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GENERAL COMMITTEES

Public Bill Committee

FINANCE (NO. 3) BILL

(Except clauses 4, 7, 10, 19, 35 and 72)

Sixth Sitting

Tuesday 17 May 2011

(Afternoon)

CONTENTS

CLAUSE 20 agreed to.

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The Committee consisted of the following Members:

Chairs: MR ROGER GALE, †MR JIM HOOD

- | | |
|---------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| † Aldous, Peter (<i>Waveney</i>) (Con) | Lee, Jessica (<i>Erewash</i>) (Con) |
| † Barclay, Stephen (<i>North East Cambridgeshire</i>) (Con) | † Lewis, Brandon (<i>Great Yarmouth</i>) (Con) |
| † Blenkinsop, Tom (<i>Middlesbrough South and East Cleveland</i>) (Lab) | † McCarthy, Kerry (<i>Bristol East</i>) (Lab) |
| † Blomfield, Paul (<i>Sheffield Central</i>) (Lab) | † McCartney, Karl (<i>Lincoln</i>) (Con) |
| † Bradley, Karen (<i>Staffordshire Moorlands</i>) (Con) | † McClymont, Gregg (<i>Cumbernauld, Kilsyth and Kirkintilloch East</i>) (Lab) |
| † Creasy, Stella (<i>Walthamstow</i>) (Lab/Co-op) | † McGovern, Alison (<i>Wirral South</i>) (Lab) |
| † Crockart, Mike (<i>Edinburgh West</i>) (LD) | † Mearns, Ian (<i>Gateshead</i>) (Lab) |
| † Crouch, Tracey (<i>Chatham and Aylesford</i>) (Con) | † Murray, Ian (<i>Edinburgh South</i>) (Lab) |
| † Dakin, Nic (<i>Scunthorpe</i>) (Lab) | † Nash, Pamela (<i>Airdrie and Shotts</i>) (Lab) |
| † Esterson, Bill (<i>Sefton Central</i>) (Lab) | Parish, Neil (<i>Tiverton and Honiton</i>) (Con) |
| † Gauke, Mr David (<i>Exchequer Secretary to the Treasury</i>) | † Phillipson, Bridget (<i>Houghton and Sunderland South</i>) (Lab) |
| † Glindon, Mrs Mary (<i>North Tyneside</i>) (Lab) | Sharma, Alok (<i>Reading West</i>) (Con) |
| † Goodwill, Mr Robert (<i>Scarborough and Whitby</i>) (Con) | † Shelbrooke, Alec (<i>Elmet and Rothwell</i>) (Con) |
| † Greening, Justine (<i>Economic Secretary to the Treasury</i>) | † Smith, Julian (<i>Skipton and Ripon</i>) (Con) |
| † Hanson, Mr David (<i>Delyn</i>) (Lab) | † Wharton, James (<i>Stockton South</i>) (Con) |
| † Harrington, Richard (<i>Watford</i>) (Con) | † Williams, Roger (<i>Brecon and Radnorshire</i>) (LD) |
| † Hoban, Mr Mark (<i>Financial Secretary to the Treasury</i>) | † Williams, Stephen (<i>Bristol West</i>) (LD) |
| | Wilson, Sammy (<i>East Antrim</i>) (DUP) |
| | Simon Patrick, <i>Committee Clerk</i> |
| | † attended the Committee |

Public Bill Committee

Tuesday 17 May 2011

(Afternoon)

[MR JIM HOOD *in the Chair*]

Finance (No. 3) Bill

(Except clauses 4, 7, 10, 19, 35 and 72)

4.30 pm

Mr Robert Goodwill (Scarborough and Whitby) (Con): I beg to move,

That, in the first Order of the Committee on 1 March, in paragraph (a) after 'on' insert 'Tuesday 24 May at 9 am and 1.30 pm and on other'.

Members of the Committee may be aware that the House has agreed to change the sitting times for next Tuesday, the day the House rises. Therefore it would be appropriate to change the sitting times for this Committee to fit in with that.

Question put and agreed to.

Clause 20

FUEL DUTIES: RATES OF DUTY AND REBATES FROM
1 JANUARY 2012

Amendment moved (this day): 9, in clause 20, page 13, line 19, at end add—

'(8) Subsections (2)(a) and (d) of this section shall not come into force should the average retail price per litre of unleaded petrol and diesel for the month of December 2011 in the UK be higher than the price for the week of 21 March 2011.

(9) The price used in subsection (8) is to be as published by the Department for Energy and Climate Change.'—(*Kerry McCarthy*.)

The Chair: I remind the Committee that with this we are discussing clause stand part.

Kerry McCarthy (Bristol East) (Lab): When we adjourned this morning I was making a point about the difficulty that Governments have in reconciling the need to ensure that motorists and businesses do not face undue costs and can continue to make profits and meet their living costs with the concerns expressed by environmental groups in particular, but also by people across the board about trying to use fuel duties and this sort of taxation to change forms of behaviour and to encourage people to use public transport. That is not new.

In December 2000 when the Conservatives pledged that a Conservative Government would cut fuel duty by 3p a litre, a time when fuel prices were much lower than they are today, Friends of the Earth described it as a "cheap, political concession", which would weaken incentives for manufacturers to introduce more efficient cars and weaken incentives for the motorist to buy them. Tony Bosworth, transport campaigner at Friends of the Earth, said:

"For a cheap political gain, they would jeopardise the lives of millions of people around the world who could die from floods and storms caused by climate change."

The pleas of environmentalists were not listened to with any great enthusiasm by the Conservatives. According to *The Sunday Times* in September 2000, a former colleague of the Lord Chancellor and Secretary of State for Justice, the right hon. and learned Member for Rushcliffe (Mr Clarke) said:

"Ken never believed that this had anything to do with any of that environmental stuff. We had a £46 billion budget deficit and it had to be sorted out. The environmental excuse was a bit of cover."

Much more recently, Craig Bennett, campaigns director of Friends of the Earth, said in January 2011:

"A fuel price stabiliser could help iron out yo-yoing petrol prices, but must also ensure the cost of fuel gradually rises - and be coupled with efficient and affordable public transport, and moves to make it easier for people to walk, cycle or drive cleaner cars that use less fuel."

So even people from Friends of the Earth accept that rapid fluctuations or increases in petrol prices have an impact on household finances but are quite keen to see that there is a gradual rise.

Returning to the costs on businesses, the Federation of Small Businesses said that small and medium-sized enterprises would be severely affected by the Government's hikes in fuel tax. In January, more than a third of its members responding to a survey said that this was the single biggest threat to their businesses. Nearly four in five thought that the Government's measures would add £2,000 to their costs over six months. The Government blamed poor growth figures in the last quarter of last year on the snow, but FSB members thought that the rise in fuel taxation in January, including both fuel duty and VAT, would have a far worse impact on their businesses than the weather.

I know from business people in my constituency and organisations such as the FSB that the increase in VAT will put a severe strain on all enterprise. Fuel taxation has a huge impact on the wider economy at a time when it is vital to encourage growth and job creation.

Of course the Government are not to blame for the rising price of oil that is leading to higher fuel and energy prices, and indirectly to higher prices for food and other goods in the UK. Oil is traded on international markets that set a global oil price, but the Government are able to take rising prices into account when setting policies on taxation, which is what they should have done. It is also what they said they would do. As has been mentioned, the Conservative party told voters before the election that it would consult on a fair fuel stabiliser, and it was crystal clear about how that would work. The consultation document issued a few years before the election stated:

"Under a Fair Fuel Stabiliser, when fuel prices go up, fuel duty would fall. And when fuel prices go down, fuel duty would rise."

In the run-up to the election, that was reiterated in the party's manifesto:

"We will consult on the introduction of a 'Fair Fuel Stabiliser'. This would cut fuel duty when oil prices rise, and vice versa. It would ensure families and businesses and the whole British economy are less exposed to volatile oil markets, and that there is a more stable environment for low carbon investment."

The Prime Minister echoed that stance:

"Our plan is to say when the petrol price goes up the tax should come down. Sadly that means when the price goes down the tax would have to go up but at least it would give you certainty as you go about your lives."

He said that that would

“help with the cost of living by trying to give you a flatter and more constant rate for filling up your car.”

Even in government, the Prime Minister was still making that promise to voters. As recently as January he told people in Leicester that he was working with the Treasury to find a way in which,

“when the oil price goes up, if the Treasury is getting more revenue out of that oil, we can find a way of sharing that risk with the consumer—ie if the price goes up, the tax comes down, and if the price goes down, the tax goes up.”

How have those promises translated into real-world action? The Government increased VAT on fuel at the beginning of the year, adding nearly 3p to the cost of a litre of petrol, according to the House of Commons Library. In January next year, clause 20 of the Bill will raise fuel duty by another 3p on the price of a litre of petrol. Next August, as announced in the Budget, there will be a further increase in duty of around 3p or 4p, depending on the price of petrol at the time. That means that up to 10p a litre has been added to the cost of fuel as a result of the Government’s policies, and that comes on top of a fall in incomes, a rise in taxes and cuts to benefits and tax credits.

One borough council estimates that families spend more than £300 annually on driving their kids to school, which does not include the typical taxi service that parents find themselves providing as they drive their children to and from other activities. Have the Government made an estimate of the impact of the rises in fuel taxation on those families?

The previous Labour Government took fuel prices into account when setting fuel duty. The Minister has blamed rises in fuel duty on the Opposition, saying that they were inherited from the previous Government, but in fact, even when rises in duty were in the pipeline, our Government cancelled or postponed them when people and businesses were facing sharp rises in prices at the pump. In the 2010 Budget, the then Chancellor phased in the fuel duty increase for that year in three stages. In the 2008 Budget, the Labour Government postponed the increase in fuel duty for six months to ease pressure on businesses, support the economy and help families.

Some tax rises are not about creating revenue but about changing behaviour; we discussed that earlier in the context of duty on alcohol and tobacco. When the price of fuel is already rising quickly, raising taxes for behavioural reasons does not have the same impact because any behavioural effects will already be delivered by the rise in prices. The Labour party called on the Chancellor to look again at the fuel duty escalator before making his Budget statement, and we welcome the fact that he did that again in the Bill. Nevertheless, the 1p cut in fuel duty offered in the Bill is small fry compared with the 9p or 10p that will have been added to the cost of fuel by next August. In any case, that 1p cut is already a thing of the past. As I said in the Committee of the whole House, the saving from that cut lasted barely a week before it was swamped by the rising cost of fuel.

Before the Budget, the Opposition asked the Chancellor to undo his hike in tax on fuel by reducing the VAT on fuel back to 17.5%, which would have been a real help for people and businesses, in stark contrast to the Government’s approach of giving with one hand and

taking away with many others. Yes, that measure would require a derogation from the European Commission, but the Government have refused to ask for one.

I do not intend to rehearse the arguments about VAT on fuel, because we had a full and comprehensive debate on the Floor of the House. I simply put it on record again that the Government should be taking the idea far more seriously and pursuing it with the European Commission. I suppose my starting point is that the Government should not have done it in the first place; they should have considered the consequences of increasing the VAT rate in January this year and, in particular, taken into account the impact on fuel prices and on people who are struggling to meet the cost of motoring.

The Government are, however, looking at a derogation in respect of fuel duty for remote islands, which could be approved by this summer. The Economic Secretary is aware that that in itself is controversial, because it applies only to small, discrete areas of the United Kingdom. Earlier this year, during the debate in the House on fuel duty called by the Scottish National party, the hon. Member for Brigg and Goole (Andrew Percy), from the Conservative Benches, said:

“The pressures that affect the islands of Scotland and the Scilly Isles affect our constituents too...if any solution is applied to one part of the United Kingdom, it must be applied to other parts of it as well.”—[*Official Report*, 16 March 2011; Vol. 525, c. 352.]

I am interested if the Minister has anything further to add on that point.

The Government have increased the price of petrol by increasing fuel tax, and they have refused to bring it back down.

