



March 2021

POLICY BRIEF:

FUEL DUTY

Our policy briefs offer insight and analysis to help inform ongoing policy development as relates to carbon pricing. This brief was written by Hannah Dillon, Head of the Zero Carbon Campaign.

Overview

At budget 2021, Fuel Duty was frozen at 57.95p per litre for the eleventh year in a row. Whilst this move has been celebrated by the likes of the Sun - touting the success of their “Keep it Down’ [campaign](#) - it has been widely criticised by climate campaigners, who view it as yet another failure from this Government to underline their ‘world-beating’ green rhetoric with concrete action.

Fuel Duty is a notoriously divisive policy, and the ongoing commitment to maintaining the current Fuel Duty rates - which has [hampered progress](#) on UK emissions reductions - exposes just how hesitant this Government are to champion environmental policies that will have a tangible and noticeable impact on people.

However, as the Climate Change Committee has highlighted, 62% of the emissions reductions required to achieve ‘net zero’ will involve some form of behaviour change.¹ This means that, as we decarbonise our economy, we are increasingly going to have to ask people to play an active role in facilitating the low-carbon transition. As Director of the European Climate Foundation Joss Garman has described, we are nearing the end of Britain’s [‘invisible transition’](#).

This brief explores public and political attitudes towards Fuel Duty, and what further policy interventions may be required to drive the large-scale decarbonisation of road transport, in line with the UK’s 2050 net zero target.

Fuel Duty as a carbon price

Although it is inaccurate to describe Fuel Duty as a ‘carbon price’ - because it serves many purposes - the effective carbon price of Fuel Duty is around £190/tCO_{2e}, according to the [Zero Carbon Commission](#). This is significantly higher than carbon pricing across other sectors of the UK economy.²

As well as addressing these concerns, we must also incentivise greater uptake of low-carbon public transport - including reducing the costs of rail travel, and considering the introduction of road pricing as Fuel Duty revenues decline.³ However, this will not be considered an immediate priority whilst the Coronavirus pandemic persists.⁴

Barriers toward uptake

Range and infrastructure:

69% of [motorists](#) in the UK are put off from switching to Electric Vehicles (EVs) due to a perceived lack of EV charging infrastructure. This is acting as a core barrier towards uptake, in spite of the fact that multiple new EV launches now offer ranges of 150 – 300 miles, and still higher ranges will be possible in the coming years.

Since the average person travels 18 miles per day across all transport options,⁵ slow charging at home should meet many consumer needs. However, faster and more widely-available charging capabilities in public spaces will be required, both for consumers who cannot install home chargers, and to reassure people that they can make longer journeys when required.

Cost:

On a lifetime ‘total cost of ownership’ basis EVs are cheaper than petrol engine vehicles, suggesting that - as well as addressing high up-front costs and low car availability - the government needs to do more to advertise and explain the benefits of EVs to the public.

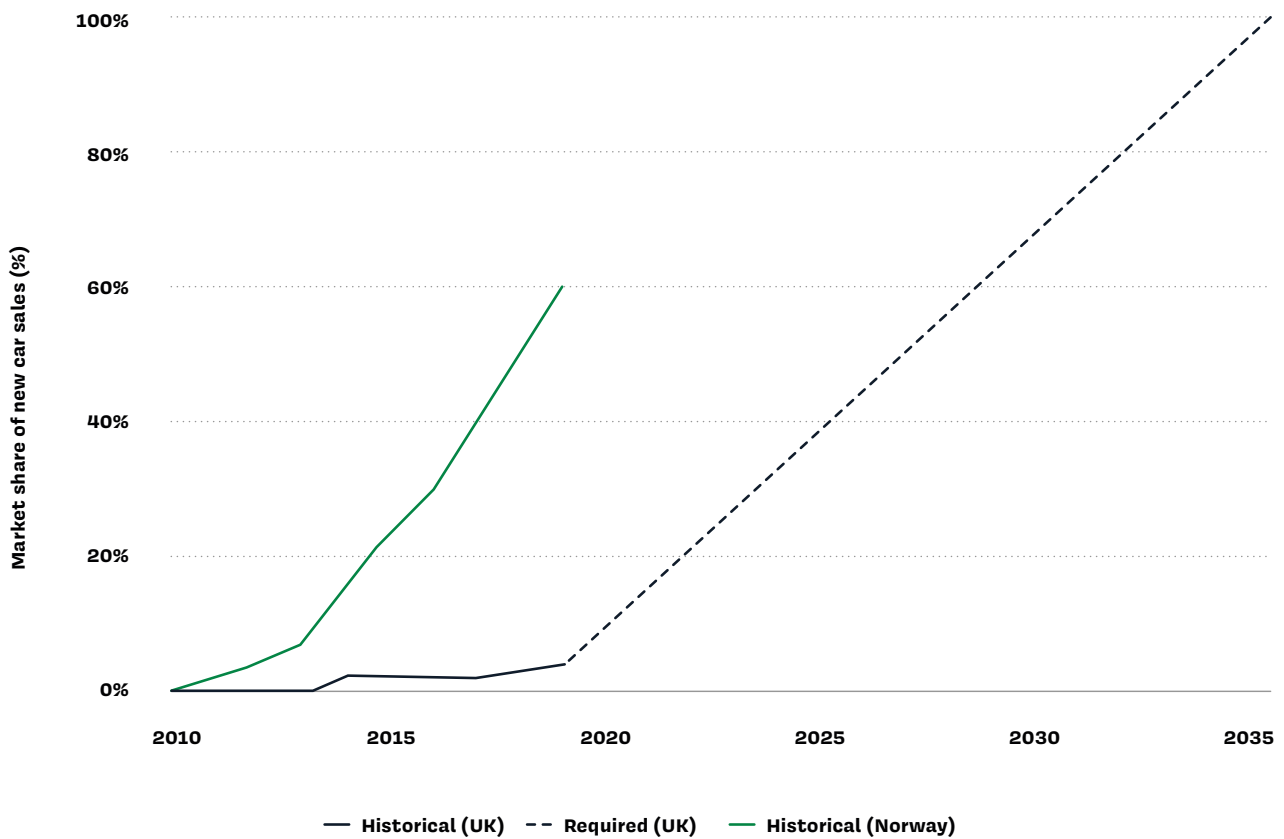
FIG 1: COST COMPARISON BETWEEN ELECTRIC VEHICLES AND INTERNAL COMBUSTION ENGINE VEHICLES

