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Taxation of road fuels

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Summary

Excise duty is charged on most hydrocarbon oils. The two main categories of road fuel – ultra-low sulphur petrol and ultra-low sulphur diesel – are charged duty at 57.95p per litre.[1] When VAT is included, tax represents 62% of the final pump price for petrol, and 61% of the final pump price for diesel (as of September 2019). Fuel duties are estimated to raise £28.2 billion in 2018/19; by comparison duties on all other excisable goods – tobacco products, beer, cider, wine and spirits – are set to raise £21.2 billion in this year.[2]

A commitment to increase the rates of excise duty in real terms each year is often termed a 'duty escalator'. Over the period 1993-1999 Conservative and Labour governments operated such a policy. By January 1999 tax on both petrol and diesel represented 85% of the final pump price. Over the 1990s, despite regular peaks and troughs, the trend in oil prices was a sustained long-term increase, and by the end of the decade government policy toward taxing road fuels had become highly unpopular. In 1999 the Labour Government suspended the duty escalator, and over the next nine years it increased road fuel duties sporadically, often deferring or cancelling proposed changes in duty rates when oil prices were relatively high.

In his 2009 Budget statement the then Chancellor Alistair Darling announced that in future years fuel duties should rise by 1p a litre above inflation,[3] and in the Budget the following March he proposed the escalator should apply at least until 2014/15; the duty rate rise 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 over the next two years for a number of factors: this increase in duty rates, 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 the first Budget of the Coalition Government 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 consider the case for a fuel 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 duty 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. Mr Osborne stated that if oil prices fell back down 'on a sustained basis', this extra supplementary charge would be removed, and the duty escalator would be re-imposed.[5]

However, for the remainder of its period in office the Coalition Government kept fuel duty rates frozen, and in its Autumn Statement in December 2014 announced that "the price based trigger point for changes to both the supplementary charge and fuel duty, set by the Fair Fuel Stabiliser in 2011, will be abolished."[6] In a review of the Government's tax policy before the 2015 General Election, the Institute for Fiscal Studies (IFS) noted that "in

1 HMRC, *Excise Duty - Hydrocarbon oils rates*, January 2014
2 OBR, *Economic and fiscal outlook*, CP 50, March 2019 (Table 4.3). The OBR collates statistics on individual taxes on its site, including figures on fuel duties.
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
6 *Autumn Statement*, Cm 8961, December 2014 para 1.127

April 2015, fuel duties will be 15% (10p per litre) lower than if the April 2010 duties had simply been uprated in line with the RPI (a £3.9 billion tax cut) and 22% (16p per litre) lower than if the Coalition had continued with the fuel duty escalator inherited from the previous government (a £6.2 billion tax cut)."[7]

Historically fuel duties have been set without any regional variation. Excise duties are harmonised across the EU, and there is dispensation for individual countries to obtain approval to set differential duty rates. In October 2010 the Government announced plans to introduce a pilot scheme, to provides a 5 pence per litre (ppl) reduction to fuel retailers in the specified rural areas.[8] Having secured clearance at the EU level, the Government introduced the Rural Fuel Duty Relief scheme in March 2012, covering the Inner and Outer Hebrides, Northern Isles, the islands in the Clyde and the Isles of Scilly.[9] With EU approval the scheme was extended to 17 other areas in May 2015.[10] It is estimated that the scheme benefits around 125,000 people living in the UK's most rural communities.[11]

The Conservative Government has continued to keep duty rates frozen, most recently in the 2018 Budget. The Budget report noted that freezing duty would save "the average driver a cumulative £1,000 by April 2020, compared with what they would have paid under the pre-2010 fuel duty escalator."[12] The Budget decision to freeze duty rates was estimated to cost £840m - £935m a year, over the next five years,[13] while the *total* annual cost of duty rate freezes since 2011/12 is now over £8 billion.[14]

Despite the Exchequer cost, this approach to taxing road fuels appears to have cross-party support, and none of the three major parties made any proposals to increase fuel duties in either the 2015 or 2017 General Elections.[15] The Institute for Fiscal Studies looked at the Government's options for taxing motoring in their Green Budget, published in October 2019; as part of this, the authors considered the distributional impact of fuel duties, finding that duties paid on households' fuel purchases (both duty and VAT) "are, on average, roughly proportional to household spending, accounting for between 2% and 3% of the non-housing budget for all income groups":

> Among car owners, fuel duties take up a larger share of poorer households' budgets. But since lower-income households are much less likely to own a car in the first place (in 2015 only half of those in the lowest income decile owned a car, compared with over 90% in the highest income decile), the average budget share across all households is broadly constant over the income distribution (though slightly lower for the poorest tenth and the richest tenth).

That said, "the burden of fuel duties varies widely within income groups":

> Right across the income distribution, around 4–5% of households find fuel duties (and VAT on the duties) consuming more than a tenth of their budget, and it is for these people that rates of fuel duties are a particularly sensitive issue …

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7 Stuart Adam & Barra Roantree, *The Coalition Government's Record on Tax: IFS Briefing Note BN167*, March 2015 p19
8 HM Treasury press notice 50/10, 9 October 2010
9 HC Deb 25 November 2011 c37WS. Provision for the scheme was made by Order (SI 2011/2935).
10 HMT press notice, Rural fuel price cut begins, 31 May 2015. Provision to amend the scope of the scheme was made by Order (SI 2015/550).
11 PQ202872, 20 December 2018. For further guidance see, HMRC, *Excise Notice 2001: Rural Fuel Duty Relief Scheme*, October 2015.
12 *Budget 2018*, HC 1629, October 2018 para 3.42
13 *op.cit.*, p36 (Table 2.1 – item 11)
14 PQ294158, 8 October 2019. The cumulative Exchequer loss from the successive fuel duty freezes from financial year 2011-12 to 2018-19 is put at around £46.2bn.
15 See, IFS, *General Election 2015: Taxes and benefits: the parties' plans*, April 2015 & *General election 2017 manifesto analysis: tax and benefit policies*, May 2017.

> A 2015 YouGov survey (YouGov / Times Red Box Survey, March 2015) found that just over half of respondents thought fuel duties were unfair; only inheritance tax received a more unfavourable response. It is particularly striking when contrasted with tobacco duties, which are highly regressive and which many economists would bracket with fuel duties as 'corrective taxes' designed to discourage harmful behaviour, but which were considered the fairest of the taxes listed.
>
> Evidently the harms that motoring causes do not make people think of fuel duties as a legitimate 'sin tax' like alcohol or tobacco duties. One reason for this may be that many people feel they have little option but to drive – it may be their only way to get to work, for example – and resent being penalised for something they can do nothing about.[16]

In July 2017 the Office for Budget Responsibility published its first *Fiscal Risks* report, to "to identify specific shocks or pressures that could push the public finances away from our latest medium-term forecast or threaten fiscal sustainability over the longer term." As part of this the OBR argued that improvements in fuel efficiency, driven by emission standards, posed a serious risk to receipts from fuel duties. The OBR modelled two scenarios: the first, that new car fuel efficiency would continue to improve in line with recent trends, reaching 95gCO_2/km in 2030 – around 73 miles per gallon; the second, consistent with recommendations by the Committee on Climate Change, that new car efficiency reached 50gCO_2/km by 2030 – around 139 miles per gallon:

> Fuel duty is forecast to raise £27.5 billion (1.4 per cent of GDP) in 2017-18 … In both scenarios, receipts continue to fall as a share of GDP beyond 2021-22. By 2030, in our less fuel-efficient scenario they fall to 1.12 per cent of GDP; in the more fuel-efficient scenario they fall to 1.00 per cent of GDP. If the Government meets the Committee on Climate Change recommendation of near-zero emissions from transport by 2050, then fuel duty receipts would tend towards zero on current policy settings.[17]

In its detailed response to the report published the following year, the Treasury simply stated, "the government recognises that these changes may impact tax revenues, but it believes fuel duty will continue to have an important role in the tax system."[18]

The OBR is required to publish a fiscal risks report every two years, and in its second report, published this July, noted nothing had 'materially changed' its view of this risk:

> Fuel consumption per adult has remained relatively flat over the past two years despite sustained growth in overall mileages. This implies that the average efficiency of the vehicle stock has continued to rise (albeit at a slower pace than over the 2000s) … Over the medium term, we are now slightly less pessimistic (from a receipts perspective) about overall consumption, although in the longer term the continued trend toward alternatively fuelled vehicles will weigh on receipts. The Government's 2017 decision to ban the sale of petrol and diesel cars by 2040 would, under a continuation of the current tax system, ultimately reduce receipts to zero.[19]

This note discusses the approach of Labour, Coalition and Conservative Governments since 2010 to taxing road fuels. Figures for the tax take since 1990, as well as duty rates over this period, are given in a statistical appendix.

Two other Library notes discuss the application of the duty escalator in the 1990s, and the Labour Government's decision to rescind it.[20]

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16 Stuart Adam and Rebekah Stroud, "A road map for motoring taxation", *IFS Green Budget 2019*, October 2019 p218, p220, pp218-9
17 OBR, *Fiscal Risks Report, Cm 9459*, July 2017 para 5.8, 5.16
18 HM Treasury, *Managing fiscal risks: government response to the 2017 Fiscal risks report*, Cm 9647 July 2018 para 4.36
19 OBR, *Fiscal Risks Report, CP 131*, July 2019 para 4.30, 4.29
20 *Taxation of road fuels: the road fuel escalator (1993-2000)*, CBP3015 & *Taxation of road fuels: policy following the 'fuel crisis' (2000-2008)*, CBP3016, 21 January 2011.