Stephen Williams (Bristol West) (LD): I have listened carefully to what the hon. Lady has said today. I do not disagree with much of what she says, and I am sure that most people in Committee agree that the rising price of fuel is a problem for our constituents, whether in a city constituency such as hers and mine or a rural one such as that of my hon. Friend the Member for Brecon and Radnorshire. However, shaving pennies off fuel duty or reversing the VAT increase will not deal with the inexorable rise in the dollar price per barrel of oil, which we know will go in only one direction in the future. The hon. Lady has now spoken at length. Does she have one long-term idea about how we can make fuel more responsive to people’s needs?

Kerry McCarthy: As the hon. Member for Bristol West said, some of the factors are outwith our control, in that they are dictated by global oil prices. But, to an extent, he made the point that we are trying to make with the amendment. Fuel prices are predicted to go up and to continue going up. Although we are not claiming that our proposed measure would completely offset that rise, at least it would make a little difference to people struggling to meet those costs. If fuel prices were higher at the end of the year than at the time of the Budget, we would have to re-examine whether the automatic rise ought to come in.

Paul Blomfield (Sheffield Central) (Lab): Will my hon. Friend comment, in relation to the intervention of the hon. Member for Bristol West, on how the party with which his party is sharing power made enormous play before the general election of shaving a few pence

[Paul Blomfield]

off the price of fuel? That is at the crux of much of the argument. Time and again, the current Prime Minister—until 6 May last year—focused on saying, “If our fuel stabiliser is put in place, it will take 5p off the price of fuel.” So these are important issues and were clearly perceived to be so by the then Opposition, now the Government, before the election.

Kerry McCarthy: In the Budget, the Chancellor announced a 1p cut in fuel duty and trumpeted it as a real benefit to motorists, although it has not had much impact because rising fuel prices have overtaken it.

The explanatory notes to clause 20 link the increase in fuel duty, which is taking effect in January 2012, to the Government’s new fair fuel stabiliser, which was announced in the Budget. The new mechanism is not to be confused with the mechanism that was being promoted by the by the current Chancellor and the Prime Minister before the general election last year. According to the new mechanism, when oil prices are low, fuel duty will rise by inflation plus 1p and when oil prices are high, as they are now, fuel duty will still rise, but only by inflation.

4.45 pm

The Government’s new version of the fair fuel stabiliser will never cut fuel duty. We were promised that when the price of petrol rose, fuel duty would be cut to ensure a more stable price. That promise has been broken. I said that in January the Prime Minister spoke to voters about his Government’s plans for fuel duty. What is interesting is that when he told people he was looking for a way to cut fuel duty when fuel prices rose and vice versa—a promise that he has failed to deliver, as I have already noted—he said:

“It’s called the Fuel Duty Escalator.”

He did not say that it was called the fuel duty stabiliser. The transcript of that statement is available on the No. 10 website and that is what he said. He referred to the mechanism as the “Fuel Duty Escalator”.

Was that just a slip of the tongue? I ask because, as it turns out, despite all the promises of a fair fuel stabiliser what the Government have actually delivered is a fuel duty escalator. Under the Government’s new mechanism, fuel duty will go up and up and up. So I ask the Minister, “What happened?” In January, the Prime Minister said that he was “working with the Treasury” to find a way to deliver a mechanism to stabilise fuel prices. In February, the Government told the North sea oil and gas industry that they were still seeking stability for the North sea tax regime, according to my discussions with industry representatives. That is also the position the Government adopted in the June 2010 Budget. There was no indication of any plans for a mechanism involving the North sea tax regime.

In the March Budget, however, we saw a sudden change. The fair fuel stabiliser mechanism had morphed into an escalator mechanism and it now involved an unexpected hike in the tax on North sea oil and gas. The Government’s new mechanism also turned out to be poorly thought through. There had been zero consultation with the North sea oil and gas industry. The new mechanism would have the side effect of damaging the

gas industry and potentially increasing the prices that consumers pay for their gas at home, even though gas has little to do with the price of petrol. In addition, it has led to billions of pounds of investment in oilfields being suspended and it has put an estimated 40,000 jobs at risk.

In short, the Government’s new fuel duty mechanism looked very much as though it had been drawn up on the back of an envelope. Was it perhaps a panic reaction by the Government in response to criticism of their plans, because there had been criticism aplenty? First, the Government had been criticised for failing to deliver. The current Chancellor said in opposition:

“Our policy will be set in a first Conservative Budget.”

And yet his first Budget merely kicked the fair fuel stabiliser into the long grass, by asking the new Office for Budget Responsibility to carry out a review of it. Even in March, when we debated fuel duty in the House, there was no sign of a fair fuel stabiliser, although the average petrol price was already 14p per litre higher and the average diesel price nearly 18p per litre higher than at the time of the Chancellor’s first Budget. That was the kind of situation that a fair fuel stabiliser was meant to help people with.

Secondly, the Government were criticised because their ideas were half-baked. In fact, rising oil prices do not lead to higher tax revenues for the Government overall. The Conservatives had made an unfunded pledge and they could not pay for the cuts in fuel duty that they had promised. They could have introduced their fair fuel stabiliser, but it would have made public borrowing unpredictable and prevented the Government from reducing the deficit. No wonder the Secretary of State for Business, Innovation and Skills said before the general election that the Conservatives’ fair fuel stabiliser would be “unbelievably complicated and unpredictable.” The chair of the Office for Budget Responsibility told the *Financial Times* in January:

“Our summer analysis suggested that a fair fuel stabiliser would be likely to make the public finances less stable rather than more stable.”

The Institute for Fiscal Studies agreed with the chair of the OBR and said before the Budget:

“The claim that the Treasury receives a windfall gain when oil prices rise that it can “share” with motorists is incorrect. This need not prevent a FFS”—

fair fuel stabiliser—

“being adopted, but it could only be done so by injecting more uncertainty into the public finances rather than less.”

It would not be a surprise if the Government had to scramble around quickly for a new policy on fuel duty after we raised all those points in the House in March. Can the Minister tell us at what point the Government decided to abandon their promise to cut fuel duty when prices rose? What policy-making process did the Government go through to come up with their new fair fuel stabiliser mechanism? If the Minister cannot answer those questions, people are likely to assume that the new fair fuel stabiliser was a flustered response to criticism from our side of the House, from their own constituents, and from organisations such the Federation of Small Businesses, which Government Members are usually only too keen to listen to and to cite in support of their arguments.

I have spoken about why the new fair fuel stabiliser is not a stabiliser, and I want to speak about why it is not fair. As we discussed last year, the Government decided that benefits, tax credits and public service pensions would be uprated in line with the consumer prices index in future, and that private pension schemes could also switch to CPI indexation. The CPI is typically around 1.5 percentage points lower than the retail prices index, and there can be no doubt that that in itself is a huge cut in the incomes of all working people and families. This year's Budget report estimates that the decision will take £10.6 billion pounds from people by 2014-15. A further £500 million will be taken from people who receive housing benefit.

This year, the Government announced that thresholds and allowances for direct taxes would also be uprated in future in line with the consumer prices index, instead of the retail prices index as currently, with some exceptions. That will take another £1 billion from people by 2014-15. As we noted earlier, the Government have opted to increase excise duties in line with the RPI, not the CPI. They have attempted to argue on most fronts that CPI is a better or more accurate measure of inflation, yet they have applied the change only when it represents a gain for the Exchequer, and a loss for working families.

The Government have declined to make the switch to CPI when it would help working families, and that will inevitably lead people to wonder whether it is in fact not a principled change but just a cynical long-term stealth tax. If their aim was really a fair stabiliser mechanism and if it was really aimed at helping with the cost of living, as the Prime Minister said, perhaps the Minister will tell us why the fair fuel stabiliser uses the RPI, and not the supposedly more accurate CPI to increase fuel duty. That is why we tabled the amendment. It is our attempt to stabilise the price of fuel. If prices continue to rise, there will not be an increase in fuel duty. It is a moderate measure that does not go as far as the Conservative party's original promise to cut duty when prices rise. It would simply cancel the planned increase.

Unlike the Government's tax rises of 9p or 10p a litre on fuel, the amendment could actually help working families and businesses. It would be welcomed by working people and families who have seen their earnings fall as they have taken pay cuts, or become unemployed and had their benefits cut under this Government. Unlike the Government's tax rises on fuel, it could actually encourage growth and job creation in the economy. It would be welcomed by businesses who have said that rising fuel duty is the No. 1 threat to their businesses, and that they have been put under severe strain by this Government's rises in VAT and fuel duty. Unlike the Government's tax rises on fuel, it is a mechanism that could actually help to stabilise the price of fuel, which is what they said they wanted to do. In short, this amendment may be only a moderate measure, but unlike the Government's tax rises on fuel, it could actually be called a fair fuel stabiliser.

Alec Shelbrooke (Elmet and Rothwell) (Con): May I grudgingly congratulate the hon. Member for Bristol East on a wide-ranging opening speech on the amendment. I am not sure where to start, Mr Hood. I wrote down several areas where I want to go with this, but we have had such a wide-ranging start that I am not sure how often we kept on track with the amendment. It is

perhaps worth starting by saying that the Budget brought immediate action to cut fuel duty, however small that cut, and not to put in place the 5p rise. We have heard the argument that fuel prices rose by 3p because of the VAT rise, but if we bear in mind the 5p by which it was due to rise, there is an overall reduction, and it is disingenuous to suggest that we did not cut fuel prices. They have been cut in the realm that we were in.

That leads on to the debate about how to pay for such a cut in fuel duty, which is not cheap. I believe—I am sure that my hon. Friend the Minister will correct me if I am wrong—that every penny we cut from fuel duty costs the Exchequer £500 million. We cannot afford to cut it and worry about it later.

The money has been put on to North sea oil, and I do not buy the argument about investment being cut and jobs being put at risk. There are some 40,000 jobs relating to the increase in the taxation of oil. In 2006, the oil companies put together their investment plans for the next couple of decades based on an oil price of \$66 a barrel; earlier today the price was \$111 a barrel. Everything above that price is straightforward profit and does not affect investment decisions that were made at the lower price.

I have been learning from the right hon. Member for Delyn, who is keen on quoting from newspapers, and I have a quote from Anatole Kaletsky in *The Times*:

“Mr Osborne was clever to recoup the lost revenue from North Sea oil producers, which are reaping an unexpected windfall profit as a result of Middle Eastern turmoil. And he showed good economic judgment by promising that the higher fuel taxes will be automatically reinstated if and when the oil price falls back from the present \$110 a barrel to below \$75. Failing to make this kind of advance commitment to restoring the escalation of fuel duties once global oil markets stabilised was one of the biggest mistakes that Gordon Brown made as Chancellor.”

Tom Blenkinsop (Middlesbrough South and East Cleveland) (Lab): Is the hon. Gentleman aware that a BBC journalist, Laura Kuenssberg, has just reported that in the Liaison Committee, which is currently sitting, the Prime Minister has said that the Chancellor is still in conversations with the oil companies and that the policy is not certain?

Alec Shelbrooke: I am aware, because I read the same tweet. The trouble with tweets is that there are only 160 characters, and we would be wise not to cast judgment on 160 characters out of a Select Committee.

Ian Mearns (Gateshead) (Lab): One hundred and forty.

Alec Shelbrooke: I stand corrected.

The Chair: Order. The hon. Gentleman may stand corrected, but he should not be corrected by those who are sitting on the other side of the Committee.

Alec Shelbrooke: Thank you, Mr Hood. Let us look at some basic household facts on the price of fuel. It is roughly costing an extra £10 to fill up a small family car such as a Ford Focus. Even with the VAT rise taken into account, there is a saving of some £26 on filling up the car under the reduction that we have made in fuel duty, which is some progress. I will return to that.

