

BRIEFING:

Climate and revenue impacts of fuel duty changes

Parliamentary Debate: Fuel Duty - Wednesday 2nd March 2011, 13:15

1. Introduction

- 1.1 We note the motion from the Scottish Government calling for cancellation of the UK Government's planned fuel duty increases and for the introduction of a fuel price stabiliser.
- 1.2 This briefing highlights findings from the recent Policy Studies Institute (PSI) report *Road transport fuel prices, demand and tax revenues: impact of fuel duty escalator and price stabiliser*¹ and the Green Alliance briefing *Would a fuel duty stabiliser really be fair?*²
- 1.3 We would encourage Members to consult these documents prior to engaging in Wednesday's debate.

2. Findings from Policy Studies Institute report

2.1 Recent fuel price increases have been driven by an underlying trend of rising international oil prices rather than increases in the fuel duty rate

"During the 1990s, the rise in the price was driven by increases in fuel duty. Over the past ten years, the rise has been driven by the increases in the price of crude oil."³

2.2 Fuel duty revenues allow other taxes to be kept lower

"Fuel duty raises significant revenues for the exchequer: in 2009-10, fuel duty (and the associated VAT) amounted to £29 billion, around six per cent of total revenue. These revenues allow other taxes to be lower than they would otherwise need to be were fuel duty lower."⁴

2.3 Fuel duty has been successful as a policy instrument in reducing climate change emissions:

"Fuel duty also results in reduced fuel demand and hence lower carbon dioxide emissions from the transport sector."⁵

The fuel duty escalator was successful in reducing climate change emissions. Reductions in fuel duty rates would be expected to increase emissions from the transport sector.

2.4 A fuel price stabiliser could be effective in reducing price volatility – but would not tackle the underlying long-term increase in fuel prices without significantly impacting government revenues

The PSI concluded that a fuel price stabiliser could "remov[e] around 60- 65% of the price volatility".⁶

¹ See <http://www.psi.org.uk/pdf/2011/fuel_duty_psi_green_alliance.pdf>.

² See <<http://www.green-alliance.org.uk/uploadedFiles/fuel%20stabiliser%20brief%20-%20final.pdf>>.

³ See p.16 of <http://www.psi.org.uk/pdf/2011/fuel_duty_psi_green_alliance.pdf>.

⁴ See <http://www.psi.org.uk/news/pressrelease.asp?news_item_id=243>.

⁵ Ibid.

⁶ See p.16 of <http://www.psi.org.uk/pdf/2011/fuel_duty_psi_green_alliance.pdf>.

However:

“The stabilizer is broadly revenue neutral over any five-year period. However, it is important to note that this is only because it compensates for the volatility in the crude oil price around its long term upward trend. Any attempt to stabilise the price of petrol at a particular level (in either nominal or real terms) would have a significant negative impact on revenues. For example, freezing the price of petrol in real terms (i.e. increasing in line with RPI) at its December 2005 level ... would have cost the government a cumulative £8.4 billion in lower duty and VAT revenues by the middle of 2010. The cost in any particular financial year depends on the fluctuations in the oil price, but it would have been as high as £3.6 billion in 2008-9. Furthermore, the resultant increased consumption would have generated an additional 16 million tonnes of CO2.”⁷

3. Conclusions from the Green Alliance briefing:

3.1 Based on the PSI report, the Green Alliance conclude regarding the proposal to cut fuel duty rates:

“[Cutting fuel duty] means using taxpayers money to fix a problem that we cannot control – the long-term upward trend in oil prices - a highly irresponsible act in a fiscal crisis. The net result of such an action would be a further drain on public finances, and those lobbyists calling for it should be pressed on what further spending cuts or tax rises they would like to see instead. Using a fuel duty cut to bring pump prices back to December 2009 levels would cost the taxpayer almost £6bn in the first year alone.”⁸

3.2 And regarding the proposal for a fuel duty stabiliser:

“... for a fuel duty stabiliser not to be a burden on the taxpayer, it needs to be based on the acknowledgement of a continued steady increase in petrol prices. The implication is that policymakers need to come clean about petrol prices continuing to increase rather than pretending this can change.”⁹

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⁷ See p.16 of <http://www.psi.org.uk/pdf/2011/fuel_duty_psi_green_alliance.pdf>.

⁸ See <<http://www.green-alliance.org.uk/uploadedFiles/fuel%20stabiliser%20brief%20-%20final.pdf>>.

⁹ *ibid.*