

## Petrol at £2.20 a litre?

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Bloomberg is predicting oil could hit \$200 a barrel, a price the world has never seen before. If that happens, the UK faces a full-blown oil price crisis that will send petrol prices soaring, squeeze household budgets, and push up the cost of almost everything else.

Right now, a litre of petrol costs around 150p. Of that, 52.95p is fixed fuel duty and around 25p is VAT so just over half the pump price is tax. The remaining cost is the oil itself, plus refining, distribution, and retail margins. If oil rises from \$110 to \$200 a barrel, which is an 82% increase, the most likely pump price is around 192p per litre, and it could hit 221p in a worst-case scenario. That could be a devastating hit to the cost of living when UK families are already struggling.

But let's be clear, this oil price crisis is not being caused by UK tax policy. Fuel duty and VAT are not the drivers of this price rise; the disruption to global oil markets is. But that means the government has a real choice because it could cut fuel duty, as other countries have already done, to stabilise prices and protect people. A cut from 53p to 30p per litre could make a material difference. On top of that, it could also look at rationing, speed limits, or other demand-reduction measures used elsewhere in the world.

The choices here are political. The question is whether the government will act.

<https://www.youtube.com/watch?v=NePwSfNorVI?si=65g7JbvmgX2IbEzG>

This is the audio version:

[https://www.podbean.com/player-v2/?i=3r5hu-1a8b6de-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo\\_link=episode\\_page&btn-skin=c73a3a](https://www.podbean.com/player-v2/?i=3r5hu-1a8b6de-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a)

This is the transcript:

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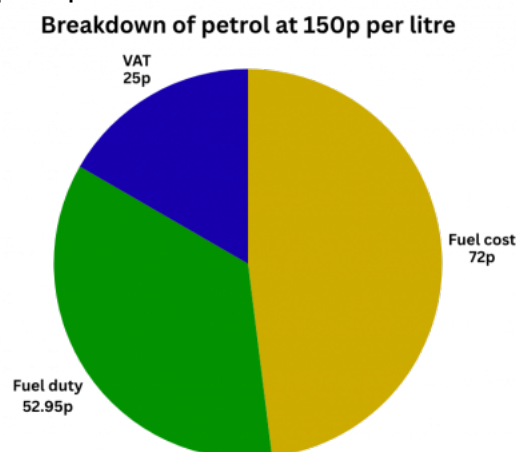
Let's be clear about it. We are facing an oil price crisis. Bloomberg is now predicting that oil could reach \$200 a barrel. That is an unprecedented price for oil around the world. It's never got anywhere near that in the past. Right now it's \$110 a barrel, and we're already seeing the impact on petrol prices. We have a crisis coming our way. That's my point. That is the subject of this video. How are we going to respond to it is my question.

But first of all, let's have a look at how petrol pricing really works, because where is it going as a consequence of this potential oil price increase, which does look to be very seriously on the cards?

Let's be clear about it. Most of the price of petrol is not oil in the first place. Out of the typical 150p per litre at present, 52.95p is fuel duty. That is a fixed price per litre charged by the government. Of the rest, 20% is VAT, which rises automatically with price. At this moment, that means that the VAT is one-sixth of that total £1.50, and one-sixth of £1.50 is 25p. Add those two figures together, and just over half the price of petrol at present is made up of tax, but it is only the underlying cost of fuel that moves when the price of oil changes.

So, there isn't going to be a one-for-one increase in the price of petrol at the pump as a consequence of what is happening with regard to oil prices, but what are the likely reactions going to be?