[Alec Shelbrooke]

We often have the argument—indeed, it has been made this afternoon—that high fuel prices feed into transport on the buses, which leads to problems. As far as I am aware, private bus companies can reclaim their VAT, so the VAT rise, which is often put forward as the Government not cutting fuel duty because they raised VAT at the same time, is a nonsensical argument for the increase in the cost of travelling by bus, because the bus companies would be able to claim that VAT back.

Nic Dakin (Scunthorpe) (Lab): The hon. Gentleman talked about a basic household fact. Do households in his constituency feel that tax has gone up with the VAT rise or that it has gone down?

Alec Shelbrooke: I am grateful to the hon. Gentleman for that intervention, because it leads on to a wider point about the cost of fuel. I agree that there has been a 2.5% rise in VAT, and naturally that works its way through. It is difficult to prove a negative, so the fact that we did not install the 5p a litre rise that was due to take place means that, in effect, we have cut the price of fuel even with the rise in VAT. What is important and what is talked about by my constituency—I have a semi-rural constituency with areas that have poor bus services or that cannot be served—and what is also one of the key issues is the fact that the fuel price is high. That fuel price is high because of the oil price, which, for several reasons, is also high.

Bridget Phillipson (Houghton and Sunderland South) (Lab): I have received representations on bus services from one local bus company, Go North East, which has complained that there are cuts to the bus operators grant, or bus operators subsidy, and that that is also having a knock-on effect on fares. Fares are too high locally, which discourages bus use, but that cut, which I believe applies to the fuel duty rebate, could lead to further price increases.

5 pm

Alec Shelbrooke: I am grateful for the hon. Lady's intervention, which opens up a wider debate on the cost of travel on buses. That is obviously not part of the amendment, but my specific point was that the VAT rise does not affect bus companies. There are other issues that the Government and others are looking at, and situations vary from transport authority to transport authority. The metropolitan authority in Leeds perhaps has a slightly different set-up from the one in her constituency, so forgive me if I do not go down that road, because each area is different.

We have this high oil price of \$111 a barrel: is that a peak, or is it where we stay? There is a huge debate about whether we have reached peak oil. Is the production of oil coming out of the ground as large as it will ever get? At \$111 a barrel, the exploration of other fields suddenly becomes far more economical. Looking back to 1998, we were dealing with an oil price of \$5 a barrel, and a lot of decisions about the North sea—when people were discussing North sea oil running out—were made then.

In 2006, based on a price of \$66 a barrel, decisions were also made on investments. It is estimated by geologists that there is as much oil in the North sea now as has already been taken out—it is just that it is only now becoming economical, after reaching \$66 a barrel. I do not believe that the oil price will fall very far below \$100 a barrel. Whether or not we believe that peak oil has been reached, oil traders decide on the price of oil, and if they decide that the price of oil now really is at that level, we are looking at a different framework and a different market.

We can see, therefore, over the long distance, a higher oil price than was estimated for the investments that the companies were making, certainly within the North sea field. Therefore, the extra taxation that has been brought in for the oil fields through the Budget will not have the detrimental effect that some doomsayers are suggesting. This is pure profit, and we have to do something to try to lower the oil price to a point.

Ian Murray (Edinburgh South) (Lab): The hon. Gentleman is being generous in giving way. I want to bring him back to the additional tax for the oil and gas industry. I do not think that anybody in this room would suggest with respect to the increased oil price that the oil companies should not pay their share from their profits. The key point, however, is that whether or not that affects employment, exploration and so on, is it not a little strange to inflict a huge additional tax on the oil and gas industry for no benefit at all to the consumer at the pumps, while oil prices are still increasing?

Alec Shelbrooke: I disagree with the premise that this creates no benefit at all. The duty on fuel has been cut by 6p. Having a 5p rise this April was factored into the Budget. That was delayed—it has not happened—and a further penny was cut. There has been a significant cut, which outweighs the 3p rise that came about through the VAT rise.

We could stand here and keep arguing to and fro about whether the VAT rise was right or wrong, but the fact is that there were areas that needed to be addressed. We had a long debate about whether a promise was made to raise VAT or whether there was a specific promise not to raise VAT, and I do not think that we need to test Mr Hood's patience by covering that ground again.

Bill Esterson (Sefton Central) (Lab): I am grateful to the hon. Gentleman for giving way, because it gives me the opportunity belatedly to wish you happy birthday, Mr Hood. I will not test your patience too much.

On more than one occasion, the hon. Gentleman has made the point that there was a cut in the cost of fuel as a result of the Government's measures this year. VAT is going up 3p a litre and there is a 1p cut in fuel duty, which, in my book, is a 2p rise. I think that is a rise in fuel duty, not a cut. If I have missed something, I will be grateful to be corrected.

Alec Shelbrooke: I am most grateful for that intervention. That is exactly my point: it is difficult to prove a negative. The figures in the Budget were based around a 5p rise in fuel duty from this April. If one takes off the 5p and our 1p, and adds 3p on the VAT, there is still a

3p cut. It is difficult to prove a negative, but these figures were in the Budget. They were there to have and move forward. It has been a significant cut in the fuel duty to where it was supposed to be. I agree with the point that the hon. Gentleman is making. I know, Heaven forbid, that he is playing some political games with it, but those are the facts of the matter.

Ian Murray: I am grateful to the hon. Gentleman for giving way again. I would not add to my birthday wishes to the Chair, either, because that would test his patience. Yes, 5p plus 1p is 6p minus the 3p; means a net reduction of 3p. The key fact is that if 3p had not been put on to fuel by the VAT increase, the Government might not have needed to ask the oil and gas companies for billions of pounds, and might not have needed to reduce the tax on fuel by 1p.

Alec Shelbrooke: That is an interesting premise but completely misses the holistic view of the state of the national finances, and the fact that we had to raise VAT. That was not something that we came into government planning to do. Again, I do not want to go back down that argument, with a to and fro across the hall. When the figures were analysed, there was a need to raise the extra £12.5 billion a year, which the Chancellor reluctantly did in that Budget. We have had that debate and moved on. To cherry-pick on the point of VAT and fuel tax, saying that we might not have had to do that, misses the overall basis of the Budget. The economy was in dire straits—all parties acknowledge that.

I know there is a philosophical difference over whether to cut half the deficit or all of it, and we have had that debate on the Floor of the House on several occasions. Decisions had to be made. Indeed, the previous Chancellor, the right hon. Member for Edinburgh South West (Mr Darling), had made it quite clear that he was looking to raise VAT to 19%. There is a very small difference in where this road would have taken us. The fact is that a decision was made that cut the fuel price. The fact that the fuel price has not gone down has everything to do with oil prices, and leads us to look into further areas.

I want to move on, to draw on some of the wise comments that the hon. Member for Bristol East made about the environmental consequences. I want to bring in, as close as I can within the realms of the debate, the effects of some of the options that have been looked at to try to reduce environmental consequences. When fuel duty is cut there is the risk of people saying it will have a devastating environmental consequence. There will also be a push for more biofuel. That is something we should be careful of. There is a lot of evidence coming forward that biofuel actually produces 25% more CO₂ than it takes out of the atmosphere, due to the manufacturing of the fertilisers and so on that go into growing the corn. There is a definite continental split on this between north and south America and Africa. In north and south America there is huge environmental damage due to deforestation and growing of plants for biofuel, whereas in Africa it is causing a real problem of starvation. It is becoming a morally corrupt fuel to push forward on to the market when we are changing a food source into fuel. The upshot is that the more corn is used to produce biofuel, the more expensive it becomes to produce. It is one of the only businesses in the world where scaling up costs more money and becomes less economic.

The reason I brought that into this debate is because I think it paints a picture of where we go overall with renewables into our fuel streams, and whether the taxation on petrol pump fuel—whether it contains biofuel or not—is in the long term sustainable. Started by a Conservative Government and carried through by the Labour Government, over the past couple of decades there have been significant increases in the taxation on pump fuel. Whether that was done to balance what was then a £46 billion gap in the economy in the mid-1990s or, as the former Chancellor, the right hon. Member for Kirkcaldy and Cowdenbeath (Mr Brown), said at the time, for environmental issues, there was a large increase in taxation on fuel, to the huge benefit of the Exchequer.

Tom Blenkinsop: The hon. Gentleman has to bear it in mind that plants such as *Emsus* in Wilton, which makes biofuel from wheat, uses a type of wheat that is not used for human consumption. A finer wheat is used, which is not useful in bread and is not an edible form of wheat.

Alec Shelbrooke: The hon. Gentleman is absolutely correct. Cellulosic ethanol fuel is starting to come online, and is used in the part of the plant that is not actually using the food. It represents such a tiny amount of biofuel that it does not have an impact at the moment. It is indeed the way forward. Perhaps one of the biggest indications of where markets will go in the future is where capital venture firms put their money. Silicon valley is now putting more into renewables, especially into biofuels and other such areas, than they ever did in the dotcom boom. We are talking about trillions of pounds being invested in that area because they see a huge mark-up return. At the moment, the vast majority of the plant matter used for biofuels is from food crop, but the hon. Gentleman is absolutely correct. Some plants are starting to go online with cellulosic ethanol and we hope that that will move forward.

My argument, to bring it into the bounds of the amendment, is about how much duty is placed on fuel. We have these conversations and we move forward. I heard on the radio this morning that it is estimated that 2 million electrically-powered vehicles will be on the road by 2020. There will begin to be a decline in the amount of pump petrol that needs to be bought from the petrol station, whether that is biofuel or petrol. Therefore, the Government—all Governments—need to start thinking about whether high taxation on fuel will cause a big gap in the country's budget in the long run.

Bill Esterson: I could not help but comment on the point about electric vehicles. They are a very exciting prospect, but there are unintended consequences. There was an item about safety—the lack of sound from electronic vehicles means that people do not hear them coming. I think that was the same piece you heard. Hopefully, that is not an argument against them and in favour of fossil fuel cars.

The Chair: Order. It was not my task.

Alec Shelbrooke: Let me put the hon. Gentleman's mind at rest—I am not making that argument at all. One is tempted to say that the news was shocking. There will be an increase in electric vehicles. We probably

[Alec Shelbrooke]

heard exactly the same radio item, which quoted the figure of 2 million cars running on electrical power by 2020. The problem is that under 20 mph they are apparently nigh-on silent, and that is creating a genuine safety concern with regard to roads outside schools. No one will actually hear a car coming at 20 mph, so they are investigating the sounds that they could perhaps manufacture.

Kerry McCarthy: The hon. Gentleman is right to point out that in the past electric vehicles were not particularly suitable for anything more than the shortest journeys. Despite some appeal to motorists, there were obstacles in the way of their use. There will be a significant increase in their use. I am not sure that that necessarily means that there will be fewer cars on the road using traditional fuels. Overall, I think that the number of motorists on the road, the number of people owning cars, and the number of households owning more than one car, is set to increase. I do not know if the hon. Gentleman has statistics on that. He seemed to imply that the electric vehicles would replace conventional vehicles and I am not sure that that is the case.

Alec Shelbrooke: I am grateful for the shadow Minister's intervention. This is a debate that we could be having right now on the Floor of the House in the carbon budget debate. It is my belief—a political philosophy, if you will—that the closer electric cars become to being as good as internal combustion engines, and the nearer they get in price, the more likely the population will be to migrate to them rather than internal combustion cars, not least because they are so much more efficient. Never mind the price of electricity compared with petrol; the combustion engine is only 25% efficient.

Bridget Phillipson: The hon. Gentleman is being generous with his time. I share his enthusiasm for electric cars. Sunderland has a Nissan plant that is leading the way in the development of electric cars. However, the Government must address several key issues to ensure that they have mass-market appeal and do not necessarily lead to a short-term knock-on reduction in the number of regular motor vehicles on the road. Infrastructure is needed in the form of charging points. The Government must also ensure that the electricity is sourced from clean supplies. Numerous key issues must be addressed to ensure that electric vehicles are taken up as I am sure he and I both wish them to be.

