took nearly seven years from start to finish. There is no guarantee of success, either. Opposition Members dismiss the European situation, but they sought derogations to achieve lower rates of VAT for listed places of worship and green energy-saving materials. They were unsuccessful, and they abided by the decision. The VAT directive currently allows derogations only on the grounds of simplification or the prevention of avoidance or abuse, so the chances of success are slim. The shadow Chancellor's position today is that we should begin a lengthy, and almost certainly unsuccessful, attempt to obtain a derogation that may result in our being able to reduce VAT on fuel in six or seven years.[84]

From this perspective the Opposition's policy may be seen less as a viable option to reduce road fuel prices in the short term, but more as a way to highlight a broader division between the parties on the use of the tax system, and a choice between tax increases affecting all consumers or all road users, and those targeted to a much smaller tax base – such as bankers' bonuses.

H. Budget 2011

In his Budget statement on 23 March the Chancellor George Osborne announced a 1p cut in the main rate of road fuel duty from Budget day, and a suspension of the previous Government's duty escalator; this would cost £1.9 billion in the coming year, and would be funded by an increase in tax on North Sea oil and gas production:

> The price of petrol has become a huge burden on families. In the last six months, the cost of filling up a family car such as a Ford Focus has increased by £10. This rise has also hit businesses hard, especially small businesses. It is important that when shocks like the steep rise in the oil price occur, a responsible Government are able to listen and respond.
>
> Let us be clear about what is within our control and what is not, so that we do not raise false hopes. British Governments are not in charge of the world's oil price, and as we have seen, events like those in the middle east can push the cost of petrol at the pump higher. But British Governments are in charge of the duty that we levy on petrol, and the previous Cabinet put in place, before they left office, a new fuel duty escalator that involved seven fuel duty increases. Three have already taken place, adding just over 3p to the price of petrol. The third step on the escalator is due to come into effect next week, and that would add almost another 5p to the price of a litre of petrol.
>
> I have made it clear that I would listen to the concerns put to me by so many people. Many have suggested that we should use the extra revenues we automatically get from the North sea. It is true that they go up when the oil price rises, but the OBR confirms that rising oil prices also cause other tax revenues across the rest of the economy to fall by a similar amount, and I am not prepared to undermine the public finances like that. Others in this House have suggested that we create a separate VAT rate for petrol. The Treasury has examined this proposal. It would not fully offset the 5p rise that is coming, and it would take six years to come into effect-and that is

[84] HC Deb 16 March 2011 c364

> because it turns out to be illegal. So I have decided to reject this approach and do something different.
>
> The North sea oil tax regime was most recently changed in 2006, when the price of oil stood at $66. It is now almost double that amount. That means that oil companies are making unexpected profits on oil prices that are far higher than those that they based their investment decisions on. Other oil-producing countries have a tax regime that automatically regulates returns when prices rise. We do not, and the North sea is too mature to introduce such a regime now. Instead, we can do something else: we can introduce a fair fuel stabiliser.
>
> From tomorrow, the supplementary charge levied on oil and gas production will increase from 20% to 32%. Even after this, profits on a barrel of oil are forecast to be higher in the next five years than in the last five years, but this will raise an additional £2 billion of revenue, and we will use the new tax money to do this: first, we will delay the inflation rise in duty planned for next week until next year and also delay the April 2012 inflation rise until the following summer; secondly, the fuel duty escalator that adds an extra penny on top of inflation every year will be cancelled-not just for this year or next year, but for the rest of this Parliament.
>
> But I do not want important investment in the North sea lost, so if the oil price sustains a fall below $75-and we will consult on the precise figure-we will reintroduce the escalator and reduce the new oil tax in proportion. That is how it will work: no escalator when the oil price is high; no extra tax on the profits of North sea oil companies if the oil price falls and stays low. That is the fair fuel stabiliser, and this is the result for Britain's hard-pressed families: I have made sure there will be no fuel duty rise this year; I have cancelled the fuel duty escalator when the oil price is high; and one final thing, as well as stopping these fuel duty rises, I am today cutting fuel duty by 1p per litre. This will take effect in petrol stations from 6 pm tonight.[85]

As a consequence of the Chancellor's announcement, the main duty rate was cut to 57.95p from Budget day. Further to this, the Government envisaged that the rate would rise by 3.02p to 60.97p from 1 January 2012, followed by an inflation-only increase set for the *following* year – 2012/13 – implemented on 1 August 2012.[86] In its impact assessment of the change, HM Revenue & Customs estimated that "a typical Ford Focus driver will be £56 better off in 2011-12 as a result of the Fuel Duty measures announced in Budget 11" though "taking account of the increase in pump prices caused by the rise in the VAT rate" the benefit would be about £26. In addition, "the average yearly fuel bill for an average haulier [will] decrease by just over £100 in 2011-12."[87]

The Budget report gave a little more detail on the Government's approach to setting duty rates should prices fall in future years:

> The Government will abolish the fuel duty escalator and replace it with a fair fuel stabiliser. When oil prices are high, as now, fuel duty will increase by inflation only. UK oil and gas production is more profitable at such times, so it is fair that companies should contribute more. The Supplementary Charge on oil and gas production will therefore increase to 32 per cent from midnight tonight …

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[85] HC Deb 23 March 2011 cc964-5

[86] As discussed below, neither of these proposed increases have been implemented.

[87] HMRC, *Fuel Duty Rates: Tax Information & Impact Note (updated version)*, 4 April 2011

> In future years, if the oil price falls below a set trigger price on a sustained basis, the Government will reduce the Supplementary Charge back towards 20 per cent on a staged and affordable basis while prices remain low. Fuel duty will increase by RPI plus 1 penny per litre in each such year. The Government believes that a trigger price of $75 per barrel would be appropriate, and will set a final level and mechanism after seeking the views of oil and gas companies, and motoring groups.
>
> As the increased rate of Supplementary Charge will only apply when prices are high, the Government will restrict tax relief for decommissioning expenditure to the 20 per cent rate to avoid incentivising accelerated decommissioning. There will be no restrictions to decommissioning relief below this level over the course of this Parliament, and the Government will work with the industry with the aim of announcing further, longer-term certainty on decommissioning at Budget 2012. Recognising the importance of continued investment in the North Sea, including in marginal gas fields, the Government will also consider with the industry the case for introducing a new category of field that would qualify for field allowance.[88]

As the BBC noted at the time, "The fall in fuel duty is not as generous as it first seems when taking into account the 2.5 percentage points increase in petrol tax that accompanied the VAT rise from 17.5% to 20% in January. And the fuel duty will continue to rise with inflation, although this year's 4p increase is now delayed until January and the next planned inflation-linked rise will be delayed until the following summer."[89] As a consequence, although the cut in duty cost a considerable amount of money, the impact would mitigated in future years; the Budget report gave estimates of the cost and yield to the duty rate changes, and those made to North Sea taxation, as follows:[90]

£ million	2011/12	2012/13	2013/14	2014/15	2015/16
Fuel duty: 1ppl reduction from 23 March 2011, removal of previously announced above-RPI increases and delay of RPI increases	-1,900	-1,600	-1,700	-2,100	-2,100
North Sea: increase in supplementary charge from 20% to 32% and restriction on decommissioning relief from 2011-12	+1,780	+2,240	+2,120	+2,090	+1,870

The cut in fuel duty was one of the main themes to the commentary on the 2011 Budget, in part because tax changes having a greater Exchequer impact had been announced some time before, either by the Coalition Government in the June 2010 Budget or its Labour predecessor.[91] Generally motorists and hauliers welcomed the change,[92] and several commentators argued that this was a politically creative solution to the practical problems posed by a duty rate stabilizer: writing in the *Times*, Anatole Kaletsky said:

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[88] HC 836 March 2011 paras 1.146, 1.48-49

[89] "Budget 2011: How the fuel duty cut is funded", *BBC News online*, 23 March 2010

[90] HC 836 March 2011 (Table 2.1: items 27 & 28)

[91] Such as the increase in NI rates and thresholds to take effect from April 2011, or the £1,000 increase in the personal allowance for 2011/12.