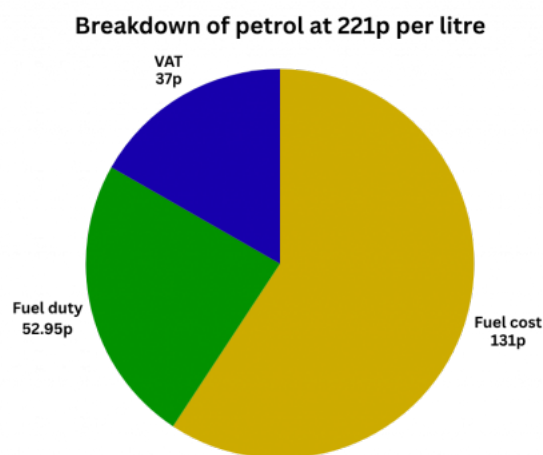
Let's be clear about it. Let's review those issues again with regard to what the price of petrol is now and look at the consequences. The price of petrol at 150p per litre can be split into three clear parts. Around 72p of that 150p represents the cost of oil and its refining. 53p, near enough, is fuel duty, and that will not change, whatever the price of oil is, and around 25p is the VAT charged on the pre-VAT price of this oil at the pump. The result is shown on the screen right now. We get a price of 150p made up, where just under half the price of the oil sold to you as petrol is represented by the original cost of getting the oil to the pump.



What happens now if there is a change in the cost of crude oil? Well, it isn't that there is a direct and absolute relationship with the price of petrol. That's because crude oil might be the main driver of the increase in the cost, but it is not the whole cost. Refining and distribution costs are also included in the 72p price of oil included in petrol when it's being sold at 150p at the pump, and retail price margins are also part of that final price, but those costs do not tend to change dramatically when the price of crude oil does. Refining costs and garage profit margins remain pretty fixed, let's be clear.

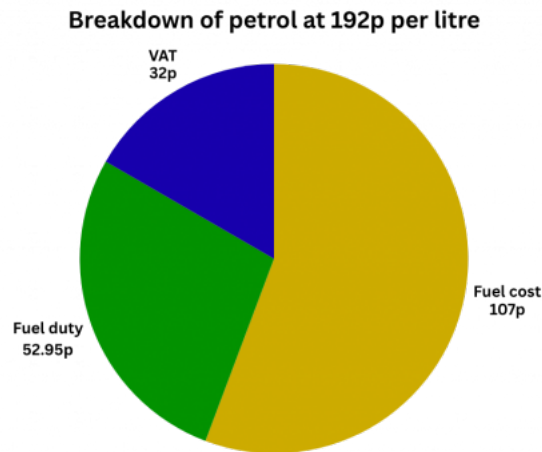
So, if oil were to increase from \$110 per barrel to \$200 per barrel, that's about an 82% price increase. But it's pretty unrealistic to think that the price of petrol will rise by the same amount, because it's only the crude oil-related part of petrol costs that has to rise. The non-crude oil-related part of the cost does not rise in the same way, and that means that there are a range of possible petrol prices that could result from this increase in the price of crude oil. The outcome depends on how much cost follows the crude.

My estimate is that if oil increases in price to \$200 per barrel, the maximum price increase that we could go to is 221p per litre for petrol. Now, that's a massive increase from where we are at present, but let's break this figure down. As the table on the screen shows, the price of the fuel included in that 221p per litre would increase to around 131p per litre. The fuel duty would remain the same, and the VAT would increase from 25p included in the price of petrol, now at 150p per litre, to 37p included in the price of petrol at 221p per litre. So the price increase has nothing to do with fuel duty, 12p with regard to VAT, and the rest is all down to oil, but that assumption is the maximum increase.



