



**The Consumer Council**

**Consumer Council Brief on the Office of Fair Trading  
Call for Information on the UK Petrol and Diesel Sector**

**October 2012**

## Introduction

The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to make the consumer voice heard and make it count.

We have a statutory remit to *promote and safeguard the interests* of consumers in NI and we have specific functions in relation to energy, water, transport and food<sup>1</sup>. These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers<sup>2</sup>.

The Consumer Council is also a designated body for the purposes of supercomplaints<sup>3</sup>, which means that we can refer any consumer affairs goods and services issue to the Office of Fair Trading<sup>4</sup>, where we feel that the market may be harming consumers' best interests.

In taking forward our broad statutory remit we are informed by and representative of consumers in NI. We work to bring about change to benefit consumers by making their voice heard and making it count. To represent consumers in the best way we can, we listen to them and produce robust evidence to put their priorities at the heart of all we do.

The Consumer Council welcomes the opportunity to respond to the Office of Fair Trading (OFT) call for information on the UK petrol and diesel sector. This paper sets out the Consumer Council's position on what outcomes the OFT call for information should provide for Northern Ireland's consumers and presents the findings of our online survey which sought to capture the experiences of consumers in relation to petrol and diesel prices in Northern Ireland.

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<sup>1</sup> The Consumer Council undertakes its specific functions in relation to food recognising the role of the Food Standards Agency (FSA). The FSA has responsibility for the development of food policy and for the provision of advice, information and assistance, in respect to food safety or other interests of consumers in relation to food. Therefore, to ensure good value and use of public money, the Consumer Council and FSA have a memorandum of understanding and the Council's strategic focus on food is primarily in relation to food prices and customer experience.

<sup>2</sup> The General Consumer Council (Northern Ireland) Order 1984, 1984 No. 1822 (N.I. 12), <http://www.legislation.gov.uk/nisi/1984/1822/contents>

<sup>3</sup> The Enterprise Act 2002 (Part 9 Restrictions on Disclosure of Information) (Amendment and Specification) <http://www.legislation.gov.uk/ukxi/2003/1400/schedules/made>

<sup>4</sup> The OFT is the UK's consumer and competition authority. Its mission is to make markets work well for consumers. It is a non-ministerial government department established by statute in 1973 <http://oft.gov.uk/about-the-oft/>

## Background

When OFT issued its call for information in September 2012 the Consumer Council requested that the OFT consider four key areas in its review:

**1. Why do Northern Ireland consumers consistently pay more for their petrol and diesel compared to other UK regions?**

The AA Monthly Fuel Reports show that Northern Ireland had the highest costs for petrol, diesel or both during the whole of 2011 and most of 2012. Our own fuel monitoring figures show that on average between July 2011 and June 2012 we paid 1 pence per litre (ppl) more for petrol and 0.6ppl more for diesel than the UK average price. This is a relatively small difference; however, we still need to know why Northern Ireland prices are consistently higher.

**2. Why do supermarket fuel retailers continue to engage in regional pricing?**

Our monitoring figures have shown that consumers can pay up to 6ppl more for their fuel depending on which forecourt they fill up at, despite them being the same supermarket. We have written to the three supermarket retailers<sup>5</sup> but do not feel we have received substantive responses to explain this activity.

**3. The OFT review must consider the issue of consumers travelling south of the border to fill up with cheaper petrol or diesel**

This is an issue that is unique to Northern Ireland and one that could lead to consumer detriment if petrol stations in border regions cannot compete with cheaper fuel in the Republic of Ireland which could lead to closures and reduced availability for consumers. In response to our online fuel survey (further details below) one consumer told us the following:

*I have a private car which I put £70 of diesel into a week and a company van which I would put £100 of diesel into a week. The point that I would like to make is that I buy absolutely none of this fuel in NI. I buy all across the border which saves me about 10-12p a litre. If you count all the people that do this it must work into billions. Why does the government not reduce duty in NI and it would bring in more revenue as nobody would need to go to the ROI (Republic of Ireland) to buy fuel at a lower price.*

<sup>5</sup> Tesco, Sainsbury and ASDA

**4. Will the review seek to understand the disproportionate dependence of NI consumers in rural areas on petrol and diesel and the impact this has?**

Northern Ireland has the highest rural population when compared to the other UK regions (35 per cent compared to the 12 per cent UK average). Limited public transport provision in rural areas further heightens dependence on car use for NI rural dwellers.