[92] "Motorists 'key win' as fuel duty cut", *Financial Times*, 24 March 2011

> Mr Osborne was clever to recoup the lost revenue from North Sea oil producers, which are reaping an unexpected windfall profit as a result of Middle Eastern turmoil. And he showed good economic judgment by promising that the higher fuel taxes will be automatically reinstated if and when the oil price falls back from the present $110 a barrel to below $75. Failing to make this kind of advance commitment to restoring the escalation of fuel duties once global oil markets stabilised was one of the biggest mistakes that Gordon Brown made as Chancellor, when he capitulated to fuel-tax protesters in 2000, thereby destroying one of the Treasury's most buoyant sources of revenue, as well as the Labour Government's green credentials.[93]

In their editorial the *Financial Times* observed "in future [duty rates and the supplementary charge] will sit on a sort of see-saw with one or the other kicking in as energy prices rise and fall. Like the Budget as a whole, the politics of this is perhaps more important than the economics."[94] The leader in the *Times* was more sceptical: "as things stand, the forgone revenue will be paid for by a levy on the oil companies. The potential problem is that, if oil prices do not fall, those companies may just regard it as uneconomic to continue being based in the UK and thus move abroad. How the Exchequer could get out of the scheme once it is established is far from clear."[95]

Others were more critical that the change in duty rates would not outweigh any future rise in prices; as the *Times* reported, "the euphoria of motoring organisations proved short-lived once experts have digested the small print … and realised that fuel tax would increased by 3pa litre from January 1 and a further 3p from August 2012 … "In effect it is a stabilizer on an escalator rather than a stabilizer on prices. It does not reduced prices. All it does is to reduce increases in duty," [said] Edmund King, the president of the AA."[96] There were also concerns that the cut in duty would not be entirely passed on by an equivalent cut in pump prices, despite assurances from Ministers that they would police this issue,[97] and well as over the impact that the new supplementary charge might have on future investment in North Sea oil & gas production.[98] A few weeks after the Budget the then Economic Secretary Justine Greening noted that "average fuel price data suggest that generally there has been a pass through of the 1p per litre reduction in duty on deliveries from refineries, although ongoing increases in the price of oil have also impacted pump prices."[99]

Paul Johnson, director of the Institute for Fiscal Studies, suggested that the Budget represented a short-term approach to taxing drivers:

> Easily the most expensive thing that Mr Osborne did do yesterday was to cut duties on petrol and diesel, and abolish the 1% above inflation escalator on fuel duty. The political pressures that led him to this policy are clear. At some point, though, he is going to have to offer a long-term strategy for the taxation of the motorist. He is following a path well-travelled by his predecessors by not implementing previously planned duty increases. The effect, especially as cars become more efficient, is a

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93 "A spring in Osborne's step, but growth is the worry", *Times*, 24 March 2011

94 "Editorial : Osborne looks beyond austerity to prosperity", *Financial Times*, 24 March 2011

95 "Leader : Bad Hand, Well Played", *Times*, 24 March 2011

96 "Motorists relief will be all too short with fuel rises around the next bend", *Times*, 24 March 2011

97 For example, "PM warns garages on fuel duty", *Financial Times*, 26/7 March 2011; "Pump prices show that garages have not passed on full tax cut", *Times*, 26 March 2011

98 This issue is discussed in, *Taxation of North Sea oil*, SN341, 29 July 2011.

99 HC Deb 3 May 2011 c680W

> continuing reduction in the tax per mile driven: this alone led the OBR to revise down forecast revenues from fuel duties in 2015–16 by £0.5bn compared to what they expected in November. In the long run we will have to find a sustainable way of taxing drivers, not least to reflect the costs they impose on others.[100]

Similarly in his presentation on the changes to indirect taxes in the Budget, Andrew Leicester at the IFS suggested the Government should think about longer-term reforms to motoring taxes, while that this change was "not a 'stabiliser' in any meaningful sense" as there would be no "direct link between oil price and the duty rate." That said, Mr Leicester noted that the kind of formal stabiliser muted by the Conservatives in Opposition would have been hard to implement, and had an "unclear economic rationale."[101]

Provision to set the rates of road fuel duty was made in the *Finance Bill* published after the Budget, and this was debated at the Committee stage of the Bill on 3 May. Speaking for the Opposition Kerry McCarthy MP argued that the Government should carry out a formal review of the impact that taxation was having on pump prices:

> It is important that Parliament has the opportunity to scrutinise the Government's policies on fuel taxation and their total effect on fuel prices at the pump, because the Chancellor's cut in fuel duty … is not all that it seems. In January the Government decided to increase VAT on fuel from 17.5% to 20%, even though the Prime Minister told voters just before the election that he had "no plans" to increase VAT. Without that VAT rise, petrol would be almost 3p cheaper now, swamping the 1p cut that the Bill brings in.[102]

Ms McCarthy went on to argue that it was quite feasible to obtain approval at an EU level for cutting VAT on just road fuel:

> We called on the Chancellor to scrap the hike in VAT on fuel, which would have been of genuine help to families and businesses. It could have been paid for from the £800 million more than expected that was raised from the bank levy … The UK has not applied for as many derogations as other member states. We have only one reduced rate, which is used largely for energy and energy-saving materials and a number of health products, as well as the zero rate. France, Italy and Poland have each secured three different reduced rates of VAT, in addition to a zero rate, so there is clearly scope for the UK to ask for a little more.[103]

In response the then Economic Secretary Justine Greening, argued that there was clear evidence that the Government's approach was working, while there was no precedent for achieving speedy approval for the VAT cut proposed by the Opposition:

> For motorists to realise the benefits of the cut in fuel duty, retailers need to pass it on at the forecourt. If the cut in fuel duty had been fully passed on to average pump prices, including VAT, they would have been 1.2p per litre lower. The amendment seeks a published assessment of the degree to which the cut fed through to pump

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100 Institute for Fiscal Studies, *Post Budget 2011 Briefing : the big news is the old news*, 24 March 2011 (Opening remarks by Paul Johnson, Director)

101 IFS, *Post Budget 2011 Briefing: Indirect and environmental taxes*, 24 March 2011

102 HC Deb 3 May 2011 c559

103 HC Deb 3 May 2011 c562, c564

> prices. As I said, we have already published a tax information and impact note that sets out our analysis of the impact of the cut. Following the Budget, the website petrolprices.com, which gives independent average daily prices and which the previous Government used to track prices, showed that average pump prices fell by approximately 0.8p per litre between 23 and 28 March. It can be clearly seen that the reduction in fuel duty largely fed through to prices at the pump. Therefore, prices are lower due to our actions and motorists are benefiting from the cut in duty. Let us not forget that average pump prices are approximately 6p per litre lower as a result of the cut in duty and our scrapping of the previous Government's planned escalator, which they would have gone ahead with …
>
> Of course, the Labour party has suggested that we should create a separate VAT rate for petrol. As has been pointed out even by Labour Members, that would have provided no help for hauliers, and I remind the Committee of why the Chancellor rejected the proposal. It would take six years, and it would not even be able to come into effect then, because the current EU VAT directive means that it is illegal. I do not think motorists should have to wait for six years, and the Government are not going to wait six years.[104]

At a later stage of the debate, when the House considered the increase in the supplementary charge on North Sea oil production, the Minister commented on the Government's ongoing discussions on the way the fair fuel stabilizer would work: "the Government are … seeking the views of oil companies and motoring groups about the level of the trigger price for the supplementary charge, and how the oil price for that purpose is to be determined. That informal consultation will be take place shortly, and we expect to be able to clarify the policy mechanism in the autumn."[105]

I. Recent developments

1. Duty rates

As noted at the start of this note, continued concerns about the level of fuel prices over the last two years has lead the Government on five occasions to postpone or cancel proposed duty increases, so that duty rates remain unchanged since Budget 2011.[106]

First, during 2011 the continued strength in pump prices lead to many calls for the Government to suspend the duty increases set for 2012,[107] though the Government took the position that these tax rises were a necessary part of its programme to balance the public finances.[108] However, in his Autumn Statement on 29 November the Chancellor announced that the 3p rise in duty rates set for 1 January 2012 would be deferred until August, while the

[104] HC Deb 3 May 2011 cc582-3. In the event the Opposition's amendment for a formal review of policy in this area was negatived by 277 votes to 121. Further to this, the Minister set out the Government's position in a debate in Westminster Hall: HC Deb 13 September 2011 cc210-233WH.

