Supply of road fuel in the United Kingdom market study
Final report
3 July 2023

Executive Summary

Overview

1. Over the past year the CMA has carried out a market study on the supply of road fuel in the UK. Using our statutory information gathering powers we have been able to access information on the financial performance, strategic planning and ongoing operations of refiners, wholesalers and retailers to understand developments in this market. While a large majority of the fluctuation in petrol and diesel pump prices has been due to movements in the crude oil price, driven by global factors, the importance and cost of fuelling vehicles in the lives of millions of UK drivers means that it is vital we understand whether any deficiencies in how the UK market is working may be adding further to these cost of living pressures.

2. We have found problems in relation to three aspects of the retail market: national, local and motorway.

3. At the national level, we have found that:

    - Competition between retailers has weakened in recent years. Retail margins in fuel retail have risen significantly since 2019, with each of the supermarkets following a similar trend.

    - Competition in this market has generally been led by certain low-cost supermarkets setting the pace at which other retailers (supermarkets and non-supermarkets) follow.

    - The historic price leaders in the retail market, primarily Asda but also Morrisons to some extent, have been taking a less aggressive approach to pricing by significantly increasing their internal margin targets for fuel over recent years, with the largest increase coming in 2022-23.

- Asda took a decision in 2022 to achieve higher margins by reducing prices in some of its PFSs more slowly than would previously have been the case as wholesale prices fell (ie “feathering” prices), with other retailers pricing by reference to them following a similar pricing path.

- The potential profitability of any move by a retailer to increase their margins will depend on the response of their competitors. In this case, other retailers, including the two other supermarket fuel retailers, Sainsbury’s and Tesco, have maintained largely passive pricing policies, pricing by reference to local competitors rather than responding promptly to cost movements and/or trying to win market share, and have therefore followed the same trend in prices and margins.

- As a result of these factors drivers have been paying more than would otherwise have been the case. We estimate that the financial impact of the 6 pence per litre (ppl) increase in average supermarket fuel margin from 2019 to 2022 results in a combined additional cost of around £900m for customers of the four supermarket fuel retailers in 2022 alone, which is equivalent to approximately £75m a month for this period.

- In 2023, the impact of increased margins has been felt more heavily on diesel than petrol. We estimate that increased margins on diesel in 2023 have led to diesel drivers across all retailers paying on average 13ppl more for diesel from January-May 2023.

- We have observed significant drops in the price of fuel shortly after our previous publications (urgent review in July 2022, initial update report in December 2022 and cost of living update in May 2023), indicating that there was room for retailers to reduce prices.

4. However, the national picture is only an aggregation of competition going on in multiple local markets. Looking at local markets:

- We note that drivers are generally willing to travel a few miles extra to buy cheaper fuel. However, given that fuel retailers do not generally publish their prices online, they do not have access to reliable, comprehensive and real-time price information that they can use to compare prices before setting off to buy fuel.

- We see significant price differences between local areas, with lower prices typically associated with having a supermarket competitor, and particularly an Asda competitor, though this effect has weakened since January 2022.

- Where supermarkets are facing no supermarket competitors in an area, they are likely to price by reference to one of the (typically more expensive) non-supermarket retailers, meaning that prices will tend to be higher than in locations where they face supermarket competitors.

- Where there are no supermarkets, and retailers are likely to have higher costs (eg more remote areas) prices are likely to be higher;

- Local price variation has increased since mid-2022. This is consistent with the general weakening of competition we see at the national level, as retailers will be more able to earn higher margin in those areas where local competition is weakest.

- Consumers will generally be able to make savings on fuel within a reasonable drive time, but the cheapest provider is not always consistent over time, and in some areas prices are persistently significantly higher than the national average due to the nature of local competition.

5. Finally, concerning motorways, we have found that drivers without access to fuel cards, accounting for 20-25% of fuel sales on motorways, are paying significantly more to fill up at a motorway service area than they would elsewhere: around 20p on petrol and 15p on diesel on average in 2022. This premium has grown in real terms since 2012 and price variation among retailers on motorways is low. We have not seen evidence to suggest that this premium can be explained by higher retailer costs, so our view is that this is due to limited competitive pressure.

6. Looking at the likely future path of the market, we note that the move towards electric vehicles is likely to lead to reduced demand for road fuel over the coming decades. This may increase concentration in the retail market, potentially leading to significantly reduced competition. If unchecked, this may have negative outcomes for consumers, particularly those in areas with less retail competition and those who are less able to switch to EVs.

7. Given these concerns we are today making two recommendations to the government:

   (a) The government should create, on a statutory basis, an open data fuel finder scheme. This would require retailers to share their prices on an open, real-time basis, meaning that drivers can easily compare prices in any area of the UK. In doing so, drivers will be more able to find the cheapest fuel at any given time, which in turn will increase incentives on retailers to compete hard on price and make it easier for consumers to identify where they are not doing so.

(b) The government should create a fuel monitor function within an appropriate public body, to monitor developments in the market, both nationally and locally, as we move through the net-zero transition, provide ongoing scrutiny of prices (creating pressure for retailers to keep prices low) and consider whether further action may be needed to protect consumers.

8. In addition to the retail sector, we have also considered whether there are problems in the wholesale and refining sectors. We did not find any deficiencies that required action in relation to the functioning of the UK market.

9. This final report sets out in detail our findings in relation to the road fuel market and the actions we are recommending to improve outcomes for drivers.

Background

10. On 11 June 2022 the then-Secretary of State for Business, Enterprise and Industrial Strategy wrote to the CMA requesting that we carry out an urgent review into whether developments in the retail fuel market had adversely affected consumer interests. He asked that we consider the health of competition in the market, geographical factors, including localised competition, and any further steps that the government or the CMA could take to strengthen competition, or to increase the transparency that consumers have over prices. He also asked that we give particular consideration to whether the government's cut to fuel duty of 5 pence per litre (ppl) had been passed on to consumers. In addition, he requested that we launch a longer-term market study.

11. On 8 July 2022 we published our Urgent Review, which considered the price of fuel over the preceding year. We found that:

- The main drivers of increased road fuel prices were the rising cost of crude oil, and a growing gap between the crude oil price and the benchmarked wholesale price of petrol and diesel – the so-called 'refining spread'.
- The refining spread more than tripled over the year to July 2022, growing from 10ppl to nearly 35ppl.
- Over the same period, the 'retail spread' (the difference between the benchmark wholesale price and the price charged to motorists) fluctuated but remained about 10ppl on average.

- On the whole the fuel duty cut appeared to have been passed on to consumers, with the largest fuel retailers doing so immediately and others more gradually.

- There were significant differences in price between many rural and urban areas.

12. Given these findings, the CMA decided to carry out a market study into road fuel, which it also launched on 8 July 2022. This would consider the development of the market over a longer period, covering the refining, wholesale and retail elements of the supply chain.

13. On 6 December 2022, we published an initial update report setting out our emerging views on the market:

    - On refining, we considered that the volatility in margin we had seen was driven by global events rather than the nature of UK competition. Our analysis suggested that the higher margins in 2022 had done no more than counteract the lower margins seen in 2020 and 2021, meaning that profit had not been unusually high over the period.

    - On wholesaling, we noted that our analysis was at an early stage and we would give views later in the study.

    - On retail, we noted some potential causes for concern, in particular:

        - Increasing retailer fuel margins gave us reason to suspect that competition between retailers may have weakened. This concern was bolstered by our finding that some generalised rocket and feather pricing patterns appeared to have emerged in 2022.

        - Geographical pricing variations were evident, with the highest-priced PFSs typically having fewer competitors, fewer of which were supermarket competitors, fewer of which were Asda sites.

