



## Issue 4 – July 2015

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### RAC Summer Budget Reaction

#### Vehicle Excise Duty changes & new road fund:

Changes to VED are overdue with new cars becoming increasingly more fuel efficient and the average carbon dioxide emissions of new cars registered with DVLA falling year-on-year. Because VED has been linked to carbon dioxide emissions, revenue to the Treasury from VED has also been in decline. However for cars registered after 2017, whilst the first year's VED will be based on carbon dioxide emissions, the majority of owners will pay the same level of VED thereafter, even if the car is an ultra fuel-efficient plug-in hybrid. Only pure electric vehicles will pay a lower rate. So drivers of new cars will be rewarded in the first year for purchasing an energy efficient car but there will be little long-term benefit with owners paying the same for small fuel efficient vehicles as they would for gas guzzlers.



The hypothecation of VED after 2020 to create the new road fund is clearly welcome and creates much-needed clarity over how the second and subsequent Road Investment Strategies in England and their equivalent in Scotland, Wales and Northern Ireland will be funded from 2020. With DfT's own predictions of traffic growth on the English strategic road network growing by up to 57% by 2040, a dedicated funding pot has been called for by motoring organisations and by businesses. The RAC remains concerned, however, that there is not the same clarity for local road funding going forward. Most journeys start and finish on local roads, and the state of these remains high on motorist's priority list.

In response to the road fund and VED changes, RAC chief engineer David Bizley said: "The Budget announcement on Vehicle Excise Duty marks a return to the days when road tax was collected and used to fund improvements in the road network. As new cars become more efficient, VED was always destined to bring in less and less money for the Treasury. For the first time, motorists will be able to see for themselves how the money they pay benefits the road network that they use – although it is a pity that we will have to wait five years for the Roads Fund to take effect.

"The devil, of course, will be in the detail but this new transparency has to be a good thing; indeed the RAC has previously called for ring-fencing of funds in this way. The changes to VED will guarantee a minimum level of spending on the roads and

this, combined with the Road investment Strategy, suggest that that the critical role that road transport plays both in our economy and in motorists' everyday lives has finally been given the attention it deserves.

"A big question mark remains however, over how the new changes will affect people's inclination to buy low carbon dioxide emitting, fuel efficient vehicles. For the first year of ownership of a new vehicle, incentives will still exist to select low emitting vehicles but thereafter, a flat rate will apply to most vehicles. We hope the new regime doesn't undermine the major progress that we are making in reducing carbon dioxide emissions."

### **Fuel Duty:**

The RAC is a committed supporter of FairFuelUK, which campaigns to keep fuel duty low. In spite of lower fuel prices since last year, motorists continue to tell us that the cost of fuel remains a top concern, and we were pleased to see the Chancellor keep his promise of freezing fuel duty until at least next year. In response to the measures, RAC chief engineer David Bizley said: "By freezing fuel duty for the rest of the year the Chancellor has continued his good record of helping to ease the travel and transport costs of individual motorists and businesses alike, but this sounds alarm bells for next year as by not extending the freeze further it potentially signals the country's first increase in duty since 2011.

"While oil prices are expected to stay low, the oil market is notoriously hard to predict so there is always the chance that fuel prices will be considerably higher by the time of the Budget in March 2016 and any increase in duty would therefore have a negative effect on the economy.

"The Treasury's own evidence shows that there is a compelling economic case for retaining a freeze on fuel duty because it is a hugely inefficient way of raising additional revenues for the Treasury. The report from April 2014, 'Analysis of the dynamic effects of fuel duty', indicates that the loss of additional taxation revenues resulting from the freeze is offset to a significant extent by the positive impact that lower fuel prices have on GDP."

### **Fuel Pricing – Are diesel motorists in your constituency being ripped off?**

In June, RAC Fuel Watch identified that diesel vehicle drivers were being overcharged at the pumps. Our data shows that:

1. The wholesale cost of diesel fell 2.12p during June to 111.09p per litre. This was not passed on at the pumps, with diesel prices falling just 0.09p to 120.75p per litre
2. Unleaded wholesale prices fell 0.82p to 113.34p per litre, whilst the pump prices rose to 117.15p per litre.
3. In effect, this means that retailers were subsidising cheaper unleaded by penalising diesel drivers with higher prices at the pumps. This is unfair to the owners of 10.7 million diesel cars. It is also putting UK businesses that rely on road transport for their goods and services, at an unfair disadvantage compared to European neighbours. The UK currently has the most expensive diesel prices in the EU.