[105] HC Deb 3 May 2011 cc624-5, c627

[106] For a summary of the Government's decisions to defer or cancel duty changes see, James Browne, [Autumn Statement policy measures : IFS Autumn Statement Briefing](), December 2013

[107] "Clamour for drivers to be given a reprieve on petrol duty rises", *Times*, 21 October 2011

[108] For example, the then Economic Secretary, Miss Chloe Smith, in a debate on fuel prices in mid-November 2011 (HC Deb 15 November 2011 c808).

second duty rise would be cancelled.[109] This was estimated to cost £925 million in 2012/13. The *Autumn Statement* also confirmed that the Government would publish details of the design of the fair fuel stabiliser at Budget 2012.[110]

Oil prices continued to rise in early 2012 though the Government was reported as ruling out any further changes in duty rates.[111] In his Budget speech on 21 March 2012 the Chancellor touched briefly on this issue, acknowledging that "high oil prices have put real pressure on household budgets and on businesses", but did not propose any changes:

> That is why we took action in last year's Budget to cut fuel duty so it is 6p lower than our predecessors planned. We have also scrapped the last Government's fuel duty escalator of annual above inflation rises, regardless of the oil price – and are today confirming the fair fuel stabiliser. Above inflation rises will only return if the oil price falls below £45 on a sustained basis – currently equivalent to around $75 dollars. These measures mean that this Government has eased the burden on motorists by £4.5 billion at a time when money is very short. I do not propose to make any further changes to the fuel duty plans already set out.[112]

In a written statement, the Economic Secretary gave more details of how the Government had arrived at the £45 trigger price for reinstating real-terms increases in fuel duty:

> **The Economic Secretary to the Treasury (Miss Chloe Smith):** At Budget 2011, as part of a package of measures to help motorists facing high petrol prices, the Government announced a fair fuel stabiliser (FFS) that would be funded by higher taxation of the profits from oil and gas companies when oil prices are high. As a result, the rate of supplementary charge on oil and gas production is now 32%. The Government also stated that, if the oil price falls below a set trigger price on a sustained basis, we will reduce the supplementary charge back towards 20% on a one penny per litre in each such year.
>
> The Government said at the time that it believed a trigger price of $75 per barrel would be appropriate, and that it would set a final level and mechanism after seeking the views of oil and gas companies, and motoring groups. Following this period of informal consultation, I can announce that the fair fuel stabiliser will be implemented with effect from 21 March 2012.
>
> The trigger price will be set at £45 sterling (being the rounded sterling equivalent of $75 based on the latest OBR exchange rate forecast for 2012). The trigger price will be fixed in sterling, and reviewed every three years. Whether the trigger price is met will be assessed annually on the first working day of February, starting in 2013. This assessment will be based on two FFS reference prices:
>
> - The average daily dollar oil price (per barrel) in the three months immediately prior to the date of assessment, converted to sterling using the average daily Bank of England exchange rate across the period.
> - The average daily dollar oil price (per barrel) in the week before the date of assessment, converted to sterling using the average daily Bank of England exchange rate across the period.

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109 HC Deb 29 November 2011 c810. The inflation-only increase set for 1 August 2012 had been expected to be worth 1.92ppl (*Autumn Statement* Cm 8231 November 2011 p41).

110 Cm 8231 November 2011 p46 (Table 2.1 – item 7), p41

111 "Osborne rules out cuts to fuel duty", *Financial Times*, 25 February 2012; HC Deb 12 March 2012 c84W

112 HC Deb 21 March 2012 c803

> Each FFS reference price will be calculated using the North sea average reference value as established in the Oil Taxation (Market Value of Oil) Regulations 2005 (SI2006\3313).
>
> Both reference prices are required to be met for the trigger price to be met. Thus, under the current tax regime (i.e. with the supplementary charge at 32%), if at the assessment date either of the two FFS reference prices is £45 or above, the trigger price has not been met and supplementary charge will continue to be levied at 32%. If both reference prices are below £45, the trigger price is met.
>
> If oil prices were at a level where the trigger price had previously been met and supplementary charge were being levied at a lower rate, both the FFS reference prices would need to rise to £45 or above for the trigger price to be met again.
>
> Any changes to the rate of supplementary charge and fuel duty that result from the trigger price being met will be announced at Budget in the year in question.[113]

There was very little comment on this aspect of the Budget – commentators focusing on changes to the personal tax system and the prospects for the economy as a whole. Similarly little mention was made of fuel duty in the Budget debates in the House, though several Members contrasted the Government's priorities – in announcing a 5p cut in the 50p additional rate of income tax – with its decision not to make any changes to fuel duty. For example, in his speech the Shadow Chancellor, Ed Balls, suggested that "the money [to fund the cut in the additional rate] could have been used to cut fuel duty or reverse perverse cuts to tax credits … instead, the Chancellor chose to cut taxes for the 300,000 top rate taxpayers."[114] In response to this point the Secretary of State, Vince Cable, argued that it was disingenuous to suggest these changes could be easily funded at the present time: "[The Opposition] have been promising to get rid of the fuel duty changes, child benefit changes, child tax credit changes and the changes to public sector pay. I think the total volume of commitments is something in the order of £30 billion. Before we proceed any further with a debate on the Budget, we need to have absolute clarity about which of those measures the Opposition are committed to and to which they are not—and if they are committed, we need to know what else they are going to cut to make way for them."[115]

At the time of the Budget the Fair Fuel UK campaign – which has campaigned for a cut in fuel duties – published research it had commissioned from the Centre for Economics & Business Research. The analysis suggested that a 2.5% cut in the duty rate would actually be *revenue-neutral*, as the consequential cut in prices for both households and producers would stimulate demand and create 175,000 jobs.[116] During the year the work was cited quite often campaigners made a case for the 3p rise set for August 2012 to be scrapped.[117]

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[113] HC Deb 21 March 2012 cc 57-8WS

[114] HC Deb 22 March 2012 c960

[115] HC Deb 22 March 2012 c969

[116] CEBR, *The impact on the UK economy of a reduction in fuel duty - report for Fair Fuel UK*, March 2012. Details are given on the campaign's site at: http://www.fairfueluk.com/cebr.html

[117] "Sainsbury's boss plead for leniency on fuel tax", *Times*, 15 June 2012. The Shadow Chancellor, Ed Balls, made the case for cancelling the duty rise "at least until next January" in an opinion piece for the *Sun*: "My view", 26 June 2012.

However, Ministers have raised concerns about the strength of the analysis, and whether, given the Exchequer impact of cutting duties in the short-term, this would be an affordable risk to take with the public finances. First, in answer to PQs, the Government has noted that cancelling the 3p rise would initially reduce tax receipts by up to £1.5 billion in a year:[118]

> **Mr Cox:** To ask the Chancellor of the Exchequer (1) what assessment his Department has made of the potential effect on other forms of HM Revenue and Customs revenue of the planned three pence fuel duty rise; (2) whether his Department has made an estimate of future revenue from fuel duty if the planned fuel duty rise of three pence is not implemented; (3) what estimate his Department has made of revenue from fuel duty following the planned fuel duty rise of three pence.
>
> **Miss Chloe Smith:** The Chancellor of the Exchequer, my right hon. Friend the Member for Tatton (Mr Osborne), routinely considers the fiscal implications of tax policy options as part of the annual Budget process.
>
> Fuel price effects on inflation, the economy and employment, and therefore effects on other forms of HM Revenue and Customs revenues, are assessed by the Office of Budget Responsibility as part of its economic and fiscal forecasts. The OBR reported in September 2010 that changing fuel duty by 1 pence per litre has a total effect on the public finances of around £500 million.
>
> Based on the "direct effects of illustrative tax changes" table published on HM Revenue and Customs' website, the effect on fuel duty receipts of a 3.02 ppl change in fuel duty is approximately £1.35 billion per year.
>
> The estimate of future revenues including the effect of the planned rise in fuel duty rise of 3.02 ppl has been published as part of the Office of Budget Responsibility's "Economic and Fiscal Outlook" in March 2012, in table 4.7:

Fuel duty receipts

	£ billion
2012-13	27.3
2013-14	28.1
2014-15	28.9
2015-16	30.1
2016-17	31.3

Second, in a debate in Westminster Hall in May 2012, the Economic Secretary noted that one of the assumptions made by the CEBR was that a cut in duty rates would feed through directly into a reduction in pump prices paid by consumers and businesses:

> Calls for the August increase to be scrapped raise an important question, because we would need to consider how to replace the £1.5 billion it would cost. That money would need to come from higher taxes or lower spending elsewhere.
>
> The Centre for Economics and Business Research report that has been cited today has a couple of weaknesses. Its analysis is not straightforward. For example, it makes no mention of the relationship between oil prices and pump prices. It does not recognise the range of factors that go into pump prices. As such, its proposed fuel

