PORTLAND MARKET REPORT

April Update

Such was this year's pre-Budget conviction that the Chancellor would increase fuel duty, that many motoring campaign groups had already started their publicity to denounce the rises. This trend was also reflected in the UK fuel market, with many of the big diesel buyers frantically increasing their orders into the Bunker Networks, in an attempt to get ahead of the expected rise and in doing so, save a precious few pence per litre. Therefore there was genuinely considerable surprise, when the Chancellor announced that fuel duty would not increase, meaning that for the 6th consecutive year, a duty freeze has been maintained.

ack in 1996, Portland was an analyst for a large oil company and at the time was working on a project to evaluate the viability of a sea-fed oil terminal in the UK. It was a complex project involving pipelines, jetties, product exchanges and crude oil exports, but most of the work was around tank sizes and the cost of working inventory. On this subject, one of the sentences in the report's introductory paragraph nicely frames the main consideration; "this investigation will look at whether duty bonded status will improve the long-term viability of the Terminal, now that higher duty rates are detrimentally affecting oil storage rates across the network" (sic). The issue at the heart of the matter (and the main reason the report was commissioned) was the size of the fuel tanks at the terminal in question and the resultant large inaccessible inventory at the bottom of each tank. As this inaccessible stock was duty paid (duty bonded status would mean it was duty free), the increasingly burdensome working capital costs were bringing the commercial viability of the site into question.

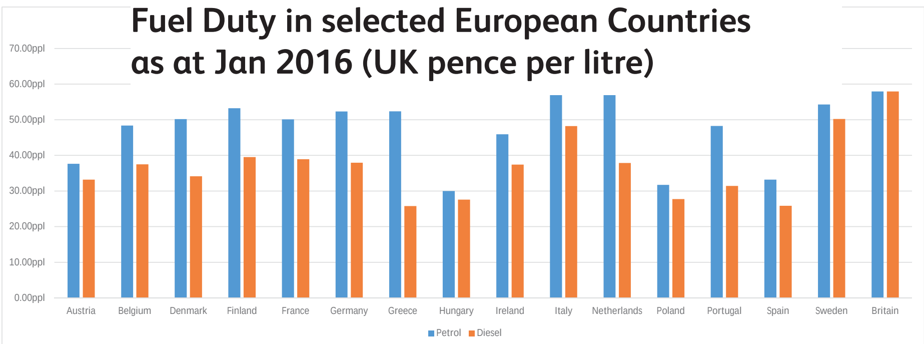
As part of the research for this report, we had a look at duty rates back in 1996 to see what all the fuss was about. 20 years ago, fuel duty was 37 pence per litre (ppl) and suffice to say this was seen as unacceptably high, although no doubt the fact that the fuel itself only cost 9ppl, probably exacerbated the sentiment. But to the weary 57.95ppl duty payers of today, these lower figures seem pretty manageable. In fact between 1996 and 2010, fuel duty had risen on average by 1.5ppl each year (a 3,25% annual rise, give or take), so no wonder many motorists began to feel that the Government was taking advantage of them in the 1990s and 2000s.

Fuel duty was first introduced in 1908, was scrapped after the First World War and then did not reappear again until 1928, when fuel usage was rapidly increasing and ahem…the Government was skint! For the next 60 years, duty rates slowly ticked up, but very often actually remained static (the 1960s virtually saw the same rate for the whole of the decade). But then in the 1990s, successive Governments discovered the immense "easy" value in raising taxes on fuel. Whilst most people associate the much despised fuel escalator (increasing fuel duty above the rate of inflation) with recent Labour Governments, it was in fact Norman Lamont and the Tories who set the ball rolling in 1993, with an eye-watering 10% duty rise followed by an statute binding duty escalator that would thereafter be 3% above inflation.

Fast forward to 2010 and the UK comfortably had the highest fuel duty rates in Europe, although the duty freeze since 2010 has since enabled some of our European neighbours to "catch-up" (see attached graph). Contrary to popular opinion, Britain does not now have the highest fuel duty rates in Europe, with that honour being bestowed on our Dutch cousins. But the UK is certainly unique in that we apply the same duty rate for both petrol and diesel, whilst all other European countries apply a diesel discount to support their indigenous haulage industries. Britain does no such thing, much to the chagrin of our haulage industry at home and particularly those in the south-east of England, who have to compete with mainland European operators. Further salt is also rubbed into the trucker's wounds when they look over their shoulders to their transport brethren in the bus industry, as the latter receive a fairly hefty 34ppl rebate, as part of the Bus Service Operators Grant (BSOG).

But similar generous treatment by the Exchequer is rare indeed, such is the importance of fuel duty revenue. On current UK fuel consumption, current duty rates generate tax income of £28bn per annum and if you add VAT (on the duty element alone), a further £10bn is added. For a Government trying to balance the books, this kind of revenue is impossible to forgo and quite frankly, it does beg the question why the Chancellor did not take this opportunity to impose a duty increase on a fully expectant population. A 1ppl increase would have generated an extra £0.5bn revenue and for motorists now paying over 30ppl less for their fuel than 18 months ago, the impact at this stage would have been minimal.

And finally a quick word on the 1996 Oil Terminal? Well it's still going, although never did get its bonded status. Perhaps a long-term view on duty rates was taken and it was decided that 37ppl wasn't such bad value after all!



For more pricing information, see page 62

Portland Fuel Price Protection
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