
STATES OF JERSEY



REVIEW INTO FUEL PRICES IN JERSEY 2022

Presented to the States on 4th October 2022
by the Minister for Economic Development, Tourism, Sport and Culture

STATES GREFFE

REPORT

Summary

- This review was conducted in response to Ministers questioning the competitive nature of the fuel market. This quick review provides a summary of the Jersey fuel market, and also considers what impact a 2.5ppl reduction in fuel duty would have.
- Price differences between fuel stations in Jersey are significant – a customer switching from a fuel station charging higher prices to one charging lower prices could save over £10 per refill. That said, many fuel stations operate discount schemes and so the actual price faced by customers may be lower than the advertised price.
- It is unclear why such significant price differences persist. Lack of awareness about price differences may be part of the explanation – but this doesn't explain why fuel stations next to each other charge different prices. Other reasons might include customer loyalty (perhaps driven by discount schemes) and other benefits offered by some fuel stations. This suggests that factors other than just price influence which fuel station consumers use.
- Pump prices faced by consumers in the UK and Jersey are similar, with UK taxes representing a greater proportion of price; and transport costs in Jersey representing a greater proportion. It is difficult to determine retailers' profits as each company will have different operating costs, but there is no evidence that profits are excessive; particularly at the cheaper end of the market. However, this might require further investigation.
- Most cars in Jersey require fuel (over 99%) and many residents drive to work meaning fuel prices are important in Islanders' budgets
- In March, the UK cut fuel duty by 5ppl which generally seems to have been passed on, however, competition between fuel stations in the UK is higher. It is possible that any cut in Jersey would not entirely be passed on.
- Petrol prices are subject to oil prices which are priced in Dollars, changes in the exchange rate will also impact on pump prices, alongside the global oil price.
- We estimate that a 2.5ppl fuel duty cut would save a car user £1-£2 per month

Background

1. At the request of the Council of Ministers, we have conducted a review of fuel prices in Jersey. This includes comparisons to the UK, and assessment of historical changes in price. Also included is a short assessment of the impact a 2.5 pence per litre reduction in fuel duty would have on both the fuel market and consumers.
2. Given this is a high-level review, it does not have a direct focus on infrastructure, including La Colette storage facilities, levels of competition in the Jersey fuel market, or a cost-benefit analysis of policy options. It also does not analyse environmental issues relating to the road fuel market.

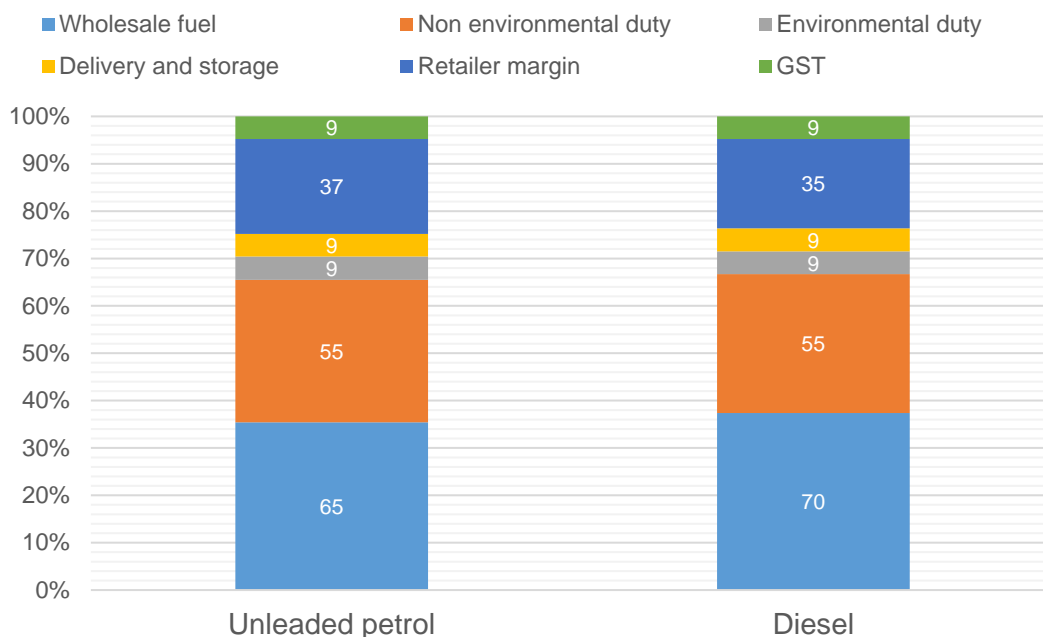
3. Understandably, there is a considerable amount of commercial sensitivity surrounding data on the fuel market. This has hindered our ability to collect all the data we would have liked to use and has meant that some analysis has been limited to using information that is publicly available.
4. This note is structured with Section I considering fuel prices and their make-up in Jersey, Section II considering household expenditure, Section III considering competition in the market and the final section, Section IV, considering a brief overview of policy options.

