

**Submission to the Competition and Markets Authority by RAC Motoring Services**

**Road fuel market study – August 2022**

**We are seeking input on the issues raised in this invitation to comment and the accompanying Market Study Notice. 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.**

The RAC submitted data to the CMA's initial urgent enquiry which detailed the changes in spread/margins between what retailers pay for wholesale petrol and diesel, and the average price that is charged at forecourts. Since this submission, data shows wholesale costs have fallen further, while retail prices have only fallen marginally. The wholesale cost of both petrol and diesel began to fall consistently from the 14<sup>th</sup> June 2022, while average retail costs only started to fall slowly from the 5<sup>th</sup> of July. Please see below our updated table demonstrating this:

<b>Monday-Friday weekly</b>	<b>Petrol wholesale cost – delivered</b>	<b>Petrol average retail price</b>	<b>Petrol Average retailer margin</b>	<b>Diesel wholesale cost - delivered</b>	<b>Diesel average retail price</b>	<b>Diesel average retailer margin</b>
<b>18/07/2022-22/07/2022</b>	<b>132.29p</b>	<b>187.96p</b>	<b>20.91p</b>	<b>147.75p</b>	<b>196.41p</b>	<b>13.91p</b>
11/07/2022-15/07/2022	135.46p	190.13p	17.93p	150.23p	198.04p	14.38p
04/07/2022-08/07/2022	140.52p	191.24p	14.90p	150.16p	198.86p	11.42p
27/06/2022-01/07/2022	145.70p	191.21p	12.06p	154.38p	199.00p	7.70p
20/06/2022-24/06/2022	146.69p	189.37p	9.94p	158.33p	197.20p	4.36p
13/06/2022-17/06/2022	148.28p	186.32p	4.14p	161.46p	192.42p	2.68p
06/06/2022-10/06/2022	151.18p	180.52p	0.45p	157.47p	186.73p	6.01p
30/05/2022-01/06/2022	151.93p	173.26p	1p	149.54p	182.72p	9.88p
23/05/2022-27/05/2022	142.26p	170.23p	2.94p	141.83p	181.58p	12.31p

16/05/2022- 20/05/2022	140.02p	167.60p	3.89p	138.57p	180.73p	9.11p
09/05/2022- 13/05/2022	134.63p	164.91p	2.80p	141.10p	179.33p	4.66p

Within the CMA's interim report, it was noted that there had been an increasing spread in retailer margin prior to publication. We feel that this significant lag in passing on lower wholesale costs at forecourts is one of the primary examples of how the market is not working as it should do for consumers.

#### Specific questions:

##### (a) What elements of road fuel refining should we focus on, and why?

The RAC does not have access to data providing visibility of refining sector margins, though we note from the CMA's initial analysis that margins have increased significantly in the past 12 months. Therefore, we believe it is essential this is looked at more closely to understand why this is the case and whether actions are required.

##### (b) What elements of road fuel wholesaling should we focus on, and why?

The RAC believes the CMA should focus on all aspects of wholesaling, however we'd welcome specific attention on:

- **Unusual changes in retailer margins:** To give the CMA a clearer picture of what the normal retailer margins should look like at any given time, we recommend it goes back and compares retail prices against wholesale prices over several years. Retailers will face different challenges (such as COVID, inflation, utility costs) which will impact on how much margin they will take. We recommend going back to at least 2019 (but preferably further) so the CMA can establish average retailer margins over a longer period. Margins should not be looked at on a day-to-day basis.
- **Independent retailer contracts:** We note the CMA report highlights how independent retailers often enter into long-term agreements to source fuel supplies. With independent forecourts tending to purchase on a fortnightly basis due to selling lower volumes of fuel, this can lead to bigger forecourt price variations, both upwards and downwards, as wholesale prices can sometimes change dramatically over this period of time.
- **Setting of the wholesale price:** We would encourage the CMA to investigate the factors that influence wholesale prices are set and to understand who is responsible and whether it is done fairly.

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

Yes. As we have previously noted we are concerned at the delay in forecourt prices being reduced when wholesale costs fall, as was the case in December 2021 and in June and July 2022. We believe this needs urgent attention. The CMA should also look at the following issues:

- **Independent forecourts offering lower price fuel than the big four supermarkets which dominate fuel retailing:** There are well-publicised examples of independent retailers in Manchester and Devon selling lower price fuel in mid-July<sup>1</sup>. This prompted the RAC to analyse Experian Catalist<sup>2</sup> data by forecourt price and type of ownership/operation. This showed that only 10% (407) of a sample of more than 4,500 UK forecourts are charging a more reasonable price for petrol and diesel, with the vast majority of these being independently owned sites rather than major fuel retailers. This begs the question that if independent retailers can do this, then why can't larger retailers reduce their prices by the same amount – particularly as they purchase wholesale more frequently?
- **Costco fuel prices:** Likewise, Costco is selling fuel to its members for significantly lower prices than major retailers. As of the 26<sup>th</sup> July, average prices for regular unleaded at Costco forecourts are 170.67p, some 15p cheaper than the wider UK average.
- **Supermarket fuel offers:** We know that at least two major supermarkets have been offering discounted fuel for shoppers spending a certain amount in store. These promotions tend only to appear in a falling wholesale market. We believe that this is unfair to general consumers as they don't lead to UK average prices reducing due to retailers not lowering their forecourt prices causing others to lower theirs in order to compete.
- **Local disparities in pricing:** Drivers often tell us they are frustrated when prices differ by several pence per litre within a few miles radius at forecourts operated by the same company. This tends to happen with supermarket forecourts and oil company-run sites. For example, one such retailer operating a forecourt near a busy A-road may sell at a higher price while another site a couple of miles away off the strategic road network may be selling fuel at a substantially lower price. This can unfortunately lead to fuel pricing being somewhat of a postcode lottery, with smaller towns, villages and more affluent areas being worst impacted by higher prices. Additionally, where there is only one forecourt in an area, prices can often be higher than they otherwise would be if another retailer were operating nearby.
- **Differences with European countries:** Recent analysis by the RAC<sup>3</sup> of fuel prices across Europe shows that drivers in the UK are paying a higher amount for the combination of fuel and margins. This is demonstrated below by a graph from the RAC Fuel Watch website showing what makes up a price of a litre of petrol across many European countries, including the UK:

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<sup>1</sup> <https://www.bbc.co.uk/news/uk-england-manchester-62176719>

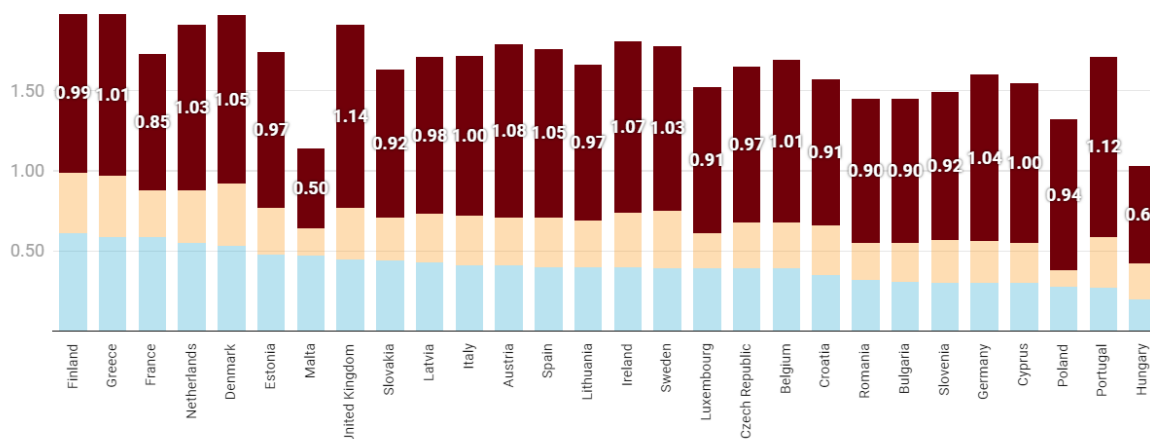
<sup>2</sup> <https://media.rac.co.uk/pressreleases/independent-forecourts-leading-on-fairer-pump-prices-rac-analysis-shows-3195448>

<sup>3</sup> <https://www.rac.co.uk/drive/travel/advice/european-fuel-prices-petrol-and-diesel-prices-in-europe/>

## What makes up the price of a litre of petrol across Europe?

Prices in equivalent pence per litre - 11 July 2022

■ Duty ■ VAT ■ Cost of fuel & margin



- (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.

The RAC identifies some short and long-term developments which could impact demand:

- **The cost of fuel:** As of July 2022, traffic volumes have remained largely unaffected by the record price of fuel according to Department for Transport analysis<sup>4</sup>. However, our own research suggests that the high cost of petrol and diesel has affected the way motorists drive their vehicles, with many saying they are changing their driving style to conserve fuel. Additionally, some are using alternatives such as walking and cycling for shorter journeys and combining several trips into one instead. However, the vast majority of drivers tell us they are highly dependent on their vehicles so it is unlikely that even a small number of drivers will give up their vehicles altogether. All of this, however, means that drivers might be filling up less often. If fewer people are buying fuel, this might lead to two scenarios:
  - Retailers increase their margins to make up for the lower volumes they are selling
- **Electric vehicles:** There are now more than half a million electric vehicles on the UK's roads<sup>5</sup>, with year-on-year growth in new BEV registrations at 56%<sup>6</sup>. While this is encouraging from a decarbonisation point of view, the reality is that BEVs only make up around 1% of the vehicle parc. This means that conventionally fuelled vehicles will continue to make up the overwhelming majority of vehicles on our roads in the near

<sup>4</sup> [https://www.gov.uk/government/statistics/transport-use-during-the-coronavirus-covid-19-pandemic?utm\\_medium=email&utm\\_campaign=govuk-notifications-topic&utm\\_source=adc7cae5-b040-4946-a6af-5ed0ae548e62&utm\\_content=immediately](https://www.gov.uk/government/statistics/transport-use-during-the-coronavirus-covid-19-pandemic?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=adc7cae5-b040-4946-a6af-5ed0ae548e62&utm_content=immediately)

<sup>5</sup> <https://www.gov.uk/government/collections/vehicles-statistics>

<sup>6</sup> <https://www.smmmt.co.uk/vehicle-data/car-registrations/>



future. Over the next decade, demand for fuel will fall which again means that fuel forecourts might need to adjust their margins. However, the RAC believes the long-term decline in demand for fuel in the UK is unlikely to lead to lower pump prices. In fact, prices are more likely to rise as UK refinery capacity and investment reduces.

- **Geopolitical tensions:** As we stated within our initial submission, the cost of oil as well as the exchange rate remain the biggest factors influencing wholesale prices and the subsequent retail price of petrol and diesel. We would encourage the CMA to look closely at whether there are ways to mitigate the impact of international events which can cause oil price shock and a rapid increase in pump prices.