The OFT report on price and choice in remote communities found that consumers felt fuel prices were not sufficiently transparent and that *'respondents said they did not understand how road fuel prices were built up or why there was such a wide price-differential between pump prices in remote areas and more urban areas.'*

In addition to these main points we also made the following recommendations:

- **OFT must ensure that the review will actively address the specific issues relevant to NI consumers.**

We wrote to the OFT to highlight the specific issues relevant to NI consumers outlined above and to ask that these issues are given adequate consideration within a UK report.

- **OFT must ensure that the review will address prices across the whole supply chain.**

The OFT has stated in its project documentation that it 'will be engaging with market participants at each stage of the supply chain'. However, the call for information relates specifically to the UK petrol and diesel fuels sector.

Forecourt pump prices are influenced by a number of factors including the price of crude oil, the cost to produce (refine) petrol and diesel from crude oil, Government duty and taxes, transportation costs, exchange rates, demand and competition.

Based on the average pump price September 2012, fuel duty and VAT make up 58.5 per cent of the cost; the product represented 37.8 per cent, with the remaining 3.7 per cent of the cost representing the retailers' margin (which includes the cost of transport and filling station operating costs)<sup>6</sup>.

The OFT has stated that the level of Government taxation will not form part of the review, however, the OFT should seek to understand all of the other factors that influence the final price that consumers pay. If the OFT is unable to obtain clarity across the whole supply chain then it must seek information/action from other relevant institutions to ensure that as much clarity as possible is sought on what makes up the price of a litre of petrol or diesel.

### **Fuel Survey Summary Report**

In addition to these key points the Consumer Council are keen to ensure that consumers have the opportunity to give voice to the issues they experience in relation to petrol and diesel prices in Northern Ireland.

To achieve this the Consumer Council launched its Fuel Survey to learn more about Northern Ireland consumers' experiences of petrol and diesel prices. The survey ran from the 12 September to 23 September and a total of 1739 responses were received.

The survey was conducted online<sup>7</sup>, however, in order to ensure accessibility for all consumers, there was also an opportunity to complete the questionnaire by telephone.

In addition to responding to the survey questions, some consumers actively contacted the Consumer Council to make specific comments. Where appropriate, these comments have been included in the relevant sections of this report.

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<sup>6</sup> AA Monthly Fuel Price Reports / PetrolPrices.com

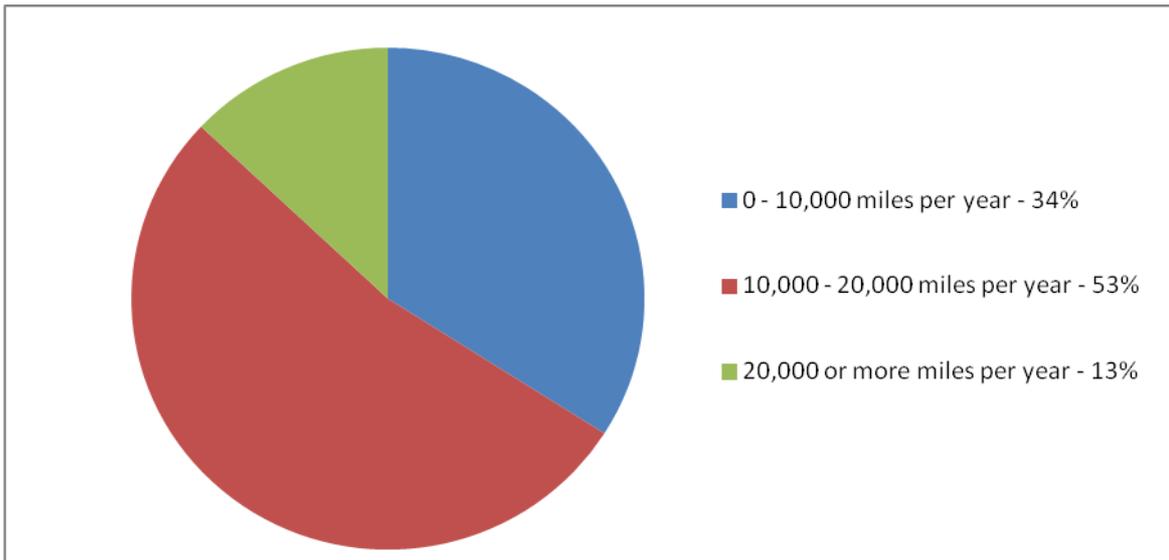
<sup>7</sup> As the survey was conducted online, it was not possible to ensure respondents represented an accurate sample of the Northern Ireland population. The survey was conducted to capture a "snapshot" of public experience of petrol and diesel process in Northern Ireland and the findings cannot be guaranteed to be representative of the Northern Ireland population.