Section I – Fuel prices

Market make-up and break-down of prices

5. There are currently 27 retail forecourts on the island, this is down from a figure of 34 in 2011 and 38 in 2001¹. Jersey has 2.4 times as many retail forecourts as the UK per head of population, down from 2.6 in 2011.
6. The wholesale oil price is the largest singular contributor to the price of petrol (35%) and diesel (37%). Included in this are the crude oil price, the cost of refining the crude oil, and the profit which the refineries take (the refinery spread). About 40% of Jersey pump prices are made up of taxes (GST and fuel duty) although this varies by fuel station. Fuel duty is currently set at just under 64ppl of which 9ppl is hypothecated to the Climate Emergency Fund and GST is charged at 5% on petrol. There is less information available on the costs for delivery and distribution and therefore they have been estimated and include the transport from the refinery to the port, sea transport, storage at La Collette Terminal fuel farm, and distribution by road on island. The retail margin is also estimated as the difference between estimated product price (including all costs) and the retail price. There are also likely to be further costs included in this, such as operating the retail site itself.
7. Figure 1 shows the breakdown of the average pump price, on 10 August 2022, for the road fuel companies in Jersey that import their fuel through La Collette Terminal (numbers in ppl). The vast majority of fuel companies import their fuel through La Collette with only one importing their own.

¹ [JCRA 2011 Report on fuel market \(page 23\)](#)

Figure 1 – Breakdown of the average pump prices in Jersey, 10 August 2022

Source: Jersey Consumer Council and Economics Unit estimates

8. There is a significant and surprising range of petrol prices in Jersey. As of the 10 August 2022, the difference between the cheapest and most expensive fuel station (not including discounts) was 26 pence per litre (ppl) for unleaded petrol, and 22 ppl for diesel (see Figure 2 below). This means that a motorist filling up a 50-litre car with unleaded petrol could save up to £13 by using the cheapest forecourt instead of the most expensive, a saving of just under 15%. From geographic analysis, the price difference between the most and least expensive stations represents driving time of around 7 minutes. There can be a 10ppl price difference between neighbouring forecourts.
9. This suggests that price is not the only factor driving consumer's choice of fuel provider.

Figure 2 – petrol pump prices in Jersey, 10th August 2022,

ppl	Unleaded Petrol	Diesel
Lowest	170.9	175.9
Average	181.7	186.4
Highest	196.9	197.9

Source: <https://pricecomparison.je/Fuel.aspx>, collected by Jersey Consumer Council (JCC)

10. Jersey has a particularly high number of discount schemes for fuel. These range from 4 or 10ppl on a loyalty card for future redemption, to 10ppl off when shopping with that company. This therefore means that actual prices paid by