RAC fuel spokesman Simon Williams said: "Essentially, what is required is a fundamental re-balance of pricing in the retail fuel market. We need greater transparency and a fairer pricing model for both petrol and diesel. We realise that with more and more forecourts shutting up shop every month that fuel retailing may not be as profitable as it once was, but there seems to be a clear intention to make more money from a higher diesel price while at the same time being seen to maintain a lower petrol price."

Since the RAC's pressure on retailers, supermarkets announced on 20 July a reduction in diesel prices. We are now asking other retailers to follow their lead. The very latest average fuel prices can be found below in our Parliamentary Fuel Watch.

## RAC Calls for Action:

- 1 The RAC believes there is scope for a 4p a litre cut to diesel prices in line with reduced wholesale costs. The RAC also believes there is a transparency issue at the heart of this problem for motorists. Retailers should be required to provide a breakdown of costs on their fuel receipts including VAT and Duty so motorists can see how much they pay to both retailers and in taxation.
- 2 The Competition and Markets Authority should be prepared to launch an investigation into the pricing system at the pumps. Diesel drivers have, in effect, paid a premium so that unleaded vehicles can be subsidised with a lower headline cost.
- 3 Motorway fuel stations: In December 2014, the Government announced a trial of fuel comparison signs on the M5 to help stimulate competition and lower prices. Forecourt prices at motorway service stations can be up to 10p a litre more expensive than in other parts of the country. We urge the Government to speed up the trial with a view to implementation nationwide. The current situation encourages risk-taking with drivers sometimes running out of fuel in an attempt to avoid refuelling at motorway service stations.

## The Demonisation of Diesel – another perspective

In April 2015, the Supreme Court ruled that the Government must submit new air quality plans to the EU before the end of 2015. Diesel vehicles specifically have come under attack for both nitrogen dioxide and particulate emissions which contribute to poor local air quality. Whilst carbon dioxide emissions is a national problem, air quality is a local issue and requires local actions to address the locations where air quality is of particular concern.

### What is the industry doing?

Nationally, there is significant progress in CO<sub>2</sub> reductions in the road transport sector. Despite there being a 39% rise in licensed vehicles on the road between 1993 and 2012, total road transport CO<sub>2</sub> emissions have dropped 2.9% (passenger car emissions down 12.7%) in this period; passenger car emissions of oxides of nitrogen are down 79.1% and those from heavy duty vehicles down 58.3%. This is down to manufacturers producing far more environmentally friendly vehicles. However, it is now clear that the EU emission standards for nitrogen dioxide emissions from diesel vehicles over the last decade (Euro 4, 5, 6) were based on tests that predicted lower nitrogen dioxide emissions than occur in real world driving and so air quality has not improved to the extent predicted. This is prompting local authorities in those areas where air quality is poorest to consider a range of local measures to address the problem.

### What is best practice?

- After the implementation of the London Ultra Low Emission Zone (ULEZ) in 2020, high-polluting vehicles will incur a daily £12.50 charge to enter the zone. A petrol car or van manufactured since January 2006 (conforming with the Euro 4, 5 or 6 emission standard) will be exempt from the charge. However, if you currently own a diesel car or van, you will have to pay the charge. Any diesel car or van manufactured after September 2015 (conforming to the Euro 6 standards) will meet ULEZ standards as they are presently set.
- Whilst the Ultra Low Emission Zone does not take into account that many owners of diesel vehicles were encouraged by the taxation system to purchase these when reducing CO<sub>2</sub> emissions was the main priority, it does allow five years from September for motorists to consider changing their vehicle. It also addresses emissions from all vehicle types, with a clear commitment from TfL to upgrade London's buses whilst consulting with taxi organisations.



### What is not best practice?

- The London Borough of Islington has set a draconian £96 annual surcharge for a residential parking permit for diesel vehicles. The RAC believes that this policy is ill-informed and takes no account of the usage of the vehicle concerned. It

also fails to recognise that many of these drivers were encouraged by policymakers and by the taxation system to purchase small fuel-efficient diesel vehicles as a more environmentally friendly option and are now being retrospectively punished.

### RAC Calls for Action:

- 1 Local air pollution demands local solutions. If the Government wishes to devolve more power to local authorities, it should do so with practical guidance on best practice for local schemes addressing local air quality hotspots.
- 2 Future Ultra Low Emission Zones should allow road users a grace period where they are able to switch their vehicles for a more modern, less polluting vehicle. A five-year grace period as set out by TfL should provide a template for this though it is recognised that more immediate action may be required to address targeted groups of older vehicles that are particularly high contributors to the total nitrogen dioxide and particulate emissions in an area.

