

# Road fuel market study

Invitation to Comment

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# 1. Road fuel market study invitation to comment

## Introduction

1. The CMA is today launching a market study into the supply of road fuel in the UK. This will build on the work of our Fuel Pricing Review, which is also published today.<sup>1</sup>
2. This invitation to comment document explains why we are launching a market study, what we propose the study will look at and how we will carry it out. It sets out our initial questions for stakeholders, how to respond to this consultation, and next steps.

## Why we are launching a market study

3. The price of a litre of both petrol and diesel has gone up by over 60p in the last year. This leaves many households paying on average more than £500 per year extra to run a medium-sized petrol car, and more than half of motorists have already changed their behaviour in response. These price increases have a significant impact on household budgets, in particular for those on low-incomes and who live in rural areas.
4. Consumers are understandably concerned about these price increases, and there have been questions about whether they may in part be due to profiteering or a lack of competition within the fuel supply chain. Concerns have also been raised that consumers may have failed to gain the full benefit of a fuel duty cut which the UK government introduced earlier this year.
5. The Secretary of State for Business, Energy and Industrial Strategy wrote to the CMA on 11 June requesting that it carry out an “urgent review” of the fuel market, reporting by 7 July, as well as a longer-term market study into whether the retail fuel market has adversely affected consumer interests. The Fuel Pricing Review, published today, has set out the CMA’s assessment of the key drivers of these price increases. In summary, these are:
  - (a) crude oil prices, which reached record levels in sterling terms in March 2022, and have continued to rise since then. The dollar-terms increase in oil prices over the last year accounts for around a third of the rise in road fuel prices (20p per litre), with the fall in the value of sterling in that period adding a further 12% (7p per litre); and
  - (b) a growing gap between the price of crude oil entering refineries and the wholesale price of petrol and diesel leaving them (the “**refining spread**”). This accounts for just over 40% of the growth in road fuel prices (24p per

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<sup>1</sup> [Road fuel review](#)

litre). Both demand-side factors (in particular, the post-COVID 19 recovery) and supply-side factors (in particular, the Russian invasion of Ukraine and the mothballing of refining capacity during COVID 19) appear to have played a role in driving up the refining spread.

6. Our Fuel Pricing Review found that although there are concerns about fuel retailers profiting from the current situation, the gap between wholesale prices and retail prices (the “**retailer spread**”) has not been a significant contributor to the overall rise in pump prices. In particular, the share of the overall price accounted for by the retailer spread was lower in the three months after the 23 March duty cut than in the last six months of 2021; and in absolute terms, the spread fell from 11.2p to 9.9p.<sup>2</sup>
7. Having completed the Fuel Pricing Review, we consider further scrutiny, via a market study enabling the use of formal information gathering powers, is needed, particularly to get a better understanding of what is behind the substantial increase in the refining spread and to examine fuel wholesale and certain aspects of fuel retailing in more detail. This will allow us to monitor the market more intensively over the coming months, to develop a deeper understanding of the drivers of higher prices and to understand if there are actions available that could address them.

