

Fuel price and duty update – Spring Budget 2017



Fact Sheet

Background

The price of oil per barrel fell in January 2016 reaching \$28 a barrel, the lowest it had been since late 2003. This was due to massive oversupply and weakening global demand from Europe and China. There has been a recovery in prices in the following months with the price of oil currently around \$56 a barrel.

In the Autumn Statement on 23 November 2016, the Chancellor of the Exchequer announced that he had frozen fuel duty for 2017/18, cancelling a potential increase of 1.85 pence per litre due on 1 April 2017. The Government stated in its Budget 2016 policy costing document that its policy is to increase fuel duty rates by RPI inflation each year from April 2017.

Current economic climate

The Spring Budget 2017 takes place on 8 March 2017 against a backdrop of a UK economy that has experienced steady growth since the start of 2013, with secondary estimates for Q4 2016 indicating that GDP rose by 0.7 per cent. The annual growth in GDP was 2.0 per cent compared to Q4 2015. Retail sales have recorded sustained growth with January 2017 being the 45th consecutive month of year-on-year growth. Inflation is comparatively low (the Consumer Prices Index (CPI) was 1.8 per cent in January 2017 up slightly from 1.6 per cent in December 2016) and the highest level it has been since June 2014.

The UK's freight transport sector continues to face a challenging business environment with businesses having to contend with high operating costs and recovering levels of business activity. The UK economy has grown for 16 consecutive quarters since the start of 2013 and is now 8.6 per cent above the peak in Q1 2008. The increase in growth has been dominated by the service sectors. The economic growth is welcome and the Government must ensure that it is sustained and broadened across all sectors of the economy.

World oil prices have risen in 2016 and in particular since OPEC first announced plans in September 2016 to cut production. In November 2016, OPEC announced that members would cut production by 1.2 million barrels a day from 1 January 2017. Non-OPEC members followed that by announcing cuts of 600,000 barrels a day also from 1 January 2017. Prices are currently around \$56 a barrel.

In a low margin business (around three per cent) such as logistics, it is vital that operators remain competitive and are therefore more likely to pass on any cost savings or increases on to customers. According to results from FTA's Manager's Guide to Distribution Costs, total operating costs for a 44 tonne gw artic rose by 7.0 per cent in the 12 months to 1 January 2017 with increases in most input costs, most notably the price of fuel. Haulage rates rose by just 0.6 per cent in the same period, with FTA members indicating that 69 per cent of the sample rates had been frozen during 2016 and that 14 per cent had been reduced due to lower fuel prices earlier in the year.

FTA welcomed the Chancellor's announcement in the 2016 Autumn Statement to cancel the April 2017 increase in fuel duty. According to FTA's Manager's Guide to Distribution Costs, fuel currently represents almost 33 per cent of the total operating costs of a 44 tonne truck, but it has been around 40 per cent for much of the last five years. Fuel costs for one such truck are estimated to be around £45,600 per annum as at 1 January 2017. FTA estimates that just a one penny increase in duty adds around £470 per year to the cost of running just one of these vehicles. Many FTA members run fleets numbering hundreds or even thousands of vehicles. FTA estimates that a one penny increase in fuel duty costs industry £101.5 million a year. Therefore, ahead of the Spring Budget 2017, FTA has urged the Government to go further and reduce fuel duty by three pence per litre.

Impact of potential fuel duty increases

In the Autumn Statement on 23 November 2016, the Chancellor of the Exchequer announced that he had frozen fuel duty for 2017/18, cancelling a potential increase of 1.85 pence per litre due on 1 April 2017.

HM Treasury uses a Retail Price Index (RPI) inflation forecast for the next tax year to calculate/estimate increases in fuel duty.

Using these figures, the current estimated saving to the freight industry of the fuel duty increase being frozen is approximately £188 million per year.

If the Chancellor of the Exchequer were to raise fuel duty, FTA estimates that operators with individual vehicles could see an annual increase in costs (excluding VAT) of the following.

	1p rise in fuel duty		2p rise in fuel duty		3p rise in fuel duty	
	Per vehicle	Per fleet of 10	Per vehicle	Per fleet of 10	Per vehicle	Per fleet of 10
Car derived vans	£27	£272	£54	£544	£82	£816
Vans of 3.5 tonnes GVW	£61	£612	£122	£1,224	£184	£1,836
7.5 tonnes GVW rigid	£114	£1,137	£227	£2,273	£341	£3,410
16-18 tonnes GVW rigid	£227	£2,273	£455	£4,546	£682	£6,819
44 tonnes GVW artic	£471	£4,712	£942	£9,425	£1,414	£14,137

Key facts

FTA has consistently called for a three pence per litre cut in fuel duty, which would deliver around £1,400 annual saving on the running cost of a 44 tonne truck. As a founder member of FairFuelUK, FTA has lobbied Government for a reduction in fuel duty to support transport firms that operate on tight margins and now face uncertainty following the Brexit vote.

