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Oil price fixing ? who the European Commission should question [1]

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The European Commission has launched an investigation into oil prices. They suspect that prices may have been artificially inflated in order to swindle motorists out of their cash.

They are right. And they should start their investigation at the grand offices located at 1 Horse Guards Road, London SW1A 2HQ. That's not the headquarters of Shell or BP, but the home of the UK government's Treasury. After all, more than half the price that motorists pay at the pump is in fact tax. The product itself costs about 48p a litre to produce and get to the pump. The retailer gets about 5p. But on top of that, there is fuel duty of 58p for a litre. And 20% VAT on top of all that. Indeed, because VAT is added to the whole price, including the fuel duty, motorists are actually paying a tax on a tax!

VAT, of course, was raised recently in order to help balance the government's books in the wake of its bail-out of the banks. So that explains part of the increase in prices. More comes from the 'fuel escalator' ? the principle that fuel duty should rise by more than inflation, in an attempt to induce us to leave the car at home and save the planet. (Politicians are remarkably adept at picking our pockets while telling us it's for our own good.) The escalator forced up UK fuel prices from below the EU average, to make them now among the very highest in Europe. And the tax on fuel is now several times what any economist can justify as a fair charge for the carbon that vehicles emit.

The bottom line is that more than tax on motor fuel is more than 80p a litre. Which makes George Osborne's offer to 'stabilise' petrol prices by shaving 1p off the tax look rather feeble. If the European Commission wants to get to the heart of the great petrol price rip-off, they should immediately call the Chancellor in for questioning.

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