1. 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 kg, per packet).[21] 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. 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 62% of the final pump price for petrol (as of September 2019); for diesel, the percentage is 61%.[22] 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.[23]

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 exchange rates. 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.[24]

'Red diesel', diesel for agricultural use or other off-road use, is charged a rebated rate of duty, set at 11.14p per litre (the technical term for this product is gas oil). 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.[25]

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21 Tobacco products are subject to an additional ad valorem tax of 16.5% of the total retail price. A minimum excise tax is on low-price tobacco products. For more details see, IFS, *A Survey of the UK Tax System*, November 2016 pp19-20.

22 The appendix to this paper provides details on pump prices pumps and the tax burden – in the UK since 1990, and across EU Member States.

23 *Petrol and diesel prices*, Commons Briefing Paper CBP4712,18 December 2018 p14

24 *op.cit.* pp10-11 (Section 4: International comparisons)

25 A list of the 'excepted vehicles' that may use red diesel is in HMRC's guidance *Excise Notice 75: Fuel for road vehicles*, March 2019

2. Road fuel tax policy up to 2010

2.1 The end of the 'duty escalator'

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.[26]

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.[27]

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.[28]

Complaints from 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. Any real-terms rises in road fuel duties would be "an annual Budget decision" and duty rates were increased in line with inflation.[29] However, rising oil prices over the summer led to a public campaign for a cut in duty rates, while panic buying and blockades of refineries caused widespread shortages across the country by mid-September.

In his Pre-Budget statement in November 2000, the Chancellor announced that the main duty rates would be frozen until 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. Although these low sulphur alternatives were relatively new to the market, they quickly became the main categories of fuel used on the road.[30] In subsequent years, up until the 2009 Budget, the general pattern was for the Labour Government either to freeze duty rates, or to only increase them in line with inflation.

Despite the cancellation of the duty rate escalator, there continued to be public concerns over the perceived tax burden of fuel duty, specifically from the haulage sector, and from those living in rural communities, and more generally, from campaigners arguing that any

[26] *Budget 1997*, HC 85, July 1997 p37
[27] 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
[28] HM Customs & Excise, *Hydrocarbon Oils Factsheet*, December 2006 p2
[29] HC Deb 21 March 2000 c868
[30] HC Deb 7 March 2001 c303

boost in Exchequer receipts from sudden price spikes should be returned to motorists. These three debates are discussed in turn.

2.2 Hauliers & an 'essential user rebate'

Over the mid-2000s, the haulage sector lobbied consistently against the level of road fuel taxes and for compensation for UK businesses competing against their Continental rivals.[31] In 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 EU 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.[32]

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.

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.[33]

The Labour Government responded to these concerns by setting up the Haulage Industry Task Group, to look at the operating costs faced by UK

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31 For a wider review of the debate at this time see, *The Road Haulage Industry: costs & taxes*, Commons Briefing paper 08/68, 31 July 2008.

32 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).

33 *The Burns Report*, December 2005 pp47-49

and EU hauliers. 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:

> 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 … Other sectors open to international competition face large input cost differentials between countries as well …
>
> 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.[34]

The industry continued to campaign on this issue, and 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."[35] The issue was debated at the report stage of the *Finance Bill* in July that year, 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 mechanism, with potentially high costs. Also any system would create significant compliance and fraud risks.[36]

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34 HMT, *Haulage Industry Task Force: summary of evidence*, 6 December 2006 p7
35 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.
36 HC Deb 2 July 2008 cc951-2. See also, HC Deb 10 June 2009 c905W.

2.3 A duty rate discount for rural communities

In addition to the concerns of the haulage sector, over this period many commentators argued rural communities should be entitled to a duty discount. Normally excise duties are charged in a universal fashion, on all those who purchase a particular good. In the case of fuel duties, clearly this approach has distributional effects, given the greater reliance in rural areas on transport, both private and public. That noted, exemptions or reliefs tailored to specific 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 individuals and businesses based in these areas could be better targeted through the benefits system and the provision of regional aid.

The case for and against this type of duty rebate was debated at some length following the then Conservative Government's decision to increase duty rates twice in quick succession – in the Budget in November 1994, and then in January 1995, to recoup the Exchequer revenue lost from the Government being forced to cancel an increase in the VAT rate on domestic supplies of fuel and power.[37]

At this time many Members argued that people living in rural areas would be unfairly penalised by this measure, while 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.[38]

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 duty is levied when petrol and diesel 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.[39]

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[37] The then Chancellor Kenneth Clarke presented the relevant Ways and Means Resolutions for the second duty rate rise on 13 December 1994 (HC Deb cc875-93).

[38] HC Deb 23 January 1995 cc103-04

[39] HC Deb 8 June 2004 c29WH

Second, the UK would be required to obtain specific dispensation at an EU level to set a differential duty rate, on the basis of unanimous consent from Member States.[40]

Duty rates on hydrocarbon oils across all Member States are subject to certain EU-wide minimum levels, first agreed in October 1992, and taking effect from 1 January 1993, as part of a series of measures for 'fiscal harmonisation', underpinning the creation of the Single European Market. 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)](#).

Article 9 of the original rates directive (92/82/EEC) made specific provision for Portugal and Greece to charge duty below the EU minimum rates in the Azores and certain Greek islands respectively. 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). Most of these derogations have applied to oils used for particular purposes – such as for local public transport – though territorial exemptions have been agreed for the regions of Val d'Aosta and Gorizia in Italy.[41]

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,[42] 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.[43] This is discussed in more detail in section 3.4 of this paper.

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40 For example, see, Northern Ireland Affairs Committee, *Impact in Northern Ireland of Cross-Border Road Fuel Price Differentials*, HC 334, 29 July 1999 paras 50-58.

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

42 *Budget 2011*, HC 836, March 2011 para 1.150

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

2.4 A fuel duty regulator

Following the end of the duty escalator, a third issue which generated a lot of debate was the case for 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.[44] On this occasion Treasury Minister 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 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.[45]

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.[46]

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

[44] PBC (Finance Bill) 15 May 2008 cc233-248
[45] HC Deb 2 July 2008 c932
[46] HC Deb 2 July 2008 c946

> 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 …
>
> [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.[47]

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."[48] 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.
>
> 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."[49]

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[47] HC Deb 2 July 2008 cc921-2

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

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

These proposals were debated during an Opposition day debate on fuel duty on 16 July 2008, following the 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."[50]

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."[51]

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, 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.[52]

The issue was also debated in Westminster Hall in February 2010, when Treasury Minister 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.
>
> 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.[53]

50 HC Deb 16 July 2008 c322
51 HC Deb 16 July 2008 c331
52 HC Deb 16 July 2008 c339
53 HC Deb 10 February 2010 c277WH, c279WH

2.5 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.[54] 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 MtCO2 per year by 2013-14."[55]

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:

> 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.[56]

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."[57]

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.[58] 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

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[54] 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: *Budget 2009*, HC 407 April 2009 p153 (Table A1 – item 44, footnote 3).

[55] *op.cit.* para 7.51

[56] *op.cit.* p233 (para C.57)

[57] *op.cit.* p233 (para C.53)

[58] [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]

> in fuel duty and National Insurance[59] 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.[60]

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.[61]

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."[62] 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."[63]

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."[64] 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

59 [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.]

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

61 "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

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

63 *Budget 2009: Analysis from Friends of the Earth*, April 2009 p5

64 HC Deb 22 April 2009 c252

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]."[65]

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.[66]

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."[67]

Provision to set the higher rates of fuel duty from 1 September 2009 was included in the *Finance Act 2009* (section 16).[68] 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 (supported by both the SNP and the Liberal Democrats).[69] 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

65 HC Deb 23 April 2009 c463
66 HC Deb 28 April 2009 c749
67 HC Deb 22 April 2009 c313
68 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 (no.13) approved after the conclusion of the Budget debates (HC Deb 28 April 2009 cc818-822).
69 HC Deb 13 May 2009 cc905-63

> 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.[70]

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.
>
> 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].[71]

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:

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70 HC Deb 13 May 2009 c918, c921
71 HC Deb 13 May 2009 c951

> 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.[72]

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.[73] 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.[74] 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 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.[75]

(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

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72 *Taxes and charges on road users*, HC 103, 24 July 2009 paras 66-68

73 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).

74 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: *Budget 2010*, HC 451 March 2010 p120 (Table A1 : item 11).

75 *Budget 2010*, HC 451, March 2010 para 7.39

and thresholds has generally used the change in the RPI in the year to the September, *prior* to the respective Budget.[76])

Motoring groups generally welcomed the measure,[77] 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 have the Bill agreed in full in a three hour debate on 7 April.[78]

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[76] *Budget 2010*, HC451, March 2010 para A.208 pp142-3. The Coalition Government switched to using the Consumer Prices Index (CPI) for many indexation purposes, though RPI still remains the default assumption for uprating excise duties (*Budget 2018 policy costings*, October 2018, Annex A: Indexation in the public finance forecasts baseline).