        - We also noted significantly higher prices for private consumers on motorways.

14. Alongside these factors, we noted other indications that supermarkets may be competing less hard in this market than they previously had done. We saw increases in their fuel margins in recent years; while still lower than the margins taken by large non-supermarket retailers, the gap between the two had reduced.

15. On 15 May 2023 we published an update on the market study, as part of a wider update on the action the CMA is taking to contain cost of living pressures. We noted that:

- average annual supermarket fuel margins had increased significantly from 2019 to 2022, representing a 6ppl increase over this period;
- average annual non-supermarket fuel margins on a percentage basis had increased significantly in 2020, before falling back in each of 2021 and 2022, though still remaining above pre-2020 levels;
- we had found no evidence that these increasing fuel margins could be explained by increasing costs in the supermarkets' fuel retailing business; and
- we had seen evidence from internal documents indicating that at least one supermarket had significantly increased its fuel margin targets since 2019 and that other supermarkets had recognised this change in approach and may have adjusted their pricing behaviour accordingly.

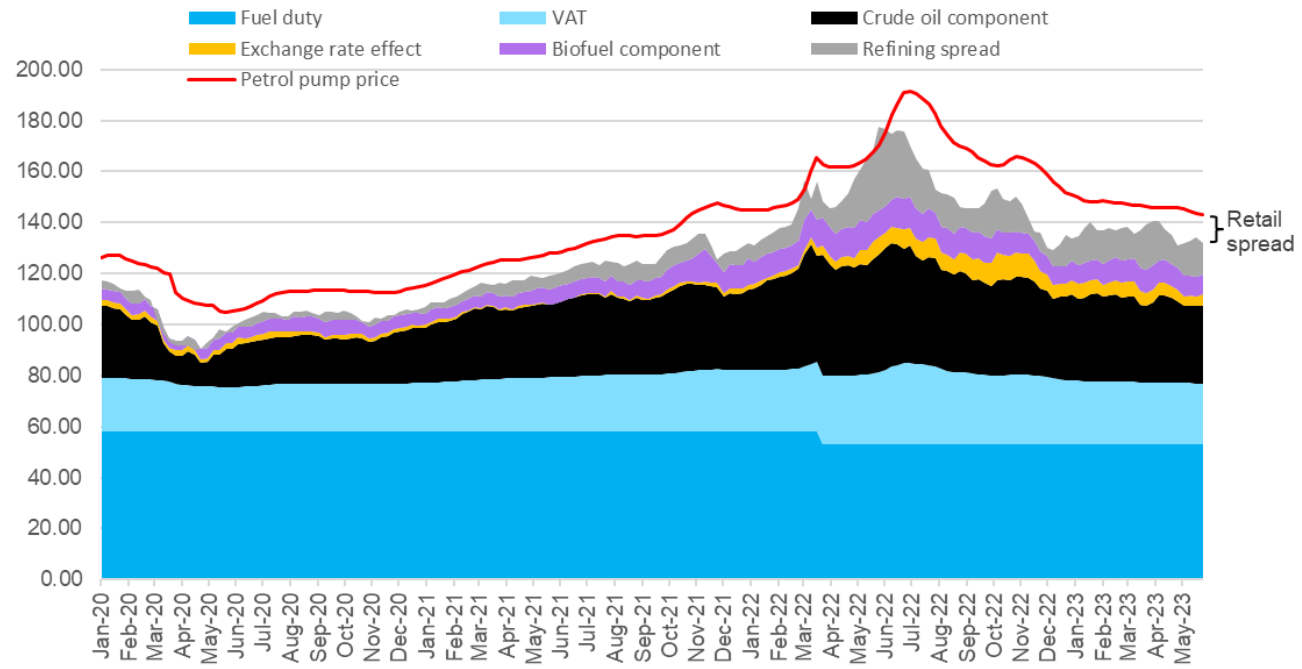
16. We considered that, taken together, this indicated some weakening of retail competition in the UK road fuel market, leading consumers to pay higher prices at the pumps than would otherwise have been the case. We also noted that we would be conducting formal interviews with representatives of the supermarkets to ensure we got to the bottom of these issues.

17. Having completed our evidence-gathering and analysis, we are now able to set out our full views on the road fuel market in this final report.

Petrol and diesel prices

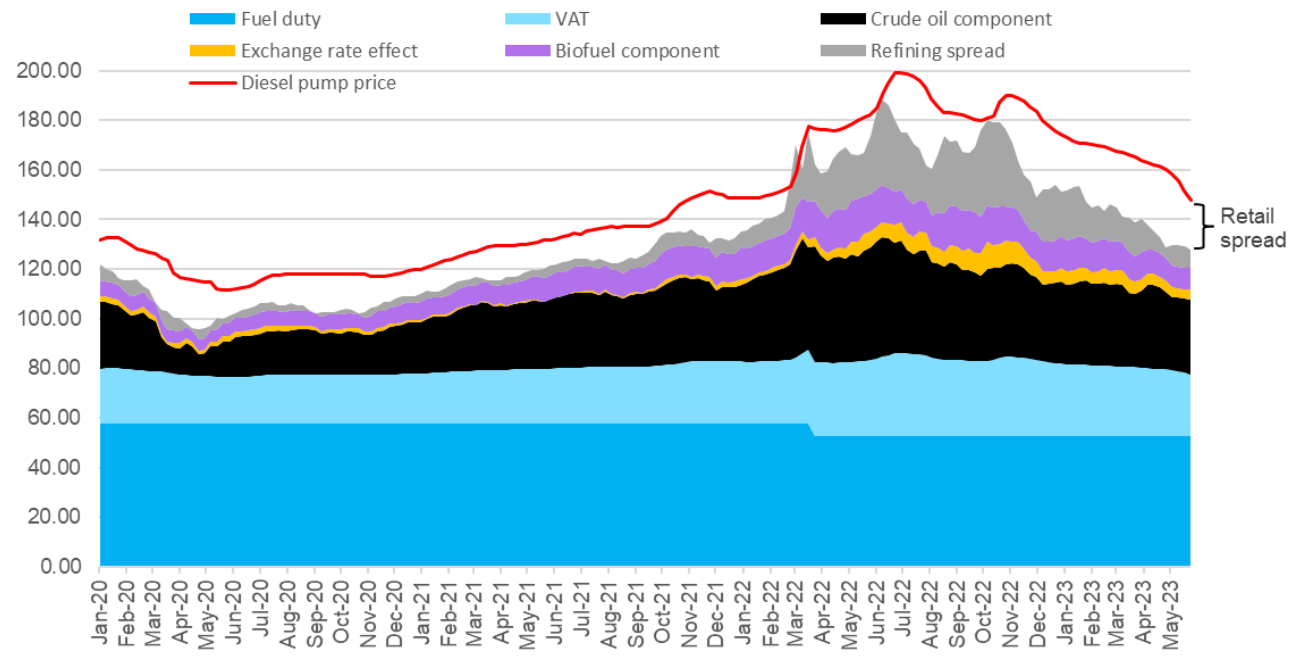
18. We have continued to monitor the pump prices for petrol and diesel since the publication of our initial update report, as well as the relative contribution of different components that make up the pump price over time. This is set out for each type of fuel in the charts below.

Figure 1: Petrol pump price with components, January 2020 – May 2023



Source: CMA analysis of BEIS, Platts, Bloomberg and Bank of England data.
Note: The exchange rate effect is calculated relative to 7 June 2021, and it is negative in some periods.