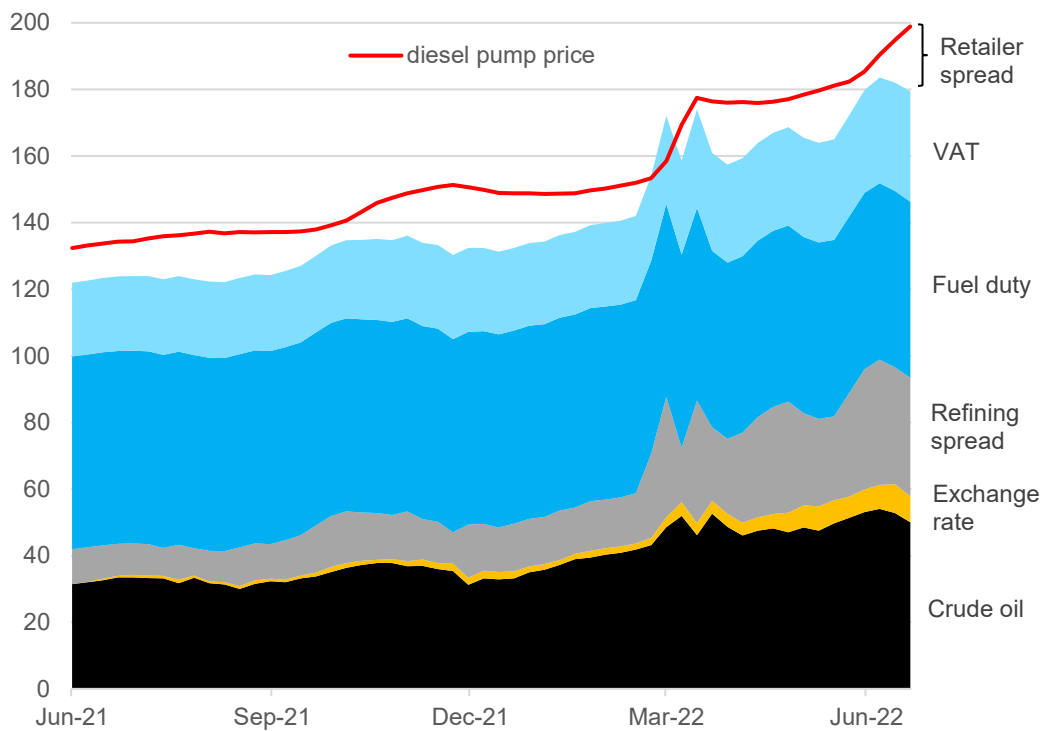
## **What the market study will look at**

8. The market study will consider the supply of road fuel in the UK, looking throughout the supply chain to cover the retail, wholesale and refining segments of the market.
9. As noted above, the Fuel Pricing Review found a number of drivers of increased prices for road fuel. These are summarised in Figures 1 and 2, below. This is followed by discussion of key issues in each area we propose to examine further.

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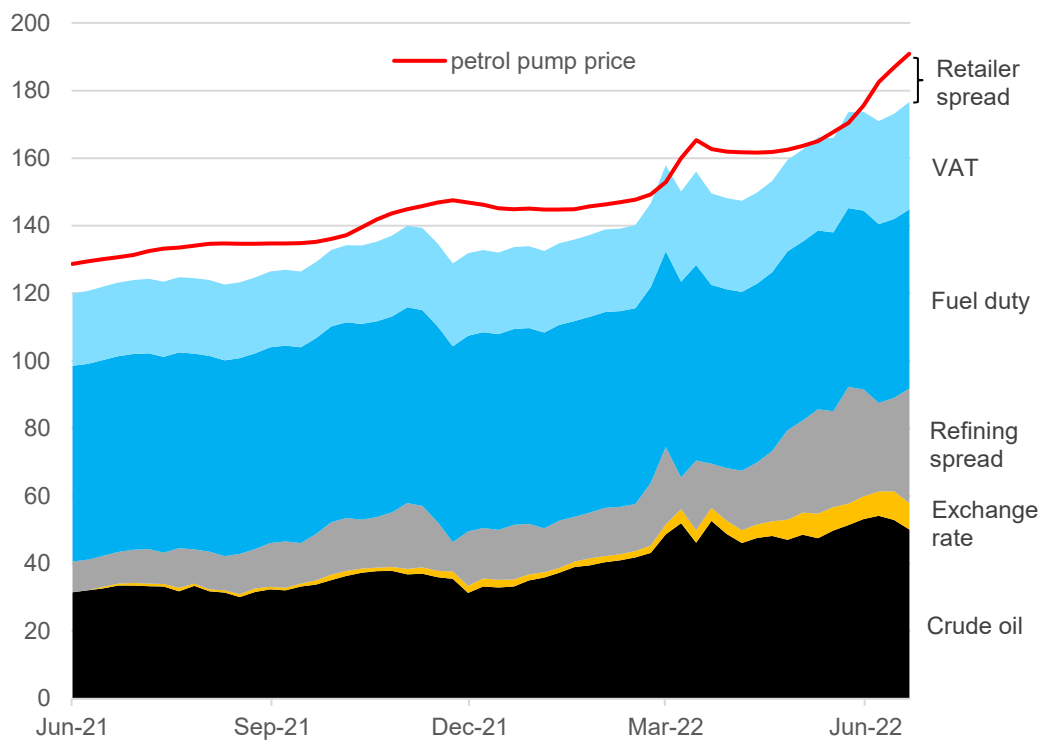
<sup>2</sup> Source: CMA analysis of BEIS response to request for information. Figures are combined average weekly retailer spreads for petrol and diesel for the periods: 29 March to 27 June 2022 (“3 months after the duty cut”) and 29 June 2021 to 3 January 2022 (“last six months of 2021”).