## Key findings

### Miles travelled per year

99 per cent of respondents drive a vehicle at least once a month and 66 per cent of respondents drive 10,000 miles or more per year.

**Figure 1.1: How many miles do you drive each year?**

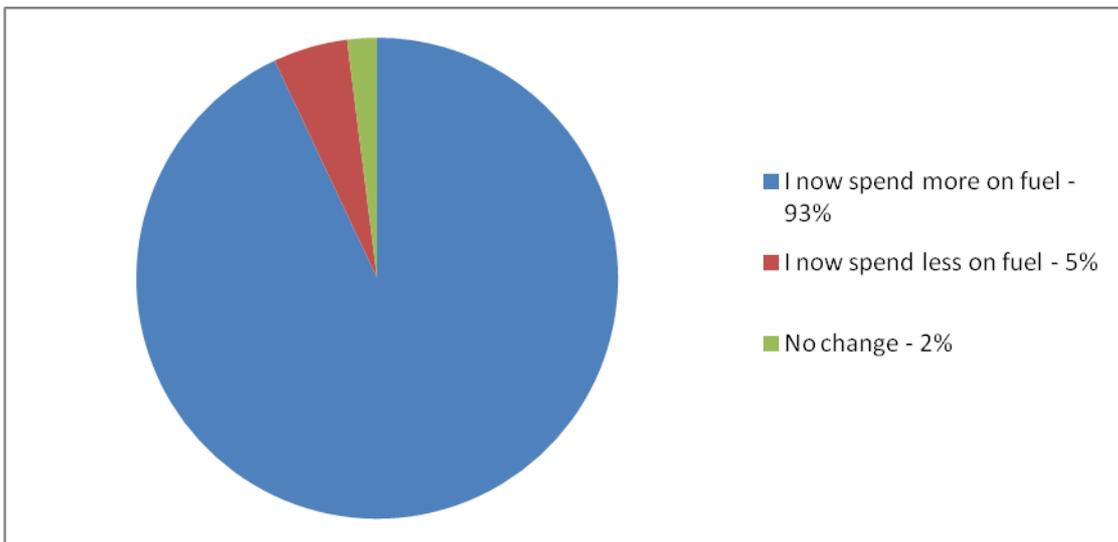


When this is broken down according to rural or urban area, the figures show that 79 per cent of respondents living in a rural area drive 10,000 miles or more per year, compared with 56 per cent of respondents living in an urban area. The higher number of miles per year for respondents living in a rural area is demonstrated again when the figures are further broken down for respondents who drive 20,000 miles or more per year. 19 per cent of respondents living in a rural area drive 20,000 miles or more per year compared with 8 per cent of respondents living in an urban area.

