

## Roundtable 1 - PRICING

**Chair: Stephen Glaister, Imperial College London**

**Chair's introduction:**

**Charges and taxation are controversial, so discussion is too often avoided. However, they do make an important difference to behaviours, as the following discussion confirmed.**

**As a means to implement policy some charges and rates of taxation have the immense advantage that they can be changed quickly whereas other measures may take decades to take their full effect—and rapid change is what is needed. Whilst “correct” charges and taxes may be an unattainable ideal, if they actually create perverse incentives they will render other measures less effective.**

**There is a general recognition of the principle that “the polluter should pay” but at the moment the polluter often does not. Further, carefully designed charges and taxes can produce significant new revenues which can be used to mitigate undesirable effects on fairness. In any case decarbonisation policies are reducing Exchequer revenues to an extent that will force any government to take a view on how to respond.**

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This discussion explored the role that road user charging and other pricing and taxation measures might play in achieving a sustained reduction in carbon emissions at the scale and pace required to meet the Government's targets.

A technology-led approach to decarbonising transport has seen little progress since 1990. Vehicle efficiency gains have been eroded by the trend towards larger vehicles, people driving more etc.

It was argued that one of the main problems is that carbon is not priced properly and this failure runs through every sector of our economy and continues to support unsustainable levels of consumption. Every mode of transport should be priced according to its environmental impact, but crucially this must be achieved whilst ensuring a fair and just transition to net zero. Could road pricing help to address this problem in the transport sector?

A key plank in the Government's Transport Decarbonisation Plan is electrification. However, if we electrify the fleet without replacing Fuel Duty, road traffic will increase as the cost of running a car falls dramatically. The Transport Select Committee has highlighted the fiscal black hole that the Treasury will face if it doesn't act now.

Discussion of road pricing is framed very much in the context of decarbonisation, but other policy objectives that should not be forgotten including air quality, congestion, safety and various dimensions of social policy.

**The current price incentives are wrong**

One contributor argued that, despite a great deal of talk about the need to reduce carbon emissions, very little, if anything, is happening on the ground.

“If we are going to take the carbon reduction targets seriously, we need a very large change in behaviour from a large number of people and very quickly. Pricing can help a great deal with this, particularly with getting people to change behaviour in large numbers and quickly.

“If the price incentives to behaviour are perverse in relation to the policy you are trying to achieve it makes life very difficult indeed.”

Road pricing is a very old subject, but it was argued there have been important changes recently:

1. There is a stronger interest in carbon reduction than there used to be.
2. There is a reduction in revenues from Fuel Duty that the Government has begun to notice.
3. More recently, there has been a rapid increase in the world price for hydrocarbons.

At the same time there is a reduction in the general standard of living following from the Covid crisis, which means a massive increase in national debt, the prospect of inflation and the general halt in the increase in living standards which we have come to expect.

The public may be unaware that they already pay a substantial amount to use roads. If you are driving a vehicle which does 40 miles to the gallon, you are paying about eight pence a mile in Fuel Duty.

The public may also be unaware that only a quarter of this money is spent on roads, with the rest going to other things. That's why the Treasury is worried about the reduction in Fuel Duty revenues.

Fuel Duty has substantial advantages as a form of raising general taxation. Among them are that it's very cheap to collect and it's almost impossible to evade.

However, the rate of Fuel Duty has fallen very substantially in real terms since the year 2000, when it reached its peak. This is the result of successive governments not increasing Fuel Duty. [This meeting took place the week before the Chancellor cut fuel duty by 5p a litre in his Spring Statement.]

### **How fast is Fuel Duty evaporating?**

The meeting heard that research has been carried out on what is likely to happen to Fuel Duty revenues as electric cars replace petrol and diesel ones. Different parameters were identified that could move around between now and 2035, and a range of possible outcomes were identified. £5bn was used as the loss of Fuel Duty revenue that might trigger alarm bells at the Treasury.

