T&E UNITED KINGDOM

The Rt. Hon Rachel Reeves MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

London, 24 October 2024

Dear Chancellor,

RE: The Need to Address the £22bn Budget Shortfall Through Increased Taxation on Transport Emissions to Drive Decarbonisation and Accelerate Clean Industry Growth

We, the UK National Office of the leading clean transport campaign group, Transport & Environment, are calling on the Treasury to implement a number of policies pertaining to the UK transport sector. As acknowledged by the current government, the UK is in a challenging fiscal situation. That paired with the pressing need to decarbonise means the Treasury is in a unique position to raise valuable revenue to invest in the green transition while delivering significant emissions reductions.

Transport remains the highest-emitting sector in the UK accounting for 29% of all emissions and UK transport emissions remain undertaxed.The polluter pays principle, i.e. obligating industries to pay for the damage to the climate and environment from greenhouse gas emissions, is an essential tool for reducing transport emissions. It is also crucial for developing clean technologies and the associated infrastructure.

Both aviation and shipping are severely undertaxed sectors of the economy, and as such, the polluter pays principle is not being applied in these areas. Fuel duty for road transport is also at historically low levels. The 14 year road fuel duty freeze has cost taxpayers £130 billion, with the 2022 5p fuel duty cut costing £2.4 billion annually. Despite intentions to provide relief, only 4.6% of the fuel duty cut has benefited those on the lowest incomes, while fuel distributor profit margins have increased significantly. This disproportionate allocation of resources indicates that the policy is ineffective at supporting vulnerable households, but has a huge cost to the taxpayer.

At present, the aviation industry is not subject to taxation on the fuel it consumes, nor is the shipping industry taxed for its emissions or marine fuel. This lack of taxation fails to reflect the true environmental costs associated with the burning of fossil fuels in these sectors. Implementing increased taxation is essential to account for the environmental impact and to generate much-needed revenue to support investment in cleaner, greener alternatives. This includes hydrogen-based aviation and shipping e-fuels, which are critical to decarbonising the sector. Such investments are not only vital for meeting the UK's climate targets but also present a significant opportunity for economic growth and the creation of high-quality green jobs. Both the United States and the European Union are already investing heavily in these fuels as well as the green hydrogen necessary for their development. It is imperative that the UK does the same to remain competitive and drive forward the transition to a sustainable transport sector.

In road transport, beyond fuel duty, the polluter pays principle is partially applied but taxation is below other European countries. UK Vehicle Excise Duty (VED) is one example, with T&E analysis showing that the UK's acquisition tax on an average petrol sports utility vehicle (SUV) placed the 19th lowest out of 23 studied European countries. The impact has been that SUVs comprise more than 60% of new vehicle registrations in the UK with negative consequences for both climate (due to their higher emissions) as well as road safety. The low UK VED level indicates there is significant scope to increase taxation on petrol and diesel cars, especially the most polluting, to support the transition to electric vehicles crucial for meeting climate targets. France has also applied a weight tax on the heaviest cars in order to guide the market towards smaller and more sustainable options which presents another taxation option for the UK which could take the form of a VED surcharge for the largest and heaviest vehicles.

While purchase subsidies for electric cars are unnecessary due to the UK's Zero Emission Vehicle (ZEV) mandate helping to bring prices down and low benefit-in-kind rates supporting the corporate market, the electric van and truck markets need sustained support. The existing plug-in grants, which are due to expire by March 2025, must be extended as upfront costs of electric vans and trucks remain significantly higher than diesel counterparts and the respective markets remain in their relative infancy compared to the electric car market.

T&E recommends that the following five policies be enacted without delay:

- Reverse the 5p road duty fuel cut which will deliver £2 billion in revenue annually. This should be followed by an additional 5-10p raise next year at the latest. The historically high levels of retailer's fuel margins suggest that they could absorb at least some of the fuel duty rise.

- As already detailed in a recent letter to the Chancellor, supported by leading figures from economic policy, including the UK's share of shipping emissions in the UK Emissions Trading Scheme could raise £1 billion annually.

- Increase Vehicle Excise Duty (VED) rates for the highest polluting new cars as well as include a weight-based surcharge to VED for the heaviest 10% of ICE & PHEV vehicles and the heaviest 5% of BEVs to halt the shift to larger, more polluting cars.

- Extend the plug-in grants for zero emission vans and trucks beyond March 2025 to support businesses with the higher upfront costs of these vehicles.

- Apply fuel duty to jet fuel from 1st January 2025, at a rate of 9 pence per litre, increasing annually to match road fuel duty in 2030. This could raise up to £6 billion annually. Alternatively, an increase in Air Passenger Duty should be considered.

The transport sector's considerable contribution to the UK's carbon emissions needs to be addressed with expediency. Implementing bold economic policies will position the UK to meet its climate targets and utilise opportunities to create industries in zero-emission, hydrogen-based fuel production for aviation and shipping. We would welcome the opportunity to meet and discuss these policy proposals in more detail.

Sincerely,

Anna Krajinska
Director, T&E UK