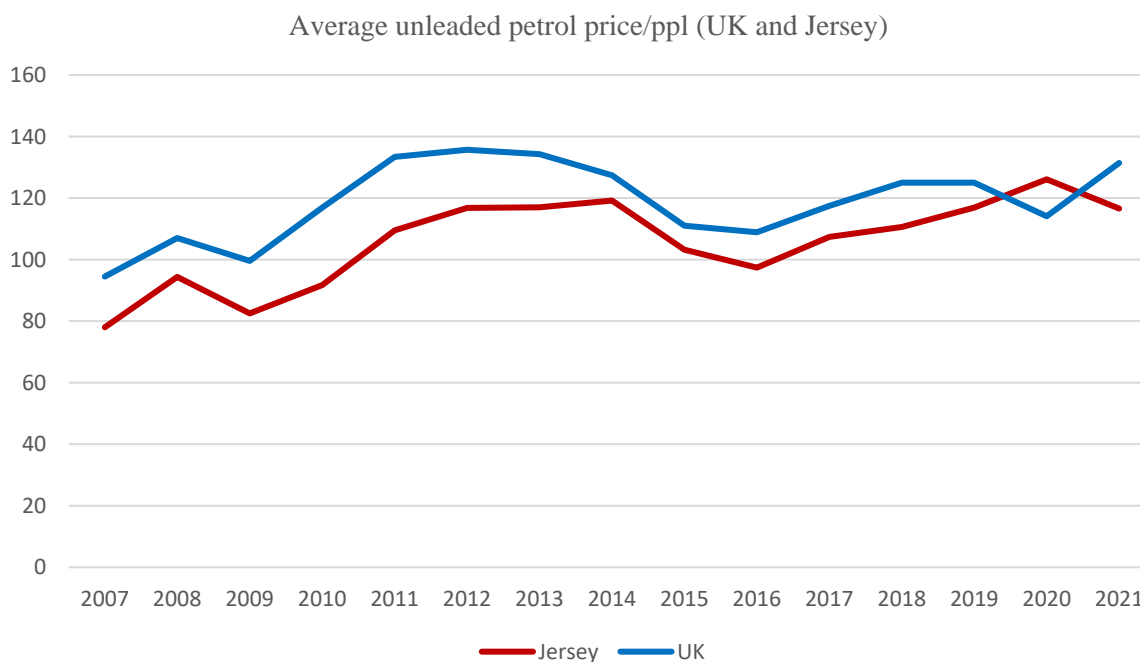
consumers may differ significantly from advertised prices. It can also lead to a degree of brand loyalty not seen to the same extent in other jurisdictions.

11. This is not entirely explained by lack of information as petrol stations are legally required to display the pump price at the roadside. Regardless, the Jersey Consumer Council report fuel prices for each different forecourt on their website, (pricecomparison.je) and update this every two weeks to help consumers reduce any information gaps in the fuel market.

Comparison between the UK and Jersey Pump Prices

12. Historically Jersey has had similar, although slightly lower average petrol prices than the UK, as shown in Figure 3, predominately due to the higher level of tax in the UK. However, in recent years, the prices have converged and currently the UK has a slightly lower average pump price for unleaded petrol than Jersey, and the same average price for diesel at time of reporting (10th August 2022).

Figure 3 – Annual average petrol pump prices in the UK and Jersey



Source: Department for Business, Energy & Industrial Strategy, UK and Jersey Consumer Council

