

[www.racfoundation.org/uk-fuel-market-review](http://www.racfoundation.org/uk-fuel-market-review)



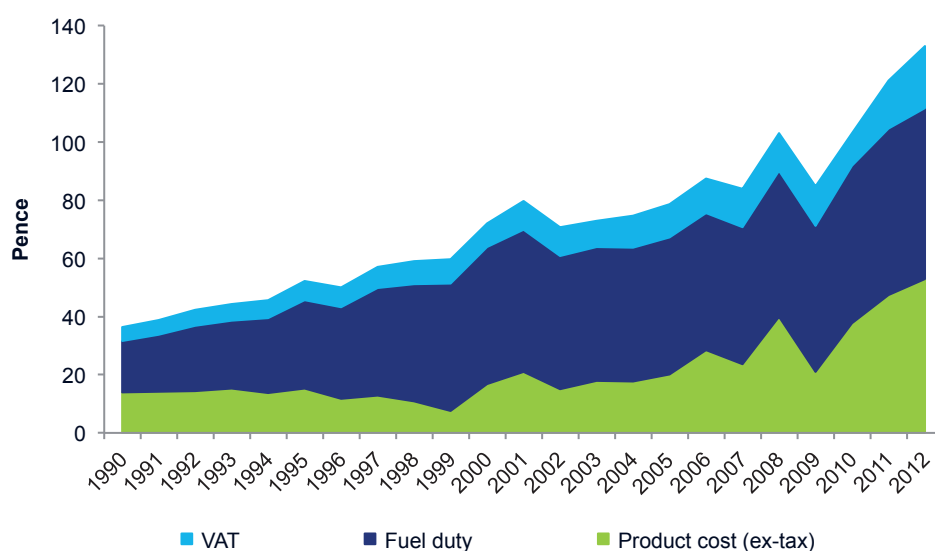
- UK pump prices have three major components: fuel duty, Value Added Tax (VAT) and the cost of producing, distributing and retailing the fuel.
- Taxes make up the majority of the pump price, accounting for approximately 60% of the total price.
- The UK product cost of petrol/diesel is one of the lowest in Europe. However, due to the high level of taxes, UK unleaded petrol pump prices are above the European average; in terms of diesel, the UK has one of the highest pump prices in Europe.
- Since 2003, increasing international crude oil prices have been driving the rise in fuel prices at the pump.
- The Fair Fuel Stabiliser was introduced in March 2012 to limit the impact of crude oil price volatility on UK pump prices. Its effect has so far been limited.

## 1. UK fuel taxation

Note: Only petrol prices are displayed here for the sake of simplicity. Diesel prices show similar trends.

Source: Deloitte analysis of DECC, *Energy Price Statistics, Oil and petroleum price statistics, Typical retail prices of petroleum products 1970 to 2010*

Figure 1: Unleaded petrol pump price breakdown



**UK fuel pump prices have three major components: product costs, fuel duty and VAT.**

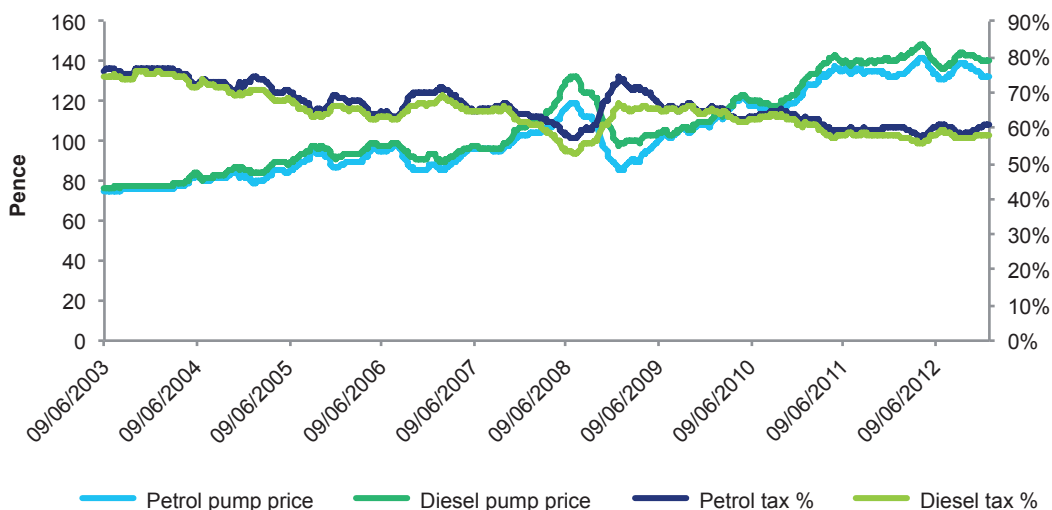
**Product costs** include the cost of crude oil, refinery margins, distribution costs, storage costs and retail margins. Each of these is discussed in separate factsheets.

