Valero Energy Ltd
1 Canada Square
Canary Wharf
London
E14 5AA
Tel +44 (0)20 7513 3000

Competition and Markets Authority
The Cabot
25 Cabot Square
London
E14 4QZ

BY EMAIL ONLY: RoadFuels@cma.gov.uk

1st August 2022

For the attention of the Road Fuels Market Study Team

Letter in response to the CMA's Invitation to Comment

Valero Energy Ltd ("Valero") is the UK subsidiary of Valero Energy Corporation, the largest independent petroleum refiner in the world and, through its subsidiary's joint venture with Darling Ingredients Inc., the world's second largest renewable fuels producer. In the UK, Valero operates a refinery in Pembroke and has ownership interests in four major pipelines and nine fuel terminals. Valero supplies refined products on a wholesale basis throughout the UK, including supplying Texaco-branded petrol stations.

Valero welcomes the opportunity to engage with the CMA, in relation to the market study into the supply of road fuel in the UK announced on 8 July 2022. This letter sets out Valero's response to the invitation to comment.

As a starting point, the UK road fuel supply chain is going through a period of significant change that will have important future implications for both supply and demand. It is important that the CMA has regard to these factors as part of its market study. In particular, Valero would highlight the following points:

- As a result of Russia's invasion of Ukraine, an increasing proportion of inputs to UK refineries (including crude oil and other feedstocks) as well as imports of refined products (including diesel and petrol) are, and will continue to be, sourced from Asia and the Middle East. This trend will be compounded once the UK Government introduces legislation, with effect from the end of December 2022, that will amongst other things prohibit the importation of Russian oil and oil products into the UK. This will continue to increase the cost of shipping to the UK due to longer freight distances, which will continue to be affected by increases in the price of fuel oil used by ships. The CMA's analysis should consider the increased costs of crude oil and other feedstocks and the associated increase in transportation costs to the refineries.

- The UK Government's transport decarbonisation plan (published on 14 July 2021) aims to increase the use of zero tailpipe emission light duty vehicles in the UK, which do not rely on refined products. This will have important implications for the road fuel supply chain as it needs to adapt to declining volumes over the next 20 years.

- The costs of complying with greenhouse gas emission reduction regulations, such as the UK Emissions Trading Scheme (UK ETS) are expected to increase substantially in the coming years and this will increase the cost of

Valero Energy Ltd
1 Canada Square
Canary Wharf
London
E14 5AA
Tel +44 (0)20 7513 3000

refining in the UK relative to other countries. This will have a significant impact on refining costs (and therefore margins).

The invitation to comment notes that the CMA is planning to investigate the reasons behind recent increases in the refinery spread (the difference between the price of crude oil and the wholesale price of petrol and diesel leaving refineries). There are a number of important factors to consider as part of this investigation, including:

- It is necessary to ensure that the CMA's analysis properly reflects the full costs borne by refiners over and above the price of crude oil. These costs include the cost of other feedstocks, biofuel input costs, energy costs and regulatory compliance costs (such as challenges posed by the UK ETS regime noted above). A number of these costs have materially increased in recent months and this in part explains the increased refinery spread as defined by the CMA, i.e. the refinery spread as defined is not a good measure of refiners' profit margins;

- It is important for the CMA to recognise that the market for refined products is wider than the UK. Many of the factors that impact prices for refined products are global, such as the impact of the COVID-19 pandemic on refinery production capacity and Russia's recent invasion of Ukraine. It is vital that the CMA takes this dynamic into account as part of its review and considers how the refinery spread in the UK compares to other similar countries; and

- It is also important to note that refineries are co-production facilities; as well as producing petrol and diesel they also produce other refined products such as LPG, kerosene, fuel oil and naphtha. Whilst refining spreads on gasoline and diesel have increased in recent months, the refining spread on other products such as LPG and fuel oil have declined. As part of its investigation the CMA should consider the overall refinery margin across all refined products (even if its focus is on petrol and diesel).

Yours sincerely,

Brian Donovan
Vice President UK Commercial Operations