Figure 2: Diesel pump price with components, January 2020 – May 2023



Source: CMA analysis of BEIS, Platts, Bloomberg and Bank of England data.
Note: The exchange rate effect is calculated relative to 7 June 2021, and it is negative in some periods.

19. The above charts show that:

- Both petrol and diesel pump prices have fallen since their peaks in July 2022. For petrol, this fall has been relatively steady, with the exception of a small upward movement in prices close to the end of 2022. For diesel, on the other hand, the peak in July 2022 was higher, and the decline from this peak has been both slower and less steady, with a bigger uptick at the end of 2022. The pace of the fall in diesel prices increased in May 2023.

- Refining spread has generally reduced since peaking in June 2022, although again, this process has been both more pronounced and steadier in the case of petrol than for diesel. Petrol saw a small uptick in refining margins around October-November 2022, while diesel saw a larger uptick in October-November 2022, as well as one in August-September 2022. During April 2023 the diesel refining spread fell below 10ppl for the first time since the Russian invasion of Ukraine, and has been lower than the petrol refining spread for the first time since May 2022.

- In line with these findings, the retail spread (the difference between the average benchmarked wholesale price of fuel and average pump price) has reduced in petrol, holding fairly steady since the start of 2023 and standing at 10.8ppl at the end of May 2023. For diesel, however, while the retail spread fell to very low levels as refining spreads increased in Autumn 2022, over the whole period since the July price peak it has often been at a historically high level and has declined more slowly than the retail spread for petrol. From January to May 2023, diesel retail spread averaged 24.3ppl, significantly above its historic level. Diesel spread has been falling during May, standing at 20.0ppl at the end of the month, though still remaining higher than the petrol spread.

- We have continued to see an inverse relationship between refining spread and retail spread. While the combined size of the two spreads has returned towards trend level for petrol, it remains well above for diesel.

- Since late 2022, for both types of fuel the cost of the biofuel component has held steady, while the exchange rate effect and the price of crude have both declined.

20. A notable feature of the market has been the different paths taken by petrol and diesel. Prior to March 2022, the pump prices for the two types of fuel, and the relative contributions of the components of pump price, moved in similar ways. However, since March 2022 the two have become increasingly divergent, only recently starting to come back together in May 2023.

21. During the second half of 2022, average refining spreads for diesel were considerably higher than for petrol. While the refining spread for diesel has

been significantly below peak levels since late 2022, the retail spread, and hence the price, has remained persistently high. As a result, the differential between the prices of diesel and petrol has been much higher since summer 2022 than previously.

Retail sector

National retail competition

22. As is clear from the section above, movements in the pump price are not, in themselves, a good indicator of the level of competition in the retail market. Prices are in large part driven by the cost of refined petrol and diesel, which is not within the control of retailers. However, if competition is not working well in the retail market this could be adding additional cost for consumers, making retail prices higher at any given level of wholesale fuel cost.

23. Looking first at the pattern of price competition, we found that supermarkets remain, on average, cheaper than other types of retailer. Outside of brief periods of disruption associated with Covid and Russia-Ukraine-related supply issues, the pricing gap between supermarkets and other types of retailer has remained constant at around 4-6ppl since 2017, with the exception of the pricing gap between supermarkets and dealers on diesel, where supermarkets have been on average only around 2ppl cheaper during 2023.

24. Despite this overarching trend, however, we have noted an increase in the extent to which individual non-supermarket retailers are pricing more cheaply than the supermarket national average price. Prior to January 2020, apart from a short period on diesel in spring 2019, there were no periods when significant numbers of non-supermarket PFSs were cheaper than the average supermarket price. However, since January 2021, there have been several periods when significant numbers of non-supermarkets (1000+ PFSs) have been cheaper than the average supermarket price or even cheaper than 75% or 90% of supermarket locations.

25. Among supermarkets, we previously noted that Asda has typically been the cheapest on fuel. However, our analysis shows that this position has been less consistent since the beginning of 2022. While Asda had been the cheapest supermarket in 89% of weeks for petrol and 94% of weeks for diesel between January 2019 and December 2021, this declined to 76% and 70% respectively between January 2022 and May 2023. We also found that Morrisons, prior to 2022, had typically been the second or third cheapest supermarket, but from 2022 onwards it has most often been in fourth place (ie

been the most expensive supermarket), having been overtaken by both Sainsbury's and Tesco.[1]

26. We have also observed an increase in price dispersion between sites for both Asda and Morrisons since spring 2022; that is, we have seen a greater difference, on average, between the most expensive and the least expensive sites within each of their PFS estates. Prior to spring 2022, where we saw differences between PFS sites owned by one of these supermarkets, this was mainly due to sites being priced cheaper than the average. After then, however, we see greater deviation from the average price among those sites priced more expensively than the average. For Sainsbury's and Tesco there has been no obvious trend, although we do observe an increase in sites being priced cheaper than the average from late 2022.

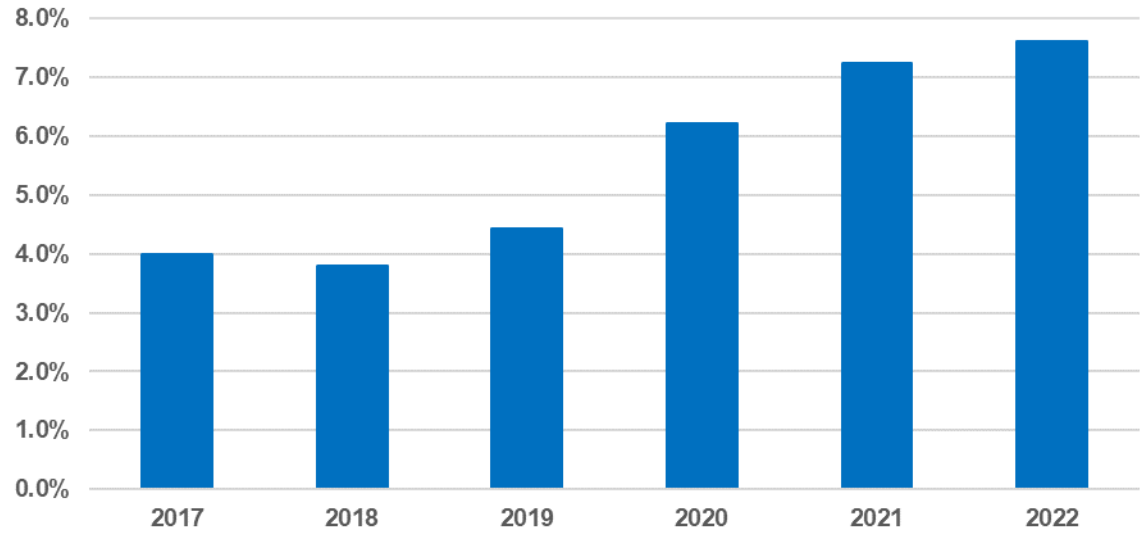
27. Turning from prices to margins, as set out in our May update, we have seen a clear trend of increasing margin being earned by retailers since 2019; in other words, petrol and diesel retailing has become more profitable over this period.

28. In supermarkets, average annual fuel margin (the difference between the price at which they buy it wholesale and sell it retail) has increased year-on-year from 4.4% (4.6ppl) in 2019 to 7.6% (10.8ppl) in 2022. While some of the ppl increase would have occurred if the same percentage margin was applied to the higher wholesale price of fuel in 2022, we estimate that in 2022 supermarket petrol and diesel prices were around 5ppl more expensive than they would have been if percentage margins had remained at 2019 levels. We estimate that the financial impact of this 6ppl overall increase in fuel margins results in a combined additional cost of around £900m for customers of the four supermarket fuel retailers in 2022 (based on the financial year of each supermarket that falls mostly within 2022).

