



DAVID RUFFLEY M.P.  
Bury St. Edmunds

17 AUG 2011

HOUSE OF COMMONS  
LONDON, SW1A 0AA

Dr Wil Gibson  
Chief Executive  
Suffolk Acre  
Brightspace  
106 Hadleigh Road  
Ipswich  
IP2 0HH

15 August 2011

*Dear Wil,*

I enclose the response I have received from Charles Hendry MP, Minister of State for the Department of Energy and Climate Change.

I realise this is not the response you would have wanted. However I hope that his response has at least provided some clarity as to the Government's position on this issue.

If I can be of any further assistance please contact me.

With kind regards,

David Ruffley MP

*Having said that, I think with fuel prices likely to rise in the autumn, the Government may have to look at this again.*

Charles Hendry MP

Minister of State

Department of Energy & Climate Change

3 Whitehall Place

London

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David Ruffley Esq MP  
House of Commons  
London  
SW1A 0AA

28 July 2011

Dear David,

Thank you for your letter dated 29 June to George Osborne, enclosing correspondence from your constituent, Dr Wil Gibson, Chief Executive of Suffolk ACRE, Brightspace, 160 Hadleigh Road, Ipswich IP2 0HH, about rising fuel prices. I am replying as this matter falls within my portfolio.

The Government is aware that the increases in fuel prices experienced recently have been costly for consumers and are a continuing cause of concern. A stable and fair oil price is a key UK objective, as it preserves economic growth and ensures investment in oil production, alternative technologies and energy efficiency.

A range of factors such as crude oil prices, refinery capacity, stock levels, distribution costs, retail margins, the level of tax and exchange rates influence the retail price of petrol and diesel. The price of crude oil is only one of these factors, and there is typically a lag between changes in crude oil price to changes in retail prices.

Petrol and diesel prices have been increasing this year to reflect the changes in crude oil and wholesale prices (which have increased by 24% since the start of the year), with a lag. Petrol now costs, on average, 134.18 p/l, and diesel costs, on average, 138.40 p/l. Petrol is 14.74 p/l and diesel 5.51 p/l higher than the record highs seen in July 2008.

Crude and wholesale product prices fluctuate on a daily basis; however retailers typically change prices less frequently and respond only to sustained price movements. This, combined with lags in supply agreements between retailers and wholesalers, means that there is a time lag, often amounting to several weeks, before the impact of a change in crude and then wholesale prices is fully reflected at the pumps.

The relationship between crude and fuel prices is not one-to-one, with numerous other factors affecting the retail price of petrol. The largest single component in the retail petrol price is tax and duty, which currently accounts for around 58% of the final pump price. As fuel duty is charged at a fixed rate per litre, the retail petrol and diesel price is always less volatile than the cost of crude or even the cost wholesale fuels. As a result, a reduction in the oil price produces a less than proportionate reduction in retail petrol prices. The relationship between crude prices and the retail price of oil products is also complicated by a number of factors including the exchange rate between pounds sterling and the US dollar.

The Government cut fuel duty by 1 penny per litre on Budget day. We also abolished the fuel duty escalator which would have increased duty by 1 penny above inflation each year up until 2014. Furthermore, we have also made sure that there will be no fuel duty rise this year by deferring April's inflation-only increase to January 2012.

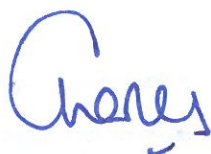
Additionally, we took steps on wider issues around motoring. The Chancellor announced that we are also limiting Vehicle Excise Duty (VED) changes to inflation based maintenance increases, and freezing VED for Heavy Goods Vehicles, in recognition of their vital role in servicing the economy. We are increasing the tax-free mileage reimbursement rates (known as Approved Mileage Allowance Rates, or AMAPs) for employees that use their own cars on business journeys from 40 pence per mile to 45 pence per mile, following 8 years of inaction from the previous Government. Taken together Budget 2011 announced a £1.9bn package of support to ease the burden on motorists, hauliers and businesses.

We are very aware of how hard it can be financially in some remote rural areas, where travel by car is a necessity for those living there. I can also confirm that a derogation request has been submitted to the European Commission for a rural fuel duty rebate pilot scheme. This is intended to deliver a 5 pence per litre duty discount on petrol and diesel across the Inner and Outer Hebrides, the Northern Isles, the islands in the Clyde and the Isles of Scilly. Pump prices in these areas are particularly high compared to mainland areas because of the high costs of transporting and distributing fuel to rural island communities.

On the suggestion for a rural system for VED, we understand that motoring is an essential part of everyday life for many households and businesses and the Government recognises that for some, especially in rural areas, driving can be a necessity. VED makes an important contribution to general taxation revenues. It is an annual tax payment on the license that each vehicle requires to run on the public road network. These roads are paid for through general taxation. The current structure of VED, which is arranged according to vehicle type and registration date, was set by successive Governments.

For simplicity and ease of administration VED needs a reliable and verifiable yardstick on which to base rates. We use measured CO<sub>2</sub> for cars registered from March 2001 and engine size for earlier cars. Incorporating a postcode basis would increase the cost of collecting the tax. It would also increase the risk of fraud, and would therefore be to the disadvantage the majority of car owners.

Yours ever,



**CHARLES HENDRY**