[77] "Motorists applaud fuel duty rise delay", *Financial Times*, 25 March 2010

[78] HC Deb 7 April 2010 cc1058-1105. Provisions relating to fuel duty are in ss12 & 13 of the *Finance Act 2010*.

3. The Coalition Government's approach

3.1 Budget 2010 : a 'fair fuel stabilizer'

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."[79] 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." Receipts could be used to abolish vehicle excise duty and "reduce fuel duty, helping those in rural areas who have no alternatives to road travel."[80] The Labour Party did not mention road fuel taxation in its own manifesto.

On assuming office the Coalition Government published a programme for government, which stated it 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 system of HGV road user charging to ensure a fairer arrangement for UK hauliers."[81] In its first Budget in June 2010, the Government reiterated this pledge, and following a review by the Office of Budget Responsibility (OBR) of the impact of oil price fluctuations on the public finances, it would examine options for the design of a fair fuel stabiliser.[82]

In September 2010 the OBR published its review, in which it concluded 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

[79] Conservative Party, *2010 Election manifesto: Invitation to join the Government of Britain*, April 2010 p24
[80] Liberal Democrats, *Liberal Democrat Manifesto 2010*, April 2010 p80
[81] HM Government, *The Coalition: our programme for government*, May 2010 p18, p31. The Government introduced an HGV road user levy in 2014; for details see, *Roads: HGV road user levy*, Commons Briefing paper CBP588, 19 March 2014.
[82] *Budget 2010*, HC 61, June 2010 paras 1.122, 1.121

> receipts from labour and capital income as well as from consumer spending.[83]

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

> 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.[84]

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."[85]

In their Green Budget published in February 2011, the IFS 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:

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83 OBR, *Assessment of the Effect of Oil Price Fluctuations on the Public Finances*, 14 September 2010 (Executive summary)
84 *ibid.*
85 "Inflation no fix for deficit, says Chote", *Financial Times*, 24 January 2011

> 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.[86]

As a wider campaign for a freeze in petrol duty gathered momentum over the few weeks,[87] 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. Cancelling all inflation-adjustments as well would leave revenues about £6 billion lower.[88]

The issue was often raised in the House in the days 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."[89] At an Opposition Day debate on fuel costs on 7 February Treasury Minister 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."[90]

At this time 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%.[91] 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

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

87 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).

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

89 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

90 HC Deb 7 February 2011 c90

91 "Balls calls for cut in fuel VAT", *Sunday Times*, 27 February 2011

action on fuel prices to ease the cost of living crisis in Britain. He does not even have to wait until the Budget."[92] 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 – between 5% and 15% – on certain supplies, road fuel is not on this list, as the then Economic Secretary to the Treasury, Justine Greening pointed out:

> 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.[93]

In response the then 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.[94] 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 Treasury Minister David Gauke:

> 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.[95]

From this perspective the argument for cutting VAT 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.

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92 HC Deb 16 March 2011 c313, c317
93 HC Deb 16 March 2011 c320. More details on this legislation are given in, *VAT : European law on VAT rates*, Commons Briefing paper CBP2683, 17 January 2019.
94 HC Deb 16 March 2011 c324
95 HC Deb 16 March 2011 c364

3.2 Budget 2011 : ending the duty escalator

In his Budget statement on 23 March the then 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:

> It is important that when shocks like the steep rise in the oil price occur, a responsible Government are able to listen and respond … 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 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.[96]

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

[96] HC Deb 23 March 2011 cc964-5

from 1 January 2012, followed by an inflation-only increase set for the *following* year – 2012/13 – implemented on 1 August 2012.[97] HMRC estimated that "a typical Ford Focus driver will be £56 better off in 2011/12" 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."[98]

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 …
>
> 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.[99]

The Budget report also noted that the Government had "formally submitted a derogation request to the European Commission for a rural fuel duty rebate pilot scheme."[100] (This is discussed in more detail in section 3.4 of this note.)

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."[101] As a consequence, although the cut in duty cost a

[97] As discussed below, neither of these proposed increases have been implemented.
[98] HMRC, *Fuel Duty Rates: Tax Information & Impact Note (updated)*, 4 April 2011
[99] *Budget 2011*, HC 836 March 2011 paras 1.146, 1.48-49
[100] *op.cit.* para 2.134
[101] "Budget 2011: How the fuel duty cut is funded", *BBC News*, 23 March 2010

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 well as the proposed rural fuel duty rebate:[102]

	Head	£ million				
		2011-12	2012-13	2013-14	2014-15	2015-16
Motoring tax						
27 Fuel duty: 1ppl reduction from 23 March 2011, removal of previously announced above-RPI increases and delay of RPI increases	Tax	-1,900	-1,600	-1,700	-2,100	-2,100
28 North Sea: increase in supplementary charge from 20% to 32% and restriction on decommissioning relief from 2011-12	Tax	+1,780	+2,240	+2,120	+2,090	+1,870
29 Fuel duty: rural rebate	Tax	*	-5	-5	-5	-5

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.[103] Generally motorists and hauliers welcomed the change,[104] 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:

> 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.[105]

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."[106] 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."[107]

[102] *Budget 2011*, HC 836 March 2011 (Table 2.1: items 27 & 28)
[103] 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.
[104] "Motorists 'key win' as fuel duty cut", *Financial Times*, 24 March 2011
[105] "A spring in Osborne's step, but growth is the worry", *Times*, 24 March 2011
[106] "Editorial: Osborne looks beyond austerity to prosperity", *Financial Times*, 24 March 2011
[107] "Leader : Bad Hand, Well Played", *Times*, 24 March 2011

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 3p a 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."[108] There were also concerns that the cut in duty would not be fully passed in a cut in pump prices, despite assurances from Ministers that they would police this issue,[109] and the potential impact of the new supplementary charge on North Sea oil & gas production.[110] 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."[111]

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 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.[112]

In his presentation on 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 proposed by the Conservatives in Opposition would have been hard to implement, and had an "unclear economic rationale."[113]

Provision to set the rates of road fuel duty was made in the *Finance Bill* and debated at the Bill's Committee stage on 3 May. Speaking for the Opposition Kerry McCarthy MP argued that the Government should

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

109 eg, "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

110 see, *Taxation of North Sea oil*, Commons Briefing paper CBP341, 29 May 2015.

111 HC Deb 3 May 2011 c680W

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

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

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.[114]

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 … 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.[115]

In response the then Economic Secretary Justine Greening, argued that there was evidence that the Government's approach was working, while there was no precedent for obtaining 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 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 …
>
> Of course, the Labour party has suggested that we should create a separate VAT rate for petrol … 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.[116]

At a later stage of the debate, the Minister noted the Government's ongoing work on the fair fuel stabilizer would work: "the Government are … seeking the views of oil companies and motoring groups … That informal consultation will be take place shortly, and we expect to be able to clarify the policy mechanism in the autumn."[117]

[114] HC Deb 3 May 2011 c559
[115] HC Deb 3 May 2011 c562, c564
[116] 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.
[117] HC Deb 3 May 2011 cc624-5, c627

3.3 Freezing duty rates 2011-2015

As noted above, for the remainder of its time in office the Coalition Government postponed or cancelled proposed duty increases.

Following the 2011 Budget the continued strength in pump prices lead to many calls for the Government to suspend the duty increases set for 2012,[118] although the Government's initial position was that these tax rises were a necessary part of its programme to balance the public finances.[119] 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 second duty rise would be cancelled.[120] 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.[121]

Oil prices continued to rise in early 2012 though the Government was reported as ruling out any further changes in duty rates.[122] 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", and confirming that "above inflation rises will only return if the oil price falls below £45 on a sustained basis", before saying, "I do not propose to make any further changes to the fuel duty plans already set out."[123]

A written statement at this time gave 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.

---

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

119 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).

120 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).

121 *Autumn Statement*, Cm 8231 November 2011 p46 (Table 2.1 – item 7), p41

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

123 HC Deb 21 March 2012 c803

> 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.
>
> 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.[124]

There was very little comment on this aspect of the Budget, as commentators focused on changes to the personal tax system and the prospects for the wider economy, although IFS director Paul Johnson observed "at some point … [the Chancellor] is going to have to offer a long-term strategy for the taxation of the motorist", noting the long-term declining trend in tax per mile driven from the rise in vehicles' fuel efficiency.[125]

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 then 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."[126] In response to this point the then Secretary of State, Vince Cable, argued that it was disingenuous to suggest these changes

124 HC Deb 21 March 2012 cc 57-8WS
125 *Post Budget 2011 Briefing : Opening remarks*, IFS, 24 March 2011
126 HC Deb 22 March 2012 c960

could be easily funded: "[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." [127]

At the time of the Budget Fair Fuel UK – a lobby group which had 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 be *revenue-neutral*, as the consequential cut in prices for both households and producers would stimulate demand and create 175,000 jobs.[128] During the year the work was cited quite often by those campaigning for scrapping the 3p rate rise set for August 2012.[129]

Initially Ministers raised doubts as to the reliability of this analysis, and whether, given the Exchequer cost in the short-term, freezing duty rates would be an affordable risk. It was estimated that cancelling the 3p rise would initially reduce tax receipts by up to £1.5 billion in a year,[130] and in a debate 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:

> 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 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.[131]

However, on 26 June 2012 the Chancellor announced that the 3p rise in duty rates would be postponed until 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

127 HC Deb 22 March 2012 c969

128 CEBR, *The impact on the UK economy of a reduction in fuel duty - report for Fair Fuel UK*, March 2012

129 "Sainsbury's boss plead for leniency on fuel tax", *Times*, 15 June 2012. The then 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.