The research specifically looked at cars. Fuel Duty from cars in 2019 accounted for about 60% of total Fuel Duty Revenue at about £16.5bn. It was established that £5bn of that will have evaporated by somewhere between 2028 and 2032 - and once the Fuel Duty evaporates there's a little bit of extra evaporation because the Treasury levies VAT on Fuel Duty. The researchers couldn't see any likely measures that could potentially delay this date, only ones that might bring it closer.

By working out when a significant sum of money would have gone, the aim was to establish the date by which the Treasury would need to decide what it was going to do (or not do) to plug the gap.

The Chancellor could take the view that losing this income is part of the price he is paying for saving the planet. However, there is a Treasury orthodoxy that once you have started paying a tax for something they'd really like to carry on levying it.

The research concluded that the government is not currently facing Fuel Duty falling off a cliff, but it will probably be a problem for the next government – and therefore political parties need to address this issue for their manifestos for the next general election, which is due to be held in 2024.

“One of the reasons that we have the London Congestion Charge is that it was a manifesto commitment of the first of the latest generation of London mayors, Ken Livingstone. It was very clear and upfront as one of his headline policies.

“Successive airings of the issue of road user charging in the public domain have revealed that by and large if you ask people how they feel about it, ‘no thanks’. Only if it's part of a broader policy mix does it start to find its way through.

“That means, I think, we should be considering whether, if there is to be a replacement for Fuel Duty, it's something that would go into the manifestos for the next election, if it's 2024.

“That gives the Treasury two years to come up with something that they consider is practicable and effective and for politicians to get themselves comfortable. Two years is not very long.”

To provide an idea of the scale of the funds that could be lost, one contributor pointed out that £5bn a year is roundly the level of subsidy that the railway received pre-Covid. It's also roundly the annual expenditure on High Speed 2.

And the £5bn that is likely to be lost between 2028 and 2032 is the “canary in a coal mine”. After that there will be an acceleration in the loss of Fuel Duty revenue. Around £35bn is set to go eventually unless something is done.

### **A toxic issue**

One contributor said: “I think perhaps the biggest problem with the subject for officials and politicians is that [road pricing] had become completely toxic by 2009. It has remained toxic but rather like a barrel of nuclear waste, buried, until very recently. And the idea that the politicians and the officials could lead any kind of public debate on this, it's probably not going to happen. I just can't see how they could do it. If they come out with the subject at all they will find that the critics are immediately jumping on them.

“So it actually then falls to the rest of us to be ventilating the issue, having a discussion, exploring the art of the possible, and laying out options and seeing which ones get the applause and which ones draw fire.”

### **Fairness is a key consideration**

Back in the late-1960s and early-1970s, road spending and road taxation were broadly in balance. Over the years, as traffic grew, the revenues crept up and the road spending went down. For every £4 that is raised from road taxes today, only £1 is re-invested in the road network.

Commenting on this, one contributor said: “The system we have now is not necessarily a very fair one. People don't discuss it, it's just there.”

However, another contributor remarked that we should also take into account some of the unaccounted costs of motoring, like air pollution, the impacts of obesity and the sedentary lifestyle that car use encourages. This places huge costs on the NHS, the accident and emergency services, and wider environmental pollution.

“I think we need to be quite careful when we are talking about how much money we receive in and what is spent on roads. That's the headline that you see in some of the press but it's not a very accurate reflection of the true cost on the Treasury.”

Many of those who drive have access to alternatives, but many others don't. And we've seen with protests like the ‘yellow vests’ and others around the world how the public will respond and react to a measure that they don't feel is fair.

One contributor said: “We have to accept the fact that the planning system has put many people in a position where they have no choice but to drive.”

Research into transport-related social exclusion found that many people driving without licences, they are driving old bangers, they often have no MOT, they can't afford to repair cars. “I wonder if there's a fiscal solution whereby employers ... need to take account of external impacts of how their workforce are actually getting to work.

“A bit like when you sell a house you've got to give your energy rating. They should give their energy rating on their whole carbon spend, including that of their employees. I think that would encourage things like Demand Responsive Transport, shared use and so on. And that would actually tackle some of these equity issues which have often held up debates about charging for transport.