## Cost of fuel

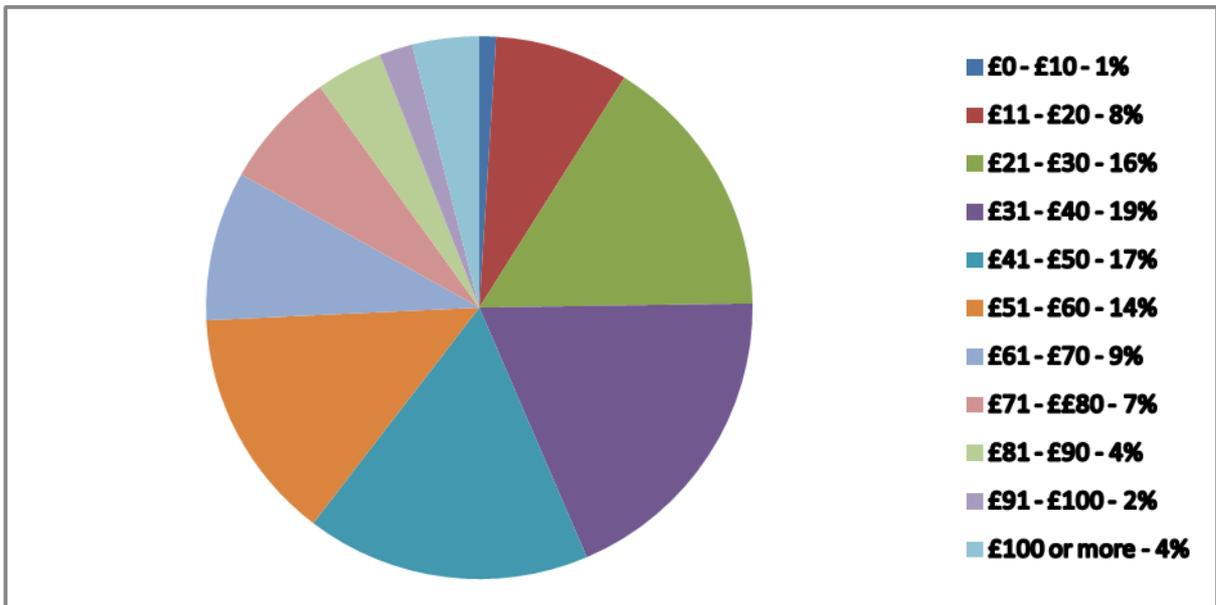
93 per cent of respondents spend more on fuel now than they did two years ago.

**Figure 1.2: Compared to two years ago, has the amount you spend on fuel changed?**



Overall 40 per cent of respondents spend more than £50 per week on fuel. When this is broken down according to rural or urban area, the figures show that 50 per cent of respondents living in a rural area spend more than £50 per week on fuel, compared with 30 per cent of respondents living in an urban area.

**Figure 1.3: On average how much do you spend each week on petrol / diesel?<sup>8</sup>**



If we break the figures down further we can see that 25 per cent of respondents living in a rural area spend more than £70 per week on fuel, compared to 11 per cent of respondents living in an urban area.

The average weekly wage in Northern Ireland is £360.00 gross<sup>9</sup>. From the results of the survey we can see that overall 40 per cent of respondents spend more than £50.00 per week on fuel costs<sup>10</sup>, this equates to more than 14 per cent of the average gross weekly income. If we look at the proportion of average weekly income that consumers are spending on fuel costs, we can see that consumers living in a rural area are potentially spending a higher percentage of their weekly income on fuel costs.

25 per cent of respondents living in a rural area spend 19 per cent or more (over £70) of the average weekly income on fuel costs compared to 11 per cent of respondents living in an urban area.

<sup>8</sup> Total does not add up to 100 per cent due to rounding

<sup>9</sup> Northern Ireland Statistics Agency Annual Survey on hours and earnings April 2011. Figure is for all employees, both full and part time.

