Written Ministerial Statement

Tax Policy

The Economic Secretary to the Treasury (Chloe Smith): At Budget 2011, as part of a package of measures to help motorists facing high petrol prices, the Government announced a Fair Fuel Stabiliser (FFS) that would be funded by higher taxation of the profits from oil and gas companies when oil prices are high. As a result, the rate of Supplementary Charge on oil and gas production is now 32 per cent. The Government also stated that, if the oil price falls below a set trigger price on a sustained basis, we will reduce the Supplementary Charge back towards 20 per cent on a staged and affordable basis while prices remain low. Fuel duty will increase by RPI plus 1 penny per litre in each such year.

The Government said at the time that it believed a trigger price of $75 per barrel would be appropriate, and that it would set a final level and mechanism after seeking the views of oil and gas companies, and motoring groups. Following this period of informal consultation, I can announce that the Fair Fuel Stabiliser will be implemented with effect from 21 March 2012.

The trigger price will be set at £45 sterling (being the rounded sterling equivalent of $75 based on the latest OBR exchange rate forecast for 2012). The trigger price will be fixed in sterling, and reviewed every three years. Whether the trigger price is met will be assessed annually on the first working day of February, starting in 2013. This assessment will be based on two FFS reference prices:

- The average daily dollar oil price (per barrel) in the three months immediately prior to the date of assessment, converted to sterling using the average daily Bank of England exchange rate across the period.
- The average daily dollar oil price (per barrel) in the week before the date of assessment, converted to sterling using the average daily Bank of England exchange rate across the period.

Each FFS reference price will be calculated using the North Sea average reference value as established in the Oil Taxation (Market Value of Oil) Regulations 2006 (SI 2006\3313).

Both reference prices are required to be met for the trigger price to be met. Thus, under the current tax regime (i.e. with the Supplementary Charge at 32 per cent), if at the assessment date either of the two FFS reference prices is £45 or above, the trigger price has not been met and Supplementary Charge will continue to be levied at 32 per cent. If both reference prices are below £45, the trigger price is met.

If oil prices were at a level where the trigger price had previously been met and Supplementary Charge were being levied at a lower rate, both the FFS reference prices would need to rise to £45 or above for the trigger price to be met again.

Any changes to the rate of Supplementary Charge and fuel duty that result from the trigger price being met will be announced at Budget in the year in question.

HM Treasury
21 March 2012