Meanwhile, Fuel Duty “falls very unfairly on people in rural areas, where congestion and pollution are much lower than in urban areas and people have no choice other than to drive a car”.

“Even if they go into a town most of their journey might be in a rural area. It would be quite a selling point, particularly perhaps for the Conservatives, if the advantages of a differentiated road user charge to rural areas were brought out a bit more.”

Another contributor highlighted the imbalance between the rate at which motoring costs have increased compared with public transport and suggested this was part of the debate on fairness. Some countries responded to the increase in fuel prices by giving out mobility credits directly to lower-income people. “They are not messing around with Fuel Duty. They are trying to compensate those that are most affected by the price rises in other ways. There are some creative solutions we can think about.”

However, another contributor offered a warning about the impact of lower bus fares: “Reductions in bus fares have been shown to attract people away from walking or cycling, but not from cars. So I think we need to be careful not to be led astray by what might seem a good idea but probably isn't.

“I have very grave doubts about whether the Government's policy in cities of improving bus services without doing anything about road charges will really have the effect they desire.”

One of the contributors pointed out that if they are not avoided the impacts of climate change will not be distributed in a fair way.

“This whole discussion has been admirably balanced, but we can only gain the political momentum here if we come out as street fighters. And we’ve got to recognise that there will be a whole set of reasons, well-funded people on ‘the other side’ who, for lots of partial short term reasons of gain, will be willing to argue in much less responsible ways than we are.

“I just want us to recognise that the politics is going to be dirty and messy on this. We need to have these discussions but then we need to come out of them with a clear story that we can mobilise people on. Because otherwise we will be having this conversation repetitively.”

In order to achieve a fair transition to net zero, it was suggested that you could give everybody a carbon allowance but then tax them for using the carbon. “You can give everybody a right to burn carbon but allow them to trade that right. It’s free until you hit the limit. Simple innovative ideas to sweeten the pill to the general public and spread the load equitably across them.”

### **Mechanisms for introducing road pricing**

One contributor noted that the debate about road user pricing always seems to be instead of Fuel Duty and Vehicle Excise Duty, but another approach might be to offer people the opportunity to instead opt-in to road pricing.

“You would be refunded for your [Fuel] Duty and you would not pay Vehicle Excise Duty. So therefore the vast majority of people who would be advantaged would be the people in rural areas, where the congestion is lower and where the contribution to pollution is lower.

“The advantage of that is twofold. One is that a large number of people sign up. So as a democracy you’ve then got a much bigger group of people in the road user charging camp.

“The second thing is that since the Chancellor is now in charge of Fuel Duty, vehicle excise duty AND road pricing, you can tinker with the prices for all of those elements so that your transition to decarbonisation of road transport is under some sort of control and lands in a soft way whilst remaining democratically achievable.

“A voluntary system avoids the binary argument of one thing or another.”

Another contributor said: “Government should set a date from which it would become mandatory, but in the interim there could be incentives and possibilities of opting in and that would be particularly attractive to people in rural areas.”

Another warned that any scheme like that will lose money in the short-term, by definition, because the people who benefit will opt in. “There are lots of precedents for it. I believe water metering was introduced that way in some parts of the country.”

Another contributor argued that there should be a charge on electric vehicles when they are used because they are not contributing to the cost of road maintenance through Fuel Duty. But that can't be done in the near term because you need lower operating costs for electric vehicles to offset the higher present capital costs.

Over time it is expected that the capital costs will come down and the total operating cost - capital and fuel put together - will be similar to a petrol or diesel car. “At that point it would be reasonable to start charging electric vehicles’ contribution. That’s a fairness argument and I think it’s one that would have some general support.”

Rather than starting from scratch, it was suggested that the Government could build on the road user charging system that has already existed in London for 20 years. “It works technically. It's publicly acceptable. No privacy issues. It generates useful sums of money to subsidise public transport.”