5.15 pm

Alec Shelbrooke: I agree fully. A large infrastructure is needed, but in a way, that makes my overall point. The Government must consider what infrastructure is needed to make electric cars a viable product on the road. At the same time, if they are moving towards a mass change from petrol to electricity in powering motor vehicles, they must recognise that the amount of petrol bought at the pump will decrease, as will the amount of duty that they gain from the sale of fuel. Therefore, they need to resist the temptation to carry on taxing fuel further, because within the next couple of decades, it could create a huge hole in Government finances.

Ian Mearns: Before we get to a mass market for electric vehicles, though, is it not more likely that hybrid vehicles will be much more prevalent on the roads of Britain? They will continue to consume petrol, but at a reduced rate. I understand that a French manufacturer proposes to introduce a car to the market next year with a mileage of about 140 miles per gallon. It is a half-electric, half petrol-driven vehicle. That is an interesting stepping-stone to the all-out electric vehicle of the future.

Alec Shelbrooke: Again, the hon. Gentleman makes a valid point, but the key point is that we have gone from combustion cars with an average mileage of 40 mpg to cars with 140 mpg. The knock-on effect is that people will buy less petrol, so less money will come to the Exchequer. We are starting to move in a direction that means that we do not need to make such hikes in the price of fuel. Maybe some inflationary hikes will occur, but we must be careful about how much we start to rely on the duty on fuel.

Ian Murray: I am grateful to the hon. Gentleman for being so generous with his time. My hon. Friend the Member for Gateshead mentioned hybrid vehicles. I am a member of City Car Club in Edinburgh, and I drove a Toyota hybrid vehicle at the weekend. At under 20 mph, with the window down and Led Zeppelin on 11 on the volume dial, you can certainly be heard. If the hon. Gentleman would rather listen to Céline Dion or Jedward, that is entirely up to him. The key is whether you are arguing for higher taxation on road fuels or biofuels. I am not sure what you are arguing for. Are you saying that we should increase or decrease taxation on road fuel? What is your argument?

The Chair: Order. It is not my argument.

Alec Shelbrooke: My argument is simple. We should start to reduce, or not carry on increasing, our reliance on fuel taxation, because it will give a diminishing tax return in the long run. Especially now that oil prices are so high, which feeds into a high price at the pump, we have an opportunity to change the habits of Government. In the past 20 years, Conservative and Labour Governments have used fuel as a cash cow to bring in a lot of duty to the Exchequer.

Nic Dakin: The hon. Gentleman is making a powerful case, but I think that it is a powerful case for the amendment. Is he not arguing that it is time to alter things and ensure that they are in check? That is exactly what the amendment tabled by my right hon. Friend the Member for Delyn and my hon. Friend the Member for Bristol East would do, so I hope he votes with us.

Alec Shelbrooke: I admire the hon. Gentleman's pluck. To draw specifically on the point of the amendment, I do not believe that we have to put into statute exactly how things happen all the time. Indeed, in the interventions that I made to the shadow Minister, I said that we have a pre-Budget report in November and a Budget in March, and we do not need to set Budgets outside that.

The Chancellor of the Exchequer has a wide range of powers and freedoms to review where the oil and fuel prices stand in November, and what he may or may not

do on 1 January 2012. Putting that inflationary issue into statute would tie the Chancellor's hands in a way that might have a knock-on effect on other areas of the economy. I made the point to the hon. Member for Edinburgh South, who commented that the fuel price might not have had to put a tax on the oil companies if we had not raised VAT, but that is to cherry-pick one issue rather than consider the holistic argument. I do not believe that we should tie the Chancellor's hands when he may need some flexibility over the pre-Budget report.

Bill Esterson: I want to bring the hon. Gentleman back to the point about the change to either electric or hybrid vehicles. Even if vehicles are driven on electric power, that power must still be generated, so there is no such thing as a free lunch. Will he explain the tax regime that he favours for that? Some of the electricity is generated through burning oil, and part of the problem is the impact of some of the changes in the Budget on the gas industry.

Alec Shelbrooke: I stand here as a Conservative Member of Parliament who is actually a huge fan of nuclear power. I think that it is the way forward and would lead to more energy stability, in the short term. I know that that view is not shared across those on the Government Benches, but I believe that that is where we are. I come from an engineering background; before I came here I was a mechanical engineer with the university of Leeds and I take an interest in these issues. As we move into perhaps the next century, nuclear fusion may be the way forward, but we are not there yet. Indeed, if we get nuclear fusion, we could feed all the waste products from nuclear fission into that and we would move forward. It is quite right that we have to get the energy from somewhere, but we move on.

I would like to make a final point on biofuels, which involves a very important statistic that I think Members should bear in mind. For every 10,000 square metres of soya beans grown to create biodiesel, there is a 700,000 kg release of CO₂. It would take 300 years just to cancel that out, so, from an environmental point of view, what are we achieving? There are also all those knock-on consequences that I mentioned.

Finally, to close before I get my legs chopped off by the Whip, fuel prices obviously have a wide impact in our society—a point that is taken seriously by Members in all parts of the House. There has been the odd flippant comment, and I know that this has been an excitable debate at times, this afternoon and this morning. We have gone at each other on budgetary and philosophical points of view, but I think that everyone in this room feels very much that it is a problem. High fuel prices have a genuine effect on people's lives and how they move forward. There is the knock-on effect on the price of our food in supermarkets. The inflationary CPI rise that came out today is a direct consequence of the rising fuel price. There has been a 17% rise in oil in the last quarter. That is something that no Government would have predicted, or indeed legislated for, but it does not mean that it is not right to make even the smallest of moves forward. That smallest move forward was to cancel out the 5p rise and cut it by a further penny. Those do not sound like big figures, but they make the difference. We are trying to move forward. I do not agree with the shadow Minister's amendment because,

given the complex state of world stability, oil price stability and where we are moving to in what is still a fragile marketplace in so many different areas, we should not be using statute to tie the Chancellor of the Exchequer's hands over what moves he may or may not make in either a pre-Budget report or a Budget.

Bill Esterson: It is a great pleasure to follow the hon. Member for Elmet and Rothwell because we share a common background. Being graduates of Leeds university, I am sure we will agree on some things, if not on the substance of this debate.

Alec Shelbrooke: Just to be clear, I worked at the university of Leeds for 11 years. I am a graduate of Brunel university.

Bill Esterson: I will re-phrase that: I am glad that we share an involvement with Leeds university. I want to pick up on some of the things that the hon. Gentleman said. He made the point over and over again about the non-increase of 5p. Through the ingenious use of spin, he is trying to claim it as a cut, but it could only be a cut if the increase had actually happened. We can question whether there was ever an intention to have an increase of 5p, but the reality is that it never happened. The only cut that ever happened, therefore, was the 1p, not the 5p he claims. The 3p increase in VAT more than offsets the 1p cut. There was, therefore, a 2p increase in the cost of fuel. I know from talking to many people in my constituency the impact that that rise in the cost of fuel has had, and the impact that the overall high price continues to have, whether for businesses, commuters or families, in these tough times.

I want to spend a little more time on the subject of VAT. I remember only too well the incoming Conservative Government of 1979, who increased VAT from 8% to 15% despite a promise not to do so. The economy struggled greatly as a result of the increase in prices, and families suffered grievously as a result. Unemployment went over 3 million for the first time.

In the run-up to the 1992 election, Prime Minister John Major promised not to increase VAT, too. He promptly went back on that promise and increased VAT. Earlier, we discussed the impact of the recession of the early 1990s, and my hon. Friend the Member for Wirral South rightly made the point that if we compare the recent recession with that one, whether it is measured by unemployment, business repossessions or home repossessions, the figures for the recent recession are roughly half those of the early 1990s. Those figures are testimony to the fact that the outgoing Labour Government ensured that families, jobs and homes were protected, despite a much deeper recession than the one of the early 1990s.

In last year's general election, the Prime Minister pledged that he would not increase VAT. What did we see at the end of 2010? We saw VAT rise from 17.5% to 20%. So there we have a history of Conservative Governments past and present raising VAT, which hits those on low incomes hardest if we consider it as a proportion of income.

Alec Shelbrooke: May I offer some gentle advice to the hon. Gentleman? Does he really want to discuss the economic history of recent Governments, especially when we recall the 10p tax rise on the lowest paid in society?

5.30 pm

Bill Esterson: I would be interested to hear what the hon. Gentleman has in mind when he raises the spectre of Governments past. We can talk at length about the recessions of the '80s and '90s, when Tory Governments clobbered working families as they wiped out industry—they destroyed the mining industry—and did nothing for the communities laid waste as a result. If he wants, I would be happy to discuss that with him long into evening.

The Chairman: Order. Not in the Committee.

Bill Esterson: Indeed, Mr. Hood.

The 2p increase in the cost of fuel has had a dramatic effect, not least on my constituents. Of those in work, 40% either run their own businesses or are self-employed, and they feel the impact of fuel costs deeply. The proposal in the amendment would be helpful, because it attempts to make the impact of fuel price rises much fairer than what would be achieved by the Bill's current proposals.

The fair fuel stabiliser is not a stabiliser, and it goes back on the promise made by the Prime Minister before the election, when he said that should the petrol price go up, tax should come down. It is extremely regrettable that that pledge, along with the VAT promise, has been broken, and that hard-working families and businesses in my constituency are suffering as a result. As I have said, 40% of my working constituents are employed in small businesses or are self-employed; another 40% work in the public sector. The economy of Sefton, and of Merseyside and the north-west, will suffer greatly from job losses in the public sector and from the knock-on effect on those small businesses. They need to be the engine of growth in a recovery, but a growth strategy is missing from the Government's fuel proposal and from the Budget in general.

Ian Murray: You are highlighting a very important point, because what you are essentially saying is that—

The Chairman: Order. The hon. Gentleman should stop referring to the Chair.

Ian Murray: As you are my favourite Chair, I cannot help myself, Mr. Hood. My hon. Friend is making a very important point, because he is highlighting an attack on consumer confidence. Although the hon. Member for Elmet and Rothwell suggests that many companies, particularly small business, can claim VAT back on fuel, it is the hit on consumer confidence that lowers business expectations. That means that any VAT increase or increase in fuel price hits consumer confidence very hard.

Bill Esterson: That is absolutely right. It is the combination of a lack of consumer confidence and the inability to spend money that is the problem. For example, 1,000 jobs have gone from Sefton council; that is equivalent to a significant number of families, and it is the main breadwinners who have lost their jobs. That means they have lost the ability to spend money in the local economy. Hundreds of jobs are also under threat in the local HMRC, and those people spend money in the local economy and local small businesses rely on their custom.

I have mentioned the impact on businesses and families. That is an indicator of the lack of a growth strategy. The problem with the cuts is that impact, but also the speed at which they are being carried out. Cutting the jobs so fast and taking that vast amount of money out of the economy makes it very difficult for businesses to grow and to create the jobs to replace those lost in the public sector. All the measures, including that relating to fuel, contribute, by their effect in reducing growth, to the economy's inability to grow.

Of course, with more people out of work and more businesses struggling, less money is being paid in tax to the Exchequer, so there is less ability to pay down the deficit. Again, the problem is that although Government Members say that they want to pay the deficit off, the reality is that their approach does not even achieve that, because of the reduction in money flowing into the Exchequer through low or slow growth. As we have seen, during the last six months that were reported on, the economy flatlined.

Let us consider the impact on the oil industry. That industry was extremely concerned about the Government's decision to target oil companies. Oil and Gas UK—the representative body—has said that the Budget “looks to have been constructed hurriedly without rigorous analysis of its implications”.

The uncertainty caused by the Government is already harming a key area of business investment. Statoil, for example, has postponed more than \$10 billion of investment in the UK, according to the *Financial Times* of 29 March. Oil and Gas UK also described the announcement as a shock and said that it would damage investor confidence and make many companies question whether the UK was an appropriate destination for their investment.