[118] HC Deb 26 June 2012 cc245-6W; see also, OBR, *Assessment of the Effect of Oil Price Fluctuations on the Public Finances*, 14 September 2010

> duty cuts could be totally offset by increased oil prices, which means that there may not be any reallocation of spending elsewhere in the economy. It is important to place that point about this frequently cited report on the record. We really need to consider the volatility of global oil prices. Any Government action would have to be taken against that backdrop. It is not certain that cutting fuel duty would have a positive effect on families or businesses.
>
> Instead, the Government have taken action to help in areas in which we can be sure of a positive impact: supporting businesses through cuts in corporation tax and helping families through increases in the personal allowance threshold, which means pounds back in the pocket.[119]

Despite these concerns, at Treasury Questions on 26 June 2012 the Chancellor announced another freeze in duty rates: the 3p rise would now take place on 1 January 2013:

> Rising global prices have increased the cost of living for families here in Britain. This coalition Government will do everything we can to help. We have already frozen council tax, kept mortgage bills low and abolished the fuel duty escalator. I can tell people that we will now stop any rise in fuel duty this August and freeze it for the rest of the year. This means that fuel duty will be 10p a litre lower than planned by the last Labour Government. We are on the side of working families and businesses, and this will fuel our recovery at this very difficult economic time for the world. The one-off cost of this change will be fully paid for by the larger than forecast savings in departmental budgets, and we will set out details of those, as usual, in the autumn statement.[120]

The one-off cost of this change was estimated to be £550m.[121] Provision for this was made by a new clause adopted at the report stage of the *Finance Bill* on 2 July 2012.[122]

Unsurprisingly motoring organisations generally welcomed the decision.[123] There were mixed reactions in the press – as commentators chose to focus either on the benefits to road users from the tax cut or on the extra funding requirement this decision placed on the Government. An editorial in the *Daily Telegraph* suggested, "since it made no sense to load extra charges on to hard-pressed households and businesses, Mr Osborne should be congratulated for listening, rather than castigated for another Budget U-turn."[124] By contrast a leading article in the *Times* argued the decision "hardly inspires confidence in the Government's ability to stand by the hard decisions needed to restore the public finances."[125]

To those that have followed the debate on taxing fuel duty over the last decade, this focus on the short term – and an annual cycle of proposed duty rises, public disquiet over pump prices, and duty rate freezes – will be very familiar. As noted above, after the 2011 Budget the director of the IFS, Paul Johnson, argued that "at some point … [the Chancellor] is going

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[119] HC Deb 23 May 2012 cc142-3WH. See also, HC Deb 13 June 2012 c475W

[120] HC Deb 26 June 2012 c146

[121] HM Treasury press notice 52/12, *Chancellor announces support for motorists*, 26 June 2012; see also, "Government cancels planned 3p fuel duty increase", *BBC News online*, 26 June 2012

[122] HC Deb 2 July 2012 cc633-650. Section 20 of *Finance Act 2011* sets the rates of duty that initially were to apply from 1 January 2012. This rise was deferred to 1 August 2102 by Order (SI 2011/2904). In turn section 188 of *Finance Act 2012* defers it until 1 January 2013.

[123] "Osborne delays 3p fuel duty rise", *Financial Times*, 27 June 2012

[124] "Editorial: Duty freeze", *Daily Telegraph*, 27 June 2012

[125] "Leader: Fuelling the deficit", *Times*, 27 June 2012

to have to offer a long-term strategy for the taxation of the motorist." In particular, Mr Johnson noted the trend of a continuing reduction in the tax per mile driven, due to the equivalent rise in the fuel efficiency of motor vehicles.[126]

In July 2011 the Office for Budget Responsibility published a report looking at longer-term trends in public spending and taxation, and as part of this, suggested that receipts from both fuel duty and Vehicle Excise Duty (VED) might not be sustainable in the medium-term. On the basis of a number of assumptions – including the annual revalorisation of duty rates, and improvements in fuel efficiency as anticipated by EU targets and the Committee on Climate Change – the OBR estimated that receipts could fall from 2010 to 2030 from 1.8% of GDP to around 1.0%.[127] In May 2012 the Institute for Fiscal Studies published a report on motoring taxation commissioned by the RAC which argued for a major reform of these taxes, noting that the OBR's projections for fuel duty receipts might be *optimistic*: "if oil prices remain high, there will undoubtedly be resumed pressure on the Chancellor to cancel future fuel duty increases, as happened in the 2011 Autumn Statement, whereas the OBR figures assume duty rises in line with inflation each year."[128] The authors propose that it would be infeasible to rely on rising duty rates to meet this funding shortfall:

> Fuel duties and Vehicle Excise Duty (VED) raise around £38 billion per year ... Forecasts from the Office for Budget Responsibility suggest that by 2029/30, revenues from these taxes will be some 0.9% of national income lower than today. This equates to more than £13 billion per year in current terms. This decline is partly down to improved vehicle efficiency and the growth of electric vehicles ...
>
> How could this revenue be replaced? £13 billion is approximately equivalent to a 3½p increase in the basic rate of income tax, an increase in the main rate of VAT to almost 23%, or a 50% rise in rates of fuel duties. None of these options are particularly palatable, and there is little sense in ever higher fuel duty rates for the shrinking base of motorists relying on conventional fuel. Indeed, the difficulty of sustaining revenues through further duty rises has already been demonstrated by the consistency with which both this government and its predecessor have announced, and then failed to implement, duty increases. From their peak in March 1999, real (inflation adjusted) fuel duty rates were 16% lower by December 2010. Real fuel duty per kilometre driven fell by 13% between 2000 and 2010, from 6.3p to 5.5p.[129]

By contrast, road use could provide a more sustainable base, and, in their view, the economic rationale for road pricing was 'compelling':

> Road use generates costs which are borne by wider society instead of the motorist. These 'externalities' mean that in the absence of taxation or pricing, there is an inefficiently high level of road use. Taxes can help bring private demands into line with the socially desirable level. Several different externalities are associated with

[126] Institute for Fiscal Studies, *Post Budget 2011 Briefing : Opening remarks*, 24 March 2011

[127] *Fiscal Sustainability Report*, July 2011 pp95-6

[128] Paul Johnson, Andrew Leicester and George Stoye, *Fuel for Thought: The what, why and how of motoring taxation*, Institute for Fiscal Studies/ RAC Foundation, May 2012 px. See also, "Green cars to drive down tax receipts", *Financial Times*, 15 May 2012. The authors' predictions as to public pressure over pump prices proved correct, as reported in the days running up to the Autumn Statement: "Chancellor fears Tory revolt over fuel duty", *Financial Times*, 10 November 2012. At this time the Opposition argued that duties should be frozen at least until April 2013 (for example in an Opposition day debate: HC Deb 12 November 2012 c89).

[129] Johnson, Leicester & Stoye, "The road ahead for motoring taxes", *IFS Observations*, 15 May 2012

> motoring. Some, like carbon emissions from burning petrol and diesel, are easily addressed through fuel duties as the costs depend entirely on fuel use. Others, notably congestion but also the costs of noise and accidents, vary enormously according to where and when someone drives. Driving in rural areas late at night imposes no congestion cost upon other motorists. Driving in conurbations at rush hour generates large congestion costs. Taxes on fuel cannot vary according to time and location, and so are fundamentally unable to account for this variation. Taxes on road use, however, would be able to do so.[130]

Indeed, in his Autumn Statement on 5 December 2012 Mr Osborne decided to freeze duty rates for at least another eight months – postponing the rate rise set for January 2013:

> In dealing with the deficit, we have had to save money. However, whenever we have been able to help, we have … We have also helped motorists with the cost of petrol. We have cancelled the last Government's escalator, and I am moving inflation-only rises to September. Fuel is 10p per litre cheaper than it would have been if we had stuck to Labour's tax plans, and I want to keep it that way, as I know do my colleagues, like my hon. Friend the Member for Harlow (Robert Halfon). There is a 3p per litre rise planned for this January.
>
> Now, some have suggested that we delay it until April. I disagree. I suggest we cancel it altogether. There will be no 3p fuel tax rise this January. That is real help with the cost of living for families as they fill up their cars across the country, and it will help businesses, too. It means that, under this Government, we will have had no increase in petrol taxes for nearly two and a half years. In fact, they have been cut.[131]

This measure was expected to cost £890m in 2012/13, rising to £1.64bn in 2013/14.[132]

In his presentation on the Statement the director of the IFS, Paul Johnson, argued "this is no way to make policy":