**Fuel duty** (also called hydrocarbon oil duty or fuel tax) is an excise tax levied on the majority of fuel types used for transport in the UK.<sup>1</sup> Since 1994, duty on diesel and petrol has been set at the same level on both products. The UK is one of the few European countries that follow this policy. The level of fuel duty is set by the Budget. In the March 2011 Budget, fuel duty was reduced by one pence to 57.95 pence per litre (ppl), where it currently stands. The rise of 3.02 ppl, which was announced in Budget 2012 (March) for August 2012, was cancelled in Autumn Statement 2012. The next rise was due to take place in September 2013 but in Budget 2013 the Chancellor cancelled it.



**VAT** is also levied on the final price and is currently 20%.

**Figure 2: Average pump prices and percentage of total tax (fuel duty and VAT) as a share of unleaded petrol and diesel prices**



Source: Deloitte analysis of DECC, *Energy Price Statistics*, *Oil and petroleum price statistics*, *Weekly fuel prices*

The total tax (including fuel duty and VAT) paid on fuel as a percentage of the pump price has been decreasing in the past ten years, falling from around 75% in 2003 to around 59% in 2012.

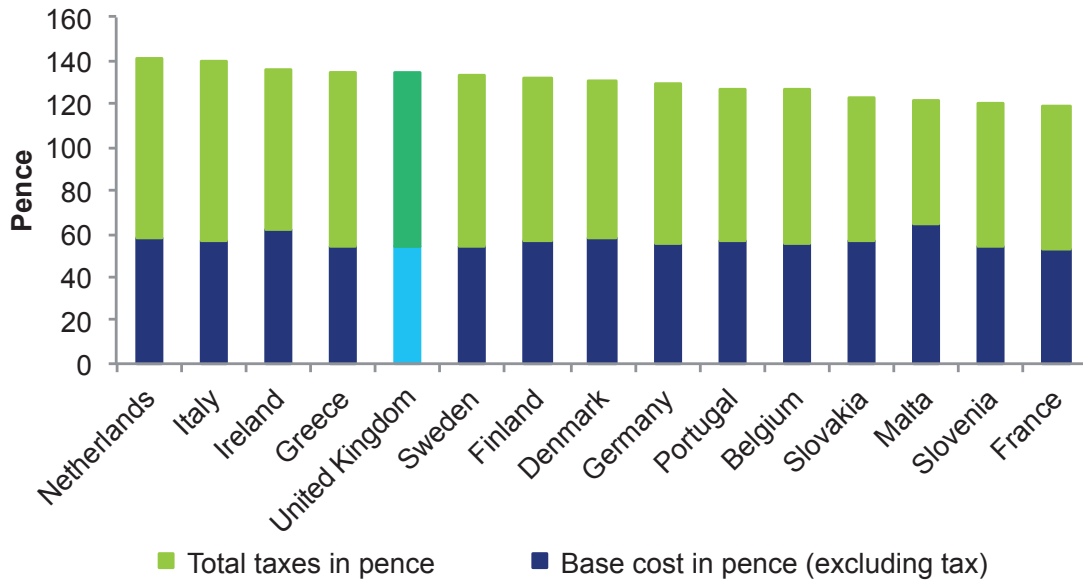
Fuel duties are a considerable source of income for the Treasury. In the 2010/11 fiscal year, fuel duty provided the Treasury with £27.3 billion (equivalent to 5.1% of total government income).

<sup>1</sup> Reduced level or no duty is paid on fuel for local bus services, aviation fuel and some construction and farm vehicles.