<sup>10</sup> 40 per cent total reached by adding all responses in and above £41 - £50 bracket

## Vehicle use

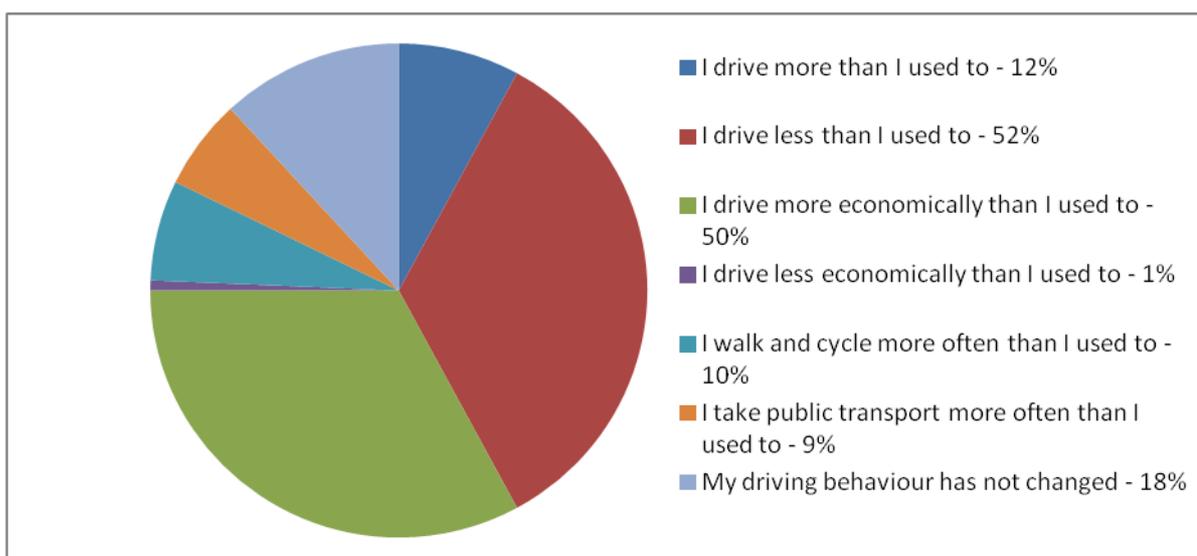
When respondents were asked what they use their vehicle for, the top three responses were; travelling to and from work (83 per cent), visiting family and friends (83 per cent) and shopping (80 per cent). This demonstrates that respondents rely heavily on their vehicle for key aspects of day to day life.

## Driving behaviour

When asked if and how their driving behaviour had changed in the last two years, only 18 per cent of respondents stated that their driving behaviour had not changed. Of the 82 per cent of respondents who had changed their behaviour in some way, the top two responses on how behaviour had changed were; driving less (52 per cent) and driving more economically (50 per cent).

However, despite the high percentage of respondents who now spend more on fuel than two years ago (93 per cent), and with over 50 per cent of respondents now driving less and driving more economically, only 9 per cent of respondents stated that they use public transport more often than they used to and only 10 per cent of respondents walk or cycle more than they used to.

**Figure 1.3: Compared to two years ago, has your driving behaviour changed?**<sup>11</sup>



<sup>11</sup> Percentages may total in excess of 100 per cent as consumers were able to select more than one answer.

Of the 10 per cent of respondents who walk or cycle more than they used to, the results show that respondents living in an urban area are almost twice as likely (12 per cent) to have increased the amount they walk or cycle than respondents in a rural area (7 per cent). This may be because respondents living in a rural area may not have amenities or services within walking or cycling distance from their home.