> [Further to the Chancellor's announcement of a higher personal tax allowance for 2013/14] the other significant tax cut was the announcement that the 3p increase in fuel duty due in January will not be implemented.
>
> In case you weren't paying attention that is the 3p increase which was originally the inflation uprating due in April 2011, which was delayed in Budget 2011 to January 2012; then in Autumn Statement 2011 it was delayed to August 2012. In June 2012 it was delayed to January 2013. Then finally laid to rest yesterday. This is no way to make policy. More importantly the gap left by a seeming inability to keep the level of taxes on motorists even constant in real terms is of mounting fiscal concern.[133]

The Treasury Committee have also been critical of the Government's approach; in their report on the Autumn Statement, they suggest that recent Government policy "has failed to

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[130] *ibid.* See also, "Treasury shortfall provides fuel for thought", *Transport Times*, June 2012 p3

[131] HC Deb 5 December 2012 cc881-2

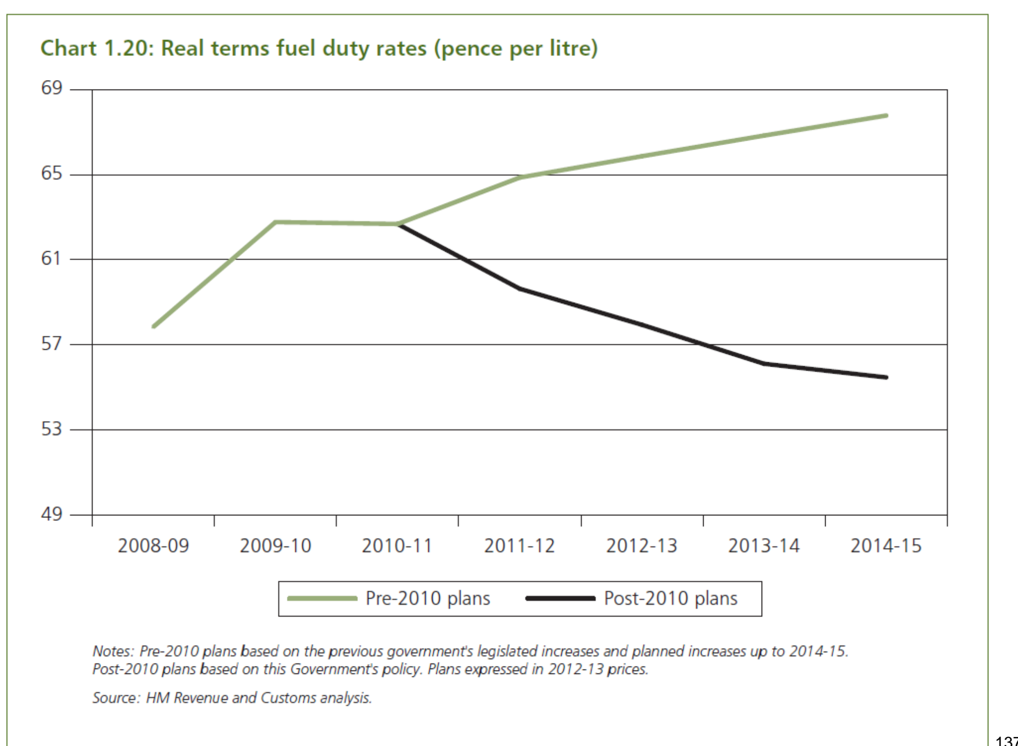
[132] Cm 8480 December 2012 (Table 2.1 – item 17). The *Statement* gives figures for the financial benefit of this measure for motorists (p48). Provision to defer the duty rise on an interim basis was made by Order (SI 2012/3055).

[133] Paul Johnson, *Autumn Statement 2012: introductory remarks*, IFS 6 December 2012 p8; see also, Stuart Adam, *Autumn Statement 2012: Personal taxes and benefits*, IFS 6 December 2012

provide either the certainty or the stability that are the hallmarks of good tax policy. *The Chancellor must use the 2013 Budget to set out a clearer strategy for fuel duty over at least the medium term.*"[134]

Nevertheless, in his 2013 Budget the Chancellor announced another freeze in the duty rate, "cancelling this September's fuel duty increase altogether".[135] The Budget report quantified the impact of this policy for motorists, and charted the difference between current duty rates, and the level of fuel duties had the duty escalator been retained:

> In total, the Government's actions on fuel duty will have eased the burden on motorists by £21.5 billion over the Parliament to 2015-16. From April 2013, pump prices will be 13 pence per litre (ppl) lower than under the previous government's plans, and are forecast to be 18 ppl lower by the end of the Parliament. This means that it will cost the typical motorist £7 less to fill up their tank every time they visit the pump from April, and £10 less by the end of the Parliament. In addition, a small business could have saved £340 in total over the last two years and will continue to save at least £340 a year.[136]
>
> As a direct result of this Government's actions, fuel duty is forecast to fall over this Parliament by 11 per cent in real terms. Had the Government implemented the fuel duty escalator, rates would have increased by 7 per cent as Chart 1.20 shows.



[137]

[134] *Seventh report of Session 2012-13*, HC 818, 29 January 2013 pp38-9

[135] HC Deb 20 March 2013 c943. Under indexation the duty rate was scheduled to go up by 1.89p.

[136] Pump price and total saving for a private motorist driving a typical family car and business motorist driving a typical van by May 2015 assumes that fuel duty increases by RPI in September 2014. The final fuel duty rate will be confirmed in Budget 2014 according to the FFS.

[137] HC 1033, March 2013 pp53-4

The cost of cancelling this duty rate rise was estimated to be £810m for 2014/15.[138]

In his response to the Committee's report on the 2012 Autumn Statement, the Chancellor had argued that it was important that "the Government retains the flexibility to target tax support where it can be most effective in combating the pressures faced by households and businesses at any particular time." The Committee took the view that "some flexibility" was sensible, but that the Chancellor "should, as far as reasonably possible, set out his strategy for fuel duty over a rolling-five year period."[139] In turn the Government responded by noting by retaining "the flexibility to respond to economic circumstances to support households and businesses with the high cost of fuel", it had eased "the burden on motorists by £21.5 billion over the Parliament to 2015-16."[140]

In general commentators focused on other measures in the Budget and the prospects for the economy as a whole, though the decision to cancel the rise in fuel duty was welcomed by motoring organisations.[141]

In an editorial on the Budget, the *Times* noted that the duty freeze, along with a cut in the duty rate on beer, meant the Budget "has a more populist touch than its predecessors", though the main theme to the leader was that economic recovery would depend "on unprecedented monetary activism and the confidence of business."[142] Similarly in the *Financial* Times Martin Wolf argued that the politics behind the Budget "look shrewd" as within tight constraints on public finances, Mr Osborne had provided favours to "three core constituencies": business, through another cut in corporation tax; the Liberal Democrats, by a further increase to the personal allowance; and, by cuts in duty rates and new support for homebuyers, a cohort of the electorate that Mr Wolf characterised as 'aspiring' working and middle classes cultivated by Margaret Thatcher in the 1980s. However, "the economics are vastly more problematic … the Chancellor cannot disguise the brutal fact that outcomes for economic activity and public finances are slipping still further from the expectations with which he launched the Government's programme in the emergency Budget of June 2010."[143]

Subsequently the Chancellor announced at the Conservative Party Conference in September 2013 that "provided we can find the savings to pay for it, I want to freeze fuel duty for the rest of this Parliament."[144] The Chancellor presented his Autumn Statement to the House on 5 December, and, as widely expected, Mr Osborne confirmed that duty rates would be frozen for one more year:

> We inherited from the previous Government the hated fuel duty escalator that would have inflicted hardship on families and small firms alike. Instead of those rises, we abolished the escalator, and we have cut and then frozen fuel duty. I have had further representations from many, many hon. Friends … Today I can report that because

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[138] op.cit. p65 (Table 2.1 – item 43)

[139] *Ninth report of Session 2012-13*, HC 1063, 20 April 2013 paras 123-5

[140] *Second special report of Session 2013-14*, HC 370, 11 July 2013 pp6-7

[141] For example, "Drivers reprieved as fuel duty freeze extended", *Financial Times*, 21 March 2013; "Fuel duty – lobbyists drive change of heart over petrol price increases", *Guardian*, 21 March 2013

[142] "Leader: The politics of growth", *Times*, 21 March 2013

[143] "Shrewd on the politics but dismal economics", *Financial Times*, 21 March 2013