Given the importance of the oil and gas industry in this country—there are hon. Members here who have far more direct involvement in the industry than I do and can speak with far greater knowledge than I can—to the economy and as part of a growth strategy, it is extremely worrying that the Government have targeted the industry as they have.

The Economic Secretary to the Treasury (Justine Greening): In the light of the hon. Gentleman's comments, will he explain to the Committee why, when the clause was considered in the House the week before last, he failed to vote against it?

Bill Esterson: My hon. Friend the Member for Bristol East has already explained to the Minister a number of times that we have voted against the Budget several times already. We voted against the package of measures. She cannot have it both—

Justine Greening: Will the hon. Gentleman give way?

Bill Esterson: No. I have not finished answering the hon. Lady's point. We seem to be repeating the earlier exchanges that she had with my hon. Friend the Member for Bristol East, in which the Minister tried to intervene before her first point had been answered. At certain times, Ministers complain when Opposition Members vote against a package of measures, a Bill or a set of proposals and claim that we are against everything in

the package. At other times, they complain when we vote against measures individually. The Minister cannot have it both ways.

Justine Greening: I want to test the logic of the point made by the hon. Gentleman and the Opposition Front Benchers once and for all. The logic is that they implicitly voted against the things that they do not like, such as the VAT rise that went through and the North sea oil tax that has funded the motoring package, because they voted against the Budget. Does that same logic mean that they voted against the motoring package that included a fuel duty cut, which had the support of motorists throughout the country? Does it mean that they voted against the rise in annual mileage allowance payments? Or is that somehow different?

Bill Esterson: I answered the Economy Secretary's previous point; I do not think she has made a new one. She cannot have it both ways—she wants us to vote against individual measures and, when we do, she criticises us. I would have more sympathy for her if she, along with all her colleagues, had not behaved in exactly the same way in opposition.

Tom Blenkinsop: It is interesting to listen to my hon. Friend's speech and the interventions of the Economic Secretary. Is she absolutely certain about the Government's exact position? We have just had word on the news wire that the Prime Minister has asked the Chancellor to talk to the oil companies now. Declaring positions and voting on those that may be on shifting sand might be rather risky in Committee.

Bill Esterson: I am grateful to my hon. Friend, who is closer than I am to Twitter and the 140 characters that are allowed. I hope his point is right, because we need the oil and gas industry in this country to be successful, and we need it and the Government to work closely together. I am reassured by what he said, and perhaps the Economic Secretary should check what is happening in her Government before criticising us.

We have heard the concerns of the oil and gas industry about the Budget and the potential damage caused to growth by Budget measures such as the fuel duty. I regularly talk to businesses in my constituency, and I have previously mentioned small construction firms in Committee. They are extremely worried about the rise in fuel prices and their ability to remain competitive, because they have to look at their costs all the time. The rise in fuel prices has had a huge impact on profit margins at a time when price is absolutely crucial for those who are still able to bid for private sector contracts or for public sector contracts. There are not as many public sector contracts as there were, with the cut of Building Schools for the Future, to name only one massive cut, and the impact of that on the economy. With today's inflation figures, such firms are under huge pressure. We need measures to help business, such as the idea proposed by my hon. Friend the Member for Bristol East in her amendment.

I have also spoken to people who commute to work. In my constituency, which is about 10 miles from the centre of Liverpool, some people commute—often by car—into Liverpool or further afield to Manchester. They have found that the cost of motoring has gone

through the roof. That will be familiar; I see a Government Member agreeing. There is huge pressure on people; the cost of commuting has made some question whether they can keep their jobs, or whether they should look for alternative employment. There is also an impact on families, who are asking whether they can keep the family car.

The changes are having huge impacts, not only on the economy and the lack of a growth strategy, but on business and individuals. It is clear that we need the Government to go back to what they said before the election. A fair fuel stabiliser is a good idea in principle, and it is extremely unfortunate that we have had a broken promise about that.

5.45 pm

In the Budget, we face two fuel duty increases in 2012. If we include the VAT increase, the Chancellor will have added 8p or 9p to the price of fuel by next August, I believe. That is a long way from any kind of cut—the cut that the hon. Member for Elmet and Rothwell might, in his wildest dreams, have hoped for. As the Institute for Fiscal Studies said of the Budget, there is an awful lot of giving with one hand and taking away with lots of other hands.

Alison McGovern (Wirral South) (Lab): I agree with many of the points that my hon. Friend makes. He has spoken effectively about why it is important to probe some of the issues relating to fuel prices and how they impact on people's daily lives. Several points are important in considering the amendment and whether we should give people more predictability. I would welcome the Economic Secretary's response on a couple of aspects of fuel prices and how they impact on people's lives, both at a macro and micro-economic level.

Discussion of the amendment helps us to understand the Government's approach to inflation, which has risen to 4.5% today. In his letter to the Chancellor, the Governor of the Bank of England again cites the VAT rise as a contributory factor to the rise, as well as fuel prices. I have said before in the House that inflation matters, not because I am an inflation hawk who thinks that there is a philosophical economic injustice in the presence of inflation in our economy, but because of the practical damage that it can do. By introducing the VAT rise and—to refer to the amendment—by not tackling fuel price and duty issues, the Government risk building inflationary expectations into our economy.

We have learned today that people are expecting inflation to keep on rising, which is damaging for business investment. At a whole-economy level, inflation is rising, fuel prices are going up, and VAT is being added to fuel. People want reassurance that the Government will tackle that situation. They need to feel that the Government are in control and that the economic architecture is set up to enable the Monetary Policy Committee to deal with inflation.

In the partnership between the Chancellor and the Governor of the Bank of England, the Governor must openly give reasons that we can all understand for not meeting the Chancellor's target, and the Chancellor must respond to them. Does the Economic Secretary think that we should give people more stability about what they can expect from fuel prices, which is the aim of the amendment? I think that that is important.

Alec Shelbrooke: If the hon. Lady is so worried about inflation, and given the lessons of the late 1920s and early 1930s, does she not believe that it was a mistake to print £200 billion and pump it into the economy?

Alison McGovern: I told the hon. Gentleman that I was not worried about inflation in that sense. I shall come on to discuss the macro picture. We could have a long discussion about quantitative easing and why it was necessary at that specific time, when there were deflationary pressures, but I think that would test your patience, Mr Hood, so I will not go down that route.

The Chair: Order. Not on this amendment.

Alison McGovern: Thank you, Mr Hood; I am very grateful for your leniency and advice. I want to help the hon. Member for Elmet and Rothwell to understand the point that I am making. The big impact that inflation and the price of fuel are having right now, and the issue of why stable fuel prices are so important, relate to fairness, how people are feeling and what their lives are like right now. As much as I love a good chat about quantitative easing and the macro-picture, what really matters to people is their ability to have a decent quality of life for their families. We must acknowledge that wages are being held down in this country. Six out of 10 adults recently said that they have not had any form of salary increase, which is what we would expect as we come out of a recession.

The private sector is nervous. The public sector has been told, “You will not give anybody a wage increase, apart from the people at the very bottom end of the public sector pay scale.” The Government have told us that nobody is to receive a wage increase at all. That is having a massive impact as people face price increases in shops. I am sure members of the Committee have knocked on doors in their constituencies in recent weeks and months and heard that people’s biggest concern today is the prices in the shops.

Roger Williams (Brecon and Radnorshire) (LD): The hon. Lady makes a very good point—people’s personal budgets are being squeezed. However, I get the feeling that people are realistic as well. Many people in my constituency—and in hers, I am sure—will have volunteered to take reduced hours of working to keep in employment. Staying in employment, and ensuring that there are no unwanted or unnecessary redundancies, is the key issue at the moment.

The Chair: Order. I sense the Committee is moving away from the amendment. I invite the hon. Lady to get back to it.

Alison McGovern: Thank you, Mr Hood. I take the point made by the hon. Member for Brecon and Radnorshire. The clause and the amendment would have a huge effect. Members of the Committee may remember that shift workers at Vauxhall Motors in Ellesmere Port, near my constituency, were one of the first groups of workers to negotiate reduced hours to keep their workplace going. That is why our approach to the recession was more successful than that in previous recessions, because we encouraged collaboration. The

prices, including fuel prices, that people faced were more serious because of their reduced hours, but there was a sense of trying to get through difficult circumstances.

Ian Murray: One of the key issues that my hon. Friend highlights is the inflationary pressures on food and commodities, and a major part of that is the increase in fuel. If we do not agree to the amendment, fuel prices will increase because of Government action, and the price of everything that is attached to the delivery of goods will increase, so constituents will pay more in the long run.

Alison McGovern: That is right. Those things are all connected. Unfortunately, the net result of the measures that we are discussing is that consumer finances are really stretched. I have here a moneysupermarket.com survey that says that 22% of Brits have already reached their “affordability tipping point”, as my hon. Friend just remarked, and can no longer make ends meet. We must acknowledge what has happened in the past year. We have gone from a situation where people could work fewer shifts because the economy was growing; they felt that as the economy grew, they would step up more, and the Government would do that work with them. Now the Government have whacked more VAT on the prices in the shops and there is a cavalier approach to cutting from local councils and other public services, which means that people face the difficult decision of whether to take voluntary redundancy when their chances of getting another job are slim. They will probably never get as good a pay off again, but how do they cope when prices in the shops are going up? People have difficult choices. According to moneysupermarket.com, household disposable incomes are set to fall by a further £780 in the coming year.

Nic Dakin: What my hon. Friend describes so well is the squeeze on the incomes of honest working families. Whether lower income or middle income, everyone is feeling the squeeze, and fuel prices are one of the things that are particularly hurtful at present.

Alison McGovern: I thank my hon. Friend for that intervention; he is absolutely right. I will come on to talk about why fuel prices are key to my constituents’ disposable income and their general quality of life, but I want to come back briefly to the point that we cannot have this discussion in a vacuum, without understanding what else is going on in people’s lives. Interest rates are low at the moment, which has held down people’s housing costs to a certain extent, depending on their personal circumstances. If it were not for that, people would be finding life extremely difficult. The vast majority of people—that vast bulk in the middle of the income distribution range—have not seen their incomes rise over the past year, but prices have shot up. The challenge for the Government now is to tackle that.

The amendment is an attempt to probe that question and ask what we can do for people who face such uncertainty. What does the Minister think should be done to assist that bulk of people, who feel that they work hard—I am sure that they do—but who see prices going up and up and their real quality of life falling, and who wonder when the Government will step in and offer them some assistance? As my hon. Friend the

Member for Sefton Central remarked, not only are the inflationary expectations that we are building into our economy harming business prospects, but people are finding these times very difficult. It is a struggle, and they are wondering whether it is really fair for them to bear so much of the burden. It feels as though a lot of the burden has been shifted on to people on the most moderate incomes. That is not the right approach.

There are people in my constituency who will be particularly affected by the measure. It is not the same everywhere in the country, which is not to say that there are not particular problems elsewhere; it is just that they are different. I feel it is right to stand up for my constituents and the issues that they face. In Wirral and Merseyside, we have a fair number of shift workers, because a higher percentage of our economy is made up of manufacturing. We also have a lot of health care workers. We have specialist cancer services in Wirral South, and staff travel from a fair distance, but many live locally. Working shifts means that it is highly unlikely that people can use public transport to get to work. Their quality of life is therefore extremely sensitive to the fuel price. We have to be realistic here about the importance of getting the duty on fuel right for those people.

As the hon. Member for Brecon and Radnorshire mentioned, people have kept their side of the bargain. Many have worked fewer shifts to try to help their workplace keep going. We must try to do right by them and keep our side of the bargain. We need to understand that if someone is a shift worker, they almost certainly drive to work. Perhaps they share a car, and I know of some factories that provide minibuses, but by and large people drive to work. It is important to stand up for such people, who are working long hours.