**Figure 1 Change in components of retail price for diesel – pence per litre, weekly averages, seven days to 7 June 2021 through to seven days to 27 June 2022.**



Source: CMA analysis of BEIS response to request for information

**Figure 2 Change in components of retail price for petrol – pence per litre, weekly averages, seven days to 7 June 2021 through to seven days to 27 June 2022.**



Source: CMA analysis of BEIS response to request for information

## **Refining**

10. Refining spreads have increased considerably. The Fuel Pricing Review found the refining spread contributed an increase of 26 pence per litre of petrol in June 2022 compared with June 2021, and an equivalent 21 pence per litre increase for diesel.
11. Both demand-side factors (in particular, the post-COVID-19 recovery) and supply-side factors (in particular, the Russian invasion of Ukraine and the mothballing of refining capacity during COVID-19) appear to have played a role in driving up the refining spread. The UK is not alone in experiencing higher spreads, with increased spreads in the US, Germany, and other countries.<sup>34</sup>
12. We want to understand what is driving these very high spreads. We also want to increase our understanding of how long they are likely to persist, and to assess whether there are measures the UK could or should be taking to address them or to guard against future spikes.

## **Wholesale**

13. For the purposes of the Fuel Pricing Review analysis, the margin applied by independent wholesalers was included as part of the “retailer spread” (see below), enabling us to compare the difference between refinery gate price and pump price across retailers who do and do not purchase via independent wholesalers.
14. We did not examine the independent wholesale segment of the supply chain during the Fuel Pricing Review, but we propose to look more closely at this during our market study. More specifically, we are keen to try to separate out the wholesale margin from the retail and refinery margins, and the drivers of this.
15. Independent retailers tend to source their fuel from suppliers under long-term, exclusive supply agreements which, we have been told in some cases, can last up to 10 years. These long-term agreements ensure a secure supply of fuel for retailers and can encourage investment in the forecourt and retail offering.
16. However, in the course of our Fuel Pricing Review, we have heard concerns that these long-term supply agreements lack the flexibility needed to respond to market forces and can bind retailers to strict terms, particularly regarding minimum volume commitments. In turn, we were told that these long-term

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<sup>3</sup> [U.S. refiners set for strong start to 2022 as fuel prices surge worldwide | Reuters](#)

<sup>4</sup> [Bundeskartellamt - Press releases - Annual report of the Market Transparency Unit for Fuels – Bundeskartellamt launches ad-hoc examination of the mineral oil sector](#)

supply agreements may prevent independent retailers from engaging in more frequent procurement exercises aimed at securing competitively-priced supplies. We were also told that these arrangements offer less flexibility than the buying practices of supermarkets.

17. Some stakeholders have suggested that restricting the maximum length of the fixed term of these agreements, or the introduction of break-clauses for longer agreements, would improve competition and outcomes for consumers. Similar concerns have arisen in other countries, where measures have been taken to impose limits on these exclusivity provisions.
18. We propose to analyse the terms and impact of any such long-term supply agreements during our market study. In particular, we will consider whether the length of these agreements and their minimum volume commitments are harming competition, and how they may feed through to the pump price.

### ***Retail***

19. In the Fuel Pricing Review we found no strong indication that rising retailer spreads have driven the significant rise in pump prices seen in recent months. For example, the share of the pump price accounted for by the retailer spread in the three months since the 23 March fuel duty cut (5.5%, or 9.9p per litre) is similar to the share in the three months preceding it (5.8%, or 8.7p per litre), and lower than in the second half of 2021 (7.9%, or 11.2p per litre).<sup>5</sup> There is thus no cause – from this indicator alone and the evidence we have seen to date – to conclude that pump prices are higher because retailers are earning higher profits.<sup>6</sup>
20. In addition, we note that due to the relatively small role the retailer margin plays in the overall cost of a litre of fuel, the potential savings to consumers from improving retail competition seem small.
21. The Rapid Review, did, however, highlight three further areas at the retail level of the supply chain that merit further investigation:

### ***Local and regional variations in price***

22. The Fuel Pricing Review conducted an analysis of local price variations of the past year. In particular, it found:
  - (a) Prices of supermarkets have been consistently lower than other retailers.