29. Each of the supermarkets follows a similar trend to the average. We have found that supermarket operating margins in their fuel business (which, unlike fuel margins, take into account some non-fuel costs to the retailer, such as energy and some labour costs) have followed a similar trend to fuel margins, meaning that the increase in fuel margins cannot be attributed to increased non-fuel costs faced by supermarket fuel retailers.

[1] See paragraphs 42 and 43 for further discussion of these findings.

Figure 3: Average annual supermarket fuel margins (%), 2017-2022



Source: CMA analysis based on parties' submissions

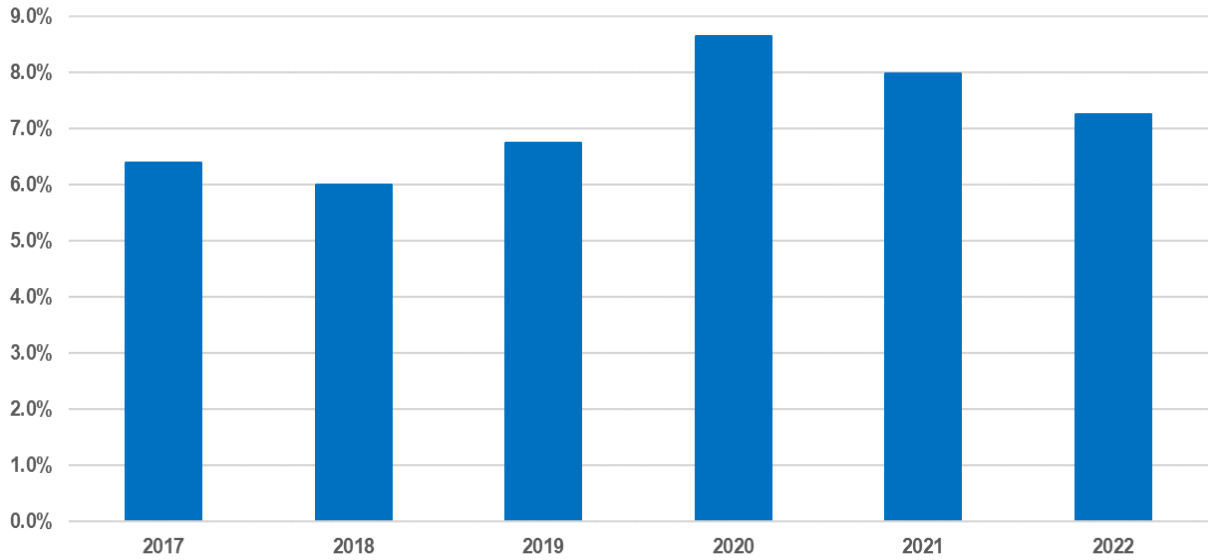
30. Some supermarkets pointed to a decline in the so-called "halo effect", by which selling fuel cheaply would attract more customers to also do grocery shopping in the supermarket, thereby providing an incentive for supermarkets to price fuel more cheaply than they would in a competitive standalone fuel market. They attributed this decline to factors including the increase in online shopping and the rise of discounter supermarkets (which do not sell fuel). However, even if we assume that the halo effect has disappeared completely, the size of the halo effect estimated in supermarkets' own internal documents is nowhere near large enough to account for the scale of margin increase we have seen on fuel.

31. Some supermarkets also told us that in recent years they had faced pressure on profits in their grocery business and had therefore looked to use increased profits from road fuel to "cross-subsidise" food prices. For the purposes of this market study, however, we are focusing on competition in the road fuel sector. We would not regard individual firms facing a tough competitive situation in one market as a good reason for the CMA to overlook weakening competition in another market in which they are active.

32. Separately to the road fuel market study, the CMA announced on 15 May 2023 that we were stepping up out work in the grocery sector to understand whether any failure in competition is contributing to grocery prices being higher than they would be in a well-functioning market. While we noted that global factors have been the main driver of grocery price increases, and that we had not seen any evidence pointing to specific competition concerns in the grocery sector, we said that it was important to be sure that weak competition was not adding to these issues. We plan to publish an update on this work later in July.

33. Among large non-supermarket retailers, average annual fuel margin increased from 6.8% in 2019 to 8.6% in 2020, before falling back to 8.0% in 2021 and 7.3% in 2022. However, due to the increasing wholesale price of fuel, ppl margin increased year-on-year across this period, rising from 6.8ppl in 2019 to 10.3 ppl in 2022. Again, we see no evidence that these increasing fuel margins can be accounted for by increasing non-fuel costs.

Figure 4: Average annual non-supermarket fuel margins (%), 2017-2022



Source: CMA analysis based on parties' submissions

34. Retailer pricing policies are central to understanding what may have driven these margin increases. All retailers told us that they set prices for individual PFSs by considering prices from competitor PFSs, usually defined by reference to distance (and sometimes categorised by competitor type), and applying a pricing rule based on either matching, or applying a plus or minus ppl to their competitors' prices. Given that supermarkets are generally the cheapest providers, this pricing approach means that it will be supermarket pricing that leads the overall market price.

35. We found that supermarket pricing policies can broadly be divided into two types: active and passive.

- Asda and Morrisons pursue active pricing policies in that they have a target margin that they aim to achieve on fuel and adjust their pricing approach within certain parameters if they are undershooting their target.
- Sainsbury's and Tesco pursue passive pricing policies in that they forecast the margin they expect to achieve on fuel, but do not adjust their pricing approach if they are not going to achieve this.

36. Given that Asda aim to be, and typically are, the cheapest retailer in the market overall, Asda's pricing decisions will have the most influence on general prices. Morrisons' pricing decisions will also have some impact, particularly in areas where Morrisons is present but Asda is not.

37. Evidence from internal documents provided by Asda and Morrisons shows that they have significantly increased their internal margin targets since 2021. Prior to that year, their margin targets were relatively stable, but both retailers decided at some point in 2021 to increase them for 2022, then increased them again in 2023. As a result, Asda's ppl target for 2023 was more than three times what it had been for 2019, while Morrisons doubled their ppl target over this period.

38. An internal document from a competitor notes changes in Asda's and Morrisons' pricing approach and attributes this to "planned or completed changes in ownership". Asda and Morrisons were both purchased by private equity in 2021, the same year they each made a decision to increase their target margin on fuel.

39. Along with these increasing margin targets, we have seen a decline in the intensity with which Asda and Morrisons act as price leaders in the market:

- As set out above, Asda has less consistently been the cheapest supermarket since 2022, and Morrisons has moved from generally being 2nd or 3rd cheapest, to most often being the most expensive of the four supermarkets.

- Asda has significantly reduced the frequency of its public price cut announcements since 2020, and its only two price announcements in 2022 followed shortly after CMA interventions: the publication of our urgent review findings in July 2022 and the publication of our initial update report in December 2022.

- Evidence from Asda internal documents shows that in the second half of 2022 it identified and implemented an opportunity in [125-175] sites (those situated more than [✂] miles from a supermarket competitor) to reduce prices more slowly than they typically would as wholesale prices fell.

40. Taken together, this evidence indicates a significant weakening of competitive pricing from Asda and Morrisons, the supermarkets with active pricing policies, in this market since 2022.

41. In a market where competition is working well, when a price leader attempts to compete less hard, we would expect other competitors to take market share from the former market leader thereby increasing competitive pressure.

However, given the largely passive pricing policies of other major competitors (Sainsburys, Tesco and the large non-supermarket retailers) we would expect this impact to be lessened in the road fuel market, and the margin increases we have seen among retailers in the rest of the market suggest that this has indeed been the case.