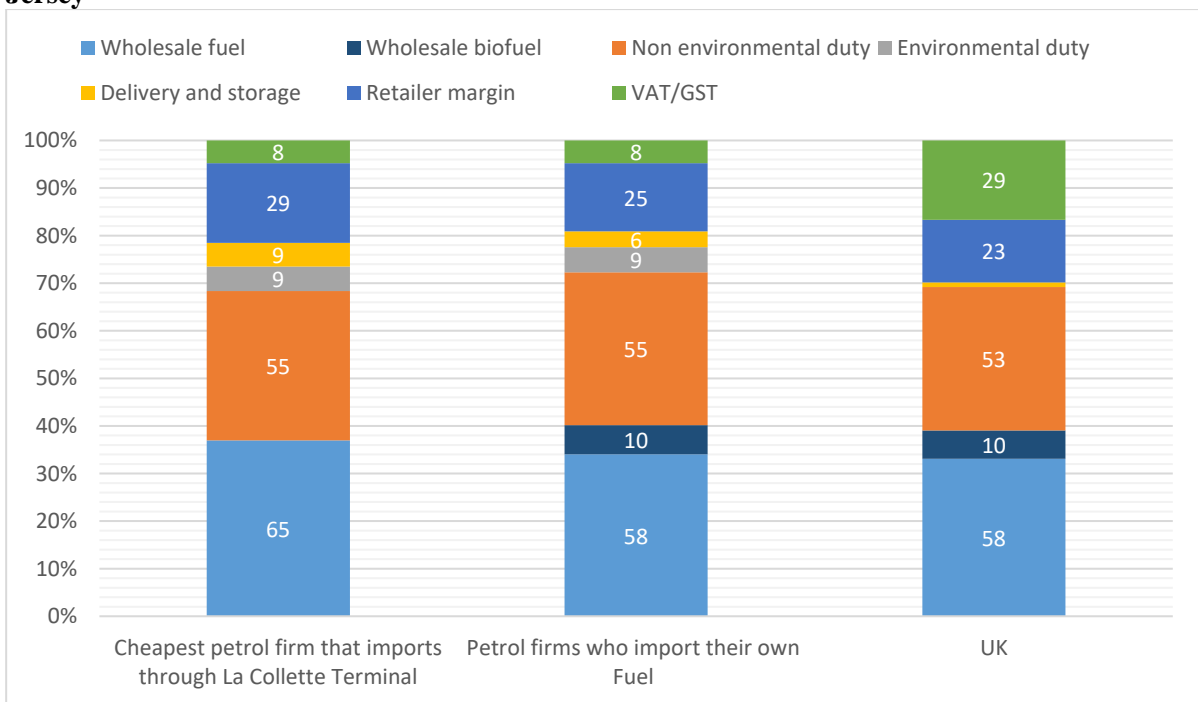
13. Set out below are the major factors that impact the difference in fuel pump prices between Jersey and the UK:
- GST in Jersey is charged at 5% on petrol whereas VAT in the UK is charged at 20%.
 - However, Jersey has a higher fuel duty at 64ppl compared to the UK's rate of 53ppl. Fuel duty in Jersey was lower than in the UK until the start of 2022 when Jersey committed to a rise of 5ppl

- Transport contributes around 1% of the price of the petrol in the UK as reported by the RAC Foundation. In Jersey, transport and storage contributes around estimated 5% of the total price for petrol firms including the costs for storing at La Colette.
- There are also differences in fuel make-up between the UK and Jersey. The standard grade unleaded petrol available in the UK is E10 and for diesel it is B7, these fuels are made up of 10% of biofuel content and 90% wholesale petrol. Jersey does not have a standard grade for petrol so most petrol stations in Jersey sell pure petroleum and sometimes E5 petrol as well. This means the product price of fuel in Jersey tends to be slightly cheaper as the additional, more expensive biofuel product is not included in the majority of Jersey fuel.

14. The retailer margin may be slightly higher in Jersey, but it is difficult to determine the actual level due to commercial sensitivity of data. There may also be differences in forecourt costs such as staff used due to a higher cost of living, however, this is difficult to estimate.

15. Figure 4 shows a breakdown of the average price (10th of August 2022) of unleaded petrol in the UK, as well as estimates of the breakdown of pump prices at two types of petrol firm in Jersey.

Figure 4 – breakdown of average price of unleaded petrol in the UK⁷ and in Jersey