[144] "George Osborne's conference speech in full", Politics.co.uk, 30 September 2013. See also, HC Deb 5 November 2011 c101

> we have taken difficult decisions to control the public finances, I can deliver on that promise. Next year's fuel duty rise will be cancelled. Instead of petrol taxes going up by 2p a litre, they will stay frozen. That means that, compared with the previous Government's plans, petrol will be 20p a litre less. That is £11 less every time you fill up—a saving for drivers over this Parliament of £680, and double that for a small business with a van.[145]

In turn the Government revised its estimates of the impact of its approach:

> As a direct result of government action, fuel duty in real terms is forecast to fall over this Parliament by 14% … Furthermore, average pump prices are 13ppl lower than if the government had implemented the fuel duty escalator, and will be 20ppl lower by the end of the Parliament. This means that it currently costs the typical motorist £7 less to fill up their tank, and will cost £11 less by the end of the Parliament. In total, the government will have eased the burden on motorists by £22.5 billion over this Parliament. This equates to a saving of £680 for a typical motorist, £1,300 for a small business with a van, and £21,000 for a haulier by 2015-16.[146]

The cost of this last duty rate freeze is estimated to cost £710m in 2015/16.[147]

In its briefing on the Autumn Statement, the IFS summarised the Government's deferrals and cancellations of rate increases since the 2011 Budget:[148]

Dates uprating due before Budget 2011	Budget 2011	AS 2011	June 2012	AS 2012	Budget 2013	AS 2013
Apr 2011	Jan 2012	Aug 2012	Jan 2013	Cancelled	Cancelled	Cancelled
Apr 2012	Aug 2012	Cancelled	Cancelled	Cancelled	Cancelled	Cancelled
Apr 2013	Apr 2013	Apr 2013	Apr 2013	Sep 2013	Cancelled	Cancelled
Apr 2014	Apr 2014	Apr 2014	Apr 2014	Sep 2014	Sep 2014	Cancelled
Apr 2015	Apr 2015	Apr 2015	Apr 2015	Sep 2015	Sep 2015	Sep 2015
Apr 2016	Apr 2016	Apr 2016	Apr 2016	Apr 2016	Apr 2016	Apr 2016

145 HC Deb 5 December 2013 c1112
146 *Autumn Statement*, Cm 8747, December 2013 paras 1.266-7
147 Cm 8747, December 2013 p78 (Table 2.1 – item 5)
148 James Browne, *Autumn Statement policy measures : IFS Autumn Statement Briefing*, December 2013

All told, the Government's decision to suspend the duty escalator has meant Exchequer receipts from this tax are £6 billion less than they would have been – as the director of the IFS Paul Johnson noted in his presentation on the Chancellor's statement:

> In terms of cost to the Exchequer the freezing fuel duties for yet another year is actually slightly more significant than the new marriage allowance [which the Chancellor confirmed would come in from April 2015, and is estimated to cost about £500m in 2015/16]. Put this year's freeze alongside the previous freezes under this government and the Treasury will be foregoing a pretty significant £6 billion in revenue every year from the end of this parliament. That's a big statement of priority at any time, even more so in this time of ultra tight budgets. The long term future of this very important revenue source is in serious doubt.[149]

2. Rural fuel duty rebate

As noted above, in its June 2010 Budget the Government had stated it would investigate measures to help with fuel costs in remote rural areas, and in October 2010 the Chief Secretary to the Treasury, Danny Alexander, confirmed the Government's aim to, "to introduce a pilot scheme that will deliver a maximum of 5 pence per litre duty discount on petrol and diesel in the Inner and Outer Hebrides, the Northern Isles, and the Isles of Scilly", and that the Treasury would "take forward informal talks with the European Commission on implementation and design of the scheme with a view to submitting a formal application in due course."[150] In the 2011 Budget report the Government confirmed it had made a formal application,[151] and the Commission gave its approval to the scheme in September.[152]

Details of how the scheme would work were given in the Commission's summary of the UK's application:

> Article 19(1) of the Directive envisages that the Council, acting unanimously on a proposal from the Commission, may authorise any Member State to introduce further exemptions or reductions in the level of taxation for specific policy considerations. By letter dated 23 March 2011, under Article 19 of the Directive, the UK authorities have informed the Commission that they intend to apply a reduced rate. The reduced rate of the excise duty on fuel will be GBP 0,05 (app. EUR 0,06) per litre lower than the standard rate in the UK (GBP 0,59 or app. EUR 0,68). This would mean that the reduced rate would still be far above the current EU minimum per 1000 litres of EUR 359 for unleaded petrol and EUR 330 for gas oil. The UK has requested for the reduction to be authorised for a period of six years, which is the maximum period indicated in Article 19(2) of the Directive …
>
> In the UK, excise duty on road fuels is accounted for at the point when the fuel leaves the refinery, when it is imported or when it leaves an excise warehouse. At this point it would be difficult to identify the amount of fuel destined for eligible regions. Therefore, the relief will be given at the point of sale on the eligible islands, thus avoiding any risk arising from diversion of reduced rate fuel. Fuel retailers on the islands would be

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149 Paul Johnson, *Opening Remarks : IFS Autumn Statement presentations*, December 2013

150 HM Treasury press notice 50/10, 9 October 2010

151 HC 836 March 2011 para 1.150. The report estimated that the scheme would cost £5m a year (*op.cit.* p42 - Table 2.1 : item 29).

152 HC Deb 24 October 2011 cc20-1W

> registered with HM Revenue and Customs (HMRC) as approved retailers and would be required to reduce the price of a litre of fuel by the amount of the duty relief. They would in turn be entitled to claim a refund of duty from HMRC, on a periodic basis, based on the litres of fuel sold.[153]

In November 2011 the Chief Secretary confirmed that as other Member States had agreed to this derogation, the scheme would be launched from March 2012:

> **The Chief Secretary to the Treasury (Danny Alexander):** I am today announcing that the Government have secured EU clearance for a rural fuel rebate pilot scheme. The scheme will apply a 5p per litre discount on petrol and diesel in the Inner and Outer Hebrides, Northern Isles, the islands in the Clyde and the Isles of Scilly.
>
> The scheme will provide much-needed relief to these remote island communities. Pump prices in these areas are particularly high due to the high costs of transporting and distributing fuel. The Government intend to introduce a retailer-based scheme. Registered retailers will be required to reduce their selling prices of road diesel and petrol by 5ppl. Retailers will claim a 5ppl rebate on the fuel they purchase, by submitting a monthly claim to HMRC.
>
> To support retailers in covering the initial costs of the scheme HMRC will provide an up-front rebate. From 1 January 2012, retailers will be allowed to claim a 5ppl refund on fuel purchased in each of their first two months in the scheme without having to pass on the discount to customers. Following this, retailers will then be required to fully pass on the 5ppl discount. This design will ensure that there are no adverse cash-flow problems for the retailers and that from 1 March 2012 motorists will benefit from a 5ppl reduction in pump prices. HMRC have today published the draft legislation for the pilot scheme.[154]

Further details on the operation of the scheme were published by the department,[155] and the Government confirmed in early March 2012 that over 90 businesses in these areas had applied to take part.[156] Clearance for the scheme applies until 31 October 2017, after which the UK would need to review its approval.[157]

Subsequently the Government announced that it would consider whether to seek EU approval for extending the scope of the scheme "to other remote parts of the UK that are likely to display similar characteristics" as these islands.[158] In October 2103 the Government said it would apply to the EC so as to extend the scheme to ten towns – three in England, and seven in Scotland: namely,

- Acharacle (Scotland – Lochaber), postcode: PH36
- Achnasheen (Scotland – Ross & Cromarty), postcode: IV22
- Appin (Scotland – Argyll and Bute) postcode: PA38
- Carrbridge (Scotland - Badenoch and Strathspey), postcode: PH23

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[153] *Proposal for a Council decision … COM(2011) 532 final*, 6 September 2011 pp2-3

[154] HC Deb 25 November 2011 c37WS. See also, HM Treasury press notice 132/11, 25 November 2011. Provision for the scheme was made by Order: SI2011/2935 – approved without debate.

