



### **ACS Submission: CMA Market Study – Road Fuel Pricing**

ACS (the Association of Convenience Stores) welcomes the opportunity to submit evidence to the Competition and Markets Authority (CMA) Road Fuel Market Study. ACS represents 33,500 local shops including thousands of convenience retailers trading from fuel retailing sites. Our members include fuel retailers such as Co-op, Rontec, Motor Fuel Group, BP, Shell and Applegreen. For more information on ACS see Annex A.

There are 8,384 forecourts across the UK, trading in urban transient locations (40%), residential locations (28%), rural locations (17%), commercial or industrial locations (13%) and motorways (2%). There are a diverse group of fuel retailers operating in the UK with 16% hypermarket owned, 19% oil company-owned multiples and 65% dealer owned<sup>1</sup>.

ACS stands by evidence<sup>2</sup> submitted to the CMA's short and focused Road Fuel Review<sup>3</sup>. We have welcomed the findings of the initial review which showed that the supply of retail fuel in the UK appears relatively competitive, the retailer spread is a relatively small component of the pump price and fuel retailers passed on the fuel duty cut immediately. We believe that the CMA market study will further validate these findings.

We understand that ACS members will be engaging directly with the CMA's Market Study, sharing relevant data and responding to requests for information. Therefore, ACS' role in engaging with the market study is to support the CMA's understanding of the diverse nature of the UK fuel retailing market. We welcome opportunities to engage directly with the CMA and will positively consider how we can facilitate specific requests for information.

We have submitted a copy of ACS' Forecourt Report 2021 alongside this submission. The report provides an overview of the vital role that the UK's 7,395 forecourt shops play in their local communities. They provide over 88,000 secure local jobs access to essential services and take time out of their businesses to support local projects. We have also developed and shared with the CMA ACS' Fuel Price Explainer briefing outlining how we understand retail fuel pricing dynamics in the UK<sup>4</sup>. This briefing is available at Annex B and provides a commentary on the factors that are impacting pump prices in the UK market.

Given the short time period for responses to the invitation to comment, we have responded to the questions or requests for information in the consultation based on our current understanding of the market. We have not included new primary data sources beyond those already submitted to the CMA.

We will be consulting with our members over the coming months to establish further information or answer any specific data requests from the CMA. For further information on this submission, please contact Edward Woodall, ACS Government Relations Director.

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<sup>1</sup> ACS Forecourt Report 2021

<sup>2</sup> [ACS Evidence submitted to CMA](#)

<sup>3</sup> [Road Fuel Review](#)

<sup>4</sup> [ACS Fuel Price Explainer](#)

## **CMA Consultation Questions**

### **What elements of road fuel refining should we focus on, and why?**

No comments

### **What elements of road fuel wholesaling should we focus on, and why?**

The CMA invitation for comment seeks to investigate the nature of contracts between the independent wholesale segment of the supply chain and their exclusive supply agreements with retailers. This is in response to concerns being raised that the length and nature of the contracts can harm competition.

We do not have primary data on the lengths of the contracts across the whole sector, but we welcome further investigation by the CMA to understand these contracts. Our understanding is that there are a wide range of supply agreement between fuel suppliers and retailers. Typically, we believe these contracts last around five years and are selected by fuel retailers based on the competitive nature of fuel pricing offered and a wide range of other benefits, including branding and equipment.

These contracts need to be of sufficient length to give retailers certainty of securing a competitive fuel price and to invest in their fuel retailing and grocery retailing offer. Retailer buying power will also have a significant bearing on the nature of these supply agreements and their terms. Hypermarkets and large fuel retailing businesses will be able to negotiate better fuel prices across their network compared to single site or small multiple site operators.

We recognise the importance of not having overly long or restrictive contracts on retailers so they can adapt to changes in their customers shopping habits and changes in the overall market. However, it is also important to recognise that there are significant retailer costs associated with moving from one fuel supplier to another. By moving from one supplier to another a retailer would have to change their fuel site branding, some fuel retailing equipment and update their store and colleague operations. The cost associated with changing fuel suppliers is a deterrent to retailers doing this frequently.