42. As a result of the change in approach by Asda and Morrisons, Sainsbury's' and Tesco's overall pricing positions have improved somewhat in relation to Asda and Morrisons. Asda is less frequently the cheapest overall supermarket and Morrisons more often the most expensive of the four supermarkets.

43. However, based on what Sainsbury and Tesco told us, namely that they have not changed their passive pricing approaches in any relevant respect this improvement in their overall pricing position appears to be, in large part, an "estate effect", comprised of the overall changing dynamic across all stores, including where they do not compete directly with an Asda or Morrisons site.

44. If Sainsbury's and Tesco were to change to a more active pricing policy, this could exert competitive pressure on Asda and Morrisons to lower their prices or risk losing market share. The same argument applies to non-supermarket retailers. Given that they have not yet done this, remedy action that could increase the incentive for them to do so would be beneficial; we consider this in our remedies thinking, as set out below.

45. Our analysis of market share data (by volume) also supports this, showing that Asda and Morrisons have been able to keep their market share broadly stable across this period, though there is indication of Asda losing market share in recent months. Based on what we have been told by rival supermarkets, we do not believe that there has been a national change in their pricing policies focused on winning market share from Asda (for instance no one other than Asda told us they were aiming to be the cheapest). However, the nature of their local pricing rules and decision making means that there may be local areas where rivals are now price leaders. Notwithstanding this, however, without a change in rival supermarkets' pricing rules, resulting in their prices being more often below Asda's where they are directly competing, there is a risk that price increases will continue being generally accommodated and higher margins become entrenched.

46. Overall then, we see a situation where:

- Competition between retailers has weakened in recent years. Retail margins in fuel retail have risen significantly since 2019, with each of the supermarkets following a similar trend;

- Competition in this market has generally been led by certain low-cost supermarkets setting the pace at which other retailers (supermarkets and non-supermarkets) follow;

- The historic price leaders in the retail market, primarily Asda but also Morrisons to some extent, have taken a less aggressive approach to pricing by significantly increasing their internal margin targets for fuel over recent years, with the largest increase coming in 2022-23;

- Asda took a decision in 2022 to achieve higher margins by reducing prices in some of its PFSs more slowly than would previously have been the case as wholesale prices fell (ie “feathering” prices), with other retailers pricing by reference to them following a similar pricing path. Given the movements in the wholesale price of the two grades of fuel, this impact of this has been felt more heavily on diesel than petrol.

- Other retailers, including the two other supermarkets, have maintained largely passive pricing policies, pricing by reference to local competitors rather than responding promptly to cost movements and/or trying to win market share, and have therefore followed the same trend in prices and margins.

- As a result of these factors drivers have been paying more than would otherwise have been the case. We estimate that the financial impact of the 6ppl increase in ppl fuel margin from 2019 to 2022 results in a combined cost of around £900m for customers of the four supermarket fuel retailers in 2022 alone.

- We have observed significant drops in the price of fuel shortly after our previous publications (urgent review in July 2022, initial update report in December 2022 and cost of living update in May 2023), indicating that there was room for retailers to reduce prices.

Weaker competition on diesel than petrol

47. Given the divergence in the price of petrol and diesel since March 2022, as set out in paragraphs 10-11 above, we have also considered whether there is a difference in the level of competition we have seen in the supply of diesel, compared to petrol. While we would not necessarily expect the prices of these two types of fuel to move in parallel, given they are subject to different supply and demand constraints, it is notable that the retail spread for diesel has been well above historic norms during 2023, despite a falling wholesale price over this time.

48. When we asked Asda to account for this, they told us that following the volatility in diesel wholesale prices in 2022, they saw and pursued an opportunity to “take price” and grow their margin on diesel. They did this by reducing diesel prices more slowly than wholesale prices fell, while still aiming to be generally the cheapest retailer in the market.

49. This explanation is supported by our further analysis of potential “rocket-and-feather” pricing patterns in the market. We have extended our analysis to include data from 2023. While this does not show significant further evidence of rocket and feather activity in petrol, it clearly does so in diesel. This is true on both sides of the equation – wholesale price increases were passed on more quickly and wholesale price reductions were passed on more slowly in 2023. This result holds for each of the supermarkets.

50. Given the evidence from Asda’s internal documents and statements to us, our understanding of the passive pricing policies of other competitors, and the results of our rocket and feather analysis, we conclude that the high retail margins were driven by Asda’s decision to reduce diesel retail prices more slowly as wholesale prices fell, facilitated by the lack of any major competitor attempting to systematically undercut them. We estimate that this elevation of the diesel spread resulted in consumers paying an average of 13ppl more for diesel from January-May 2023, compared to the price if margins had been at their 2017-22 average.

Local retail competition

51. However, the national picture is only an aggregation of competition going on in multiple local markets.

52. Drivers are generally willing to travel a few miles extra to buy cheaper fuel. This leads to local markets, and geographic variations in price. However, given that fuel retailers do not generally publish their prices online, they do not have access to reliable, comprehensive and real time price information that they can use to compare prices before setting off to buy fuel.

53. We have considered the extent of price variation across different localities, as it is an issue we have received numerous questions and queries about from members of the public and elected representatives, and an obvious concern for those consumers living in higher-priced areas.

54. We have found that with the exception of Northern Ireland (which is in a geographically unique position, due to the Irish border) differences in average prices between the regions of the UK are relatively small. Rural PFS fuel prices are on average 1.2ppl higher than urban prices, for both diesel and

petrol. However, we found that there was much wider variation within the rural and urban categories than between them.

55. We have found that price dispersion within and between local areas is common. The key differences we found were that the highest-priced PFSs faced fewer competitors nearby, were less likely to have a supermarket competitor and were significantly less likely to have an Asda competitor, which has been the historical price leader.

56. While we have seen evidence that some of this variation is likely explained by differences in costs, with businesses needing to charge higher prices to remain profitable when they have higher costs, it is also clear that a significant part of it is due to the pricing rules retailers follow, which tell them to match or price close to their cheapest rivals in an area.

57. This means that if there is only one of the cheapest retailers – supermarkets – in an area, they are likely to price close to one of the more expensive retailers, and differently from their other sites where there are more and lower-priced competitors.

58. Competition in local areas typically takes place within local areas determined by how far motorists are willing to travel to purchase fuel. Retailers typically told us this was in the region of three miles, while some said between 10 to 25 minutes drive time.

59. It is therefore the case that competitive conditions can vary materially between PFSs beyond these distances, and we consider this is likely to explain a significant proportion of price differences between different towns or cities within regions or sub-regions.

60. We generally found that the pattern of price dispersion within local areas has been fairly steady between 2017 and 2023, with some upward drift. However, in some of the areas we analysed we see a more pronounced increase in price dispersion from mid-2022. This is consistent with the weakening of national competition we have observed at the national level; where retailers are looking to raise their overall margins, this is likely to be disproportionately achieved at sites where they are facing lower competitive constraints, as seen in Asda's move to reduce their prices more slowly in some sites as wholesale prices fell.

61. We found that at a local level consumers will generally have access to cheaper fuel within a reasonable drive time, but the extent to which non-supermarket PFSs switch their relative competitiveness over time may make it hard for consumers to identify the best deals at any point in time, increasing search costs to find the best prices.

62. We also found that there will be some areas where there are no generally lower-priced retailers ie supermarkets, and retailers are likely to have higher costs, for example in more sparsely populated or remote areas, and so these areas are likely to have higher prices.