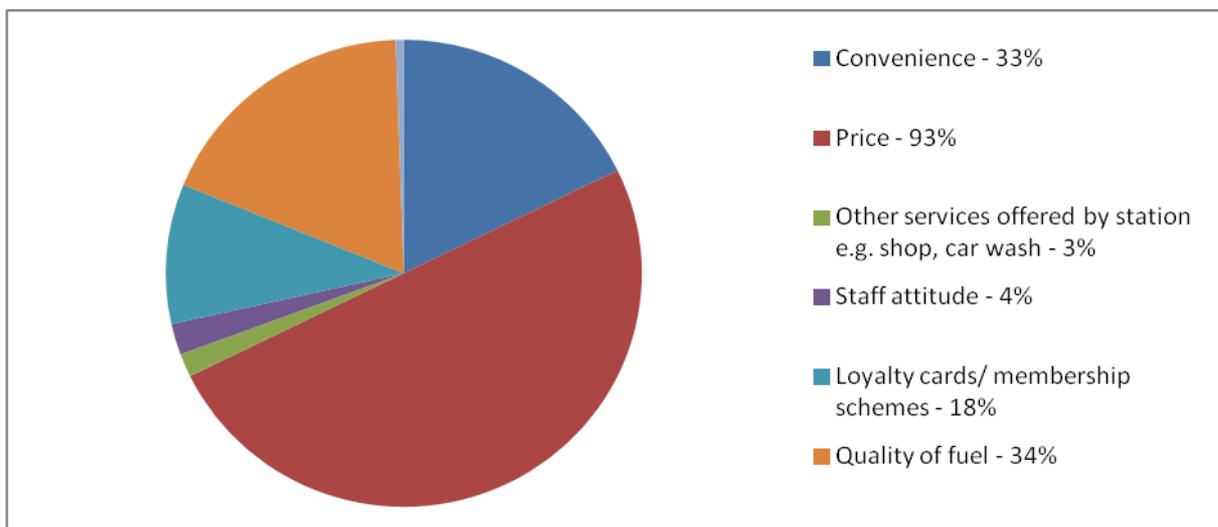
Of the respondents who use public transport more than they used to, only 6 per cent of respondents living in a rural area have increased their use of public transport, compared to 10 per cent of respondents living in an urban area. This may be because public transport services are more accessible in urban areas.

### **Purchasing fuel and shopping habits**

93 per cent of respondents stated they spend more on fuel than they did two years ago, despite over 50 per cent of respondents stating that they have changed their driving behaviour and now drive less and drive more economically.

When asked 'What are the key factors that influence you when you buy fuel?' the top three responses were price, quality of fuel and convenience. 93 per cent of respondents stated that price is a key factor when buying fuel.

**Figure 1.4: What are the key factors that influence you when buying fuel?<sup>12</sup>**



<sup>12</sup> Percentages may sum to in excess of 100 per cent as consumers were able to select more than one answer.

The Consumer Council recently conducted research into consumers' food shopping habits<sup>13</sup>. When asked how they had changed the way they shopped, ate or cooked in the last twelve months, 41 per cent of respondents answered that they now shop around for better prices. A higher percentage of respondents had changed their habits to economise in other ways for example, 72 per cent no longer make as many impulse buys and 61 per cent now buy fewer premium brands and more economy and supermarket own brands.

In the Fuel Costs Survey when consumers were asked if they shop around for fuel, 82 per cent of respondents stated that they do shop around for vehicle fuel. This high percentage may be explained by the limited options available for consumers who need to purchase fuel. Consumers cannot save money by switching to an economy brand of petrol or diesel and may not be able to significantly decrease the amount of fuel they need to purchase.

In the Consumer Councils progress report on consumer proficiency levels in 2012 'Canny Consumers'<sup>14</sup> the Consumer Council asked consumers if the economic downturn had influenced the way they shop.

The vast majority of respondents stated that they now make a greater effort to compare prices. This reflects the results shown in the Fuel Cost Survey with 82 per cent of respondents stating that they shop around for fuel and 93 per cent of respondents stating that price is a key factor when buying fuel.

When shopping around for fuel the most popular methods used were using word of mouth (41 per cent) and driving around to look for the lowest price (40 per cent) followed by use of a website (21 per cent).

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<sup>13</sup> Consumer Council Online Food Survey

<sup>14</sup> Canny Consumers? Are consumers standing up for their rights? August 2012

## **Price Transparency**

When asked what elements make up the price of petrol and diesel 91 per cent of respondents believe government tax and duty contributes most to the price of a litre of fuel. However, when asked about the level of understanding respondents have about why fuel prices go up or down 78 per cent of respondents stated they have limited or no understanding of why fuel prices increase or decrease.