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<sup>5</sup> Source: CMA analysis of BEIS response to request for information. Figures are combined average weekly retail spreads for petrol and diesel for the periods: 29 March to 27 June 2022; 21 December 2021 to 21 March 2022; and 29 June 2021 to 3 January 2022.

<sup>6</sup> It is possible that retailers have recently been able to take a higher level of profit from a given spread than they have in the past: for example, because their costs have fallen. More work would be required to assess whether this is the case. However, retailers responding to our request for information during the Fuel Pricing Review stated that their costs had increased.



(b) Prices in rural areas tend to be higher than in urban areas.<sup>7</sup>

(c) Prices in England have been higher than in other nations, and prices at an individual PFS tend to be lower the more local competitors there are in the surrounding area.

23. We propose to undertake further analysis in the market study to better understand the factors that drive these local and regional variations in prices.

#### *How retailers determine the prices they set at the pump*

24. We propose to further investigate how retailers determine the prices they set at the pump, in particular whether and to what extent retail prices track movements in wholesale prices.
25. We therefore propose to undertake further analysis of the relationship between wholesale and retail prices - including how rises and falls in wholesale prices are reflected at the pump. This will include looking closely at a very recent spike in the retailer spread noted by the Fuel Pricing Review.

#### *The role played by major supermarkets in road fuel retail markets and potential for further benefits*

26. In the Fuel Pricing Review we found that supermarket PFSs tend to have consistently lower prices than other types of PFS. We have, however, heard concerns from some stakeholders that in recent months supermarkets have stopped competing on price as intensely as before.
27. We propose to further examine the role played by major supermarkets in the fuel sector, and whether there are ways that competition across different types of retailers can deliver further benefits for consumers. As part of this work we will consider whether recent merger activity in the PFS sector has had an impact on pricing practices.

#### **Extraction and crude oil dealing**

28. As part of this market study we will not be considering extraction or crude oil dealing. This is because the price of crude fluctuates on global markets, and there is limited scope for UK action to affect this.

#### **How we will carry out the market study**

29. The CMA's market study tool has a statutory time limit of 12 months. However, due to the high levels of consumer concern noted above, we will aim to complete our study faster than this.

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<sup>7</sup> Some of the reasons for this may be that these areas have generally fewer supermarkets and supply lower fuel volumes compared to more urban ones, and they may experience higher transportation costs as well. Higher prices may enable some lower volume sites to remain viable in sparsely populated/rural areas.

30. We aim to publish an update on our initial findings in Autumn 2022. We also anticipate making periodic updates as we finalise our analysis and develop our conclusions.
31. We invite comment from any interested parties, and will be engaging in detail with key stakeholders.
32. We propose to use our formal statutory powers to issue Requests For Information (RFIs), and to conduct more informal evidence-gathering sessions such as roundtables.
33. Following our evidence-gathering and analysis we will consider whether there are problems in the sector, and if so what action could and should be taken to address them. Such outcomes could include making recommendations to the UK and/or devolved nation governments or industry, or making a market investigation reference.<sup>8</sup> Should we find evidence of any breaches of competition or consumer law, we would expect to initiate separate enforcement action.

## Questions for stakeholders

34. We are seeking input on the issues raised in this invitation to comment and the accompanying Market Study Notice.<sup>9</sup> We welcome views from stakeholders of all kinds, especially those which are supported by evidence. These may cover potential problems in how the market is working for consumers, as well as measures we could take to address them within the UK road fuel market.
35. More specifically, we would welcome views on:
  - (a) What elements of road fuel refining should we focus on, and why?
  - (b) What elements of road fuel wholesaling should we focus on, and why?
  - (c) Do you agree with the three areas we have identified as our focus in road fuel retailing?
  - (d) What potential future developments should we be aware of that may affect the demand for, or supply of, road fuel, for example the development of alternative sources of road fuel, and how, if at all, we should take these into account in our assessment.

## Responding to this consultation and next steps

36. Please email written submissions to [RoadFuels@cma.gov.uk](mailto:RoadFuels@cma.gov.uk) by 1 August 2022.

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<sup>8</sup> A Market Investigation is a more in-depth and longer investigation in the sector and potentially enables us to impose orders on and accept undertakings from stakeholders.