6 pm

Bill Esterson: I completely agree with my hon. Friend. She is making an extremely good point about shift workers, which is relevant in my constituency for exactly the same reason; it is on the other side of the river. Is she aware that the Chancellor has just admitted on Channel 4 that growth has been flat over the past six months? That will have an impact on workers, including the shift workers whom she has mentioned.

Alison McGovern: That is an important point, because if growth is flat and people wonder what the prospects are for our economy, feeling that impact every time they go to the petrol station makes life difficult and builds a perception of gloom about our economy. That is why consumer confidence is down, and the net effect of that is to hurt retail and investment. That negative spiral in our economy makes it much harder to argue for investment.

In places such as Merseyside, confidence is all. Our economy went through the wringer in the '80s and early '90s, but we have broken through, and the Liverpool city region is really quite successful. We have had a much better recession than any of the gloom and doom merchants expected. As his constituency is across the river from mine, my hon. Friend knows that fuel price is significant, as it plays into consumer confidence, which leads people to think about their life and ask, frankly, whether it is worth sticking around in Merseyside, and whether there is anything going for them. Consumer

confidence, which is fed by fuel prices, is absolutely key to our future and to the success of our city region not only next year—though it will be key next year—but for the next five or 10 years, so my hon. Friend makes an important point. When people see their monthly outgoings increasing and their income being held down, consumer confidence is damaged. It is important, therefore, that we discuss the amendment and what we are able to do about the situation.

I want to mention another group of people in my constituency who will be affected by the proposal. In Wirral we have a large number of older people, probably because it is a nice place to live and it has nice beaches as well as convenient towns and cities nearby.

Mr David Hanson (Delyn) (Lab): It is near north Wales.

Alison McGovern: It is very near north Wales. It is the perfect place to live for anyone of any age, but we have a larger older population than many areas, which means that we have a higher population of carers and people with caring responsibilities. I am constantly aware of the impact of fuel prices—and of the duty that is or is not added—on carers. Frankly, if a person's mum rings up at 2 am to say that she has fallen out of bed or needs medicine, they cannot say, "Hang on a minute, I will just check if there is another option." They have to have petrol in the car to get round there. Carers do not have as many travel options as others do.

We have a responsibility to think about the impact of the measure on those who do a highly important job in our community. Carers do a job that many of us could not imagine doing; people in this room who have caring responsibilities will know what I am talking about. Having another adult depend on them means that they need predictability. In order to look after that person and give them dignity and quality of life, carers need to know what their costs will be, so that they can ensure that their position is sustainable. It is important that we recognise that this decision will have a big impact on carers.

Finally, I want to mention public transport alternatives. I am lucky in my constituency, because there is a combination of suburban areas, on the edges of Liverpool and Chester, with good public transport. However, as I have mentioned, it is busy. Sometimes people feel that congestion does not happen outside south-east England—and I know that this is a north-south point—but anybody who has travelled between Liverpool and Manchester, or on a peak-hour train into Liverpool, will know that our rail network has a lot of congestion. It is not always the best alternative for people. Not only do we need investment in public transport, but we need to ensure that we are not loading costs on to motorists. That is highly important.

Bill Esterson: The link between public transport and private motoring is incredibly important. Like my hon. Friend, my constituency is covered by Merseytravel, and I echo her points about the rail network not always being the best option. There are also problems related to buses, because the bus service in parts of my constituency, and I am sure that this is true in hers, is not always reliable. Because of the scale of the cuts, we have lost

[Bill Esterson]

bus services. That forces people into cars, making issues related to the oil price increasingly important for many people, who need to travel for work, or for other reasons.

Alison McGovern: I thank my hon. Friend for that well-made point. I was going to mention other parts of my constituency that are much more rural, where the bus services are not fantastic, and where what bus services they have are expensive. We need to offer people a choice that enables them to make the decision that is best for both the environment and their pocket, so that it feels like a win-win situation. At the moment, we are offering people a lose-lose solution, which will have a massive impact on consumer confidence. Unless the Government are seen to be tackling some of the costs that people face, not only when they fill their car up, but when they decide to travel by bus, some people will feel that problems in the economy are being loaded on to them, and not, by and large, on to those who are earning average incomes in the middle—from £25,000, to when people start to pay higher-rate tax. It will seem that there is no real consideration about whether it is fair to constantly ask people to pay higher prices in shops, when they have absolutely no ability to increase their family's real income. Nowhere does that unfairness show itself more than with travel options, and in the prices that people face at the pumps every day at the moment.

The hon. Member for Elmet and Rothwell said earlier that it would be disingenuous to say that the Government did not cut the fuel price. Without re-entering the debate about whether it was 3p up, 2p down, or 1p the other way, although he might say that the Opposition are being disingenuous, on the other hand, I invite him to go and ask people in my constituency—in Heswall, Bebington, Bromborough or New Ferry—what they think of fuel prices. They would tell him that whether it is disingenuous or otherwise, there is still a big problem.

Alec Shelbrooke: I do not think that anybody in this room would disagree that fuel prices are a problem, which is a point that I hope I have made. All I would add is that the 5p rise was in a Budget forecast; that money was to be used, but that did not happen. It is difficult to prove a negative, but there has been a reduction from the Government of 6p in fuel duty. It may not seem so to the public, and there is not a member of the public, including myself, who would not agree that fuel prices are too high, but that is a consequence of the oil price.

Alison McGovern: I thank the hon. Gentleman, not only for his intervention, but for his helpful and illuminating speech earlier, which described some problems that we accept on both sides of the House. I do not envy anybody who tries to tackle this thorny, complicated problem. In the Governor of the Bank of England's letter to the Chancellor today, he cites some global issues that have caused the increase in fuel prices. We cannot possibly seek to tackle such problems here, but both the hon. Gentleman and I accept that the issue is complicated. The point of the amendment, however, is to question and discuss what more we can do to offer people a little more certainty about what may happen in

the near future in order to build back a bit of consumer confidence. That is the most important thing, and it ought to be our focus and the Government's focus at this time.

Tom Blenkinsop: As ever, it is a pleasure to serve under your chairmanship, Mr Hood. If we look at what influences inflation and the day-to-day activities of businesses and individuals in an economy, energy is the driving policy. The amendment, which was proposed by my hon. Friend the Member for Bristol East, addresses that and takes the Government's lack of direction in energy in general head on.

Yesterday, the *Financial Times* led with an article on how Iraq's output goals for oil were not going to be met, which obviously bodes badly for oil supplies in general. As we all know, however, scarcity of oil creates inflation. The troubles in the middle east—Egypt, Tunisia, Libya, Yemen and elsewhere—have added to the problems with oil commodities. Also, post-Fukushima, the Japanese economy is, for obvious reasons, moving much more towards liquefied gas and away from nuclear. However, other policies unrelated to fuel duty are in play here. In my area, we have the Ensus bioethanol plant, which, it has just been announced, is going to close for approximately four months, because of a lack of Government direction. We also have the Teesside power station, which was recently half-mothballed. There is a big energy problem, and Government policy seems to create more risk in the market. Oil scarcity, as I said, increases inflation, but so does VAT and so does fuel duty and so does a carbon floor price on energy-intensive industry. All those factors are feeding into the economy, creating uncertainty and adding more risk to the market.

If we look at the economic effects, there are obvious public transport issues, as has been highlighted earlier by my hon. Friends, but there are also freight issues. If rolling stock is predominantly diesel-powered, what effect will that have on the transportation of goods from ports to stocking areas? That could be the supermarkets at Teesport or the shipment of coke, iron ore or other basic commodities. The hon. Member for Elmet and Rothwell highlighted how we should see a transition from, say, gas and oil to nuclear, and I agree. There is broad consensus on the view that we need to move towards carbon-neutral energy provision and to rely less upon foreign sources of fuel. However, our food stocks are directly reliant on gas. Companies, such as GrowHow in the Teesside area, use gas to produce agrichemicals, which farmers buy and then use to grow our domestic crops, as well as those abroad, so there is a direct link between gas and food. Nuclear will not fill that gap. Gas will still be necessary.

I want to ask the Ministers present what they think the effect will be on small and medium-sized enterprises. This echoes an earlier debate on what tax allowances and breaks SMEs will have, but if there is no basic SME base, the big companies, which provide the amount of jobs necessary to reduce unemployment and get an economy going, will not be attracted. In Teesside, we have a strong oil industry presence in petrochemicals, and those jobs will undoubtedly be affected by the Government's policy on the oil industry. That is coming not only from the trade unions on site, but also from the managers, the company owners and their shareholders. It does not just affect the oil industry directly—whether

that means someone working as a fitter on a rig, or at a petrochemical plant on Teeside, or down the road on the east coast of England, on Humberside. It also affects the contracts that the oil industry then thinks about in relation to growing or developing new fields.

6.15 pm

The Hartlepool steel mill in Teeside—the 84-inch and 42-inch pipe mill—has massive contracts at the moment from the oil industry, in developing and expanding gas fields north of Scotland. Similarly, they have those same contracts in Corby and in Scotland. What will happen to those contracts as this policy on the oil and gas industry percolates through the economy? In my constituency, which is 55% rural, from Guisborough and east Cleveland, stretching out to Boulby potash mine, we have small businesses and a burgeoning tourism industry. What will fuel duty do to those small start-up businesses? These are small companies which are employing one or two people. What will fuel duty do to those self-employed people in rural economies? Also, how does this policy interact with the new, rural, privatised Royal Mail service? We have a policy on the table in relation to Royal Mail, where supposedly we will have a great share scheme for workers. How will fuel duty affect either a large buyer, or regionalised purchasers, of a Royal Mail system?

Alec Shelbrooke: I am most grateful that the hon. Gentleman gave way there, because that is such brass neck that I could not remain seated. In the last 13 years thousands of rural post offices have shut without a moment's thought as to how people would get to another post office. I do not want to test the patience of the Chair, but at least we are trying to make sure that our proposal is sustainable.

Tom Blenkinsop: I thank the hon. Gentleman for his intervention. Of course, the Post Office is different from Royal Mail. I could go into the whole debate, which you, Mr Hood, chaired—

The Chair: Order. I did chair the Post Office Bill Committee, and I am aware of the issues that the hon. Gentleman raises, because I have heard them. I do not want to hear them any more.

Tom Blenkinsop: As ever, Mr Hood, you speak with great wisdom. However, I do believe that the fuel duty policy will have an effect on rural economies and will undermine the viability of rural businesses and services, such as rural post offices and the delivery of a rural postal service. What we are looking at here is an economy in which domestic demand is being deliberately reduced and taxes are going up, while prices are going up and wages are going down. How would Ministers describe that, according to their economic textbooks? Would they describe that as an economy that has been doing well in the last six months through policies such as this one on fuel duty, or would they call that stagflation? I leave that open to them.

Ian Mearns (Gateshead) (Lab): May I add my weight to the wishes for your birthday, Mr. Hood, which I understand was yesterday? I wish you a belated happy birthday.

I do not own a car, so I have no personal interest in the price of fuel duty. I do occasionally hire a car, and I have noticed how much it costs to fill a petrol tank when I do so, but that is few and far between, so I have only a very small personal interest in the value of fuel and how much duty is placed upon it. I want to concentrate on the impact on business in a region such as the north-east of England. My hon. Friend the Member for Middlesbrough South and East Cleveland talked about the impact on heavy industry in the sub-region of Teeside, but I have had a lot of lobbying from small and medium-sized enterprises and their representative organisations about the cost of fuel duty and how it impacts on businesses in a region such as this. I also want to talk a little about the impact on working families and those vulnerable people who rely on the mobility allowance to pay for fuel just to get out of the house. It is having a disproportionate impact on their living standards and overall well-being.

Following on from my hon. Friends the Members for Sefton Central and for Wirral South, I wanted to mention the comments of the hon. Member for Elmet and Rothwell. I was not convinced by his economic analysis, particularly after he attempted to impose 14% inflation on the number characters in a tweet. I want to concentrate on the stabilising influence that the Government can have on the value of fuel, and how that can then facilitate better business planning. In a European context, as we try to grow out of recession, we have the highest fuel duty, particularly for diesel, in the whole of the EU, significantly higher than other countries. That has a negative impact on businesses that we are relying on in growing our way out of the recession.