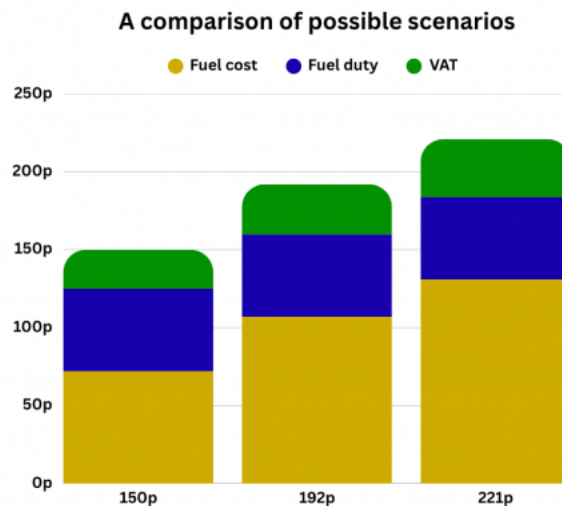
If we knock out from the price of crude oil the cost of refining and assume a fixed margin for the garage, as a consequence, we won't get to 221p per litre for petrol. We will instead get to something like 192p for petrol. That's because of the data now being shown on the screen. The price of the fuel won't increase to 131p because it will only increase to 107p because some of the cost of the fuel will be fixed. Those are the costs of refining and the costs of the garage and the cost of distribution, but the duty will also be fixed. It will still be 52.95p per litre, but the VAT will now be 32p per litre compared

to 25p per litre at present. The result is a price of 192p.



Now, my guess is that this 192p is the most likely price of petrol per litre as a consequence of oil going to a price of \$200 a barrel. It is, of course, an enormous cost, a very high price for us to pay for oil, much higher than the 150p per litre we're paying at present, which already feels pretty uncomfortable, but let's do the comparison.

We're paying 150p now. We were paying somewhat less than that in January 2026. We could go to 192p. At worst, we could go over £2 per litre. All of that is possible, but the increase is driven ma



Fuel duty is not the driver of this because it does not change as oil prices change, and VAT changes are relatively small, counted in pence, and they are not a significant contributor. The state is, as a result, not causing the price increases that we are looking at with regard to fuel. They are caused by the oil market disruption that is being created by Donald Trump and Benjamin Netanyahu. If you want someone to blame for the hole in your pocket, they are the people you should be looking at.

But what does this mean? It does mean that we are going to suffer a significant

economic shock. That price of fuel is going to go through into the economy. It's going to reduce our disposable incomes if we have to buy fuel. It's going to increase the price of everything else that we have to buy as a result.

So, is there anything the government can do to manage the potential increase in the price of petrol from 150p a litre to around 190p a litre? The answer to that is yes, of course, they could.

They could decide to reduce the VAT rate. I think that's unlikely because there isn't a system to do that within the UK economy, but they could instead decide to keep the amount of money that they raise per litre of fuel fixed in tax terms, and therefore reduce the fuel duty by maybe 5p-7p per litre at most, to keep their stake within the price of fuel constant. That would help, but it would still leave fuel at well over 180p per litre.

Is there anything else they could do? Well, they could cut the absolute price of fuel by cutting the fuel duty price even further. Instead of being 53p a litre, they could cut it to, say, 30p a litre. We have seen some states in the world already making drastic cuts in their rates of fuel duty for precisely this reason. So it is not impossible for the government to do this. They could stabilise fuel prices at a much lower price than that which markets alone would determine.

What's going to happen? I don't know. I do think that the price of fuel is going to increase significantly.

I do think my forecast that the potential impact of this upon the price of petrol at the pump is reasonable.

What I don't know is whether the government is really going to react to this by intervening in the fuel duty price that we pay for every litre that we buy.

Should the government cap taxes as a result, or should it be rationing instead, or should it be doing something else entirely to reduce our fuel consumption? For example, should it be imposing speed limits on motorways and A roads, or other measures which have been tried in other countries, like 'no drive days' if you happen to have a certain car registration plate on a certain day: that's been done to make sure that the consumption of fuel is reduced to keep the price under control.

What do you think? Are you worried about petrol at £1.90 per litre, as is possible, in my estimation? What's the impact on you going to be? Let us have your comment. There's a poll down below, and if you liked this video, please indicate that by ticking the box down below, sharing it if you want to and subscribing to this channel.

## Poll

[poll id="360"]