### **Do you agree with the three areas we have identified as our focus in road fuel retailing?**

Yes. We are pleased that the CMA is looking at the factors listed below in relation to local and regional price variations. We have provided some comments on each factor being considered:

*(a) Prices of supermarkets have been consistently lower than other retailers.*

Supermarkets can, in some cases, deliver lower fuel prices to consumers because their buying power enables them to negotiate better terms with fuel suppliers. Supermarket retailers represent 16% of the fuel retailing sites in the UK but sell the majority of fuel volumes in the UK. They will be buying fuel based on two-week lags meaning they can see changes in fuel price fluctuations earlier and respond accordingly.

As a result, supermarkets will set the benchmark for pricing at the local level, while independent retailers' fuel pricing is led by competitor pricing locally. Fuel prices are highly transparent both at sites and through various online price comparison tools.

*(b) Prices in rural areas tend to be higher than in urban areas.*

As identified in the CMA invitation to comment and review, higher rural fuel prices are likely caused by lower fuel volumes and less competition in the area. Fuel sites in rural areas will have similar operating costs, like energy bills, shop product prices and statutory wage costs, as urban retailers but will be trading with lower footfall and fuel volumes. To make a sufficient margin to operate their business rural fuel retailers may have to increase the price of their fuel.

In addition, the distribution costs to rural locations, depending on their vicinity to refineries, will also have an impact on their fuel price. Small fuel retailers, operating a single site or small number of multiple sites, will inevitably have higher secondary distribution cost. Their fuel supplier will reflect this differential in their fuel price to cover the costs of extended secondary transport of fuel. This increased fuel cost will inevitably have to be passed on to consumers at the pumps

*(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.*

There are a range of factors that will impact fuel pricing across the UK. England will have higher demand and greater competition. Scotland, Wales and Northern Ireland's geography and the refineries and other infrastructure that support fuel supplies will also impact pricing. Certain UK fuel suppliers may not operate across the whole of the UK, instead their infrastructure and distribution will be limited to certain regions of the UK.

**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.**

The CMA should also account for the UK Government Net Zero targets and the impact this will have on the road fuel market. The target to ban the sale of petrol and diesel vehicles by 2035 will impact fuel retailers in the long term. These policy targets also require retailers to make large investments in different power and mobility infrastructure such as EV charging points. Currently there are 536 EV charging devices located on 405 sites (excluding service stations).

Global factors have been the most significant immediate influence on inflated fuel prices this year and they are likely to remain dominant in the future. Geopolitical relations, such as those between Russia and the West, have had a detrimental affect on the global oil supply. Furthermore, Western environmental commitments have led to a lack of investment in oil refining capacity. Annex B demonstrates that it has been global factors affecting the wholesale price of fuel that has driven up pump prices. Whereas the retailer margin makes up just 0-4% of these prices. Retailers have only a minor part to play in the price of road fuel and it is important that the CMA reflects on this point going forward.

## Annex A

### ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 47,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.



### WHO WE REPRESENT

#### INDEPENDENT RETAILERS



ACS represents almost 19,000 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

#### SYMBOL GROUPS AND FRANCHISES



ACS represents over 14,000 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

#### MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents over 13,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

### THE CONVENIENCE SECTOR



#### WHAT WE SELL

In 2021, the total value of sales in the convenience sector was £43.2bn.

The average spend in a typical convenience store transaction is £10.82.



#### WHO WE ARE

There are 47,079 convenience stores in mainland UK. 71% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



#### OUR COLLEAGUES

The convenience sector provides flexible employment for around 392,000 people.

9% of independent/symbol stores employ family members only.



#### HOW WE OPERATE

10% of shop owners work more than 70 hours per week, while 49% take no holiday throughout the year.

72% of business owners are first time investors in the sector.



#### OUR COMMUNITIES

Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

80% of independent/symbol retailers have engaged in some form of community activity over the last year.



#### ECONOMIC CONTRIBUTION

Between August 2020 and May 2021, the convenience sector invested over £534m in stores.

The most popular form of investment in stores is refrigeration.

### OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

#### ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1,200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

#### ACS INVESTMENT TRACKER

Regular quarterly survey of over 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

#### ACS LOCAL SHOP REPORT

Annual survey of around 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,700 stores. The Local Shop Report also draws on data from Lumina Intelligence, IGD, Nielsen and William Reed.

#### BESPOKE POLLING ON POLICY ISSUES

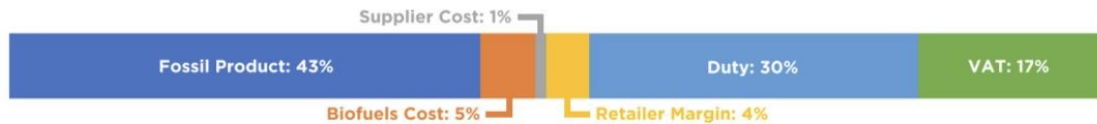
ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit [www.acs.org.uk](http://www.acs.org.uk)



# Explaining the Price of Fuel

## Retail Price Breakdown



## What goes into the price of fuel

Platts + + +  
(Fossil + biofuel + supplier cost) **49%**

Oil majors and exploration companies extract the oil, which is then sent to refineries to process into petrol and diesel. The wholesale refined fuel product price is issued daily by various agencies, but **the most commonly referenced price is the Platts index.**

UK fuel retailers buy their fuel on premiums above the wholesale price. Contracted prices are calculated based on daily or weekly lagged pricing i.e. an average of the previous day/week's wholesale price. The lag is based on the mechanism chosen by the retailer - those wanting to purchase more dynamically will opt for a daily lag, however the most common mechanism for larger buyers is a weekly lag.

The extent of the lags fuel retailers buy on can account for differences in pricing between sites. **For a retailer buying on a 1-to-2-day lag, pricing and margins will fluctuate more than those on longer lags.**

The fuel price also includes **Renewable Transport Fuels Obligation (RTFO) and Development Fuels Obligation (DFO).** The RTFO and DFO accounts for blending ethanol in petrol and biodiesel in diesel. These biofuel prices fluctuate and are consistently expensive.

Fuel duty  
(52.95ppl) **30%**

Government Fuel Duty (currently 52.95 ppl for diesel and petrol) is added when purchased from the wholesale market.

Retailer margin **0-4%**

Fuel retailers add on their own margin for the cost of operating and investing in their sites. **Dominant players, like supermarkets, will set the benchmark for pricing at the local level, while independent retailers' fuel pricing is led by competitor pricing locally.** Consumers will not buy fuel at sites with excessively high prices when they can drive to another operator.

VAT  
(charged at 20%) **17%**

20% VAT is added to the price of fuel. This means that the VAT element makes up approximately 17% of the total price for fuel purchased by the consumer.

## Key Market Trends

### Demand

As the global economy has recovered from Covid-19, this has increased demand for oil supply and energy markets.

OPEC volumes have not increased in line with demand, causing undersupply in the market, keeping prices high. The global transition away from fossil fuels has curbed exploration investment, further affecting the ease of supply.

### Wholesale Price Volatility

There has been unprecedented volatility in fuel pricing over the last six months. Daily average wholesale price variation of 3.59ppl in the last three months compared to 0.46ppl over the previous three years.

The removal of Russian Oil has meant supply must be sourced from elsewhere resulting in increased prices.

There is a lack of refinery capacity across Europe creating further bottlenecks and demand pressure.

Volatility in wholesale fuel prices has led to some large fuel suppliers moving to 2-week pricing lags with large customers (eg supermarkets), while smaller retailers are most likely to have to buy at that day's price.

### Exchange Rates

Refined fuel product is sold in US Dollars so must be converted in Sterling. A weak pound against the dollar pushes the price of fuel up. Sterling has dropped significantly against the dollar over the last six months, further pushing up fuel prices.

### Transport and Distribution Costs

Shortages of HGV drivers has impacted the costs of secondary transport, adding costs.

The need for enhanced security to deal with and deter disruption by protestors at refineries and terminals adds cost and time.

## Contact Information

For more information, please contact:

Edward Woodall, ACS Government Relations Director