When we talk of a stabilising influence on fuel, we cannot forget that prior to the general election in 2010, the majority party in the current Government said it would consult on the introduction of a fair fuel stabiliser, which would cut fuel duty when oil prices rise and vice versa. That would ensure that families, businesses and the whole British economy were less exposed to volatile oil markets, and that there would be a more stable environment for low-carbon investment. The junior partners in the coalition in their manifesto proposed a rural fuel discount scheme with a reduced rate of fuel duty in remote rural areas, as allowed under EU law, and preparation for a system of road pricing to be introduced in a second Parliament.

The proposals we have from the Government are a million miles away from that. I am concerned about the prospects for growth in a region such as the north-east of England, where there is a disproportionate impact of fuel duty on the regional economy. In Opposition, the Prime Minister made promises to keep down the cost of fuel duty by pledging to introduce the fair fuel stabiliser. When his party launched the idea of a fuel stabiliser in July 2008 it promised it would vary taxation on fuel based on changes to petrol and diesel prices. The principle of the plan was that when fuel prices went up, fuel duty would go down. That commitment to the fair fuel stabiliser was expanded on and reaffirmed by the Conservatives in their manifesto. The soon-to-be Prime Minister went on about the fuel duty stabiliser in his speech on 28 April 2010 at the Coca-Cola plant in Morley. He said,

“One of the unspoken things in this election as well, is what more can we do to help people with the cost of living? One of the biggest things for people right now is filling up your car. You

[*Ian Mearns*]

know £1.20 for a litre of petrol or a litre of diesel. Now there's a big deficit so we can't make big promises but we could at least stabilise it."

There is something that concerns me as an MP in the north-east, one of the remote regions of England with regard to engagement in the main part of the economy. That is the differential impact of fuel duty policy in the English regions. An analysis of road freight statistics by the North-East chamber of commerce demonstrates the extra burden that fuel taxation places on businesses in the north-east of England. Each tonne of freight brought into or out of the north-east delivers £4.16 in fuel taxes to the Exchequer, which is 18% higher than the average for English regions of £3.52 and 74% higher than the average for London. The analysis shows that there needs to be more careful consideration of the economic impact of fuel duty rates on the regions, because they have a disproportionate impact on the regions away from the south-east.

Road freight statistics show the extra distance travelled by goods transported into or out of the north-east compared with other parts of England. Every tonne of freight transported by road into or out of the north-east travels an average of 119 miles, or 191 km, compared with an average of 162 km, or 101 miles, for all goods travelling between the other English regions. Only businesses in the south-west transport freight further by road, with each tonne of goods coming in or out of that region travelling an average of 192 km, which is just less than 120 miles.

Duty on diesel currently stands at some 58p per litre. The VAT chargeable on fuel duty brings the total impact to 66p per litre. A typical fuel consumption rate for road haulage is 8.5 miles per gallon, which means each kilometre travelled provides the Exchequer with 22p in tax. On that basis, and given an average load of 10 tonnes, each tonne of freight transported into or out of the north-east delivers £4.30 to the Exchequer in fuel taxes, compared with the English average of £3.52.

Many hauliers in North East chamber of commerce have no choice but to pass a proportion of those costs on to customers, the vast majority of whom are in the north-east. Therefore, it is an added cost to growing a business, and to being in business at all, in the north-east.

The North East chamber of commerce argues that decisions on fuel duty need to take greater account of the impact on businesses in each part of the UK and a more considered approach to the automatic increases fixed in Government policy for years to come. The figures exclude goods transported within regions, because the impact is broadly the same in each region.

The North East chamber of commerce's evidence is supported by the north-east regional committee of the Federation of Small Businesses, which also argues for the stabilisation of fuel duty, because it helps business planning.

Despite the fact that it was in the manifestos of the majority parties, in January the Chief Secretary to the Treasury said of the fuel stabiliser:

"It's a complicated idea and it's difficult to see precisely how we achieve it, but it's something that we are looking at very carefully to see if we can reduce the burden of fuel duty."

The Federation of Small Businesses does not agree with that analysis. From its perspective a fuel duty stabiliser is relatively simple to implement and could be introduced within a matter of months. The concept could be straightforward: when oil prices increase, the stabiliser would allow Government to reduce duty to a lower limit; and when oil prices fall, the Government would be able to raise duty to a higher limit.

Critics cite the difficulty of knowing whether fluctuations in oil prices are temporary or are likely to persist beyond the near-term. It would be difficult, therefore, for a fuel duty stabiliser to set duties effectively. To counter volatility in the price of oil, a fuel duty stabiliser would need to be based on official forecasts of the future price of oil and adjusted at regular periods according to the actual price.

There is a simple way of doing that. A fuel duty stabiliser should be based on official forecasts of the oil price cycle, as advocated by the economist Andrew Lilico. The oil price cycle is the long-term prediction made by economists of the pattern of oil price fluctuations over a period of time. Using the oil price cycle as a basis for a fuel duty stabiliser, the level of fuel duty would be calculated against a trend price for oil. It would then be adjusted following changes to the official view of the oil price cycle.

6.30 pm

There have been criticisms, particularly from the Government. The Chief Secretary to the Treasury, in responding to calls for the introduction of a fuel duty stabiliser, said:

"We can't sacrifice income willy nilly."

But while we do not implement such a measure, businesses, particularly in regions such as the north-east of England, are suffering because of the high cost of fuel. As I have pointed out, that cost is high against that of European competitors. When we are competing in international markets for business, particularly in areas such as manufacturing, it has a significant marginal impact on the cost of getting goods to market and the prices that businesses can quote for their goods.

If set correctly, the fuel duty stabiliser could still be fiscally neutral for the public finances and provide much needed economic stability for the United Kingdom's economy. In September 2010, the Office for Budget Responsibility produced a report looking at the effect of oil price increases on the economy, with a possible view to introducing a fuel duty stabiliser. That report looked at the effect of oil price increases over a four-year period and came to the conclusion that, while the Government would receive extra revenue from increased oil prices, that would be wiped out by other offsetting effects on the economy, such as a contraction in economic output due to the high price of oil. That analysis is correct, but it fails to take account of the flexibility afforded by a stabiliser based on the oil price cycle, which would make it fiscally neutral.

Critics fail to take account of the wider economic damage that high fuel prices have on the economy as a whole. In spring, the International Energy Agency warned that high oil prices are becoming a threat to the economic recovery of OECD nations—of which the UK is part—due to its effect on national and personal budgets. The current high price of fuel and the lack of mid to

long-term certainty over future prices means that our economy is being hit hard, at a time when we can ill afford it. Recent research by the Federation of Small Businesses shows that 62% of companies said they will have to increase prices if fuel costs continue to rise. One in 10 small businesses said they will lay off staff, and some 26% said they will freeze wages. That is a huge concern, because unemployment has reached 2.5 million. We have already seen a differential impact on unemployment, where unemployment nationally has fallen 17,000, but in the north-east it has risen by 11,000, in a relatively small area in terms of overall population.

Small businesses are not able to absorb the cost of fuel price increases like big business and they are being badly hurt by the current prices. Perhaps more than the high price of fuel, it is the uncertainty over future fuel costs that stops small businesses from being able to plan effectively and grow their business into the future. A measure to stabilise fuel duty would give the certainty and stability the UK's 5 million small businesses need to factor fuel costs into their business expansion plans.

A fuel duty stabiliser or a stabilising effect could increase the stability of the public finances. Further to that, the introduction of a stabilising measure would also give more certainty to the state of public finances.

The rise in inflation impacts on people's living standards and leads to wage increase demands, turning what could be a temporary impact of high oil prices into inflationary pressure on the economy. A stabilising measure would iron out the knock-on effects of inflation due to increases in the price of oil and act as a brake on inflation, limiting the damaging effect inflation has on our economy. In December 2010, inflation rose to 3.7%, the highest increase in the cost of living for eight months. That was largely due to the 2.8% rise in the cost of fuel.

"It is time for the UK government to dust down its idea of a fuel price stabiliser operated through variable taxes on fuel, starting now with a reduction, to take some of the inflationary pressure of this latest move out of the system."

That was said by the right hon. Member for Wokingham (Mr Redwood) in January, so there are people on the Government Benches who think that the fuel duty stabiliser would be a good idea.

Fuel duty is, in theory, an environmental tax that can play a vital role in reducing carbon emissions by encouraging a shift towards low-emission vehicles and alternative forms of transport. The impact of fuel prices has been highlighted in important policy documents such as the Stern review, and a stable carbon price helps households and businesses to plan ahead and factor environmental costs into medium and long-term plans. I have taken enough of the Committee's time, Mr Hood, but the Government need to think about the variable impact that fuel duty has in different parts of the United Kingdom, and particularly in regions such as north-east England.

Paul Blomfield: A number of hon. Members have mentioned the impact of fuel price increases on rural areas. I represent the heart of one of our great cities: Sheffield. It claims, with justification, to be one of the greenest cities in Europe with the highest proportion of parks and open spaces, but it could not be described as a rural area. I will therefore concentrate my remarks on the impact of fuel price increases on urban areas.

As my hon. Friend the Member for Bristol East pointed out, many families lead complex lives juggling the school run, other commitments to children and different working patterns, and they are every bit as dependent on their cars as those in rural areas. Cars are also critical for other people such as those with disabilities for whom, despite the many steps taken to make our buses and trains more accessible, public transport remains a more difficult option. As has been stated, families are facing inflation at a rate of 4.5% on the consumer prices index, and that figure is higher still on the retail prices index. The strain imposed by the increase in fuel prices accounts for a significant part of the pressures on those families.

My hon. Friend the Member for Wirral South spoke earlier about the overall impact of Government policies. To a significant degree, the net effect of those policies has been not to reduce debt but to transfer it so that public debt becomes personal debt. That is causing enormous problems.

Stella Creasy (Walthamstow) (Lab/Co-op): We are discussing what an increase in the cost of fuel might mean for families. Research carried out by moneysupermarket.com showed that 30% of Brits claim to be now so stretched that an increase of less than £100 in their monthly living costs would push them into debt. If there are increases in the cost of fuel, it is easy to see where that money could go. That will have consequences for that 30% of people, and there will be others beyond that point who are also struggling.

Paul Blomfield: My hon. Friend, as always, makes a powerful and effective point.

Bill Esterson: The point raised by my hon. Friend the Member for Walthamstow has reminded me of a conversation I had with a constituent who commutes from Sefton to Manchester each day. He told me that his journey cost more than £100 extra a year—the same figure as that mentioned by my hon. Friend—and for him, that was the threshold between managing, or not, to make ends meet. Given that the price of fuel has continued to rise since that conversation last year, I dare say that he is in even more difficulty. It is an incredibly important area and I do not think that the Government have given it sufficient attention.

Paul Blomfield: My hon. Friend's point is incredibly important. We are talking about tipping points for families and small businesses. My constituency contains a number of small businesses that operate on small margins and for whom fuel prices are critical.

Alec Shelbrooke: Drawing on the points made by the hon. Members for Walthamstow and for Sefton Central, budgets are extremely tight. The point made by the hon. Member for Walthamstow is very interesting; a loss to budgets of, say, £100 would cause real hardship. That is why the Government have brought in a whole range of measures to ensure that we keep interest rates low. Surely the hon. Member for Sheffield Central would agree that even a 2% rise in interest rates—to what would still be an historic low—would have a devastating effect on people's mortgage payments and so on, and we would then see the level of repossessions shoot up.

Paul Blomfield: The hon. Gentleman will acknowledge that the increase in VAT, for example, had a devastatingly negative impact on families, as highlighted by my hon. Friend the Member for Bristol East. The impact was around £450-plus of additional costs per year for an average family's budget. That has a huge negative impact, which I think trumps the point that the hon. Gentleman is trying to make.