63. Considering the factors associated with pricing levels, we found that prices tend to be lower in PFSs that have more competitors, particularly when at least one of those competitors is a supermarket and especially when one of those is an Asda. However, in line with our wider finding of weakening competitive intensity from the supermarkets, the impact on prices of having a supermarket, or Asda, competitor has declined since in the period after January 2022, compared to the period before.

64. In summary, therefore:

- We see significant price differences between local areas, with lower prices typically associated with having a supermarket competitor, and particularly an Asda competitor, though this effect has weakened since January 2022;
- Where supermarkets are facing no supermarket competitors in an area, they are likely to price by reference to one of the (typically more expensive) non-supermarket retailers, meaning that prices will tend to be higher than in locations where they face supermarket competitors;
- Where there are no supermarkets, and retailers are likely to have higher costs (eg more remote areas) prices are likely to be higher;
- Price dispersion has increased since mid-2022, consistent with the weakening of national competition we observe;
- Consumers will generally have access to cheaper fuel within a reasonable drive time, but the cheapest provider is not always consistent over time.
- Given these findings, we consider that consumers can gain from shopping around, and the more effectively they are able to do this, the more they will be able to incentivise retailers to compete hard on price to win their business. However, the impact of this may be more limited in some areas compared to others, due to the underlying nature of local competition (eg how many competitors there are or whether supermarket PFSs are present). Given the nature of the industry, barring radical intervention to change it (which may have negative consequences for consumers overall), some degree of local price variation is inevitable, but measures to address the points set out above could moderate them. We therefore consider these factors when we come to remedies, below.

65. We also note that the Rural Fuel Duty Relief scheme is an example of the government taking action on tax to provide support for drivers in those local areas where fuel prices may be higher for structural reasons, but we do not consider the design or impact of this scheme further in our report.

Future trends in the market

66. Looking at the future prospects for this market, the most important foreseeable future trend is the move away from internal combustion engine (ICE) vehicles – the vast majority of which run on petrol or diesel - associated with the government's intention that no further new ICE vehicles should be sold in the UK after 2030. In common with industry participants and observers, we expect that this will lead to a significant reduction in demand for road fuel over the coming decades. While the timing and impact of this are highly uncertain, we expect that this will lead to a reduction in the number of PFSs, which in turn could lead to reduced competitive intensity in more local areas.

67. One particular concern related to this is the distributional impact on consumers. First, we expect less well-off consumers to be slower to move away from ICE vehicles, as they are less likely to purchase new cars. As a result, they will be buying road fuel further into the future and so will be more exposed to the negative impacts of any reduction in competition over time. Second, we would expect a future decline in the network to impact more on particular geographical areas, as more low volume or otherwise marginal PFSs close, and the impact of losing any one station on competition is likely to be more significant in areas that have fewer PFSs to begin with. The impact of this could be to create more areas with particularly weak local competition, exacerbating existing geographical disparities.

68. Given that we see a market where fundamental change is clearly coming, the timing and exact impact of which is uncertain, but it likely to have significant distributional impacts, it is important that policymakers and regulators are well-placed to understand these changes as they occur and react to them as necessary. We consider how this might be achieved as part of our remedies thinking, as set out below.

Motorway fuel pricing

69. Finally, we have looked at motorway fuel pricing. At motorway service areas (MSAs) typically around 75% of fuel purchased is done so by business

customers using a fuel card.[2] These are typically products available to commercial customers who can use them to purchase fuel at a price which is similar whether they are at an MSA or at a non-motorway PFS.

70. For those customers who do not have access to a fuel card and so must pay the pole price to make a purchase, prices at an MSA are significantly higher than at a non-motorway PFS. We have found that, for these customers, pump prices at motorway PFSs were, on average, around 20ppl higher for petrol and 15ppl for diesel during 2022, with much less variation within the motorway PFS group, compared to non-motorway PFSs. This price gap with non-motorway sites has grown; our predecessor, the OFT, found a gap in its 2012 study that would equate to 9.5ppl for petrol and 10.5ppl for diesel at 2022 prices. This motorway premium is reduced only slightly when we compare motorway PFS prices to those of non-motorway PFSs on the strategic road network (ie major trunk roads). We also find that the profit margin earned by selling fuel to these consumers is significantly higher than at non-motorway PFSs.

71. Given the composition of the motorway PFSs' customer base, however, with only 25% of fuel purchased at these higher prices, the impact of this is diluted. Overall margins earned on fuel sales at MSAs are not materially higher than those made by non-motorway MSAs, because they sell to a greater proportion of fuel card consumers, from whom they earn a very low margin.

72. Motorway PFSs are able to charge such high margins for private customers (ie those who do not use fuel cards available to business customers) due to a lack of competition. For regulatory and planning reasons, motorway PFSs are placed at some distance from each other, and opening new sites on existing stretches of motorway is generally unlikely. Motorists using the motorway will often be unaware of alternative PFSs located close to motorway exits, as these are not signposted from the motorway. With a small number of exceptions, consumers do not see the price of fuel at an MSA until they have turned off the motorway. In addition, the supply of fuel at MSAs is concentrated, further reducing the incentive for them to compete with each other.

73. The higher fuel price at MSAs reduces the amount of fuel that private customers buy there – private customers drive 18% of their miles on the motorway network but make only 1% of their fuel purchases (by value) at an MSA.

[2] This excludes fuel cards (such as Allstar) where the customer pays a price linked to the pole price at the PFS where the fuel is purchased.

74. Overall, therefore, our view is that non-fuel card consumers are paying high prices for fuel at MSAs due to a mixture of regulatory barriers to competition, a concentrated market and low ability of consumers to observe prices and shop around. Remedies that aimed to tackle these issues could therefore have a positive effect on consumer outcomes by incentivising lower prices.

Conclusions on the retail sector

75. In summary, therefore, we see evidence to support three areas of concern in the road fuels retail sector:

    (a) Competition on fuel prices has weakened since 2019, due to a decision by the traditional price-leaders to compete less hard, and a lack of active competitive response to this by other retailers. As a result, consumers are paying generally higher prices than prior to this date, for any given level of wholesale prices. During 2023, competition has been significantly weaker on diesel than on petrol.

    (b) While this weakening of competition appears to have affected pricing in different parts of the UK in a similar way, longstanding patterns of variable pricing between different local areas remain, meaning that consumers in some areas can pay significantly more for fuel than in others.

    (c) Separately, competition remains weak between MSA PFSs, meaning that customers without access to fuel cards pay significantly more to buy fuel on the motorway than off it.

76. These three concerns sit against the backdrop of an expectation of reduced levels of competition in this sector over the coming decades (though exact timing is uncertain), which without intervention is likely to have a more significant impact on those who are less well off, and those who live in areas where levels of retail competition are already lower.

Remedies

77. Given this assessment of the market we have considered a range of remedial options to address these concerns. We are recommending two measures: an open data fuel finder scheme and an ongoing fuel monitor function. If taken forward, these two measures will work in a mutually reinforcing way to increase incentives on retailers to price more competitively on fuel.

Open Data fuel finder scheme

78. First, and building on the recommendation we made in our Urgent Review, we are recommending that the Government implements an open data “fuel finder” scheme for prices in the retail road fuel sector, and places this on a statutory footing so that retailers are required to share their prices.

79. A fuel finder scheme would encourage other services – such as fuel comparators and navigational apps – to provide easily accessible, comprehensive and up to date pricing information to consumers to help them find cheaper fuel, at the best location, without them having to drive around to observe prices from the road.

80. We recommend that government takes forward this recommendation as soon as practicable - and consider that the Data Protection and Digital Information Bill is the most appropriate vehicle through which to do this - to ensure that consumers obtain maximum benefits in as timely a manner as possible, especially as they continue to face cost of living pressures.