Trends in fuel duty and prices

Changes in fuel duty rates since March 2001

Date	Ultra low sulphur petrol/diesel (ppl)	Sulphur free petrol/diesel (ppl)	Biodiesel (ppl)	LPG (as road fuel) (p/kg)	Natural gas (as road fuel) (p/kg)	Rebated gas oil (red diesel) (ppl)
07/03/01	45.82			9.00	9.00	3.13
26/07/02	45.82		25.82	9.00	9.00	3.13
01/10/03	47.10	47.10	27.10	9.00	9.00	4.22
03/12/04	47.10	47.10	27.10	9.00	9.00	5.22
07/12/06	48.35	48.35	28.35	12.21	10.81	7.69
01/10/07	50.35	50.35	30.35	16.49	13.70	9.69
01/12/08	52.35	52.35	32.35	20.77	16.60	10.07
01/04/09	54.19	54.19	34.19	24.82	19.26	10.42
01/09/09	56.19	56.19	36.19	27.67	22.16	10.80
01/04/10	57.19	57.19	57.19	30.53	23.60	10.99
01/10/10	58.19	58.19	58.19	31.95	25.05	11.18
01/01/11	58.95	58.95	58.95	33.04	26.15	11.33
23/03/11	57.95	57.95	57.95	31.61	24.70	11.14
01/04/18	<i>To be confirmed in the Autumn 2017 Budget</i>					

Source: HMRC Hydrocarbon Oils Historic Duty Rates

Key facts

Duty on petrol and diesel was cut by one pence per litre to 57.95 pence per litre on 23 March 2011. All subsequent increases planned during the last Parliament were cancelled due to successful lobbying.

Between 7 March 2001 and 23 March 2011 the duty on diesel and petrol increased from 45.82 pence per litre to 57.95 pence per litre. This is a rise of 26.5 per cent. Underlying inflation between March 2001 and March 2011 increased by 36.6 per cent.

Fuel duty represented 61.4 per cent of the cost of a litre of bulk diesel (excluding VAT) as at 24 February 2017.

Changes in bulk fuel prices since 2007

Fuel type	1 Jan 07 (ppl)	24 Feb 17 (ppl)	% change
Diesel	74.12	94.42	27.4%
Unleaded petrol	72.17	94.96	31.6%
Gas oil	32.24	48.50	50.4%

Source: Accenture

Key facts

Bulk contract diesel (excluding VAT) rose by 19.3 per cent, unleaded petrol rose by 19.3 per cent and gas oil rose by 46.0 per cent from 25 February 2016 to 24 February 2017. Underlying inflation in the 12 months to January 2017 increased by 2.9 per cent.

Importance of fuel costs in overall operating costs as at 1 January 2017

Vehicle type	Low mileage (miles pa)	Fuel costs as a % of total cost of vehicle and driver	Average mileage (miles pa)	Fuel costs as a % of total cost of vehicle and driver	High mileage (miles pa)	Fuel costs as a % of total cost of vehicle and driver
7.5 tonnes rigid	30,000	17.7%	40,000	18.7%	50,000	19.3%
10–12 tonnes rigid	42,500	23.5%	50,000	23.3%	60,000	22.7%
12–14 tonnes rigid	35,000	20.7%	40,000	20.1%	50,000	20.2%
16–18 tonnes rigid	50,000	27.0%	60,000	26.3%	70,000	26.3%
26 tonnes rigid	50,000	28.1%	60,000	27.2%	70,000	26.6%
32 tonnes rigid	50,000	30.3%	55,000	27.9%	65,000	27.9%
33 tonnes (2+2) artic	60,000	31.5%	75,000	31.4%	85,000	30.5%
38 tonnes (2+3) artic	65,000	31.4%	75,000	31.1%	85,000	31.0%
38 tonnes (3+2) artic	50,000	29.2%	70,000	30.8%	85,000	31.8%
32.5 tonnes drawbar	45,000	26.0%	60,000	28.1%	80,000	29.2%
40 tonnes (2+3) artic	50,000	28.8%	70,000	30.9%	80,000	30.1%
44 tonnes (3+3) artic	70,000	33.4%	85,000	32.7%	100,000	32.3%

Source: FTA Manager's Guide to Distribution Costs, January 2017 Update Report

Key facts

In January 2017, fuel costs represented 32.7 per cent of total costs for a 44t GVW artic based on an average mileage of 85,000 miles per annum. In January 2007, fuel costs were 30.0 per cent of total costs. A high of 40.4 per cent was reached in July 2008 when world oil prices soared.