Bill Esterson: The point made about interest rates in the last intervention was important, but I do not know if the hon. Member for Elmet and Rothwell thinks that interest rates are under Government control or not. I was under the impression that they were still under the control of the Bank of England Monetary Policy Committee, but perhaps he knows something that I do not.

Paul Blomfield: I am sure the hon. Member for Elmet and Rothwell will be keen to share it in one of his very constructive interventions. [*Laughter.*]

Alec Shelbrooke: I am always happy to intervene. The important point—following on exactly from what the hon. Member for Sefton Central said—is that yes, interest rates are under the control of the Bank of England, but it is the money markets that have a big impact on where interest rates go. The simple fact is that our debt, in terms of GDP percentage, is as high as some of those European countries whose interest rates have risen far higher than ours to handle it. We have managed to keep a sustainable low interest rate because we have a credible plan. The VAT rise is regrettable, as is any tax rise, but it is part of the holistic plan that has ensured that interest rates stay low. We must not cherry-pick arguments when talking about the impact on families, because if we moved on to some of the suggestions made then it might just be offset by a rise in interest rates elsewhere as debt became more expensive.

Paul Blomfield: I do not want test your patience, Mr Hood, or the patience of the hon. Member for Scarborough and Whitby, so I will return to the issue of fuel duty and the small businesses in my constituency, focusing on one sector in particular: taxi drivers. In my constituency I have several hundred black cab drivers; every one of them is a small business. They have raised this issue with me on many occasions, because they operate on incredibly tight margins in a declining market, with significant fixed-cost payment plans in relation to the purchase of their vehicles, which are very expensive.

Alison McGovern: Does my hon. Friend agree that, as well as the impact of the fuel price and the duty that we are discussing, there is pressure on local authorities, because of Government cuts, to issue more taxi licences to bring in revenue, so they are being squeezed every which way by the Government?

Paul Blomfield: Indeed, that is an extremely important point. It has been a subject of debate in Sheffield, where the Liberal Democrats were fiercely criticised in the last council administration for increasing the number of licences, causing enormous problems for black cab drivers.

Ian Murray: I thank my hon. Friend for giving way, because he raises a point that I think is relevant in every constituency. In Edinburgh, not only are taxi drivers being squeezed by fuel costs, but their charges are set by the local council. Indeed, the local council have resisted increasing charges for the simple reason that it would affect people's pockets. That goes to the heart of what we are talking about here today.

6.45 pm

Paul Blomfield: My hon. Friend the Member for Edinburgh South makes an incredibly important point. It is interesting that the representations I have received in Sheffield about the trap that black cab drivers have found themselves in are being repeated across the country. That is an example of the pressures that have been created by the increases in fuel duty and the anxieties around them.

Bill Esterson: Does my hon. Friend agree that there was never any danger of the markets pushing interest rates up in this country? We have a completely different situation from Greece, Portugal or other countries. His more recent point about taxi drivers relates to our discussion about buses. The impact of cuts to bus services is to push more people into taxis, which is a great cost and hardship to families who would rather use buses because not everyone has a private car. We have all these pressures, all these different competing issues, but the end result—

The Chair: Order. A bit too long.

Paul Blomfield: It was a long, but incredibly useful contribution by my hon. Friend. It enables me to highlight the point made earlier by my hon. Friend the Member for Gateshead about buses. We used to have an incredibly popular bus service in south Yorkshire for which, through the vision of the then South Yorkshire county council, we managed to keep prices down so demand was very high, but all that ended with the actions of the previous Conservative Government in 1986.

Anxieties about fuel duty led the Conservative party in opposition to make incredibly clear promises to the people of this country. The launch of the fuel duty stabiliser as a policy back in July 2008 was absolutely clear. The Conservative party document said that when fuel prices go up, fuel duty would fall and when fuel prices go down, fuel duty would rise. There were clear expectations given to people at that time with the claim that if a fair fuel stabiliser had been introduced in the 2008 Budget, fuel would be 5p per litre cheaper. The hon. Member for Elmet and Rothwell shared with us earlier the nuances between Opposition promises and Opposition plans, but nevertheless, that policy was rolled out with a clear spin that suggested to the people of this country that there would be tough action on fuel prices. The Press Association marked the launch of the policy with the headline, "Tories vow to slash fuel duty." That was the issue at the heart of the offer made by the Opposition to the people of this country at the general election.

My hon. Friend the Member for Gateshead highlighted part of the Prime Minister's comments at the Coca-Cola plant in Morley back in April 2010. The Prime Minister went on to say:

"Our plan is to say when the petrol price goes up, the tax should come down. Sadly that means when prices go down, the tax would have to go up, but at least it would give you certainty". The only certainty for people in Sheffield has been rising prices, driven up by the VAT increase. Pump prices at the nearest petrol station to my office are now £1.379 per litre, which—to reflect points made earlier—is pushing families and businesses very close to the tipping point.

The Conservatives' manifesto commitment on the fair fuel stabiliser has clearly caused them enormous embarrassment, given that all the professional advice at the time and subsequently has been that it is not deliverable, and we have ended up with the position we face in the clause. My hon. Friend the Member for Sefton Central pointed out this morning that they are not even close to a fair fuel stabiliser, because under the Bill fuel duty will never come down, as was constantly promised; it will only go up. That constitutes a substantial broken promise.

The Economic Secretary to the Treasury (Justine Greening): In recognition of the impact of record pump prices, clause 20 ensures that there will be no fuel duty increase this year, by deferring the 2011-12 inflation-only increase to 1 January 2012. That is in addition to the 1p per litre cut in fuel duty from 6 pm on Budget day that we debated in the Committee of the whole House.

We have had an extensive debate on clause 19.

Bill Esterson: Does the Minister accept that the effect of the clause, combined with the VAT increase, is an 89p increase in the cost of a litre of fuel?

Justine Greening: I do not accept what the hon. Gentleman says. In fact, I do not accept the Opposition amendment; in many respects it is as flawed as their proposals to reduce VAT on motoring fuel. To some extent, they seem to have ditched those proposals, but possibly not. We will have to see whether they do so in the future.

The amendment calls for the Government to cancel the January 2012 inflation-only increase in fuel duty if average pump prices in December are higher than during the week of the Budget. It appears that the Opposition, having set out their stall against it, are now calling for the introduction of a form of fair fuel stabiliser. As we have made clear, the Budget announced the introduction of a fair fuel stabiliser to replace the previous Government's fuel duty escalator, which could have resulted in average pump prices being 6p per litre higher than they currently are.

Before I address the specific issues relating to the amendment, I will outline why we took the action we did to support motorists at this time of record pump prices. There is no doubt that the cost of fuel is a real concern to many families and businesses, as we have heard. It is incredibly disheartening when every time people go to the pump to fill their tank prices seem to have gone up again. As I pointed out in the Committee of the whole House, the Government recognise that the rising price of petrol has become an increasingly significant part of day-to-day spending. When shocks such as the

steep rise in the oil price occur, it is important that a responsible Government listen, consider and respond. The steps we have taken have been welcomed by business; by the Society of Motor Manufacturers and Traders, for example, and by Professor Stephen Glaister and the Federation of Small Businesses, which said that "the stabiliser is welcomed." The hon. Member for Middlesbrough South and East Cleveland specifically mentioned the fact that we need to support small businesses.

The previous Government planned to increase fuel duty further at the start of last month, and then they would have introduced further above-inflation increases in 2012, 2013 and again in 2014. None of those planned increases was subject to either oil price or pump price movements. The Labour Government could have introduced the mechanism outlined in the amendment, or a fair fuel stabiliser, as we called for from 2008, but they failed to do so. They set out their stall against it only the week before last—[*Interruption.*]

The Chair: Order. There is a buzz around the Committee that is not in order. It may have been a long day, but I ask hon. Members to pay attention to the Minister while she responds to the amendment. I call the Minister.

Ian Murray *rose*—

Justine Greening: I give way to the hon. Gentleman.

Ian Murray: Does the Minister not concede that circumstances change? Chancellors can change their mind at the Dispatch Box; indeed, when the Chancellor announced from the Dispatch Box a cut of a penny in the price of fuel, the Office for Budget Responsibility said it was a last-minute panic measure. Chancellors may make those decisions, so to transpose Labour's 2010 Budget forward to 2014 is inaccurate.

Justine Greening: Many people watching this debate on TV or reading the transcript will think it absolutely rich for the Labour party, and the hon. Gentleman, suddenly to raise that issue, given that we had to work extremely hard at the Budget to avoid the punitive tax rises on fuel duty that Labour would have brought in. In fact, the VAT reduction on motoring fuel proposed by his party would have been unworkable, illegal and ineffective.

The hon. Member for Wirral South and other hon. Members have spoken about the support that families need to help them with the cost of living. I completely agree, which is precisely why we introduced the motoring package. Of course, we have not stopped there. The Budget, which the Opposition have made clear they voted against as an overall package, increased the personal allowance for the second year running. That took hundreds of thousands more people out of paying income tax altogether, and benefited between 23 million and 25 million taxpayers on the lowest incomes. The Budget also took a range of steps to help businesses, so that they can stimulate employment across the country with a plan for growth.

I should also point out that over the last year, one big help for families throughout the country has been that the national Government have worked with local government to deliver a council tax freeze, at the very time people need it most. We are therefore supporting families across the country to tackle the cost of living.

[Justine Greening]

From the beginning, the coalition Government have actively looked at how to ease the burden on motorists. We have brought forward a £1.9 billion package, cancelled the previous Government's fuel duty escalator and introduced a fair fuel stabiliser. We have acted to ensure that there will be no fuel duty increases this year, and we cut fuel duty by 1p a litre from 6 pm on Budget day. The Opposition have no practical alternatives to offer. An average haulier will benefit by approximately £1,700 this year as a result of the measures in the Budget, which the Opposition have said they were happy to vote against. The Budget also raised approved mileage allowance payments rates from 40p to 45p a mile, which is the first such increase since 2002.

In the time I have left, I will turn to the substance of the amendment. The Opposition are calling for the January inflation-only increase in duty to be cancelled, but last week they failed to offer support for the fuel duty cut, which is a totally inconsistent position. If the stabiliser were based on average pump prices, as the amendment appears to suggest, that could work against motorists, because retailers might have an incentive to keep prices higher, even if they could afford to reduce them, to avoid paying an increase in fuel duty. The Opposition have again failed to say how they would pay for cancelling the inflationary increase in fuel duty. Where would the £1 billion come from? They failed to vote for increasing the supplementary charge, and they want to reduce VAT on petrol, even though it is illegal. They are making more unfunded promises, yet they still have no credible plans to deal with the debts that they created, or to support motorists.

In clauses 19 and 20, we have recognised the impact that record pump prices are having on motorists and

businesses. We are a Government who listen and help. We have made sure that there will be no fuel duty rise this year. We cancelled the fuel duty escalator when the oil price was high. We acted on Budget day by making a 1p a litre cut in fuel duty. We have rejected VAT proposals that are illegal and could take six years to come into effect. We introduced a fair fuel stabiliser that will support motorists when oil prices are high. We have a real plan to support motorists while also dealing with our debts. I recommend that the Committee reject the amendment.

Kerry McCarthy: We have had a very thorough debate. It is a shame that the Economic Secretary replied with such brevity, given the contributions from both sides of the Committee. Only one Government Back Bencher spoke, but he did so for about half an hour, while the Economic Secretary spoke for about eight minutes, which is slightly out of kilter.

I completely reject the Economic Secretary's interpretation of the Labour party's position on this issue. She has a rather strange take on where we are coming from on many of the points discussed today. I thought that I had made our position very clear in response to the interventions during my speech. We may want to revisit the issue on Report, but for the time being I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 20 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.
—(Mr Goodwill.)

7 pm

Adjourned till Thursday 19 May at Nine o'clock.