The technology could be migrated to a smartphone app because the smartphone knows where it is in time and space. It knows if it is in a charging zone, it can know what vehicle it is in and it routinely has a payment mechanism. The incentive to get that migration would be to offer a discount off the daily charge.

“Once you've got a good number of users charging to a smartphone app you can then flex the charge. Charging by duration in the zone, by time of day, by congestion or what have you. Once you've developed that, you've got an urban charging system that other cities could take up. And then you also have a system for a national charge for electric vehicles when the time comes to implement that.”

Another contributor suggested that perceived costs matter as much as actual costs. “You could imagine a road pricing scheme where people paid annually. When they had their MOT, they just pay the mileage charge based on that. That would be very untransparent in terms of the journeys people make. Something that made each journey more visible would have more of an impact on behaviour. So I think how you do this matters.”

A distance-based system might be more acceptable to people because it will be charged by the amount of mileage rather than lump sum for one day, but how would a national scheme interact with local schemes?

One contributor asked: “If we have a national scheme being considered ... will it cover just the strategic road network or will it cover all roads? Will it be a flat charge across all the roads and then complemented by city schemes? Or will it try to subsume any city schemes that take place by then?”

“A flat national scheme complemented by city schemes would be the preferred option, so that the revenue split is then clear between national and cities. But it would need to be mandated that cities need to transition to this at some point so that local politics does not get in the way.”

It's an “enormous can of worms”, another remarked, but one that needs to be considered at the start. “Londoners will not want to be charged twice.”

Another contributor also addressed the issue of compatibility. “Technology developed for London circumstances shouldn't be incompatible with the wider introduction of road pricing elsewhere, so the people have to have different technology and their vehicles according to which part of the country they are in. I hope the Transport for London will talk to the Local Government Association and others.”

### **Road pricing can increase public transport use**

To decarbonise transport, we need to find a way of shifting people out of cars and into active travel or public transport through carrots and sticks. Recent research looked at scenarios between 2024 and 2030. It looked at what could be done to shift people from cars to buses by increasing bus speeds by 1%.

“We know that's important because people value quicker journeys, more reliable journeys. That also decreases operating costs that you could feed back into the system.”

The research then modelled what would happen if you increased the cost of car travel by CPI+5%, and this resulted in a much more dramatic shift in people from car to bus.

The conclusion: "It is really important that we do all this stuff to make public transport attractive. But if we are really going to drag people out of their cars it looks like there really is something we need to do there around the cost of car travel."

### **The primary aim should not be to raise money**

The emerging view is that if we are going to get close to meeting carbon reduction targets we have to reduce car use by the order of 25-30%.

The top 10% of earners are currently responsible for about a quarter of the mileage. With a pay-as-you-go tax like Fuel Duty, they are paying for the mileage that they do. But one contributor pointed out that, with respect to the net zero agenda, it is those "excess travellers" that we need to influence.

"We really need to understand how we can get these high-end consumers. Because almost any kind of fiscal instruments that we put into place, they can afford to buy their way out of them. That's going to make our net zero target very difficult."

Another contributor drew a comparison with Clean Air Zones. They have proven to be a powerful tool, enabling local authorities to get to grips with a problem they have been trying to tackle for decades. They are seeing it having real impact in a relatively short time.

The aim of Clean Air Zones is to have fewer vehicles on the road, and cleaner vehicles. They are not designed to raise money. The framing of road pricing as a replacement for Fuel Duty makes that difficult.

"If we want road pricing to replace decreasing revenue then how effective is it going to be in terms of achieving fewer vehicles on the road, and cleaner vehicles on the road?"

There are currently difficult conversations between Transport for London and central Government about how to plug the hole that Covid has left in TfL's budget. There is a strong sense of national government not wanting to spend money in London. They instead want to push the mayor into using the resources that he already controls and they want to give him new powers.

One contributor said: "Road user charging is up there as something at the mayor can and is likely to do ... If you say that the drive is Transport for London's financial hole you cannot just have emissions-based charging because one of the lessons out of ULEZ [Ultra Low Emission Zone] is if you have a nudge-based system that's great in nudging behaviour, but actually your revenues fall away quite quickly."

