



UK Petrol Prices

Posted by [Chris Vernon](#) on May 3, 2006 - 5:02pm in [The Oil Drum: Europe](#)

Topic: [Miscellaneous](#)

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As fuel prices rise everyone seems to be talking about the price we pay at the pump. However it also seems that many people don't really understand how that price comes about. Hopefully this short piece will help.

There are three main components to the price at the pump:

- Price of the product
- Excise duty
- Value Added Tax (VAT)

The price per litre at the pump is simply:

Price of the product + Excise duty + VAT

We'll work backwards from the recent record price of 96.13p per litre of petrol reported Thursday, 27 April 2006 ([BBC News](#)). The average price of April was a little lower at 94.6p, significantly up on March's price of 90.0p ([link](#)).

First the VAT at 17.5%, which on 96.13p is 14.32p ($96.13 - 96.13 / 1.175$).

Second the duty. This is a little more complicated, the BBC article above states petrol has 47.1p duty on a litre. This came into force on the 1st Oct 2003 ([link](#)).

From 21st Sept 2004 this was meant to increase to 49.02p ([link](#)) but I don't believe this ever happened.

The 2005 budget said that from 1st Sept 2005 the duty would increase by 1.22p (+2.59%) to 48.32p in line with inflation ([link](#)). This never happened.

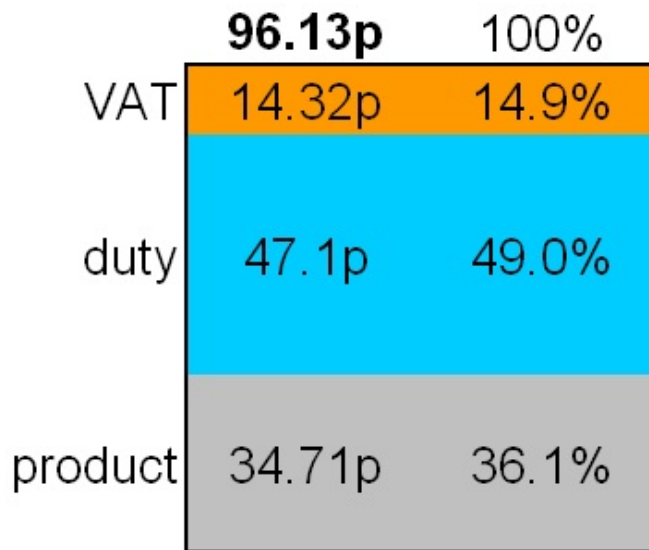
The 2006 budget said that from 1st Sept 2006 the duty will increase by 1.25p (+2.65%) to 48.35p in line with inflation ([link](#)). This hasn't happened yet so we are still paying the 1st Oct 2003 duty of 47.1p on a litre.

This 31 month freeze in duty could be interpreted as a cut of 2.0p that was due against inflation (4.3% inflation 31 months Aug03-Mar05 ([link](#))).

So going back to our litre of petrol at 96.13p we have 14.32p of VAT and 47.1p of excise duty leaving 34.71p per litre for the actual product. In percentage terms that is 14.9% VAT, 49.0% excise duty and 36.1% product.

One litre of petrol at 96.13p

Thursday, 27 April 2006



So 63.9% (61.43p) of the sticker price on that record Thursday went to the government.

The 34.71p for the product has to cover the crude oil itself (discovery, extraction etc), the refining, the additives, the transportation, the marketing, the forecourt etc...

Just for ease of comparison, based on the exchange rate on Thursday, 27 April 2006 of \$1.80 to the pound and 0.2642 US gallons to the litre:

The total price of 96.13p/litre = \$6.55 per US gallon

The product price of 34.71p/litre = \$2.36 per US gallon

Response to product price change

It's interesting to see what happens when the price of the product changes.

If the product were to increase in price by 20% from 34.73p to 41.68p what would happen?