Source: RAC foundation, Jersey Consumer Council and Economics Unit estimates

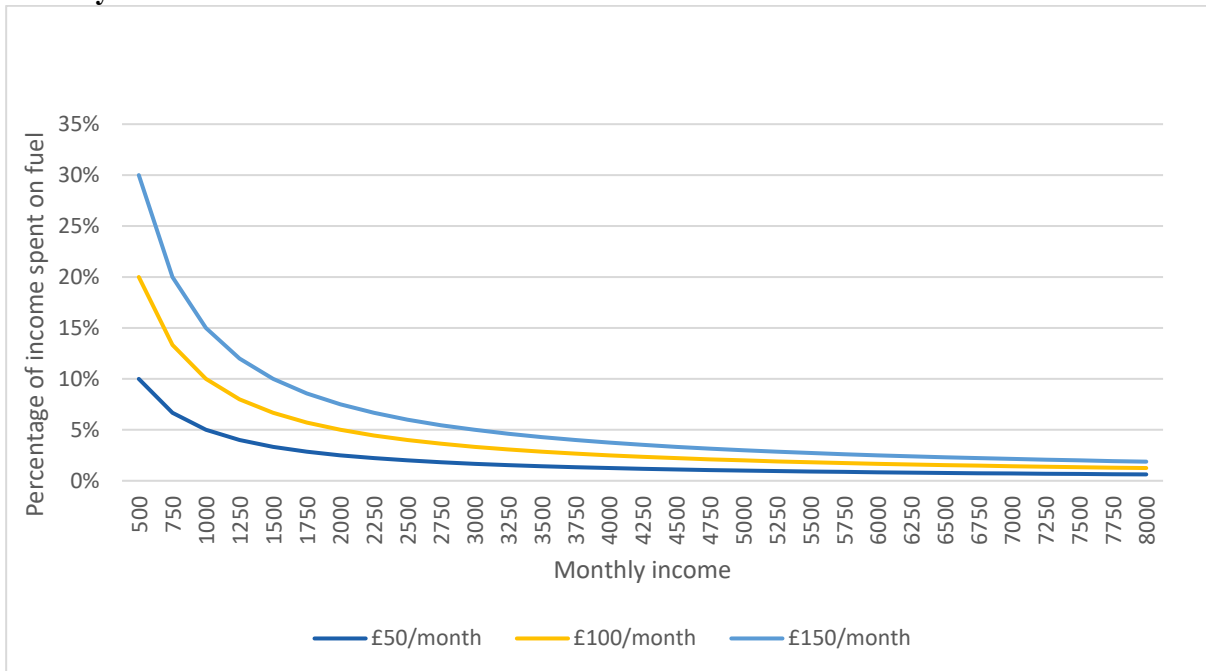
Section II – Household spending on fuel

Distributional analysis of fuel spending

16. This next section focusses on spending by Islanders on fuel. Currently, the large majority of residents use cars with an Internal Combustion Engine (less than 1% of cars on Jersey are fully electric) Likewise, the proportion of individuals who use cars as a main form of transport to get to work is high. From the 2021 census data², 75% of those who lived in rural parishes (excludes St Helier, St Saviour and St Clement), and worked in St Helier, travelled to work by car. In Jersey, only 16% of households did not have a car or van (lower than the 21% in England). While the size of the island is only 9-by-5 miles, lending itself to local drivers driving shorter distances than those in the UK, a higher proportion of the population drive.
17. It is difficult to assess the proportion of a person's income spent on fuel as the most recent data was collected in 2014/15. That data includes 'other motor oils' alongside petrol and diesel so is not a perfect model for expenditure on petrol and diesel. Based on uprating for inflation from the 2014/15 Household Spending Survey, estimated that the average household spends between £80 and £120 per month on 'petrol, diesel and other motor oils'.
18. Figure 5 provides an illustrative depiction for what proportion of someone's income is spent on fuel given their monthly earnings. This is using lower, middle and upper estimates of monthly fuel expenditure of £50, £100 and £150 respectively. This is for illustrative purposes and demonstrates how lower income groups spend a significantly larger proportion of their monthly income on fuel given the same usage than higher income groups using hypothetical figures.
19. The cost of fuel also impacts other parts of the economy. For example, shops and businesses use fuel to transport goods for people to buy and more expensive can result in higher consumer prices.