# UK fuel market review

## UK fuel taxation

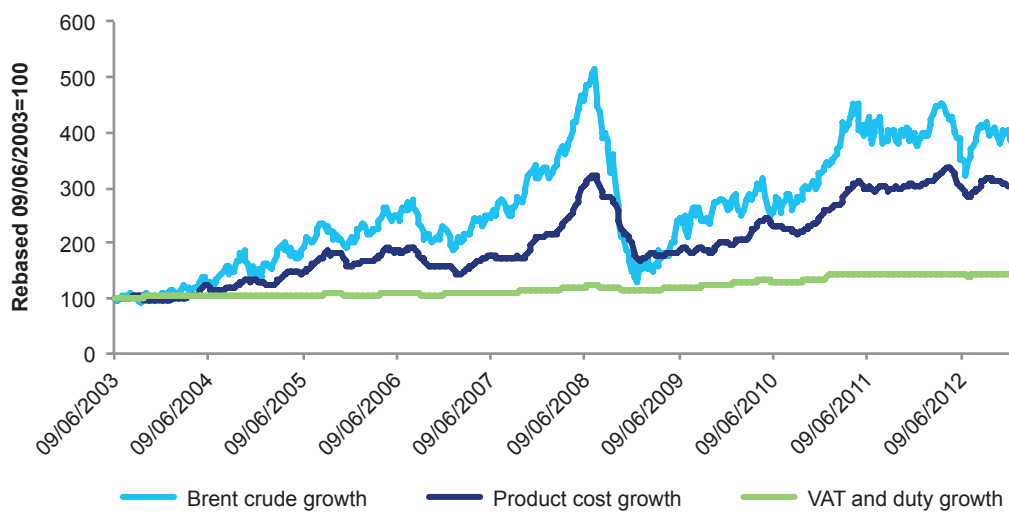
**Figure 3: Pump prices of unleaded petrol in major EU member states (Nov 2012)**



Source: DECC, *Energy Price Statistics, International comparisons, Premium unleaded petrol/diesel prices in the EU*

The product cost of UK fuel is one of the lowest among major EU member states. For example, at 54.2p, the UK ex-tax cost of unleaded petrol was lower than the EU average in November 2012, as shown in Figure 3. However, due to the high level of taxes, UK unleaded petrol pump prices are above the European average; in terms of diesel, the UK has one of the highest pump prices in Europe.

**Figure 4: Annual diesel price breakdown**



Note: Growth indicator 2003=100

Source: Deloitte analysis of DECC, *Energy Price Statistics, Oil and petroleum price statistics, Weekly fuel prices*

Fuel prices have shown a clear, continuous upward trend since 2003 and currently are close to historical highs.



## 2. Fuel price rise as a result of product cost increases

Figure 4 shows that from 2003 the main reason for petrol price increases was the rise in the price of crude oil, the largest component of the product cost of fuel. Crude oil prices grew considerably after 2003, peaking in mid-2008 and then declining sharply until early 2009. Although demand weakened in the wake of the economic crisis and lower crude oil prices reduced pump prices, these factors were not fully reflected in the prices at the pump in part due to the level of taxation. Pump prices started to increase in 2009 and today they are at historical highs.

In January 2013 a report by the OFT concluded that at a national level competition is working well.



## 3. Fair Fuel Stabiliser



The Fair Fuel Stabiliser (FFS) was part of the Conservative Party's election manifesto to limit the impact of crude oil price volatility on fuel pump prices. The FFS was introduced in the 2011 Budget and took effect from March 2012. The mechanism keeps the rise in fuel duty to the level of inflation when crude oil prices increase above the agreed trigger price of £45 per barrel of Brent crude (\$75 at current exchange rates). The trigger price is fixed in sterling and reviewed every three years. While the removal of the escalator results in a loss of revenue for the Treasury, this is recovered through a tax rise on oil producers in the North Sea Continental Shelf. When oil prices are high, the tax on oil production from the North Sea rises from 20% to 32%.

However, when oil prices drop below the trigger price of £45 per barrel, fuel duty will be allowed to rise by one pence above inflation and the tax on oil companies may be reduced.

This factsheet was last updated January 2013.

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