[155] HMRC, *Excise duty – rural fuel duty relief scheme : Brief 40/11*, 9 December 2011

[156] HC Deb 5 March 2012 c590W

[157] HC Deb 2 December 2013 c565W

[158] Cm 8480 December 2012 para 8480; HC 1033 March 2013 para 1.172-5

- Dalwhinnie (Scotland - Badenoch and Strathspey), postcode: PH19
- Gairloch (Scotland - Ross & Cromarty), postcode: IV21
- Hawes (England – North Yorkshire), postcode: DL8 3
- Kirkby-in-Furness (England – Cumbria), postcode: LA17
- Lynton (England – Devon), postcode: EX35
- Strathpeffer (Scotland - Ross & Cromarty), postcode: IV14

These candidates had been "identified in accordance with a number of strict criteria which the EC have indicated will be critical to their assessment":

> 1. Pump Price Threshold: Pump prices have to be consistently more expensive than the lowest pump price on the islands in the existing scheme, during the months examined.
> 2. Cost of Transporting Fuel: Towns have to be over 100 miles by road from the nearest refinery.
> 3. Population Density: The population density must be no higher than any area in the current scheme. The highest population density of the islands in the current scheme is 135 people per km^2.[159]

At Treasury Questions on 5 November 2013 the Chief Secretary to the Treasury told the House that "further work is needed to ensure that we have all the information that is necessary to submit the application", and that the submission would be made early in 2014.[160] The Minister has underlined that after this takes place "it could take at least six months for the UK to receive a final decision."[161] HM Revenue & Customs have published an assessment of the scheme, which suggest it has been successful at maintaining lower pump prices on the islands covered by its scope:

> Pump prices for petrol and diesel fell relative to the mainland in March 2012 as a result of the introduction of the scheme and they have remained lower in all months since. Pump prices have consistently been 5ppl lower relative to the mainland in the latest quarter of data. Over the full period since March 2012 average prices have been around 4ppl lower on the islands, though there is uncertainty around the size of the effect and the evaluation finds no conclusive evidence that the effect is less than 5ppl. Overall this indicates that the policy is meeting its objective …
>
> Difference in difference analysis finds that prices have reduced by around 4ppl on average across all the islands compared to the mainland control locations since March 2012 (3.9ppl for petrol and 4.3ppl for diesel). It is likely that this average reduction is less than 5ppl because it captures prices of retailers both in and out of the scheme, as retailers have gradually joined the pilot. Methodological uncertainty means that the average reduction in the price differential found in the data may be lower than the actual level of price reduction passed on by retailers.[162]

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[159] HM Treasury/HMRC press notice, *Ten areas in UK could get fuel duty tax cut*, 18 October 2013

[160] HC Deb 5 November 2013 c118. See also, HC Deb 21 November 2013 cc987-8W & HC Deb 10 December 2013 c114.

[161] HC Deb 17 December 2013 c557W

[162] HMRC, *Evaluating the Impact of the Rural Fuel Duty Relief: HM Revenue and Customs Working Paper 15*, October 2013 p3

J. Statistical appendix : fuel prices, duty rates & the tax burden

The following two tables show: the historical trend in pump prices and the tax burden in the UK; and, comparative figures for pump prices and the tax burden for EU Member States. Both come from *Petrol and diesel prices*, Library standard note SN4712, which gives further statistical data on oil prices, and discusses the possible reasons for the gap in prices between petrol and diesel. Duty rates since 1989 are set out in a third table, published by HMRC (*Hydrocarbon oils: Historical duty rates, reference K1*, 2012)

Table 1

Typical UK retail prices, pre-tax prices and tax take for premium unleaded petrol and diesel
pence per litre

	Premium unleaded petrol			Diesel		
	retail	pre-tax	% tax take	retail	pre-tax	% tax take
Jan 1990	38.4	15.7	*59%*	39.2	16.8	*57%*
Jan 1991	42.1	17.2	*59%*	43.3	15.8	*64%*
Jan 1992	43.4	14.6	*66%*	43.2	14.9	*66%*
Jan 1993	47.1	16.7	*65%*	47.1	17.2	*63%*
Jan 1994	50.8	14.9	*71%*	51.7	16.3	*68%*
Jan 1995	53.4	14.2	*74%*	54.1	14.8	*73%*
Jan 1996	55.9	13.3	*76%*	57.4	14.6	*75%*
Jan 1997	61.1	15.1	*75%*	62.0	15.9	*74%*
Jan 1998	63.1	13.5	*79%*	63.3	13.6	*78%*
Jan 1999	62.9	9.5	*85%*	64.0	9.4	*85%*
Jan 2000	75.4	16.9	*78%*	77.8	19.0	*76%*
Jan 2001	76.9	16.6	*78%*	81.6	20.7	*75%*
Jan 2002	69.9	13.7	*80%*	74.7	17.7	*76%*
Jan 2003	75.0	18.0	*76%*	76.4	19.2	*75%*
Jan 2004	76.2	17.8	*77%*	77.9	19.2	*75%*
Jan 2005	79.0	20.1	*75%*	84.2	24.5	*71%*
Jan 2006	88.8	28.5	*68%*	93.1	32.1	*66%*
Jan 2007	86.9	25.6	*71%*	91.4	29.5	*68%*
Jan 2008	103.7	37.9	*63%*	108.7	42.2	*61%*
Jan 2009	86.3	22.7	*74%*	98.7	33.5	*66%*
Jan 2010	111.5	38.7	*65%*	113.3	40.2	*64%*
Jan 2011	127.5	47.3	*63%*	132.1	51.1	*61%*
Jan 2012	132.9	52.8	*60%*	141.3	59.8	*58%*
Mar 2013	137.2	56.4	*59%*	144.6	62.6	*57%*
Apr 2013	136.8	56.1	*59%*	141.3	59.8	*58%*
May 2013	132.7	52.7	*60%*	138.0	57.0	*59%*
Jun 2013	134.1	53.8	*60%*	139.3	58.1	*58%*
Jul 2013	134.7	54.3	*60%*	139.6	58.4	*58%*
Aug 2013	137.1	56.3	*59%*	141.8	60.2	*58%*

Source: Quarterly energy prices, DECC Table 4.1.1

Table 2

Average Petrol[(a)] and Diesel Prices and Taxes in EU member states
02 September 2013

	Petrol				Diesel			
	Pump price	Taxes and duties		Pre-tax price	Pump price	Taxes and duties		Pre-tax price
	per litre	per litre	% of pump price	per litre	per litre	per litre	% of pump price	per litre
BEL	£1.40	£0.76	55%	£0.63	£1.24	£0.58	47%	£0.66
BGR	£1.13	£0.50	44%	£0.64	£1.15	£0.47	41%	£0.68
CYP	£1.18	£0.55	47%	£0.63	£1.20	£0.53	44%	£0.67
CZE	£1.22	£0.63	52%	£0.58	£1.21	£0.57	47%	£0.63
DNK	£1.47	£0.80	54%	£0.68	£1.31	£0.61	46%	£0.71
DEU	£1.40	£0.78	56%	£0.62	£1.24	£0.60	48%	£0.64
GRC	£1.46	£0.85	58%	£0.61	£1.19	£0.51	43%	£0.68
ESP	£1.25	£0.61	49%	£0.64	£1.17	£0.52	44%	£0.65
EST	£1.13	£0.55	48%	£0.58	£1.11	£0.52	47%	£0.60
FRA	£1.32	£0.74	56%	£0.59	£1.16	£0.56	48%	£0.60
HUN	£1.22	£0.61	50%	£0.61	£1.23	£0.58	47%	£0.65
IRL	£1.33	£0.76	57%	£0.57	£1.25	£0.66	53%	£0.59
ITA	£1.51	£0.88	58%	£0.63	£1.42	£0.77	54%	£0.65
LVA	£1.16	£0.57	49%	£0.59	£1.12	£0.49	44%	£0.63
LTU	£1.21	£0.58	48%	£0.63	£1.15	£0.48	42%	£0.67
LUX	£1.16	£0.54	47%	£0.61	£1.04	£0.42	40%	£0.62
MLT	£1.26	£0.61	48%	£0.66	£1.17	£0.52	44%	£0.65
NLD	£1.51	£0.90	60%	£0.61	£1.22	£0.59	48%	£0.63
AUT	£1.22	£0.62	51%	£0.60	£1.17	£0.54	46%	£0.63
POL	£1.12	£0.54	48%	£0.58	£1.11	£0.50	45%	£0.62
PRT	£1.37	£0.75	55%	£0.61	£1.19	£0.53	45%	£0.66
ROU	£1.12	£0.53	47%	£0.59	£1.14	£0.51	44%	£0.64
SVK	£1.28	£0.70	54%	£0.58	£1.17	£0.54	46%	£0.63
SVN	£1.27	£0.70	55%	£0.56	£1.18	£0.59	50%	£0.59
FIN	£1.41	£0.80	57%	£0.61	£1.28	£0.64	50%	£0.64
SWE	£1.46	£0.84	58%	£0.62	£1.43	£0.76	53%	£0.67
GBR	£1.37	£0.81	59%	£0.56	£1.42	£0.82	57%	£0.60

Notes:
Prices converted to sterling on basis of exchange rates on date listed
Comparisons between countries require care because of differences in product quality, marketing practices, market structure sales of other types of fuel.