²<https://www.gov.je/Government/Census/pages/census2021results.aspx>

Figure 5 – Sourced from mathematical calculations of what proportion of the monthly income on is the fuel level



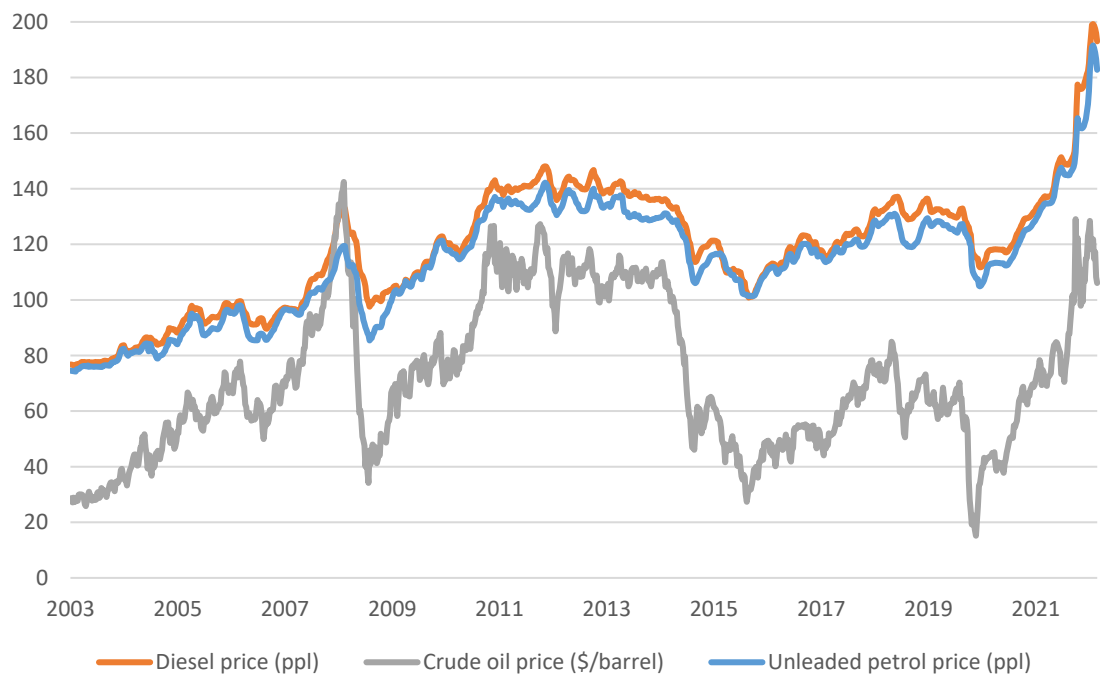
Source: Economics Unit calculations

Section III – Competition in the market

Relationship between oil prices and petrol prices

20. The price of wholesale petrol is the biggest singular contributor to the price of petrol and diesel. This means that the price of crude oil, refinery costs, dollar-pound exchange rate, and the refinery spread have a big impact on the retail price of petrol. Figure 6 shows the correlation between UK diesel and unleaded petrol prices (ppl) and the price of crude oil (\$/barrel). This shows that while fuel prices are less volatile than crude oil prices, they generally follow the same trend whilst a general upwards trend due to inflation of non-oil factors.

Figure 6 - UK diesel and unleaded petrol prices (ppl) and the price of crude oil



(\$/barrel)