The sticker price would become $41.68p + 47.1 + 17.5\% = 104.32p$. An increase of only 8.5% and the rate of tax would fall from 63.9% to 60.0% (62.34p), albeit increasing by 0.91p per litre.

Similarly if the product were to decrease in price by 20% from 34.73p to 27.78p what would happen?

The sticker price would become $27.78p + 47.1 + 17.5\% = 87.99p$. A decrease of only 8.5% and the rate of tax would increase from 63.9% to 68.4% (60.20p), albeit falling by 1.23p per litre.

A feature of a high fixed taxation, the excise duty, is this damping effect of product price variations on the sticker price. In countries with little or no element of fixed duty such variation in the product price would have a much greater affect at the pump.

We should also revisit the impact of the frozen level of duty against inflation for the last 31 months. The government should increase duty by 2.0p to 49.1p to correct for inflation. However the duty isn't the only tax. The price of petrol in Oct 2003 was 81.3p ([link](#)) of which 12.11p was VAT, 2.21p less than the VAT on our 96.13p litre. **The increasing product price has enabled the VAT proportion of the tax to compensate for frozen duty.** It should also be said that correcting that 12.11p VAT for inflation would add another 0.5p of which only 0.21p

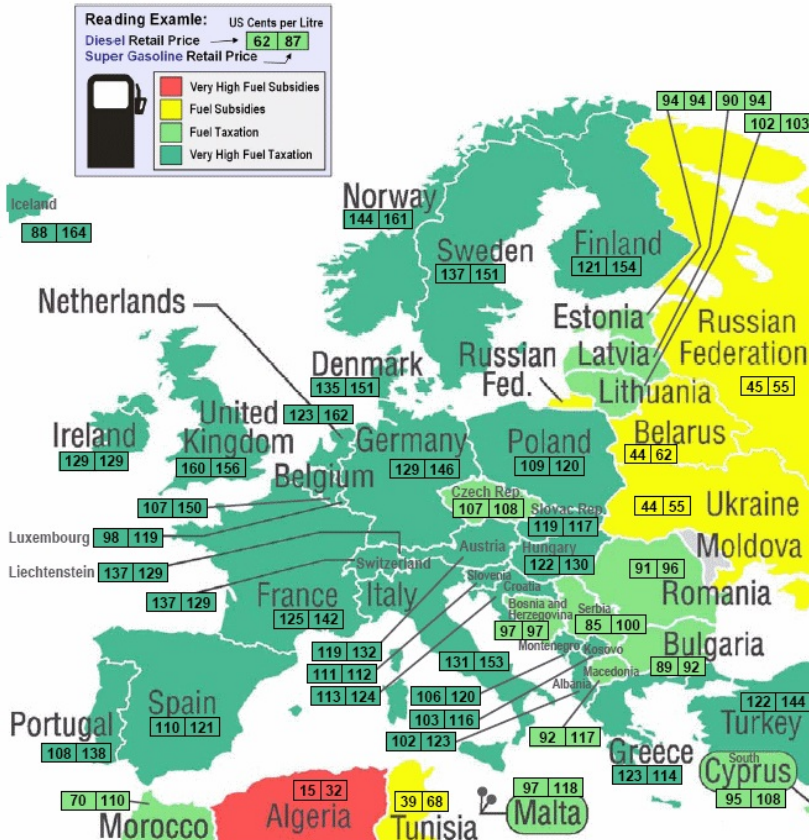
is left over after covering inflation on the duty so it could be said government is taking 0.3p per litre less now than in Oct03.

Prices around Europe

This map from the [International Fuel Prices 2005](#) report shows the price of petrol and diesel across Europe in 2004.

6.1 Retail Fuel Prices in Europe

as of November 2004 in US Cents per Litre



Click to enlarge.

It should be noted that whilst the UK is amongst the most expensive with only Iceland, Netherlands and Norway featuring a higher price, the following major countries are within 7% of the UK price: Finland, Italy, Sweden, Denmark, Belgium and Germany.



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