(a) Super unleaded petrol (Euro super 95)

Source: *EU Oil Bulletin*

Hydrocarbon Oils: Historical Duty Rates

	Petrol (pence per litre)					Diesel (pence per litre)			Biofuels (pence per litre)		Road Fuel Gases (pence per kilogram)		Rebated Oils [1] (pence per litre)							Aviation Fuel (pence per litre)	
Date of Change	Leaded Petrol and other light oils	Unleaded Petrol	Super Unleaded Petrol/ LRP [2]	Ultra Low Sulphur Petrol	Sulphur Free Petrol	Diesel	Ultra Low Sulphur Diesel	Sulphur Free Diesel	Biodiesel/ Blended	Bioethanol	Natural Gas	All Other Gases (eg LPG)	Fuel Oil	Gas Oil	Light Oil for use as furnace fuel	Kerosene for use as motor fuel off road	Biodiesel for non-road use	Biodiesel blended with gas oil	Heavy Oil other than fuel oil, gas oil or kerosene used as fuel	Aviation Turbine Fuel used for private pleasure flying	Aviation Gasoline
14.03.89	20.44	17.72				17.29							0.77	1.10	0.77						10.22
20.03.90	22.48	19.49				19.02							0.83	1.18	0.83						11.24
19.03.91	25.85	22.41				21.87							0.91	1.29	0.91						12.93
10.03.92	27.79	23.42				22.85							0.95	1.35	0.95						13.90
16.03.93	30.58	25.76				25.14							1.05	1.49	1.05						15.29
30.11.93	33.14	28.32				27.70							1.16	1.64	1.16						16.57
29.11.94	35.26	30.44				30.44						33.14 [3]	1.66	2.14	1.66						17.63
01.01.95	36.14	31.32				31.32						33.14	1.66	2.14	1.66						18.07
28.11.95	39.12	34.30				34.30						28.17	1.81	2.33	1.81						19.56
15.05.96	39.12	34.30	37.62 [4]			34.30						28.17	1.81	2.33	1.81	2.33					19.56
26.11.96	41.68	36.86	40.18			36.86						21.13	1.94	2.50	1.94	2.50					20.84
02.07.97	45.10	40.28	43.60			40.28						21.13	2.00	2.58	2.00	2.58					22.55
15.08.97	45.10	40.28	43.60			40.28	39.28 [5]					21.13	2.00	2.58	2.00	2.58					22.55
17.03.98	49.26	43.99	48.76			44.99	42.99					21.13	2.18	2.82	2.18	2.82					24.63
09.03.99	52.88	47.21	52.33			50.21	47.21					15.00	2.65	3.03	2.65	3.03					26.44
01.10.99	52.88	47.21	49.21			50.21	47.21					15.00	2.65	3.03	2.65	3.03					26.44
21.03.00	54.68	48.82	50.89			51.82	48.82					15.00	2.74	3.13	2.74	3.13					27.34
01.10.00	54.68	48.82	50.89	47.82		51.82	48.82					15.00	2.74	3.13	2.74	3.13					27.34
07.03.01	54.68	46.82	[6]	45.82		51.82	45.82					9.00	2.74	3.13	2.74	3.13					27.34
15.06.01	54.68	48.82		45.82		51.82	45.82					9.00	2.74	3.13	2.74	3.13					27.34
26.07.02	54.68	48.82		45.82		51.82	45.82		25.82 [7]			9.00	2.74	3.13	2.74	3.13					27.34
09.04.03	54.68	48.82		45.82		51.82	45.82		25.82			9.00	3.82	4.22	3.82	4.22					27.34
01.10.03	56.20	50.19		47.10	47.10	53.27	47.10	47.10	27.10			9.00	3.82	4.22	3.82	4.22					28.10
03.12.04	56.20	50.19		47.10	47.10	53.27	47.10	47.10	27.10		9.00 [8]	9.00	4.82	5.22	4.82	5.22					28.10
01.01.05	56.20	50.19		47.10	47.10	53.27	47.10	47.10	27.10	27.10	9.00	9.00	4.82	5.22	4.82	5.22					28.10
06.12.05	56.20	50.19		47.10	47.10	53.27	47.10	47.10	27.10	27.10	9.00	9.00	6.04	6.44	6.04	6.44					28.10
07.12.06	57.68	51.52		48.35	48.35	54.68	48.35	48.35	28.35	28.35	10.81	12.21	7.29	7.69	7.29	7.69					28.84
01.10.07	60.07	53.65		50.35	50.35	56.94	50.35	50.35	30.35	30.35	13.70	16.49	9.29	9.69	9.29	9.69					30.03
01.04.08		50.35 [9]				50.35 [9]											9.69	9.69			
01.11.08																			9.29 [10]	50.35 [11]	30.03 [12]
01.12.08	62.07	52.35				52.35			32.35	32.35	16.60	20.77	9.66	10.07	9.66	10.07	10.07	10.07	9.66	52.35	31.03
01.04.09	62.07	54.19				54.19			34.19	34.19	19.26	24.82	10.00	10.42	10.00	10.42	10.42	10.42	10.00	54.19	31.03
01.05.09	63.91	54.19				54.19			34.19	34.19	19.26	24.82	10.00	10.42	10.00	10.42	10.42	10.42	10.00	54.19	33.34
01.09.09	65.91	56.19				56.19			36.19	36.19	22.16	27.67	10.37	10.80	10.37	10.80	10.80	10.80	10.37	56.19	34.57
01.04.10	66.91	57.19				57.19			57.19 [13]	57.19 [13]	23.60	30.53	10.55	10.99	10.55	10.99	10.99	10.99	10.55	57.19	38.35
01.10.10	67.91	58.19				58.19			58.19	58.19	25.05	31.95	10.74	11.18	10.74	11.18	11.18	11.18	10.74	58.19	38.35
01.01.11	68.67	58.95				58.95			58.95	58.95	26.15	33.04	10.88	11.33	10.88	11.33	11.33	11.33	10.88	58.95	38.35
23.03.11	67.67	57.95				57.95			57.95	57.95	24.70	31.61	10.70	11.14	10.70	11.14	11.14	11.14	10.70	57.95	37.70

1. Kerosene and other heavy oils (including aviation kerosene and lubricating oil) have been at nil rates of duty since 1984 and 1986 respectively.
2. Lead Replacement Petrol (LRP) was introduced on 1 October 1999 and had the same rate of duty as super unleaded petrol.
3. Duty on road fuel gas was previously the same as aviation gasoline.
4. Duty on super unleaded petrol was previously at the same rate as other unleaded petrol.
5. Duty on Ultra Low Sulphur Diesel (ULSD) was previously at the same rate as other diesel fuel for road vehicles (DERV).
6. Separate rate abolished 7 March 2001. Duty charged on this fuel at the rate appropriate to unleaded petrol or ultra low sulphur petrol dependent upon the sulphur and aromatics content of the fuel.
7. Biodiesel duty rate took effect on 26 July 2002. This applied to pure biodiesel and the proportions of biodiesel blended or mixed with heavy oils.
8. With effect from 3 December 2004 the road fuel gas duty rate was separated into two categories, 'natural gas' and 'all other gases'.
9. With effect from 1 April 2008 the fuel duty rate structure was simplified to a single rate for diesel and 2 rates for petrol.
10. With effect from 1 November 2008 a new duty rate for other heavy oil (not fuel oil, gas oil or kerosene) derived from waste oils under HODA 11(1)(c) was introduced.
11. With effect from 1 November 2008 a new duty rate for aviation turbine fuel (avtur) used for private pleasure flying was introduced.
12. With effect from 1 November 2008 the link between the aviation gasoline (avgas) rate and the leaded petrol rate ended and the avgas rate became freestanding.
13. With effect from 1 April 2010 the duty differential for biofuels for road use ended (except for biodiesel made from waste cooking oil, for which a temporary relief scheme was introduced to maintain the 20ppl duty differential for a period of 2 years).

Support for biofuels continued through the Renewable Transport Fuels Obligation (RTFO).