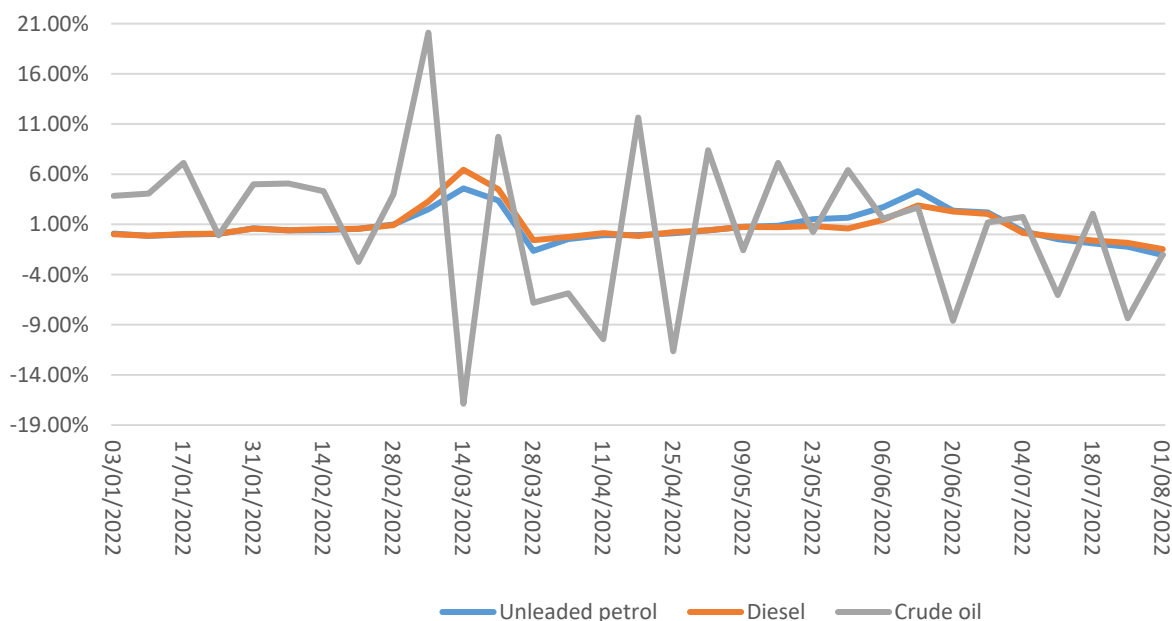
Source: *Investing.com and Department for Business, Energy and Industrial Strategy, UK*

21. The price consumers pay for petrol at the pump may not respond immediately to a change in crude oil prices. Existing stocks of fuel at forecourts, bought at a previous and different wholesale price, mean that petrol companies may not respond immediately to changes in crude oil price. This time lag is likely to be even longer for Jersey as the majority of fuel stations store fuel at La Collette Terminal.

22. It should also be noted that alongside crude oil prices, the price of petrol is also influenced by the exchange rate. The oil markets operate in dollars and as such payments are made in that currency. As such whilst crude oil will go up and down subject to its own market conditions, the price that UK customers will actually pay will also be dependent on the exchange rate at any given point. The recent decrease in the value of Sterling (September 2022) will mean that oil purchases will be more expensive and despite a reduction in the global oil price,

will keep prices for oil and subsequently petrol higher than they might otherwise have been.

Figure 7 - the percentage change in price from the previous week for UK unleaded petrol and diesel, and crude oil in 2022



Source: Investing.com and Department for Business, Energy and Industrial Strategy, UK

JCRA review

23. The Jersey Competition Regulatory Authority (previously CICRA) published a review of the fuel market in Jersey in November of 2015³. It included a review on road fuel, storage facilities at La Collette and fuel supply/imports in Jersey. The review did not find evidence of excessive profit margins and found that *'price ranges provided indicative evidence of appropriate protection and consumer choice'*. On Island, distribution was found to have inherent additional costs in supplying through a small terminal with the lack of economies of scale, a limited customer base and high local labour and land costs. Specifications for road tankers used in Jersey are also non-standard; they are narrower than those allowed on UK roads again adding to the cost base. The gross margins and return on capital for La Collette Terminal Ltd were not found to be unreasonable.
24. There was a prior study in 2011 which looked at the road fuel market. This review had two aims: (1) *To compare the costs of road fuel in the UK with the costs of road fuel in Jersey and explain the differences to a satisfactory degree; and (2) to assess whether there are indications that competition is not effective in Jersey, which will be reflected in comparatively high net margins.* From this study came the recommendation for forecourts to display their prices.

