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Fuelling Inflation

The Chancellor should introduce a variable tax on fuel in order to soften the blow of record oil prices on consumers and businesses, according to the RAC Foundation.

The poorest and most dependent rural families are now spending over a quarter of their weekly income running a car because of increases at the pumps - yet petrol is still being taxed as a luxury rather than the necessity it is to them.

The Foundation believes that urgent action is needed as the sharp rise in fuel prices has pushed the level of inflation to its highest level in more than eight years. The price of crude oil is reaching new heights and is approaching the record levels seen in 1977 triggered by the Iranian Revolution. This situation may be further exacerbated by last week's storm in the Gulf of Mexico.

Some analysts are predicting the cost of oil may hit \$100 per barrel and while there is little that Government can do to influence world oil prices, they do have the power to affect pump prices by varying the amount taken in taxation from every litre. For example, if the pump price was 80.9 pence (average price last year) per litre:

- 16.3 pence represents the cost of the product,
- 5.3 pence goes to the oil company/retailer to cover costs of supply, filling station operation and profit
- 59.3 pence goes to the Government in duty and tax.

Fuel excise duty is charged at the fixed rate of 47.1 pence per litre on unleaded and diesel, and on top of this - VAT is charged at 17.5 per cent. So, at last year's prices, the duty and tax element made up three quarters of the pump price.

Government collects £22.1 billion a year from fuel duty plus £5.6 billion from VAT on fuel so in effect, sets the price that motorists pay at the pump. In total, over £42 billion per year is collected in road user taxes - with only a small proportion spent on maintaining or improving the road network.

Three-quarters of households in the UK now own a car. The lowest levels of ownership are in the North East, London and Scotland (62, 65 and 65 per cent respectively); while the highest levels are in the South East, South West and East (all over 80 per cent) and almost a third of households (29 per cent) in the lowest income group own a car. The least well off households now, however, proportionally spend more on running their essential vehicles than better off families.



Over the last four years the RAC Foundation has repeatedly called on the Government to give consideration to a differential fuel duty system which provides at least a partial cushion to road users from the price instability in world markets and has now written to John Healey MP, Financial Secretary to the Treasury, suggesting that the idea is given urgent attention.

When world prices go up and down - the duty would be varied to achieve a consistent price. Individuals and businesses would be able to budget for fuel prices from year to year while the Government also benefits from a VAT windfall when the oil prices are increased.

A variable tax on fuel was introduced in 2000 in France by the socialist government of Lionel Jospin, but was abolished a year later by the newly elected centre-right administration.

The Foundation is also advocating the introduction of further fiscal and educational incentives to assist motorists to switch to alternative fuel sources and is encouraging the development and take-up of low carbon vehicles through its membership of the Low Carbon Vehicle Partnership.

Edmund King, executive director of the RAC Foundation said:

"In light of the record world oil prices and instability in the markets the Chancellor should help to stabilise fuel prices by introducing a variable tax. Current hikes are fuelling inflation and hitting those low-income and rural car dependent motorists hardest. The Chancellor could and should introduce a mechanism whereby fuel duty is reduced if world prices hit a certain level and increased if they fall below another level. The Treasury would still benefit from increased VAT returns if prices go up.

"Such a system would bring relief to many millions of motorists and hauliers whilst helping to reduce hardship and increased inflation. It would help people to plan their spending on essential travel"

The Foundation also feels that the motorist can do their bit to save fuel. New cars are becoming more fuel-efficient and therefore if purchasing a new or used vehicle the motorist should pay attention to fuel efficiency. The recent fuel labelling system for new cars will help the consumer. The Foundation has also found that the more relaxed the driver the more they tend to save on fuel bills. The Foundation's relaxation driving tips include:

1. Plan your journey carefully to avoid congestion, road works and getting lost. Allow plenty of time for the trip. Never driver for more than two hours without taking a break.
2. Before setting off adjust the mirrors, seating and heating / ventilation for maximum comfort. Maintain a constant flow of fresh air into the car.
3. Vehicle breakdowns can be stressful. Carry out routine checks regularly and ensure your car is regularly serviced and well maintained. Check your tyre pressure regularly; under inflated tyres wear out more quickly and can increase fuel consumption by up to three per cent.



4. Drive defensively - avoiding harsh acceleration and heavy braking where possible. Pulling away too fast uses up to 60 per cent more fuel.
5. Be tolerant of other road users and errors they may make. Listen to relaxing music, or practice breathing exercises to keep calm.
6. Use the gearbox efficiently - changing gear at a more modest engine speed can reduce fuel consumption by up to 15 per cent.
7. Drive off immediately when starting from cold - idling to heat the engine wastes fuel and causes rapid engine wear.
8. Avoid short journeys - a cold engine uses almost twice as much fuel, while catalytic converters can take five miles to become effective. Take a walk in the fresh air to the local shops instead.
9. Stick to speed limits and make your fuel go further - driving at 70mph uses up to 30 per cent more fuel than at 50mph.
10. If you are stuck in a jam, switch off - turning off the engine after two minutes will save fuels and cut all emissions.