81. Effective competition relies on consumers being able to compare accurately the price and quality of products in a way that drives good decisions. They need to be able to do this easily, and to act on it. While real-time fuel prices are prominently displayed at forecourts, they are not provided by retailers online, and, in the absence of high-quality collated data, consumers have to drive around to find cheaper fuel.

82. In many other markets, since use of the internet has become widespread, retailers have displayed their prices in real time online as a matter of course. In road fuel, however, this is not the case. The nature of competition, particularly the fact that competition is driven by several large competitors, competing separately in a large number of local markets, prevents the same incentives from working to encourage retailers from sharing their pricing data on a voluntary basis.

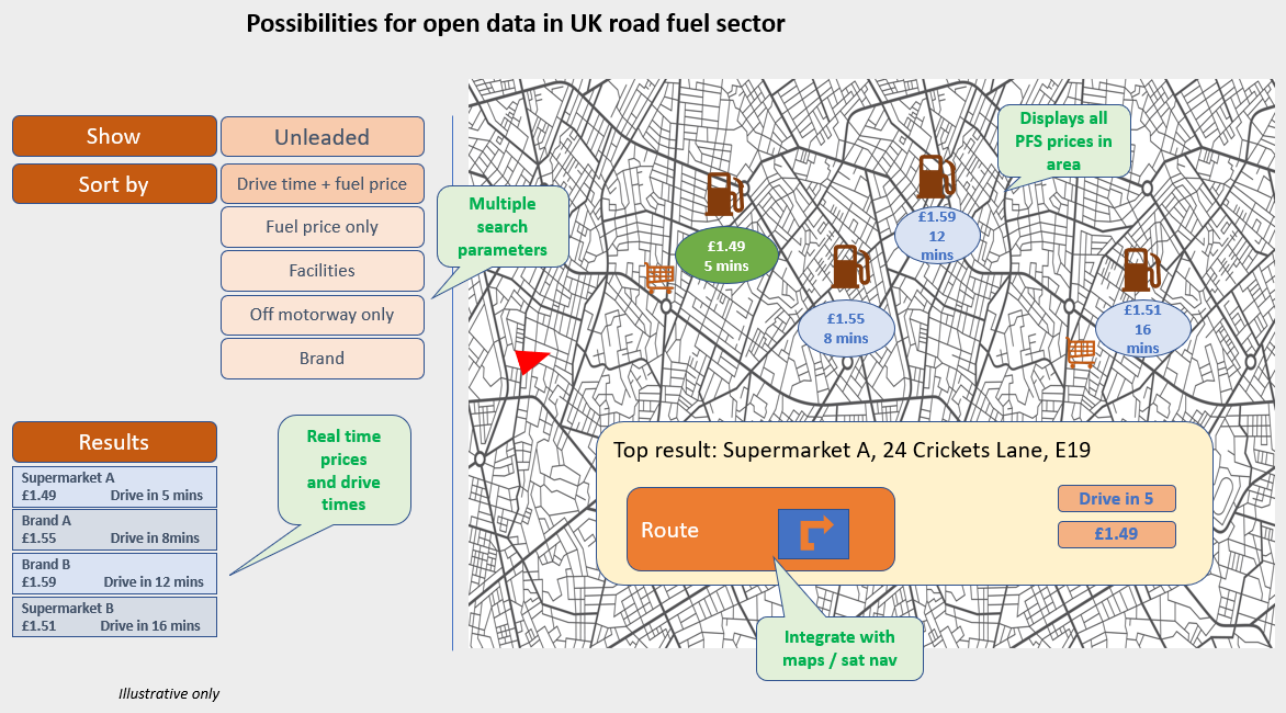
83. This lack of real-time, comprehensive and easily-accessible pricing data means that consumers do not have access to the tools they need to drive competition as effectively as possible, by seeking out and buying from the cheapest possible retailer within those areas where it would be make economic sense for them to buy fuel. Many consumers in this market are savvy and engaged, using their own observations of price, sharing information on social media or using online pricing tools to seek out the best prices in their area. However, these consumers are clearly using second-best options when compared with using a more comprehensive and real-time dataset.

84. Given the apparent lack of incentive for retailers to publish these prices of their own volition, and the important role that the availability of this information could play in helping consumers drive greater competition in the fuel retail market, at a time when it seems to have declined, there is a strong case for measures which would make prices more observable in real time. Without this, consumers cannot be expected to be able to drive effective competition and with the weakening of competition we have identified, particularly in relation to supermarkets, it is essential that they do.

85. We have already recommended in the July 2022 Urgent Review an open data scheme through which individual forecourt prices are collected and made freely available. Since then, we have developed our thinking on the benefits of such a scheme, in particular as an enabler of other services - such as fuel comparators and navigational apps – which will provide easily accessible, comprehensive and up to date pricing information to consumers to help them find cheaper fuel, at the best location, without them having to drive around to observe prices from the road.

86. In turn, we would expect this to have a moderating effect on retailers' behaviour, as PFSs would have to compete harder to attract customers, by lowering prices and/or improving their offering. In particular, we have seen evidence of weaker competition from traditional price leaders, accompanied by a lack of competitive response from other retailers. By improving consumer awareness of prices, a fuel finder scheme would increase the benefit to any firm who emerged as a local or national price leader, as consumers would be more aware of this, and therefore more likely to switch to them, meaning that they would make a greater gain in volume for the same level of investment in price.

87. The graphic below illustrates the type of information from which consumers could benefit, for example through an app where fuel pricing and navigational data are integrated.



Source: CMA graphic.

88. We would expect a fuel finder scheme, if implemented effectively, to have a positive impact on the three concerns we have identified in the retail market.

89. We would expect this to go some way towards countering the weakening of competition in the national retail market, via the impact of consumers moving away from higher-priced operators. We would expect to see the premium that higher-priced operators can charge over local market leaders to be reduced as this premium becomes more visible, in real time, to consumers. We would expect this to lead to more intense competition and hence lower prices. In particular, it would increase the incentive on a retailer to undercut prevailing prices, because they could expect their lower prices to be clearer to the public, and therefore to gain market share more efficiently.

90. We would also expect this to address price variation between local areas, in similar ways, by increasing the pressures on retailers to reduce prices. It would also widen the effective search area for consumers in a particular local area, by allowing them to consider purchases at a wider range of PFSs, and would increase the practical search frequency, by allowing them to easily compare prices in real-time. We would not, however, expect this to completely eradicate local price variation, as the factors that are associated with lower prices in an area, in particular the presence of a supermarket competitor, would remain the same. While we have not considered fiscal options in our report, we note that the Rural Fuel Duty Relief Scheme is an example of the government taking action on tax to provide support for drivers in areas where fuel prices may be higher for structural reasons.

91. We would also expect this to have an effect on high prices at motorway PFSs. While drivers could compare prices at different motorway PFSs, the clustering of prices we have observed at these means that they may not derive much benefit from this, limiting the competitive pressure that may be exerted in this way. A more likely route would be by making drivers more aware of fuel prices at PFSs located close to motorway exits, allowing these PFSs to exert more of a competitive constraint on motorway prices.

Ongoing fuel monitor function

92. In addition, we are also recommending that the government create an ongoing road fuels price monitoring function for the UK market, by tasking a public body with the role and providing it with information-gathering powers needed to generate insights in the complex and changing UK market.

93. The fuel monitor should report on the state of the market, the effect of open data remedies in improving outcomes for consumers, and help the government decide whether or when further intervention in this market, or support for consumers, is required, within the context of market dynamics and its wider net-zero transport strategy.