## RAC Fuel Watch

World oil prices have generally remained stable during early summer, hovering between \$60-65 a barrel and in July dipping below \$60 once again. And, as a result of new supply of diesel being produced in Saudi Arabia, the wholesale cost of diesel has fallen substantially to the point where it went lower than wholesale petrol on the 27 May, remaining there ever since.



### Year-on-year comparison 19<sup>th</sup> July 2014 to 19<sup>th</sup> July 2015

The average UK cost of unleaded on 19<sup>th</sup> July 2015 was 14.3ppl cheaper than it was on 19<sup>th</sup> July 2014. This represents a 10.9% price drop in one year. The average UK cost of diesel on 19<sup>th</sup> July 2015 was 17.5ppl cheaper than it was on the 19<sup>th</sup> July 2014. This represents a 12.9% price drop in a year.

	19 <sup>th</sup> July 2014	19 <sup>th</sup> July 2015
Fuel Type	Average pump price ppl	Average pump price ppl
Unleaded	131.43	117.10
Diesel	135.81	118.33

### Monthly price comparison 19<sup>th</sup> June to 19<sup>th</sup> July 2015

The average UK cost of unleaded on 19<sup>th</sup> July 2015 was 0.07ppl cheaper than it was on 19<sup>th</sup> June 2015. This represents a 0.1% price fall in a month. The average UK cost of diesel on 19<sup>th</sup> July 2015 was 2.6ppl cheaper than it was on 12<sup>th</sup> June 2015. This represents a 2.1% price fall in a month.

	19 <sup>th</sup> June 2015	19 <sup>th</sup> July 2015
Fuel Type	Average pump price ppl	Average pump price ppl
Unleaded	117.17	117.10
Diesel	120.89	118.33

The facts - the cost of filling a typical family car:



Fuel	Petrol	Diesel
Fuel tank in litres	55	55
Avg pump price per litre*	117.10	118.33
Total cost to motorist	£64.41	£65.08
Duty	£31.87	£31.87
VAT @ 20%	£10.73	£10.85
Cost of fuel	£21.80	£22.36
Exc VAT	£53.67	£54.23
VAT & duty	£42.61	£42.72
% of pump price that is Duty & VAT	66%	66%

\*Source: Experian Catalist – UK prices as of 19<sup>th</sup> July 2015

The RAC highlights that despite the recent welcome relief that motorists have been experiencing at the pumps since last year, UK motorists are still paying some of the highest fuel prices in Europe.

The RAC has welcomed the Government's stance announced in the summer Budget to stick to its previous promise not to increase fuel duty this year. The RAC and its members believe strongly that policymakers should not use a fall in oil prices as an opportunity to raise additional tax revenues by increasing fuel duty. Independent modelling by the National Institute of Economic and Social Research (NIESR) and the Centre for Economic and Business Research (CEBR) has demonstrated that there is a direct link between the price of fuel and economic growth and jobs. This is something the Treasury now accepts. We hope the new Government continues to stand by this.



The RAC is reiterating calls for further action on motorway service stations. The RAC believes that the prices charged by the majority of motorway service stations cannot be justified and is profiteering of the worst kind. It simply encourages drivers to risk running out of fuel to avoid refuelling at these stations. The RAC believes that motorists should be made aware of these prices with clear signage on motorways ahead of the service exits and that the trial announced by the previous Government should be progressed urgently with a view to extending the requirement for this signage to all motorway services.

For further information, please visit our fuel pages: <http://www.rac.co.uk/advice/fuel-prices-explained>

## What is the RAC doing in your constituency?

**RAC Bloodhound:** The RAC has teamed up with the most exciting engineering and science project the UK has seen in decades – the Bloodhound Supersonic Car Project. The team behind the Bloodhound are confident they have the engineering and design expertise and inspiration to build a supersonic car which will exceed 1000mph and break the world land speed record at Hakskeen Pan in August 2016 – while also inspiring a generation of school children about science and engineering as 6,000 UK schools are engaged in the project and learning all about the design, build and operation of this supersonic car.



As the Motorist's Champion, the RAC is expertly placed to advise and guide effective road and motoring policy. Should you wish to discuss anything within this newsletter or any wider policy issues, please contact:

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RAC is a founding member of FairFuelUK

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