Cost	Electric Vehicles	Petrol engine
Annual fuel cost	£221	£1,322
Total ownership cost	£25,289 (with plug-in grant)	£26,134

Source: Energy Systems Catapult (2020). *Ending the sale of new petrol, diesel and hybrid cars and vans: consultation response*.

There are [lessons](#) we can learn here from Norway, where EVs are 27% cheaper than in the UK, reflecting the Norwegian government’s significant investment in financial incentives (including a [25% tax break for EVs](#)), as well as charging infrastructure: EV ownership in Norway is now the [highest in the world per capita](#), accounting for [almost 60%](#) of new cars sold in March 2019 (comparing with [0.9% that month in the UK](#)).

FIG 2: THE TRAJECTORY REQUIRED TO REACH 100% ELECTRIC CARS BY 2035

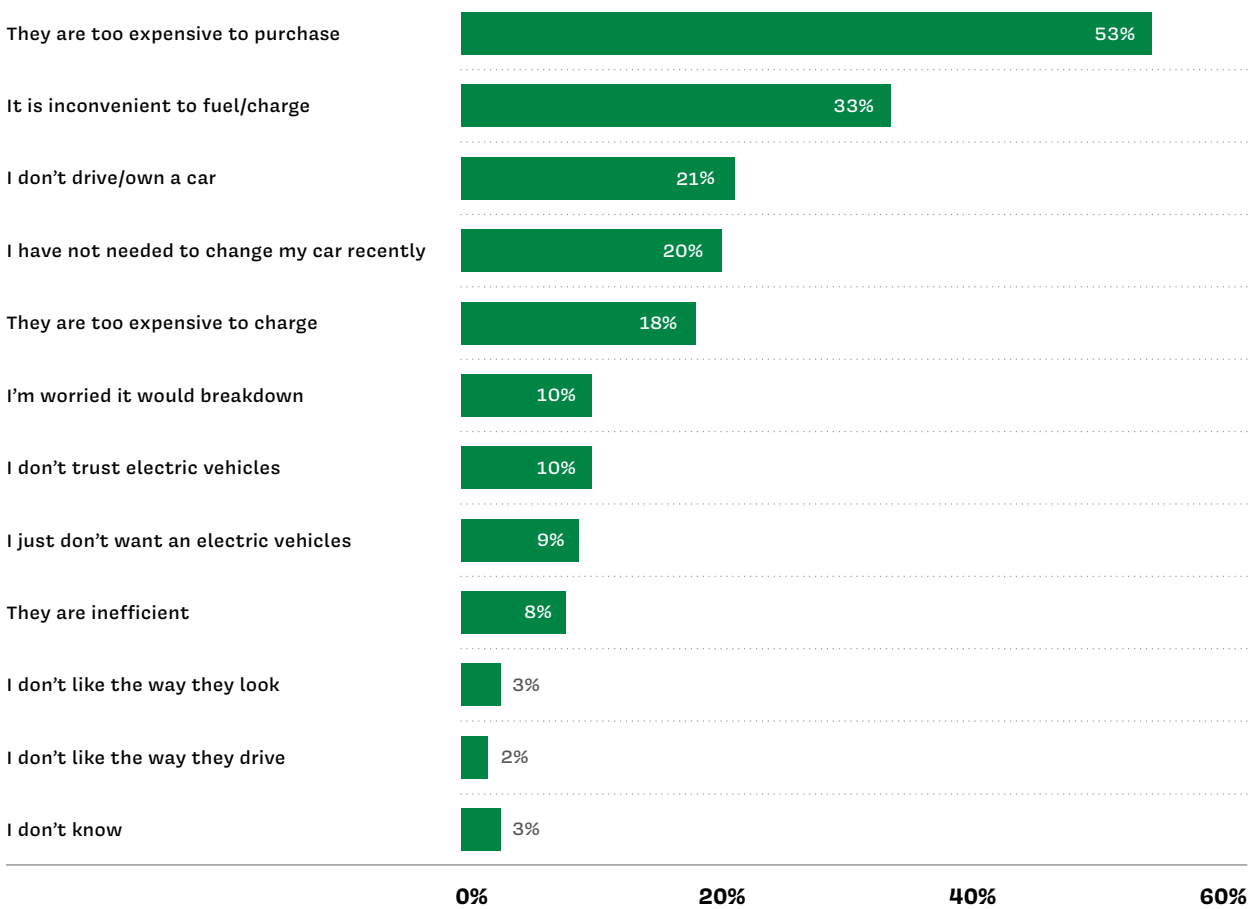


Source: Birkett, E (2020). Route '35: How a California-style ZEV Mandate can deliver the phase-out of petrol and diesel cars. Policy Exchange.

Public Perception:

Our polling found that cost and lack of charging infrastructure were the biggest barriers to EV uptake amongst the UK public. Addressing this should be a core focus of government action.

FIG 6: WHAT HAS PREVENTED YOU FROM BUYING AN ELECTRIC VEHICLE, IF ANYTHING? PLEASE SELECT WHICH APPLY



Source: Public First (June 2020). Green Recovery. P = 2,000.

Further to this, we found that Fuel Duty is not [perceived by the public](#) to be an effective policy instrument. 68% of those who oppose increasing the cost of petrol and diesel do not believe that cost increases will stop people from using these products. This is in spite of the fact that cars were considered to be the biggest contributor to UK emissions (59%), ahead of international flights (50%), manufacturing (42%) and home heating (27%).

Conclusion

Lifting the Fuel Duty freeze will be unpopular with the public, who do not consider Fuel Duty to be an effective policy instrument. Fuel Duty alone will not drive the large-scale uptake of electric road transport that is required to deliver on the UK's 2050 net zero target.