94. We recommend that the government takes this forward as soon as possible. The government would have a number of options for where this function could be situated. One option would be to give this function to the CMA; we would be well-placed to observe developments in the market, following on from our market study. Alternatively, the government may prefer to situate this function within a body with wider responsibilities for the net-zero transition in transport, which may be well-placed to consider market issues in the context of wider environmental objectives.

95. We believe that our recommendation of creating a fuel finder scheme will have a positive effect on competition in fuel retailing, for the reasons set out above. However, there are two significant reasons to consider that this alone may not be sufficient to deliver ongoing strong competition in the market in the longer-term.

96. First, the expected future path for this sector during the transition away from ICE vehicles points to worsening competition in the remaining fossil fuel-based road fuels market. This is likely to occur over an uncertain time period, and is likely to be felt particularly by less well-off consumers and by those living in local areas where competition is already more limited.

97. Second, while we believe it will have a positive effect on the market, the exact impact of our price transparency measures is also uncertain, being dependent

on speed of roll-out, take-up of the tools it would enable, and the impact of these tools on competition.

98. Given these factors, we believe that a monitoring function could have a positive impact on the sector in two ways.

99. First, it would act as a deterrent to individual firms taking actions that would further weaken competition in this market. Where firms are aware that they are under scrutiny, they will know that the reputational risk of raising margin targets or applying rocket and feather pricing will be increased. We note that the updates we have provided during this market study have been followed soon after by price cutting announcements, and/ or notable retail price falls. While this shows correlation rather than clear causation, it suggests to us that public scrutiny or monitoring may help reduce prices and so benefit consumers.

100. Second, it would allow for an ongoing assessment of the effectiveness of competition in this market, and whether we have reached the point where further intervention in the market is required, as the market becomes much smaller over time. In order to do this effectively, it is vital that policymakers, stakeholders and motorists have a clear view of what is happening in this market. Without a dedicated monitoring body, getting this clear view would not be straightforward; this study has illustrated the complexities of understanding competition in this market in recent years, which will only be amplified by the great changes the market will experience as we move through the net-zero transition.

101. It is important to note, however, that the monitoring function in itself would not solve the problems associated with long-term structural decline of the industry associated with the move away from ICE vehicles; this may require new policy and regulatory interventions. What a monitoring function would do, however, is help ensure that policymakers and regulators can consider the case for such interventions in a timely and informed manner, as issues develop.

102. Finally, we also note that monitoring functions exist and play a valuable role in a number of other jurisdictions around the world, often run by counterpart agencies of the CMA. For example, the Australian Competition and Consumer Commission monitors retail prices of unleaded petrol, diesel and LPG in Australian capital cities and in more than 190 regional locations. They produce quarterly reports monitoring prices, costs and profits related to the supply of petroleum products, as well as providing consumers with accessible information on price trends and patterns in Australia's larger cities. The German Market Transparency Unit for Fuels, sitting within the Bundeskartellamt, also provides an annual report on the road fuel market.

Remedies we are not proposing to take forward at this stage

103. Beyond the price transparency and monitoring remedies set out above, we have considered a range of other remedies, which we are not proposing to take forward at this stage.

104. We considered whether measures to make it easier for new retailers to enter the market, or for existing retailers to open new PFSs, would help address the concerns we have identified. While we did hear that there are barriers to opening new PFSs, in particular the availability of suitable land with potential for building new sites, we note that the expected decline in demand for petrol and diesel in the coming decades would in any case seriously limit the incentive to open new PFSs. We therefore do not believe that such measures to remove barriers to creating new PFSs would have a significant impact on the number of PFSs, and therefore on the concerns we have set out about the market.

105. We also considered whether acting to directly control prices or margins would be an effective and proportionate way of addressing the concerns we have in this market. Having considered various options, however, we do not believe it would be feasible to do this in a way that would be likely to improve overall outcomes for consumers, and doing so could in fact risk worsening them. A price regulator would need to estimate competitive price levels for thousands of individual PFSs with varying cost bases and sales volumes, applied to products with widely varying wholesale costs over time. Any price set may be unsustainably low for some areas, leading to withdrawal from the market and the creation of fuel deserts; gains for consumers on price could therefore be wiped out by the cost and inconvenience of having to travel further to buy fuel. At the same time, the price could be higher than the current competitive price in some other areas, potentially providing a new, higher benchmark for local retailers to price up to; consumers in these areas would then be paying more. We would expect these effects to ratchet down the level of competition remaining in the market over time, leading to regulated prices having to be priced higher and higher to maintain sufficient supply in the market. Given that there are still clear competitive pressures existing in this market, and the potential for these to be enhanced further by the measures we are proposing, we do not believe it would be appropriate to pursue this type of remedy at this stage.

106. Finally, we considered whether there were options to fundamentally change the structure of the industry that could effectively and proportionately address the concerns we have observed, for instance by creating regulated monopolies on a franchised basis or publicly-owned retailers in areas of lower competitive intensity. While these options would allow for greater visibility of

costs to policymakers and regulators, and so aid with price-setting, this would come at an even greater cost to the market pressure for cost reduction that comes from market competition. There would also be significant cost involved in making the transition to any such new structure. As a result, there is again a significant risk that this would result in consumers in general paying more than they would without this intervention. Again, we do not believe it would be appropriate to pursue this type of intervention at this stage.

107. Our decision to reject price or margin controls and fundamental structural reform of the industry is essentially based on cost-benefit considerations; while road fuel retailing has become less competitive, we do not think that this has progressed to the point where the expected benefit to consumers of taking one of these more interventionist approaches outweighs the expected costs to consumers of doing so. As the industry adapts in response to the expected decline in demand for road fuel in the coming years and decades, however, this calculus may shift. An important element of the monitoring function we are proposing is to provide accurate information to allow policymakers to determine whether this is the case.

Wholesale and refining sectors

108. Beyond the retail sector, we have also considered the two other major parts of the domestic supply chain:

- The wholesale sector, which involves the selling of refined product to retailers; and
- The refining sector, which involves the transformation of crude oil into refined petrol, diesel, and other petroleum products.

109. In the wholesale sector, taking into account all the evidence, including from wholesale suppliers, retailers and our analysis of margins, we do not consider that there are any general deficiencies in the competitive dynamics of this market that require remedial action. We have, however, raised some concerns about the way the biofuels benchmark is used in the industry, which may be adding additional costs for consumers. We also share some findings in relation to wholesale pricing benchmarks.

110. In relation to the UK refining sector we said in our initial update report that despite the spike in refining margins we had seen in 2022, we did not think that UK motorists had faced negative outcomes arising from deficiencies in competition. We also found that, looking at the period since 2020, UK refiners had not made high profits, as low or negative margins during the initial period

of the Covid pandemic effectively cancelled out the high margins caused by the Russian invasion of Ukraine.

111. Since our initial update report we have not received any representations from parties wishing to challenge our reasoning, nor have we become aware of any relevant information that would make us change our view. As noted above refining spreads have remained at more normal levels, apart from the spike in October/November 2022. We therefore remain of the view that there are no deficiencies in competition in the UK refining market that are leading to unnecessary costs for consumers.

Next Steps

112. If implemented, we believe that our proposed remedies will work to both improve the functioning of the road fuel retail market and guard against negative consequences arising from the repetition of some of the problems we have recently seen in the market and the emergence of new pressures as we move through the net-zero transition.

113. We will therefore engage with policymakers to explain our findings and recommendations, encourage the UK government to accept them and, if it does so, work with government to develop the most effective policy approach to empower motorists to get the best possible deals, and protect them from any ongoing or emerging deficiencies in the functioning of this market.