Another added: "The government gave London the powers to introduce congestion charging. Ken Livingstone was always very clear that was not about raising money, it was about reducing traffic and air pollution. The big change is that it is now being considered as a way of filling a financial deficit. For the public it is a difficult thing to swallow.

"The general public were originally very sceptical about Ken Livingstone's scheme in 2003 but their attitudes changed completely once it was in place. It's a fairly common experience around the world. The public saw the benefit in traffic terms of the congestion charging scheme.

Whether they will be so unresistant if it is presented as a way of raising revenues is perhaps a different issue.”

Reflecting on Ken Livingstone’s introduction of the Congestion Charging, another commented: “The man was able to say look I have made some traffic go away and now the roads are flowing better. To have such dramatic effect on traffic with any national road user charge is incredibly difficult.”

### **How can we engage the public?**

How should we engage the public in the debate about road pricing? “I think the challenge really is to make it an interesting subject. It is an interesting subject.”

Previous work has found that “once people understand a simple amount of what the problems are, nothing is ruled out”.

“Everyone is interested in transport, as we all know. Talk to people about carbon reduction and they are not going to put that at the top of their priorities. But finding ways that are less painful but actually at the same time reduce carbon is really the key to it. People feel good about it.”

Carbon reduction may not be considered sufficiently important in its own right, but it’s “often a tipping point”.

Meanwhile, public engagement is getting cheaper. “We really need concentrate on doing that ... Politicians will want to do it to give them a stiff upper lip which they will need to introduce some of these things.”

Another contributor asked: “How do you get the mass of the population to understand that and recognise that there is a degree of pain involved here?”

The response to the pandemic was cited as a recent precedent for this: “We have experienced over the past two years a massive, massive behaviour change, almost instantly with the advent of Covid, and that had impacts on travel behaviour. What happened there was that people very quickly got to understand that there was a real problem and they had to change their behaviour, and they did.”

Another added: “My great hope on behaviour change is the young people ... the stridency of the argument from young people, I think, has the best chance of influencing the behaviours of the others. Children are putting pressure on their parents and their parents’ behaviour. We can pin our hopes on the greater environmental sensitivity of young people to help carry the argument. I think we should be equipping them with lots of the right information to help them do so.”

However, another cautioned: “Some young people don't want to drive. In other places you will find a queue of young people waiting to pass their driving test. It's by no means universal it's quite a metro trend.

“If we continue to try to get the population to engage in a debate about what amounts to a debate on tax, we are on a hiding to nothing. I never met anybody who wanted to engage on a debate on tax. The best taxes are ones that are extremely boring and you might begrudge them a bit. but you don't talk about it. I can't think of a situation when I have never discussed income tax in my own private life. It's just not the sort of thing you want to talk about down the pub.”

An alternative approach was suggested: “What is interesting is presenting what a more attractive future could look like. I think one of the things that we rather let slip through our

fingers as a Covid consequence was the ability to reach places, walking and finding that it was pleasant. Places could be a lot more pleasant if it was not for all the 'bloody inconsiderate car drivers who persist driving up my road'. Something that's about a more attractive future, which includes making the place you live a more attractive place to live, might just have something in it."

Another pointed that while the public may be resistant to change, "the future is going to change anyway".

"Motoring costs are going to get more expensive, particularly if we continue to be reliant on big oil and the volatility that brings. There is no better time than right now to be bringing that into debate.

"If we are not successful in reducing emissions then motoring will be impacted by disruptions and all the economic costs that mitigating climate change and adapting will bring. We are not facing a static future.

"So when we are talking about increasing costs or reducing car travel, that's the baseline that we are talking about. We want to try and bring that into the discussion."

"The thing about Covid is that the restrictions applied to everybody, rich or poor. They also had a scientific backing that was front and centre when the politicians were delivering hard messages. They could blame it on the science. Where are the scientists? How can we get into that and help the politicians to deliver these messages in some way?"

ENDS