130 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

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

> 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.[132]

The one-off cost of this change was estimated to be £550m.[133] Provision for this was made by a new clause adopted at the report stage of the *Finance Bill* on 2 July 2012.[134]

Motoring organisations generally welcomed the decision,[135] though there were mixed reactions in the press. 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."[136] 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."[137]

In July 2011 the OBR had published its *Fiscal Sustainability Report* on 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 – the report estimated that receipts could fall from 2010 to 2030 from 1.8% of GDP to around 1.0%.[138] In May 2012 the IFS 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."[139] The authors argued that it would be infeasible to rely on higher 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

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132 HC Deb 26 June 2012 c146

133 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

134 HC Deb 2 July 2012 cc633-650. Section 20 of *Finance Act 2011* set 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* deferred it until 1 January 2013.

135 "Osborne delays 3p fuel duty rise", *Financial Times*, 27 June 2012

136 "Editorial: Duty freeze", *Daily Telegraph*, 27 June 2012

137 "Leader: Fuelling the deficit", *Times*, 27 June 2012

138 *Fiscal Sustainability Report*, July 2011 pp95-6

139 Paul Johnson, Andrew Leicester & George Stoye, *Fuel for Thought: The what, why and how of motoring taxation*, IFS/ RAC Foundation, May 2012 px. See also, "Green cars to drive down tax receipts", *Financial Times*, 15 May 2012.

> 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.[140]

Indeed, public discontent with the level of fuel duties was widely reported in the days running up to the Autumn Statement,[141] while the Labour Opposition argued that duties should be frozen at least until April 2013.[142]

Given the political difficulties to raising fuel duties, the authors of the IFS report argued that road use could provide a more sustainable base for motoring taxation, 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 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.[143]

As it transpired, in the Autumn Statement the Chancellor announced that the 3p duty rate rise set for January 2013 would be cancelled:

> **Fuel duty** – In June 2012 the Government announced that the fuel duty increase planned for 1 August 2012 would be deferred to 1 January 2013 …
>
> To support motorists and businesses with the high cost of fuel, the Government will cancel the 3.02 pence per litre fuel duty increase that was planned for 1 January 2013. The Government will move the 2013-14 increase planned for April 2013 to 1

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

141 Chancellor fears Tory revolt over fuel duty", *Financial Times*, 10 November 2012

142 See, Opposition day debate on fuel duty : HC Deb 12 November 2012 cc89-133

143 "The road ahead for motoring taxes", *IFS Observations*, 15 May 2012; see also, "Treasury shortfall provides fuel for thought", *Transport Times*, June 2012 p3

> September 2013. There will be only one fuel duty increase in 2013.
>
> For the remainder of the Parliament, subsequent increases will take effect on 1 September each year instead of 1 April.[144]

The decision was estimated to cost £890m in 2012/13, rising to £1.64bn in 2013/14.[145] In the IFS' presentation on the Autumn Statement, Paul Johnson argued that this was "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.[146]

In their report on the Autumn Statement the Treasury Committee were also critical of this approach to announcing tax changes, arguing "recent Government policy on fuel duty has failed to 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."[147]

Nevertheless, in his 2013 Budget on 20 March Mr Osborne announced that duty rates would be frozen for another year:

> We inherited a fuel duty escalator from the previous Government that would have seen above-inflation increases in every year of this Parliament. We abolished the escalator and we have now frozen fuel duty for two years. This has not been easy. The Government have forgone £6 billion in revenues to date, but oil prices have risen again, family budgets are squeezed, and I hear those who want me to do more to help them get by. My hon. Friend the Member for Harlow (Robert Halfon) has again spoken up for his hard-working constituents. He has been joined by many other hon. Friends, like the hon. Member for Argyll and Bute (Mr Reid). … Today I am cancelling this September's fuel duty increase altogether. Petrol will now be 13p per litre cheaper than if we had not acted over these last two years to freeze fuel duty.[148]

The decision to freeze duty rates was estimated to cost £810m for 2014/15;[149] the Budget report quantified the impact of this continued rate freeze for motorists, and charted the difference between current

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[144] *Autumn Statement*, Cm 8480 December 2012 para 2.89-90. See also, HC Deb 5 December 2012 cc881-2

[145] *Autumn Statement*, Cm 8480 December 2012 (Table 2.1 – item 17). Provision to defer the duty rise on an interim basis was made by Order (SI 2012/3055).

[146] *Autumn Statement 2012: introductory remarks*, 6 December 2012 p8; Stuart Adam, *Autumn Statement 2012: Personal taxes and benefits*, 6 December 2012

[147] *Autumn Statement 2012*, HC 818, 29 January 2013 pp38-9

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

[149] *Budget 2013*, HC 1033, March 2013 (Table 2.1 – item 43); HMRC, Fuel duty rates – tax information & impact note, 20 March 2013

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.[150]

In its report on the Budget, the Treasury Committee acknowledged that "some flexibility" in setting duty rates was sensible, but that the Government should set out a longer-term strategy:

> In the Committee's report on the Autumn Statement 2012, we said that recent Government policy on fuel duty had failed to provide either the certainty or the stability that are the hallmarks of good tax policy … In its response, the Government said:
>
> *It is 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. Deferring and cancelling planned fuel duty rises while pump prices remained high enabled the Government to assist households and businesses with motoring costs when they needed it most. [...]*
>
> *Retaining this flexibility to respond to economic circumstances has enabled the Government to ease the burden on motorists by £19 billion over the Parliament to 2015-16. [...] In addition, the Government has introduced a fair fuel stabiliser which guarantees that fuel duty will increase by no more than inflation in years when oil prices are above £45, consistent with the Government's overall approach of ensuring fuel duty policy responds to wider pressures on pump prices.*
>
> The Committee accepts the need for the Government to maintain some flexibility in how it sets fuel duty to enable it to respond to economic circumstances. Certainty and stability remain the hallmarks of good tax policy, however. The Chancellor should, as far as reasonably possible, set out his strategy for fuel duty over a rolling five-year period.[151]

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."[152]

In general commentators focused on other measures in the Budget, though, as before, the decision to cancel the rise in fuel duty was

[150] "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." *Budget 2013*, HC 1033, March 2013 pp53-4

[151] Treasury Committee, *Budget 2013*, HC 1063, 20 April 2013 paras 123-5

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

welcomed by motoring organisations.[153] In an editorial 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 its main theme was that economic recovery would depend "on unprecedented monetary activism and the confidence of business."[154] 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 the 'aspiring' working and middle classes.[155]

Statutory provision to set duty rates was made by s179 of the *Finance Act 2013*. Speaking for the Opposition when this was agreed at the Committee stage of the Finance Bill, Chris Leslie supported the freeze, noting that "we have led calls on the Chancellor to ease the squeeze on motorists, families and businesses." On this occasion Mr Leslie was asked about the Labour Government's duty escalator, as announced in the 2010 Budget, and said, "I do not believe that the Labour Government would have continued with that … Chancellors keep tax levels under review and that would have been the case were Labour in government." The then Economic Secretary, Sajid Javid, described the duty freeze as "the latest in a series of active steps that the Government have taken to support motorists", but did not say anything as to the Government's longer-term plans for motoring taxation.[156]

On 30 September the Chancellor gave a speech to the Conservative Party Conference, and in this, announced that "provided we can find the savings to pay for it, I want to freeze fuel duty for the rest of this Parliament."[157] 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 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.[158]

The cost of freezing duty rates, rather than putting them up by inflation, was estimated to be £710m in 2015/16.[159] The *Autumn Statement*

153 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
154 "Leader: The politics of growth", *Times*, 21 March 2013
155 "Shrewd on the politics but dismal economics", *Financial Times*, 21 March 2013
156 Public Bill Committee (Finance Bill), 16th Sitting, 13 June 2013 c522, c524
157 "George Osborne's conference speech in full", *Politics.co.uk*, 30 September 2013. See also, HC Deb 5 November 2011 c101
158 HC Deb 5 December 2013 c1112
159 *Autumn Statement*, Cm 8747, December 2013 p78 (Table 2.1 – item 5)

provided some revised estimates of the impact of this approach on motorists:

> 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.[160]

Despite its cost, the decision appears to have been uncontroversial: it was not mentioned by the Treasury Committee in their report on the Autumn Statement,[161] and more generally, although the Chancellor's statement was welcomed at the time,[162] over the remainder of the Parliament the level of fuel duties seems to have been raised only a few times in the House.[163]

Over 2014 oil prices fell considerably, and in his Autumn Statement on 3 December the Chancellor announced changes in the taxation of North Sea oil production to take account of the impact falling prices had had on the industry. Mr Osborne went on to announce that, contrary to earlier policy statements, the fall in price would not result in any increase in fuel duty rates: "Despite falling fuel prices, let me make this absolutely clear: we have cut fuel duty and we will keep it frozen."[164] The *Autumn Statement* confirmed that the Government was scrapping its 'fair fuel stabiliser' (**emphasis added**):

> 1.125 To ensure the UK Continental Shelf (UKCS) continues to attract investment and remove barriers at all stages of the production life cycle, the government will shortly set out major reforms to the oil and gas fiscal regime. As part of these reforms the government will:
>
> - implement an immediate 2% reduction in the rate of the Supplementary Charge, from 32% to 30%, taking effect on 1 January 2015, and will aim to reduce the rate further in an affordable way, to encourage additional investment and drive higher production, sending a strong signal that the UKCS is 'open for business'
> - extend the ring fence expenditure supplement to 10 years for offshore oil and gas activities to support investment by companies whose expenditure exceeds their production income, aligning the treatment of offshore and onshore projects
>
> 1.126 Together these measures are expected to incentivise extra investment and lead to additional production on top of the

---

160 *op.cit.* paras 1.266-7

161 Treasury Committee, *Autumn Statement*, HC 826, 8 March 204

162 Several Members specifically welcomed the rate freeze following the Chancellor's statement to the House (HC Deb 5 December 2013): eg, Alan Reid (c1123), Richard Graham (c1132), and Robert Halfon (c1139).

