United Kingdom: Office of Fair Trading Report points to Competition Working well in UK Road Fuel Sector

Rises in pump prices for petrol and diesel over the last 10 years have been caused largely by higher crude oil prices and increases in tax and duty and not a lack of competition, an Office of Fair Trading (OFT) report has found.

The evidence gathered by the OFT suggests that at national level competition is working well in the UK road fuel sector, although it has identified an absence of pricing information on motorways as a concern and does not rule out taking action in some local markets if there is persuasive evidence of anti-competitive behaviour.

The OFT launched a call for information on the UK road fuel sector in September 2012 to determine whether there are competition problems that need to be addressed. In addition to assessing the information submitted to it, the OFT has undertaken a detailed analysis of pricing data to investigate claims that the £47 000 000 000 (€54 000 000 000) market is not working well. The OFT’s report was published on 30 January 2013.

The OFT found that, pre-tax, the UK has some of the cheapest road fuel prices in Europe. In the 10 years between 2003 and 2012 pump prices increased from 76 pence per litre (ppl) to 136ppl for petrol, and from 78ppl to 142ppl for diesel, caused largely by an increase of nearly 24ppl in tax and duty and 33ppl in the cost of crude oil.

A key feature of the road fuels sector over the past decade has been the growing influence of the big four supermarkets (Tesco, Sainsbury’s, Asda and Morrisons). They increased their share of road fuel sold in the UK from 29% in 2004 to 39% in 2012. The supermarkets’ high throughput per forecourt and greater buying power has allowed them to sell fuel more cheaply than other competitors. In August 2012, for example, the average price of petrol at supermarkets was 2ppl cheaper than the average at oil company owned sites and 4.3ppl cheaper than the average charged by independent dealers.

The OFT recognises that many independent dealers have found it difficult to compete in this sector, with a significant number exiting the market. Overall, the number of UK forecourts has fallen from 10 867 in 2004 to 8 677 in 2012, although the rate of decline appears to have slowed in the last three years. In the majority of areas where forecourts closed between November 2011 and August 2012 retail competition still appears to be strong.

The OFT has also found that fuel is often significantly more expensive at motorway service stations. In August 2012, for example, prices were on average 7.5ppl higher for petrol and 8.3ppl higher for diesel than at other UK forecourts. While these differences may be explained to some extent by the higher costs associated with running motorway forecourts, the OFT is concerned that drivers are not able to view prices until they have pulled into the service station. It has therefore asked the Department for Transport to consider introducing new road signs that would display service station petrol and diesel prices for motorway drivers.

See Call for information on the UK petrol and diesel fuels sector.