<sup>9</sup> Including on whether the CMA should make a market investigation reference under section 131 of the Act.

37. Please ensure that all personal data, other than your contact details, is redacted or excised from your response and any documents you submit to us.<sup>10</sup>
38. We propose to publish responses to this Invitation to Comment or, where appropriate, a summary. Therefore:
  - (a) Please supply a brief summary of the interests of organisations you represent, where appropriate.
  - (b) Please consider whether you are providing any material that you believe to be confidential, and explain why this is the case. Please provide both a confidential and non-confidential version of your response where applicable.
39. If you are responding as an individual (i.e. you are not representing a business or other organisation), please indicate whether you wish your response to be attributed to you by name or published anonymously.
40. An explanation of how we will use the information provided to us can be found in the Annex. The Annex sets out how the CMA may use information provided to it during the course of this market study, including where we may need to refer to information in order to pursue enforcement action against a business in this sector.

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<sup>10</sup> Personal data is defined in the UK General Data Protection Regulation (Article 4(1)) as 'any information relating to an identified or identifiable natural person ('data subject'); an identifiable natural person is one who can be identified, directly or indirectly, in particular by reference to an identifier such as a name, an identification number, location data, an online identifier or to one or more factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity of that natural person'.

## **ANNEX A**

### **How the CMA will use the information you provide us with**

1. This annex sets out how we may use information you provide to us during the course of this market study, in line with our legal responsibilities. In particular, please note that we may choose to refer to comments or evidence that you provide in a published report or publish non-confidential information on our website. This may include identifying the contributor.

### ***Why is the CMA asking for information?***

2. The CMA is asking for information to carry out a market study into the supply of road fuel in the United Kingdom.

### ***What will the CMA do with the information I provide?***

3. Your information will inform our interim and final market study reports. We may publish information you provide and identify you as the contributor of it in those reports, or alongside them on our website. Our final market study report will set out our findings and any proposed remedies to any existing or potential issues we find.
4. We may disclose any information provided by you for the purposes set out in sections 7, 170 and 241 to 243 of the Enterprise Act 2002, where we consider such disclosure to be appropriate. In particular, we may choose to put information provided by you to third parties, such as other government departments and other parties providing information to the CMA, for the purpose of facilitating any further related work.
5. Where appropriate, we may use information you provide to take enforcement action, using our competition or consumer powers, against businesses operating in the markets within the scope of this study. We may also share your information with another enforcement authority or with another regulator for them to consider whether any action is necessary.
6. Unless an exemption applies, we may disclose the fact that you have provided information to us, and the information you have provided, in accordance with our obligations under the Freedom of Information Act 2000.

### ***Will the CMA take steps to protect my information?***

7. We may only publish or share with others information that you provide to us in specific circumstances set out in legislation (principally Part 9 of the Enterprise Act 2002). In particular, prior to publication or any such disclosure,

we must have regard to (among other considerations) the need for excluding, so far as is practicable: (a) any information relating to the private affairs of an individual which might significantly harm the individual's interests; or (b) any commercial information which, if published or shared, we think might significantly harm the legitimate business interests of the undertaking to which it relates.

8. We will redact, summarise or aggregate information in published reports where this is appropriate to ensure transparency whilst protecting legitimate consumer or business interests.

***How will the CMA handle any personal data I provide?***

9. Any personal data you provide to us will be handled in accordance with our obligations under the UK General Data Protection Regulation and the Data Protection Act 2018. Our [personal information charter](#) set out the standards you can expect from us when we collect, use or share personal data and provides details of your rights in relation to that personal data and how to contact us.

***What should I do if you have concerns about how the CMA will use any information I provide?***

10. You should make clear to us any information that you consider to be confidential when you provide it to us and set out why you consider it to be confidential.
11. If we want to include any sensitive commercial or personal information in a document that will be published we will, save in exceptional circumstances, contact you prior to publication to give you an opportunity to tell us about any concerns you may have regarding that publication.

***Where can I find further information?***

12. Further details of the CMA's approach can be found in [Transparency and Disclosure: Statement of the CMA's Policy and Approach \(CMA6\)](#).