³ [JCRA 2015 Fuel Market Review - summary of findings - see 'Road Fuel' sections](#)

UK CMA road fuel review

25. The Competition and Markets Authority in the UK was asked to review ‘*the extent to which competition has resulted in the fuel duty cut being passed on to consumers*’ as part of their study’. It is worth noting that UK and Jersey prices have tended to be historically similar and tend to rise and fall in tandem as explained in Section I.
26. The CMA found the principal drivers of rising pump prices since the start of 2022 were crude oil prices and a growing ‘refinery spread’. The dollar-terms increase in oil prices over the last year accounts for around a third of the rise in road fuel prices (20p per litre). Whilst the fall in the value of sterling in that period added a further 12% (7p per litre). An increase in the refinery spread accounted for just over 40% of the growth in road fuel prices (24p per litre). The refinery spread is the gap between the price of the crude oil entering the refineries and the price of refined petrol leaving them and likely applies equally to Jersey.
27. The study also found that the gap between wholesale prices and retail prices (the ‘retailer spread’) had not been a significant contributor to the overall rise in pump prices.
28. Their review also found that when the 5p reduction in fuel duty was made in the UK, supermarkets cut pump prices by just over 5p immediately, likely incurring a cost due to the fuel in their tanks being purchased at the higher duty rate. Other retailers also cut their prices, albeit by a smaller amount and therefore the pass-through rate cut depended on forecourt.⁴

Section IV – Policy approaches

International approaches

29. Governments across the world have taken different approaches to mitigate the impact of higher fuel prices. These have different benefits and costs but a cost-benefit analysis is out-of-scope for this report.

Figure 8 – Different measures for mitigating higher fuel prices by jurisdiction

Country	Measure
UK	Cut fuel duty by 5ppl
Spain and France	Rebates to retailers
Germany	Discounted rail travel
Australia	Monitoring of prices and pass-through of fuel excise cuts
New Zealand	Half price public transport
Singapore	Relief payments to taxi drivers
Peru	Fuel duty suspended

⁴ <https://www.gov.uk/government/publications/road-fuel-review/road-fuel-review>

Assessment of removing 2.5ppl on fuel duty

30. A recent petition, set to be debated by the States Assembly, proposes an immediate 2.5ppl drop in fuel duty as a temporary measure to reduce the impacts of fuel duty.
31. The petition also lays out a proposal to cut fuel duty by 3ppl for fuel suppliers using biofuels to assist with progress towards carbon neutrality. This is outside the scope of this report.
32. A 2.5ppl reduction in fuel duty would have the benefit of being targeted towards a product which has seen considerable price increases over the past year. However, for the average car owner, a 2.5ppl reduction in fuel duty could save them £1-2 per month.
33. One argument the petition lays out is that a 2.5ppl reduction in fuel duty would cancel out part of the windfall the Government is currently receiving on GST receipts due to 5% of a higher fuel price being a larger figure.
34. A 2.5ppl reduction in fuel duty would benefit all those that buy fuel regardless of income. As such it would not be particularly targeted towards consumers most affected by the wider cost of living increases.
35. It is worth noting that a 2.5ppl duty cut may not be passed on by all forecourts and would be dwarfed by the difference households could save by changing the forecourt where they buy their fuel. The difference in prices between forecourts is consistently more than 20ppl (before discount schemes are considered). This provides people with the opportunity to look around for cheaper fuel rather than simply going to their regular forecourt without the need for government intervention.
36. Finally, reducing duty on fuel goes directly against the government's 'Carbon Neutral Roadmap'. The transition to net zero will require a reduction in fuel derived from fossil fuels which is consistent with the government policy to introduce additional hypothecated levies. Reducing fuel prices may increase fuel demand, contrary to government policy.
37. Reducing fuel duty by 2.5 ppl would have a minimal impact on inflation. All else equal with perfect pass-through, the policy would reduce inflation by less than 0.1% over the next year, and would increase inflation by the same amount when the fuel duty reduction ends.
38. Therefore, it appears that there may be alternative policies to cutting fuel duty by 2.5ppl which are more targeted and represent better value for money for government.
39. Alternative policies for consideration: NB (these have not been assessed for impact)
 - a. Means tested fuel vouchers
 - b. Discounted/free bus travel
 - c. Price caps on fuel