Motor fuel costs come to the top of the political agenda in the UK

Balls demands cut in fuel Vat

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ED BALLS has challenged the coalition government to step in to curb soaring petrol prices, amid fears that the cost of fuel could hit £1.40 a litre.

The shadow chancellor has called on the government to abandon the recent Vat rise on petrol to ease the misery for motorists. The move would save about 3p a litre at the pump and would help millions of middle-income families struggling with heavy taxes and the rising cost of living.

Balls's intervention will propel fuel prices to the top of the political agenda, putting George Osborne, the chancellor, under intense pressure to act. Last night, the Treasury acknowledged the growing burden on motorists, saying ministers were "actively examining every option".

In an interview with The Sunday Times, Balls urged immediate action, warning that Britain was facing a "cost-of-living crisis".

"Filling up a family car now costs £65-£75. World oil prices are already very high, and the chancellor has chosen, at this very moment, to raise fuel prices further, by pushing up Vat. I am urging him to reverse that increase," he said.

Oil prices are spiralling largely due to the crisis in north Africa and the Middle East.

Petrol prices in the UK are due to rise even further in April if Osborne persists with a planned 1p rise in fuel duty. Families also face rocketing food prices, with consumer price inflation double the Bank of England's 2% target. This is expected to approach 5% in the coming months, severely stretching household budgets.

Balls claimed the chancellor had no excuse not to intervene to relieve motorists, warning that public anger could escalate "very quickly" if he refuses.

"Osborne will say he can't make these sorts of decisions outside the budget, but he recently announced a new bank tax at 7.22am on the [BBC Radio 4] Today programme. If he can have a mini budget for banks, he can have a mini budget for motorists."

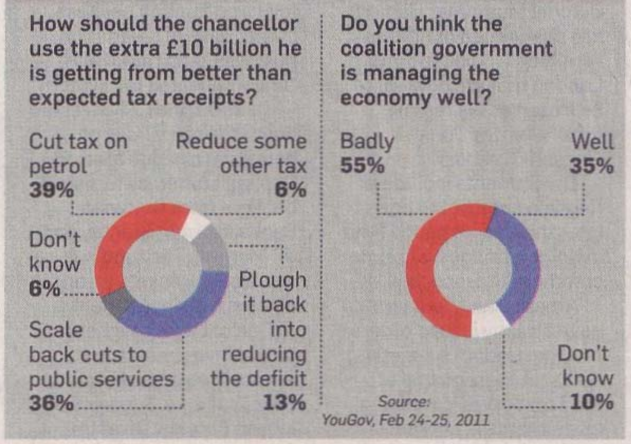
The Treasury has been considering introducing a fuel duty stabiliser, whereby duty is cut when prices are high and raised when they fall. However, insiders have indicated that this is unlikely to happen, describing it as too complicated.

Balls dismissed the stabiliser as a solution. "We looked at it when we were in government and it is completely flawed. It leads to instability and some perverse outcomes," he said. However, he suggested it would be simple for the chancellor to abandon the Vat increase for fuel.

Independent calculations by House of Commons officials suggest the Treasury would lose about £700m a year by dropping Vat on fuel from the 20% rate, introduced last month, to 17.5%. However, the Treasury is expected to gain about £800m from Osborne's new bank levy. Balls argues that this would pay for the Vat cut on fuel.

Balls's call for a reduction in fuel tax will this week be echoed by Ed Miliband, the Labour leader, who will warn that the "British promise" that every generation will do better than the last is under threat.

In a speech tomorrow, Miliband will warn that many families face a serious threat to their standard of living. "There is now a very real risk that we will see the longer-term pressure on wages for those on middle and low incomes colliding with rising prices, tax and benefit changes and public service cuts," he will say.



Report in today's Sunday Times

Shadow chancellor Ed Balls is reported in today's Sunday Times to have "challenged the UK coalition government to step in to curb soaring petrol prices, in the UK amid fears that the cost of fuel could hit £1.40 a litre". He is calling for the removal of the recent 2.5% VAT rise, a move that would save about 3p a litre at the pump.

Increasing concern over rising motor fuel costs

Another fuel duty rise and a 2.5% VAT increase in early January 2011, following the increases announced in the Emergency Budget in June 2010, caused widespread concern amongst UK motorists. Those increases sent motor fuel prices soaring at the pump and now the recent turmoil in the crude oil producing states in North Africa and in the Gulf have seen crude oil prices rise to over US$100 a barrel. The disruption to both crude oil production in Libya and at their refineries has created more pressure on crude oil and refined products, only slightly eased by increased production from Saudi Arabia as the traditional swing producer with around 11% to 12% of World production.

The Treasury documentation released with the Emergency Budget in June 2010 mentioned two measures - a possible "Fair Fuel Stabiliser" and a "fuel discount in remote rural areas", suggesting that a pilot scheme might be possible in Scotland where motor fuel prices in areas in the Highlands are usually 4p to 10p higher than elsewhere, mainly due to higher distribution costs. So the impact of fuel increases is higher there.

Source: Sunday Times 270211