Whilst Fuel Duty should increase at the rate of inflation, the Government should address other barriers towards EV uptake, by prioritising large-scale investment in EV infrastructure and providing more competitive financing options to support vehicle purchase - including consideration of tax breaks to match those provided for charger [installation](#).

Better communication with regards to the cost and range realities of EVs will also be required to alleviate public concerns, alongside the implementation of the proposed ban on the sale of new petrol and diesel vehicles in 2030. It may be that Fuel Duty will have to increase around 2030 to encourage the retirement of remaining ICE vehicles beyond this ban, but there is little political benefit in signalling this increase until a need has been established.

Endnotes

¹ HMG (2020). The Government Response to the Committee on Climate Change's 2020 Progress Report to Parliament. Available [here](#).

² Energy Systems Catapult. Updated Effective Carbon Prices and Emissions in the UK by Sector. Available [here](#).

³ Several EEA member countries have implemented road usage fees for both passenger cars and commercial vehicles, which is determined based on the distance traveled by a vehicle. Nearly every EEA member country has implemented a commercial usage fee with the exception of Cyprus, Estonia, Malta, Iceland, and Liechtenstein. A passenger car fee is less common, with only approximately half of EEA member states having implemented this policy. This policy may become an important staple in environmental regulation as it can potentially replace revenue from Fuel Duties and Vehicle Excise Tax, which will diminish with the shift to electric vehicles.

⁴ As noted by the [Exchequer Secretary](#) on 11th March: *"Households spend a significant amount of their total spending on transport fuels, and fuel costs are a factor in helping the competitiveness of British businesses. These are particularly important considerations in light of the ongoing COVID-19 pandemic with households moving away from public transport towards using their own vehicles to avoid furthering the virus' spread.... The government is taking action to reduce carbon dioxide emissions and improve air quality through Vehicle Excise Duty and the Company Car Tax system."*

⁵ Department for Transport (2019). National Travel Survey: England. Available [here](#).