163 For example, HC Deb 24 June 2014 c194W; PQ213242, 7 November 2014

164 HC Deb 3 December 2014 c312

> approximately 9 billion barrels of oil equivalent the UK currently expects to produce, as well as sustaining oil and gas tax receipts for the longer term.
>
> **1.127 The price based trigger point for changes to both the supplementary charge and fuel duty, set by the Fair Fuel Stabiliser in 2011, will be abolished.**[165]

This decision does not appear to have attracted much comment at the time, although it was mentioned in a review of the Coalition Government's tax policy published by the IFS just before the 2015 General Election. As part of this report, the authors noted the cost to consistently freezing fuel duties, and questioned the case for doing so:

> When the coalition took office, it inherited plans for another escalator. The coalition not only cancelled Labour's escalator, but has cut fuel duties in real terms. In April 2015, fuel duties will be 15% (10p per litre) lower than if the April 2010 duties had simply been uprated in line with the RPI (a £3.9 billion tax cut) and 22% (16p per litre) lower than if the coalition had continued with the fuel duty escalator inherited from the previous government (a £6.2 billion tax cut) …
>
> Whether cutting fuel duties was good policy (as opposed to good politics) is debatable. The evidence is clear that fuel duties are much higher than can be justified by the carbon emissions from driving. But by far the biggest harm done by motoring – and therefore the best reason for taxing it – is the congestion it causes. Yet fuel duties are not well targeted at reducing congestion, since the congestion caused by burning fuel depends on the time and location of journeys in a way that fuel duties do not. Urban rush-hour journeys should be discouraged more than rural or night-time ones; fuel duties cannot achieve that. The Mirrlees Review therefore argued that most of fuel duties should be replaced with a nationwide system of congestion charging, an idea that no longer seems to be on the political agenda.[166]

They went on to argue that, "whether or not fuel duties should have been reduced, the manner in which it was done has been less than ideal":

> In contrast to the clear direction of travel on the income tax personal allowance or the corporation tax rate, the government did not announce early on that it intended to reduce fuel duties gradually in real terms. Rather, the announcements could be politely described as piecemeal, with each April's inflation adjustment postponed (sometimes repeatedly) before ultimately being cancelled.
>
> To take just one example, the uprating originally due in April 2011 was postponed to January 2012 in Budget 2011, to August 2012 in Autumn Statement 2011, then again to January 2013 before finally being laid to rest in Autumn Statement 2012. That is no way to make policy.
>
> On top of this was the shambles of the 'fair fuel stabiliser', announced in Budget 2011, whereby fuel duties were to increase by 1p per litre above inflation (and the corporation tax rate on North Sea profits fall) if the oil price fell below $75 per barrel. In the 2014 Autumn Statement, just when it looked like that would

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165 *Autumn Statement 2014*, Cm 8961, December 2014 pp38-40

166 See chapter 12 of Mirrlees et al. (2011, op. cit.).

happen, the fair fuel stabiliser was abolished: the tax rate on North Sea profits was reduced slightly, but there was to be no increase in fuel duties.

Since the policy was of questionable merit in the first place, abandoning it was no bad thing. But it would have been better not to announce the policy at all; the manner of its abandonment does little for the credibility of contingent policy commitments.[167]

3.4 A rural fuel duty rebate

As noted, in its June 2010 Budget the Government had stated it would investigate measures to help with fuel costs in remote rural areas. In October 2010 the then 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."[168] In the 2011 Budget report the Government confirmed it had made a formal application,[169] and the Commission gave its approval to the scheme in September.[170]

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 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

---

167 Stuart Adam & Barra Roantree, *The coalition government's record on tax*, IFS Briefing Note (BN167), 13 March 2015 pp19-21
168 HM Treasury press notice 50/10, 9 October 2010
169 *Budget 2011*, HC 836, March 2011 para 1.150. The report estimated that the scheme would cost £5m a year (Table 2.1 - item 29).
170 HC Deb 24 October 2011 cc20-1W

> a refund of duty from HMRC, on a periodic basis, based on the litres of fuel sold.[171]

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.[172]

Further details on the scheme were published at this time by HMRC,[173] and the Government confirmed in early March 2012 that over 90 businesses in these areas had applied to take part.[174]

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.[175] In October 2013 the Government said it would apply to the European Commission to extend the scheme to ten towns in England and Scotland, "identified in accordance with a number of strict criteria which the EC have indicated will be critical to their assessment":

> **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.
>
> **Cost of Transporting Fuel:** Towns have to be over 100 miles by road from the nearest refinery.

171 COM (2011) 532 final, 6 September 2011 pp2-3. Initially clearance for the scheme applied until 31 October 2017,
172 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 (SI 2011/2935).
173 HMRC, *Excise duty – rural fuel duty relief scheme : Brief 40/11*, 9 December 2011
174 HC Deb 5 March 2012 c590W
175 *Autumn Statement*, Cm 8480 December 2012 para 2.91; *Budget 2013*, HC 1033 March 2013 para 1.172-5

> **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.[176]

At this time HMRC published an assessment of the scheme, which suggested it had 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.[177]

In March 2015 the Government announced that it had obtained the Commission's approval to extend the scheme to 17 other areas:[178]

- IV54 (Highland – Scotland)
- IV26 (Highland – Scotland)
- IV27 (Highland – Scotland)
- NE48 (Northumberland – England)
- PH41 (Highland – Scotland)
- KW12 (Highland – Scotland)
- PA80 (Argyll and Bute – Scotland)
- PH36 (Highland – Scotland)
- IV22 (Highland – Scotland)
- PA38 (Argyll and Bute – Scotland)
- PH23 (Highland – Scotland)
- PH19 (Highland – Scotland)
- IV21 (Highland – Scotland)
- LA17 (Cumbria – England)
- EX35 (Devon – England)
- IV14 (Highland – Scotland)
- Hawes (North Yorkshire – England).

[176] HMT press notice, *Ten areas in UK could get fuel duty tax cut*, 18 October 2013

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

[178] HMT press notice, *Rural fuel price cut gets green light*, 5 March 2015. In January the Commission published a memorandum on the application (COM(2015) 4 final, 15 January 2015) leading to an agreement in March (Council Implementing Decision (EU) 2015/356 of 2 March 2015), giving clearance for six years.

The extended scheme was launched on 31 May 2015.[179] HMRC's impact assessment noted that there were "estimated to be fewer than 30 fuel stations in the areas where the fuel discount scheme has been extended to."[180]

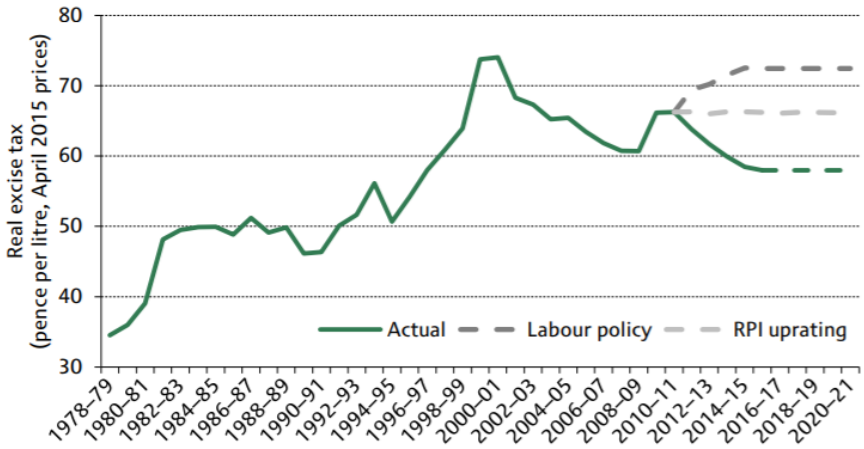
More recently in the Autumn 2017 Budget the Government announced that the scheme for the Scottish Islands and Isles of Scilly would be extended until 31 October 2023.[181] In answer to a PQ on the scheme in February 2019, it was confirmed that, "the government has no current plans to make changes to the rural fuel rebate scheme [while] amendments to the scheme would require further state aid approval."[182]

[179] HMT press notice, *Rural fuel price cut begins*, 31 May 2015. Provision to amend the scope of the scheme was made by Order (SI 2015/550).
[180] HMRC, *Rural Fuel Duty relief scheme*, 5 March 2015. See also, HMRC, *Excise Notice 2001: Rural Fuel Duty Relief Scheme*, October 2015
[181] *Autumn Budget 2017*, HC 587, November 2017 para 4.77, 4.91
[182] PQ219541, 14 February 2019

4. The Conservative Government's approach

Following the 2015 General Election the then Chancellor, George Osborne, presented the Conservative Government's first Budget on 8 July 2015, but the Chancellor made no mention of fuel duties either in this, or in his Autumn Statement in November that year.