The annual fuel bill for a 44t GVW artic running an average mileage has increased from £32,816 in January 2007 to £45,599 in January 2017. This is an increase of 39.0 per cent.

Between 1 January 2016 and 1 January 2017, total vehicle operating costs for a 44t GVW artic rose by 7.0 per cent. Excluding fuel, total costs rose 2.1 per cent. Underlying inflation in the 12 months to January 2017 increased by 2.1 per cent.

The volatility of Sterling against the US Dollar in recent years has highlighted the effect of world oil price rises for UK motorists.

Between 1 January 2007 and 24 February 2017, Sterling began at \$1.97, reached a high of \$2.11 and a low of \$1.21 and currently stands at \$1.24.

Tax revenue from road users

Industry contribution* in fuel duty and VED revenue

Fuel duty is not due to rise until April 2018 following the 2016 Autumn Statement announcement. The most recent estimate of RPI inflation from the Office for Budget Responsibility suggests this increase could be as much as two pence per litre. This could cost industry an additional **£203 million minimum** per year on top of the £6.7 billion per annum tax-take from fuel duty and vehicle excise duty from vans and trucks only.

	2016/17 (£ billion)
Fuel duty revenue*	5.88
VED revenue*	0.82
Total	6.70

*Industry contribution from HGVs and vans only calculated by FTA using figures from Transport Statistics Great Britain 2016 published by the Department for Transport (DfT)

EU fuel duty and forecourt diesel price comparison

EU member state	Price excluding duty (pence per litre)	Fuel duty (pence per litre)	Fuel Duty Index	Net selling price (pence per litre)	Variation on UK price (pence per litre)
Austria	45.37	34.88	60.19	80.25	-22.37
Belgium	44.38	43.68	75.38	88.07	-14.55
Bulgaria	45.66	28.12	48.53	73.79	-28.83
Croatia	46.87	34.98	60.36	81.85	-20.77
Cyprus	48.66	39.23	67.69	87.88	-14.74
Czech Republic	45.03	34.50	59.54	79.53	-23.09
Denmark	50.81	35.88	61.91	86.69	-15.93
Estonia	54.81	33.45	57.73	88.27	-14.35
Finland	50.53	42.44	73.24	92.97	-9.65
France	43.36	46.55	80.33	89.91	-12.71
Germany	45.52	40.05	69.12	85.57	-17.05
Greece	53.03	35.82	61.81	88.85	-13.77
Hungary	48.11	33.69	58.13	81.80	-20.82
Ireland	45.36	42.49	73.32	87.84	-14.78
Italy	45.33	52.57	90.71	97.90	-4.72
Latvia	47.14	29.72	51.28	76.85	-25.77
Lithuania	47.28	28.11	48.51	75.39	-27.23
Luxembourg	46.29	28.52	49.22	74.81	-27.81
Malta	44.92	40.22	69.41	85.15	-17.47
Netherlands	46.12	42.05	72.57	88.17	-14.45
Poland	45.17	28.73	49.57	73.89	-28.73
Portugal	48.48	39.71	68.52	88.19	-14.43
Romania	47.40	27.95	48.23	75.35	-27.27
Slovakia	47.80	35.42	61.13	83.23	-19.39
Slovenia	39.77	42.77	73.81	82.54	-20.08
Spain	48.31	31.28	53.98	79.59	-23.03
Sweden	50.69	50.13	86.51	100.82	-1.80
United Kingdom	44.67	57.95	100.00	102.62	0.00
EU average (excluding UK)	47.12	37.15	64.10	84.27	-18.35

Source: EC Directorate-General for Energy, Weekly Oil Bulletin No 1840 20 February 2017

Key facts

The United Kingdom levies the highest fuel duty in the European Union.

UK fuel duty on diesel needs to fall by 21 pence per litre to achieve parity with the average duty rate in the rest of the European Union.

UK forecourt diesel prices excluding VAT need to fall by 18 pence per litre to achieve parity with the average forecourt price in the rest of the European Union.

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