

October update

When the OFT announced its inquiry into the price of fuel in the UK, there was all-round agreement that this was a good thing. Campaigning groups felt that their wishes were finally being acted on, whilst government ministers breathed a sigh of relief, knowing that the subject of high fuel prices could be pushed another few months down the track. But the main problem has soon become evident, and that is just how little influence the OFT can have over the price of fuel.

To explore that statement, let's remind ourselves how a litre of UK diesel is priced:

- 55p is the raw product cost and is based on the Rotterdam wholesale price (price taken on 31st Aug)
- 58p is government duty (tax) applied to every litre of diesel sold in the UK
- 1p is the cost of shipping from Rotterdam to the UK
- 0.5p is the cost of storing a highly hazardous product safely and without damage to the environment
- 0.75p is the cost of transporting that highly hazardous product by road tanker, driven by employees who earn £30,000+ per annum
- 3p is the standard margin added by a petrol forecourt
- 24p is the VAT, also taken by the government on every litre of diesel sold
- 142.25p is the total cost, paid by the consumer for a litre of diesel

Pricing fuel

For those readers who are unaware of the way fuel is priced, just have another look at those figures. Consider for a moment that government tax is 158% of the actual cost of the product. Also consider the fact that for every 5p increase in the basic cost of fuel, VAT revenue goes up by 1p. On 25

billion of litres of diesel sold per annum in the UK, that's an extra £250m of increased revenue for the government since May (when the price was 5ppl lower than it is now). So yes, whether they acknowledge it or not, the Exchequer benefits from rising oil prices.

Rotterdam

Portland has covered in previous articles how the Rotterdam price is formulated and feels that no matter how many times the subject is discussed, there will always be a large number of people who believe that the price is cooked. To those that fall into this category, we would only ask the following question: "If an oil company can sell their diesel for 55ppl in Rotterdam and this fact is demonstrably illustrated on a daily basis, then why would they sell that product for less than 55ppl in the UK?" After all, diesel does not have differing product qualities depending on the country it is sold in and as a result has no customer loyalty. Diesel, is diesel, is diesel (*ad infinitum*).....it smells the same, it looks the same, it is the same and does the same thing, so for that reason it costs the same wherever it is sold. And if we follow the chain further, we can see that if buyers in the Far East are willing to pay 57ppl for their fuel, why would anyone sell it for 55ppl in Rotterdam – particularly when shipping is so cheap...?

Which takes us to the next part of the cost equation. A tanker that transports 20 million litres of fuel from north west Europe to London (Thames), with all the risks and costs that such a voyage entails, still only makes up 0.7% of the total cost of diesel in the UK. In fact, the OFT is going to have to



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show that a total of 2.25ppl for the entire fuel supply chain (shipping, storage and transport) represents bad value for money. Ditto the 3ppl added by the fuel retailer, which on average generates a gross profit of less than £90,000 per annum per site. Whatever the OFT does find, it will not conclude that 5ppl is an expensive cost for the entire UK supply and profit chain.

Doomed?

Of course the scope of the OFT study does cover important issues around the pricing of fuel by supermarkets versus independent retailers and whether fuel prices drop at sufficient speed versus falls in the crude oil price. But fundamentally, this study is only taking place because the price of fuel is high. Would the OFT really be looking at this if petrol was (say) 80ppl? We think not and for this reason conclude that the OFT study is doomed from the start, as it simply cannot influence any of the real issues behind high fuel prices. But the government can, and it is surely now time that they came clean on fuel prices; either drop duty levels immediately to stimulate the economy and ease the pressure on consumers or explain in clear terms why high fuel taxes are essential for a government that is so short of money.



For more pricing information, see page 22

Portland Fuel Price Protection
www.portland-fuel-price-protection.com