In February 2016 the IFS published its Green Budget, and one chapter looked at government policy to all excise duties. Looking at the approach taken to setting fuel duties since 2010, the authors argued that the current rates were "not the result of careful planning":

> Fuel duties have … been subject to escalator policies that pencil-in above-inflation increases for future years. In an ideal world, such policies would be a good way of providing firms and consumers with certainty over future rates of duty. In practice, governments have not stuck to them …
>
> Figure 9.7. Real petrol duties, 1978–79 to 2020–21
>
> 
>
>
> **Note:** Petrol is leaded (4*) up to 1993, premium unleaded from 1994 to 2000 and ultra-low sulphur from 2001 onwards. Converted to April 2015 prices using the RPI. 'Labour policy' uprates duty by RPI plus 1p from April 2011 until April 2014 and RPI thereafter; 'RPI uprating' uprates duty by RPI. Dashed green line indicates announced future policy …
>
> Indeed, the recent history of rates of fuel duties suggests that current rates of fuel duties are not the result of careful planning.
>
> The coalition government's change in direction on fuel duties came at a substantial cost in terms of revenues. Revenues from fuel duties would have been around £6.3 billion higher in 2015 had the government stuck to the escalator planned by the previous Labour government and £4.0 billion higher if duty had been increased in line with inflation.[183]
>
> By 2015, real fuel duties had fallen to roughly where they had been in at the end of the last Conservative government in April 1997.[184]

183 Figures taken from 'The coalition government's record on tax', IFS Briefing Note 167, March 2015, and updated by adding the estimated £140m in lost revenue from the cancelling of a planned inflation increase in the March 2015 Budget.

184 Peter Levell, Martin O'Connell and Kate Smith, "Chapter 9: Excise Duties" in, *The Green Budget*, IFS February 2016 pp214-5

The authors noted that over the previous twenty years motoring costs had fallen considerably, from improvements in fuel efficiency, as well as the fall in real fuel duties, even though the wider costs of motoring from congestion had risen:

> While the real cost of fuel rose over [the period 1997-2014], the average cost of motoring for those purchasing new vehicles fell from £8.50 per 100 km to £7.15 for the owners of petrol-powered cars and from £7.24 to £6.38 for the owners of diesel-powered cars. As well as the average efficiency of both petrol and diesel cars improving, there has also been a rapid shift in the composition of new car purchases towards those using more efficient fuels …
>
> [Meanwhile] the costs of congestion … appear to have been worsening. According to statistics from the Department for Transport, average vehicle speeds on English A-roads from 7am to 10am have declined from 25.3 miles per hour in 2011–12 to 24.3 miles per hour in 2013–14 …
>
> The tendency of fuel duty payments to fall as vehicle efficiency improves, even as congestion has worsened, implies that changes in the private costs of motoring have not kept pace with changes in the social cost. (This would of course be desirable if fuel duties were previously set above their optimal rates, though in that case it still would not be desirable for the trend to continue indefinitely.) The fuel duty changes that would be required to reverse the declines in the cost of motoring for new vehicles would be substantial.
>
> Petrol and diesel duties would need to increase by 41% and 31% respectively to take the cost of driving a kilometre for new vehicles from its 2014 level to its 1997 level. HMRC estimates suggest this would raise £9 billion a year.[185]

However, in his Budget on 16 March 2018, Mr Osborne announced a further freeze in duty rates, saying "families paid the cost when oil prices rocketed; they should not be penalised when oil prices fall. We are the party for working people, so I can announce that fuel duty will be frozen for the sixth year in a row."[186] The Budget report stated that this was the "longest duty freeze in over 40 years", and estimated that it would cost around £440m a year:[187]

> Budget 2016 announces that, for the 6th successive year, the government will freeze the main rate of fuel duty at 57.95 pence per litre for 2016-17. This marks the longest fuel duty freeze in over 40 years.[188]
>
> Since Budget 2011, fuel duty has been kept at this level, delivering year-on-year real cuts for motorists. The average driver will save around £75 every year in duty compared to pre-2010 fuel duty escalator plans.[189] Pump prices are now 18 pence per litre lower than they would have been if the government had maintained pre-2010 fuel duty escalator plans (HMT/HMRC

[185] *op.cit.*p217, p219. See also, "Budget: Why the Chancellor should raise fuel duty", Campaign for Better Transport, 10 March 2016
[186] HC Deb 16 March 2018 cc964-5
[187] *Budget 2016*, HC 901, March 2016 para 1.86, Table 2.1 – item 54
[188] 'Petrol and diesel prices' (Standard Note SN/SG/4712, p23), House of Commons Library, 28 Jan 2014.
[189] HMT/HMRC calculations, based on DfT and ONS data on distance travelled per car, OBR RPI data and manufacturer's specifications for a Ford Focus 1.6 diesel car.

> calculations based on RPI), and the typical motorist now spends £450 a year less on motor fuel than they did in 2011 when the freeze began.[190]

Following the Budget speech several Members welcomed the announcement, including Stewart Hosie for the SNP and a number of back benchers,[191] but apart from this, the decision does not appear to have been widely debated. The Treasury Committee took evidence from a number of witnesses after the Budget, including a session with the Chancellor on 24 March when Committee members raised other issues.

In its post-Budget analysis, IFS director Paul Johnson noted that "real duties are now back at levels not seen since the mid-1990s" and that "after six years of freezes (i.e. cuts in real terms) one must begin to wonder whether these duties will ever rise again."[192]

Mr Johnson's comments have proved prescient.

Over the last three years the Government has continued to set fuel duty rates for one year only,[193] and for each of those years – in his 2016 Autumn Statement, and in his Budget statements in November 2017 and October 2018 – the then Chancellor Philip Hammond announced that duty rates would remain frozen for the coming year.[194]

The cost of these tax cuts has been considerable. Taken together the annual cost of these three successive tax cuts is estimated to rise from £845m in 2017/18 to £2.66 billion by 2021/22.[195]

Despite these successive duty freezes, the Government's stated default RPI indexation policy remains in place – as noted by the Office for Budget Responsibility in its forecast for duty rate receipts published at the time of the 2018 Budget:[196]

> Our forecast for fuel duties is subject to the clear policy risk that the Government continues not to implement its stated policy assumption to increase the headline duty rate in line with RPI inflation. Since our June 2010 forecast, the policy to increase duties in line with RPI inflation has been delayed three times and cancelled eight times.
>
> Chart 4.4 shows the successive policy assumptions for fuel duty uprating across our previous forecasts.

---

190 HMT/HMRC calculations, based on DfT and ONS data on distance travelled per car, DECC data on pump prices and manufacturer's specifications for a Ford Focus 1.6 diesel car

191 HC Deb 16 March 2016 c979; Nigel Mills (c982); Andrea Jenkyns (c1003); Alan Mak (c126); Tom Elliot (c1045).

192 "Paul Johnson's opening remarks", *IFS Budget briefing 2016*, 17 March 2016 p8

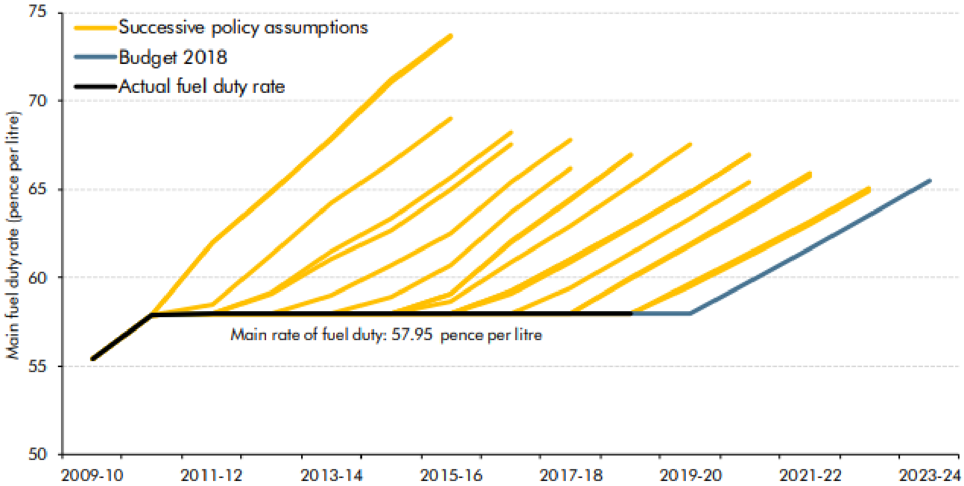
193 In answer to PQs on this issue, Ministers have simply stated that the level of fuel duty is kept "continuously … under review": eg, PQ110027, 2 November 2017; PQ129814, 6 March 2018; PQ291475, 1 October 2019.

