



Fuel

Background

- When motorists fill their tanks there are a number of factors which influence the price they pay. These are: fuel duty, VAT, retail costs and product costs, particularly the price of oil. As of mid-August 2015, the average cost of petrol is 114p per litre and diesel is 111p per litre. Of this, duty and VAT equate to almost 70% of the cost.
- Petrol and diesel prices will also be affected by the £/\$ exchange rate as oil is traded in US Dollars. This means if the Pound Sterling is falling/weaker against the Dollar, this can make petrol or diesel more expensive, depending, of course, on the price of oil.
- On motorways, prices can be up to 10p per litre more expensive than in towns and cities, which can add on £8 to fill up a tank.
- Fuel duty revenue, from the 58p (57.95p) charged on every litre, contributed more than £33bn to the Treasury in 2012 (includes VAT charged on fuel duty), according to Treasury figures.
- Figures from March 2015 revealed the lowest fuel duty receipts for the Government for 25 years.
- Independent reports by the National Institute of Economic and Social Research and by the Centre for Economics and Business Research confirm that a reduction in fuel prices stimulates growth and creates jobs. This in turn generates additional taxation revenue and reduces benefit costs by a magnitude that goes a long way towards off-setting the loss in fuel duty and associated VAT revenues for the Treasury.
- As cars become more fuel efficient, this leads to year-on-year reductions in fuel duty revenues for the Treasury. This suggests that the current motoring taxation regime has had its day and this is likely to lead to a Government review of all aspects of motoring taxation.

Impact on our members

- The high price of petrol and diesel has forced many motorists to limit the amount they use their vehicles to what they can afford. Fuel prices also affect the cost of all road transport and therefore affects the majority of goods and services, including food, and therefore has a direct effect on the cost of living.

Current government policy

- The Government has frozen fuel duty since 2012, though a year prior to this had actually reduced fuel duty by 1p a litre. There will be no increase in duty in 2015.
- The Fuel Duty escalator, which was brought in during the early 90s, was scrapped by 2011.
- Government policy on duty has historically often been dictated by world oil prices. As a rule, if motorists were paying high prices at the pumps, the Government did not seek to raise fuel duty.
- In 2010, an increase in VAT from 17.5% to 20% further increased Treasury revenues from fuel.



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- In 2014, the Government announced plans to introduce signs on motorways to advertise the price of fuel at motorway service stations. The Department for Transport will begin work early this year on trialing a new fuel comparison sign at five service stations on the M5 between Bristol and Exeter, with a view to introducing the signs by the end of 2015.
- The extension of the rural fuel discount scheme earlier in 2015 means businesses and motorists operating in the most rural locations in England and Scotland will enjoy fuel 5p a litre cheaper thanks to a retailer rebate.

RAC Report on Motoring 2014 – what motorists told us

- In 2014, 47% of motorists ranked the cost of fuel as their biggest motoring concern.
- In 2013, over two thirds (67%) of motorists living in rural areas were particularly worried about the cost of fuel, but in 2014 this figure dropped to 50%.

Note: in March 2014, when research was conducted, average fuel prices were 129.5p per litre whilst average diesel prices were 136.6p per litre

RAC calls for action – policy lines

- Despite some recent relief, motorists continue to pay the highest fuel taxes in Europe. The RAC supports a continued freeze on duty.
- The RAC continues to call for more transparency in the way motorists are taxed on fuel. A clear breakdown at the bottom of fuel receipts which shows the cost of fuel, the duty and the VAT will assist in educating motorists on what they pay when at the pumps and should be mandated by Government.
- The RAC is strongly supportive of plans to introduce fuel price signage on motorways. Our breakdown teams have previously reported that a small minority of motorists will risk continuing to the next junction to avoid paying the higher charges at motorway service stations and as a consequence, run out of fuel. This creates breakdown and safety risks and we believe signage will not only give motorists a better ability to plan their routes and avoid breaking down, but could stimulate competition and lead to lower prices.
- Within France, retailers are required to report their current prices and these are made available on a national database to help motorists better plan their journeys and gives them certainty on how much they will spend on fuel. Whilst a number of smartphone and web based applications go some way to replicating this functionality, the Government might wish to consider the merits of replicating the French approach.
- The RAC believes retailers have responded well to the fall in oil prices since late 2014, however in June 2015 wholesale costs of diesel fell below petrol, yet diesel remained more expensive than petrol at the pumps until late July. The RAC believes that the supermarkets can help lead the way by making forecourt pricing fairer by reflecting wholesale costs more closely.



Fuel

References

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RAC and FairFuelUK: www.rac.co.uk/advice/fuel-watch/fair-fuel-uk

RAC Report on Motoring – www.rac.co.uk/reportonmotoring

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Government plans for fuel prices signs on motorway: www.gov.uk/government/news/petrol-price-signs-on-motorways

HMRC hydrocarbon oil duty receipts: www.uktradeinfo.com/Statistics/Pages/TaxAndDutybulletins.aspx

EU Fuel Rebate - www.gov.uk/government/news/rural-fuel-price-cut-gets-green-light

RAC policy lines correct as of 8 August 2015

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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