194 HC Deb 23 November 2016 cc909-10; HC Deb 22 November 2017 c1054; HC Deb 29 October 2019 c666

195 *Autumn Statement 2016*, Cm 9362, November 2016 (Table 2.1 – item 13); *Autumn Budget 2017*, HC 587, November 2017 (Table 2.1 – item 10); *Budget 2018*, HC 1629, October 2018 (Table 2.1 – item 11).

196 OBR, *Economic & Fiscal Outlook*, Cm 9713, October 2018 pp121-3

Chart 4.4: Successive fuel duty uprating assumptions



Source: HMRC, OBR

In this Budget, the Government has again cancelled the planned increase in April 2019, reducing receipts by £0.8 billion in 2018-19. But it has retained its stated default RPI indexation policy in later forecast years.

Table 4.15 shows the contributions to cumulative receipts growth over the forecast. Of the £3.8 billion increase in receipts between 2018-19 and 2023-24, £3.6 billion is due to the Government's stated uprating policy.

Table 4.16: Cumulative growth in fuel duty receipts since 2018-19

	£ billion					
		Forecast				
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
October forecast	28.3	28.3	29.2	30.2	31.1	32.0
	Cumulative receipts growth since 2018-19					
Total	-	**0.1**	**1.0**	**1.9**	**2.9**	**3.8**
of which:						
Distance travelled	-	0.3	0.7	1.0	1.3	1.6
Fuel economy of the vehicle stock[1]	-	-0.2	-0.5	-0.8	-1.1	-1.4
Government duty uprating policy[2]	-	0.0	0.8	1.7	2.7	3.6

[1] This reflects several factors including the efficiency of each individual vehicle, the composition of the vehicle stock, the nature of trips taken and congestion.
[2] This represents the estimated static contribution of the Government's duty uprating policy. The actual impact will differ slightly due to behaviour.

Notably in its *Fiscal Risks Report* published in July 2019, the OBR argued the probability of the Government not following its official policy, and freezing duty rates in future years, was 'very high'.[197]

This pattern may account for the fact that the Government's approach to setting fuel duties has not been raised very often in the House recently.[198]

The Institute for Fiscal Studies looked at the Government's options for taxing motoring in their Green Budget, published in October 2019; as part of this, the authors considered the approach that has been taken to setting fuel duties, arguing that, "regardless of whether the government chooses to increase or reduce fuel duties, it should still routinely adjust them to reflect inflation":

197 OBR, *Fiscal Risks Report, CP 131*, July 2019 p16
198 For example, the issue was not discussed in the Treasury Committee's report on the last Budget (*2018 Budget*, HC 1606, 12 February 2019).

> Freezing fuel duties in nominal terms has the odd consequence that the degree to which fuel duties rise or fall in real terms depends on the rate of inflation, instead of being the result of deliberate policy. Uprating of fuel duties should be resumed and should be carried out in line with the CPI rather than the discredited RPI measure which overstates the rate of inflation.

The authors went on to note that one possible reform would be to uprate duty rates on a monthly basis:

> This would separate out routine inflation uprating from policy decisions, rightly taken in the Budget, as to whether real rates of duty should be increased or reduced. It would have little direct effect on revenue, but more gradual inflation uprating would more accurately keep the real rates of duty constant and would reduce the political pressures currently associated with sharp annual uprating. If it made more credible the 'plan' to index rates of duties then, over time, it could raise revenue and reduce uncertainty over future tax rates.[199]

The authors also looked more widely at the general purpose of motoring taxes – to reduce the social costs associated with driving …

> The aim of motoring taxation should be to apply a price to driving that reflects the costs it imposes on others … so that the driver 'internalises' the external cost of her behaviour. An appropriately designed system of motoring taxation means that people will be induced to take appropriate account of the social consequences of their actions when choosing whether to buy a car and which one, and how much, when and where to drive it. An advantage of using taxation in this way (rather than, say, mandating particular behaviour) is that it reduces social harms in an efficient way – that is, in whatever way drivers find easiest …

… and whether, from this perspective, fuel duties were a sensible approach:

> A tax that is proportional to emissions encourages the people who find it easiest to reduce emissions to do so in whichever way they find easiest. People could reduce their emissions by 10% either by buying a 10% cleaner car or by driving 10% less. From the point of view of emissions reduction these are equally good outcomes; the better outcome would be whichever of these the individual prefers. Fuel duties give the same incentive to do both, and so the individual will indeed do whichever they find easier.
>
> Set at the right level, fuel duties could therefore effectively incorporate the social costs of emissions into the prices faced by consumers. And people do respond to these incentives: one review of the evidence concluded that a 10% rise in the fuel price cuts the amount of fuel consumed by 2.5% in the first year and by 6% in the longer term, once people have had more chance to switch to smaller or more fuel-efficient cars.[200]

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199 Stuart Adam and Rebekah Stroud, "A road map for motoring taxation", *IFS Green Budget 2019*, October 2019 p221

200 P. Goodwin, J. Dargay and M. Hanly, 'Elasticities of road traffic and fuel consumption with respect to price and income: a review', Transport Reviews, 2004, 24, 275–292,. This, like most of the other evidence on this subject, is now rather elderly. F. Dunkerley, C. Rohr and A. Daly, *Road Traffic Demand Elasticities: A Rapid Evidence Assessment*, 2014, include what little more recent evidence there is and reaches similar conclusions

But if fuel duties are intended only to correct for emissions-related costs, then they are currently set too high. On the government's estimates, in 2015 the combined marginal external cost of greenhouse gas emissions and local air pollution was barely a sixth of the average amount of fuel duty (plus VAT on fuel duties) paid per kilometre driven (1.2p/km compared with 7.0p/km).[201] If, on the other hand, fuel duties are intended to correct, at least on average, for all the other social harms from driving as well – principally congestion – then they are too low: the marginal external cost of congestion in 2015 was 13.2p/km (in today's prices), double the average fuel duties (plus VAT on fuel duties) paid per kilometre.

More importantly, fuel duties are not well-suited to correcting for these types of costs. While the social costs of congestion, accidents and noise vary greatly with both the time and location of a journey, fuel duties do not. As such, those driving on congested routes will face fuel duty costs that are far too low relative to the external cost of their journeys, and those driving on empty streets will end up paying far too high a price.[202]

[201] Fuel duties per kilometre calculated based on Department for Transport, 'Road traffic statistics (TRA02)', 14 May 2019, and OBR, Public Finances Databank, August 2019. Distance driven is data for Great Britain, whilst duty receipts are UK total. Receipts per kilometre will therefore be overstated slightly. Both are expressed in 2019–20 prices.

[202] Stuart Adam and Rebekah Stroud, "A road map for motoring taxation", *IFS Green Budget 2019*, October 2019 p216, pp222-3

5. Statistical appendix

This appendix provides details on price pumps and the tax burden – first, in the UK since 1990, and second, across EU Member States, as well as duty rates on hydrocarbon oils since 1989.

BREAKDOWN OF TYPICAL UK ROAD FUEL PRICES
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	119.8	38.7	*68%*	121.0	40.2	*67%*
Jan 2011	134.7	47.3	*65%*	141.1	51.1	*64%*
Jan 2012	141.7	52.8	*63%*	147.8	59.8	*60%*
Jan 2013	136.8	51.8	*62%*	141.3	58.3	*59%*
Jan 2014	130.2	50.5	*61%*	138.1	57.1	*59%*
Jan 2015	108.4	32.4	*70%*	115.8	38.6	*67%*
Jan 2016	101.7	26.8	*74%*	102.5	27.5	*73%*
Jan 2017	118.7	41.0	*65%*	122.0	43.7	*64%*
Jan 2018	121.2	43.0	*64%*	124.6	45.8	*63%*
Jan 2019	119.5	41.6	*65%*	129.3	49.8	*61%*
Apr 2019	124.1	45.5	*63%*	132.9	52.8	*60%*
May 2019	128.1	48.8	*62%*	135.3	54.8	*59%*
Jun 2019	127.6	48.4	*62%*	133.4	53.2	*60%*
Jul 2019	127.4	48.2	*62%*	131.8	51.9	*61%*
Aug 2019	128.5	49.1	*62%*	132.6	52.5	*60%*
Sep 2019	126.9	47.8	*62%*	131.3	51.5	*61%*

Source: Quarterly energy prices, DBEIS Table 4.1.1

AVERAGE PETROL AND DIESEL PRICES AND TAXES IN EU MEMBER STATES

14 October 2019

	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	£1.23	£0.74	*60%*	£0.49	£1.27	£0.75	*59%*	£0.52
BGR	£0.97	£0.48	*49%*	£0.49	£0.98	£0.45	*46%*	£0.52
CYP	£1.05	£0.55	*53%*	£0.50	£1.10	£0.54	*49%*	£0.56
CZE	£1.10	£0.63	*57%*	£0.47	£1.09	£0.56	*52%*	£0.52
DNK	£1.39	£0.83	*60%*	£0.56	£1.22	£0.62	*51%*	£0.60
DEU	£1.23	£0.77	*63%*	£0.46	£1.11	£0.59	*53%*	£0.52
GRC	£1.40	£0.90	*64%*	£0.51	£1.22	£0.61	*50%*	£0.61
ESP	£1.15	£0.62	*53%*	£0.54	£1.07	£0.52	*49%*	£0.55
EST	£1.19	£0.69	*58%*	£0.49	£1.17	£0.63	*54%*	£0.54
FRA	£1.32	£0.83	*63%*	£0.50	£1.27	£0.75	*59%*	£0.52
HUN	£1.03	£0.54	*53%*	£0.49	£1.07	£0.53	*49%*	£0.55
IRL	£1.26	£0.78	*62%*	£0.48	£1.17	£0.67	*57%*	£0.50
ITA	£1.39	£0.89	*64%*	£0.50	£1.30	£0.78	*60%*	£0.52
LVA	£1.12	£0.62	*56%*	£0.50	£1.07	£0.52	*49%*	£0.54
LTU	£1.07	£0.57	*53%*	£0.50	£1.00	£0.48	*48%*	£0.52
LUX	£1.05	£0.57	*54%*	£0.48	£0.99	£0.46	*46%*	£0.53
MLT	£1.24	£0.67	*54%*	£0.57	£1.13	£0.59	*52%*	£0.54
NLD	£1.44	£0.95	*66%*	£0.49	£1.20	£0.65	*54%*	£0.55
AUT	£1.09	£0.62	*56%*	£0.47	£1.06	£0.54	*51%*	£0.52
POL	£1.01	£0.53	*53%*	£0.48	£1.01	£0.49	*49%*	£0.52
PRT	£1.31	£0.81	*62%*	£0.50	£1.20	£0.65	*54%*	£0.55
ROU	£1.02	£0.54	*53%*	£0.48	£1.06	£0.52	*49%*	£0.54
SVK	£1.16	£0.67	*58%*	£0.49	£1.09	£0.53	*49%*	£0.56
SVN	£1.14	£0.69	*60%*	£0.46	£1.12	£0.61	*55%*	£0.50
FIN	£1.34	£0.86	*64%*	£0.49	£1.25	£0.65	*52%*	£0.60
SWE	£1.28	£0.79	*62%*	£0.49	£1.32	£0.65	*49%*	£0.68
GBR	£1.27	£0.79	*62%*	£0.48	£1.32	£0.80	*61%*	£0.52

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.
Petrol prices are for super unleaded petrol (Euro super 95)

Source: *EU Oil Bulletin*

Figures provided by Paul Bolton, Social & General Statistics Section. For further statistical information on fuel prices see, *Petrol and diesel prices*, Commons Briefing paper CBP4712, 18 December 2018.

8 Changes to Hydrocarbon Oil Duty Rates

	Motor Spirit (pence per litre)						Diesel (pence per litre)				Aviation Gasoline (pence per litre)	Rebated heavy oil [1] (pence per litre)		Road Fuel Gases (£ per kilogram)	
Date of Budget change	Leaded Petrol and other light oils	Unleaded Petrol	Ultra Low Sulphur Petrol	Sulphur Free Petrol	Super Unleaded Petrol/LRP [2]	Bioethanol	Diesel	Ultra Low Sulphur Diesel	Sulphur Free Diesel	Biodiesel/ Blended	Aviation Gasoline	Fuel Oil	Gas Oil	Natural Gas	All Other Gases
14.03.89	20.44	17.72	-	-	-	-	17.29	-	-	-	10.22	0.77	1.10	-	-
20.03.90	22.48	19.49	-	-	-	-	19.02	-	-	-	11.24	0.83	1.18	-	-
19.03.91	25.85	22.41	-	-	-	-	21.87	-	-	-	12.93	0.91	1.29	-	-
10.03.92	27.79	23.42	-	-	-	-	22.85	-	-	-	13.90	0.95	1.35	-	-
16.03.93	30.58	25.76	-	-	-	-	25.14	-	-	-	15.29	1.05	1.49	-	-
30.11.93	33.14	28.32	-	-	-	-	27.70	-	-	-	16.57	1.16	1.64	-	-
29.11.94	35.26	30.44	-	-	-	-	30.44	-	-	-	17.63	1.66	2.14	0.3314 [3]	-
01.01.95	36.14	31.32	-	-	-	-	31.32	-	-	-	18.07	1.66	2.14	0.3314	-
28.11.95	39.12	34.30	-	-	-	-	34.30	-	-	-	19.56	1.81	2.33	0.2817	-
15.05.96	39.12	34.30	-	-	37.62 [4]	-	34.30	-	-	-	19.56	1.81	2.33	0.2817	-
26.11.96	41.68	36.86	-	-	40.18	-	36.86	-	-	-	20.84	1.94	2.50	0.2113	-
02.07.97	45.10	40.28	-	-	43.60	-	40.28	-	-	-	22.55	2.00	2.58	0.2113	-
15.08.97	45.10	40.28	-	-	43.60	-	40.28	39.28 [5]	-	-	22.55	2.00	2.58	0.2113	-
17.03.98	49.26	43.99	-	-	48.76	-	44.99	42.99	-	-	24.63	2.18	2.82	0.2113	-
09.03.99	52.88	47.21	-	-	52.33	-	50.21	47.21	-	-	26.44	2.65	3.03	0.1500	-
21.03.00	54.68	48.82	-	-	50.89	-	51.82	48.82	-	-	27.34	2.74	3.13	0.1500	-
01.10.00	54.68	48.82	47.82	-	50.89	-	51.82	48.82	-	-	27.34	2.74	3.13	0.1500	-
07.03.01	54.68	46.82	45.82	-	- [6]	-	51.82	45.82	-	-	27.34	2.74	3.13	0.0900	-
15.06.01	54.68	48.82	45.82	-	-	-	51.82	45.82	-	-	27.34	2.74	3.13	0.0900	-
17.04.02	54.68	48.82	45.82	-	-	-	51.82	45.82	-	25.82 [7]	27.34	2.74	3.13	0.0900	-
09.04.03	54.68	48.82	45.82	-	-	-	51.82	45.82	-	25.82	27.34	3.82	4.22	0.0900	-
01.10.03	56.20	50.19	47.10	-	-	27.10	53.27	47.10	47.10	27.10	28.10	3.82	4.22	0.0900	-
03.12.04	56.20	50.19	47.10	-	-	27.10	53.27	47.10	47.10	27.10	28.10	4.82	5.22	0.0900 [8]	0.0900
01.01.05	56.20	50.19	47.10	47.10	-	27.10	53.27	47.10	47.10	27.10	28.10	4.82	5.22	0.0900	0.0900
06.12.05	56.20	50.19	47.10	47.10	-	27.10	53.27	47.10	47.10	27.10	28.10	6.04	6.44	0.0900	0.0900
07.12.06	57.68	51.52	48.35	48.35	-	28.35	54.68	48.35	48.35	28.35	28.84	7.29	7.69	0.1081	0.1221
01.10.07	60.07	53.65	50.35	50.35	-	30.35	56.94	50.35	50.35	30.35	30.03	9.29	9.69	0.1370	0.1649
01.04.08	60.07	50.35	- [9]	- [9]	-	30.35	50.35	- [9]	-	30.35	30.03	9.29	9.69	0.1370	0.1649
01.12.08	62.07	52.35	-	-	-	32.35	52.35	-	-	32.35	31.03	9.66	10.07	0.1660	0.2077
01.04.09	62.07	54.19	-	-	-	34.19	54.19	-	-	34.19	31.03	10.00	10.42	0.1926	0.2482
01.05.09	63.91	54.19	-	-	-	34.19	54.19	-	-	34.19	33.34	10.00	10.42	0.1926	0.2482
01.09.09	65.91	56.19	-	-	-	36.19	56.19	-	-	36.19	34.57	10.37	10.80	0.2216	0.2767
01.04.10	66.91	57.19	-	-	-	57.19	57.19	-	-	57.19	38.35	10.55	10.99	0.2360	0.3053
01.10.10	67.91	58.19	-	-	-	58.19	58.19	-	-	58.19	38.35	10.74	11.18	0.2505	0.3195
01.01.11	68.67	58.95	-	-	-	58.95	58.95	-	-	58.95	38.35	10.88	11.33	0.2615	0.3304
23.03.11	67.67	57.95	-	-	-	57.95	57.95	-	-	57.95	37.70	10.70	11.14	0.2470	0.3161

1. Kerosene and other heavy oils (including lubricating oil) have been at nil rates of duty since 1984 and 1986 respectively. Aviation kerosene has always been at a nil rate of duty. Also includes from 1 November 2008 other heavy oil (including waste derived heavy oil) which does not meet the fiscal definition of kerosene, gas oil or fuel oil that is put to a heating use.

2. Lead Replacement Petrol (LRP) was introduced 1 October 1999 and had the same rate of duty as super unleaded petrol.

3. A separate rate of duty for gas for use as road fuel was introduced on 29 November 1994, but separate data on quantities are not available prior to January 1997. Duty on road fuel gas was previously at the same rate 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 duty rate on super unleaded petrol was abolished 7 March 2001. Duty is now 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 applies 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 is separated into two categories, 'Natural Gas' and 'All Other Gases', i.e. Liquid Petroleum Gas. Figures for Natural Gas and LPG are not separated to prevent disclosure because of taxpayer confidentiality.

9. From 1 April 2008 ultra low sulphur petrol and sulphur free petrol became liable to duty at the same rate as unleaded petrol, and ultra low sulphur diesel and sulphur free diesel became liable to duty at the same rate as diesel.

Source: HMRC, Hydrocarbon Oils Bulletin: August 2019, September 2019

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