This demonstrates that despite having an understanding of the factors that make up the price of fuel the vast majority feel they have little or no understanding of the reasons why fuel prices increase or decrease. This lack of clarity for consumers is likely to be a significant contributing factor to why fuel prices are such an emotive issue for consumers.

## **Impact on Rural Consumers**

The survey shows that the vast majority of respondents, both those living in rural and urban areas, (93 per cent) spend more on fuel now than they did two years ago.

However the survey also indicates that the price of fuel is potentially having a greater impact on consumers living in a rural area. The fuel survey shows that consumers living in a rural area travel more miles per year and spend more per week on fuel than consumers in urban areas.

The survey also shows that consumers in rural areas are less likely to have increased the amount they use public transport or the amount they walk or cycle in the last two years.

## Key points to be addressed by the OFT Call for Information

### Cost

**The Consumer Council is calling for the Office for Fair Trading to examine why fuel prices are so high in Northern Ireland.**

The Fuel Survey results show that respondents are potentially spending 14 per cent or more of the average weekly wage on fuel costs. This is an even more significant problem for consumers living in rural areas with 25 per cent of respondents spending more than £70 per week on fuel. This equates to 19 per cent or more of the average weekly wage in Northern Ireland.

These high costs also impact on the cost to local business as highlighted by the following comments received from one survey participant:

*I am keen to know if the Consumer Council are going to look into the implication of fuel prices on the "transport costs/courier costs" that fuel adds to companies in Northern Ireland.*

*In a time when government are encouraging entrepreneurship and business start-ups - fuel surcharges on deliveries, equipment, shipping etc make it excruciatingly difficult to encourage business growth. Currently it adds a further 20% to our end line product - making wholesale production impossible. As a small business we are not Vat registered - but we therefore must pay vat on all items we purchase.*

*Fuel surcharges by couriers further enhance the already extremely high fuel costs here in Northern Ireland.*

## Clarity

**The Consumer Council is asking the Office for Fair Trading to provide clear information for consumers about factors influencing changes in fuel prices.**

78 per cent of all respondents have limited or no understanding of why fuel prices increase or decrease demonstrating a real lack of clarity about the factors influencing fuel price changes and comments received from consumers illustrate the frustration this causes.

*In fuel pricing I have difficulty understanding why when the barrel price goes up the pump price immediately rises but when the price per barrel decreases the pump price rarely decreases.*

*The question has to be asked why do all petrol stations display prices that always end in .99p surely they all can't be this exact figure?*

*How come there is a huge disparity between diesel and petrol which seems to a fairly recent anomaly - could it be as we are using more diesel cars than a few years ago and it is a way to increase revenue?*

*How come the prices rise quickly in a rising world fuel market but do not drop as quickly and how come diesel is now 144.9p per litre which is higher than it was when the wholesale price of crude per barrel was a lot higher a few years ago - surely increases in government levies and vat cannot account for this.*

*The fuel companies don't be long in raising the price of fuel at the pump when crude goes up, but it never seems to come down again when the price of crude drops. These oil companies are making billions a year at the cost of Joe public.*

91 per cent of respondents believe that government tax and duty contributes most to the price of a litre of fuel and that retailers profits contribute least to the price of fuel. Consumers have the right to expect clear and transparent information about the factors affecting the price they pay for their fuel.

## **Impact on Rural Consumers**

**The Consumer Council is calling on the Office for Fair Trading to investigate the impact of fuel prices on Northern Ireland consumers living in rural areas.**

The fuel survey indicates that the price of fuel is potentially having a greater impact on consumers living in a rural area. The survey shows that consumers living in a rural area travel more miles per year and spend more per week on fuel than consumers in urban areas. This is of particular significance for Northern Ireland consumers given that 35 per cent of the Northern Ireland population<sup>15</sup> live in rural areas.

## **Regional Pricing**

**The Consumer Council is calling for the Office for Fair Trading to examine why supermarket fuel retailers continue to engage in regional pricing**

Consumer Council research<sup>16</sup> shows that consumers will use a variety of methods to help cut costs when purchasing other goods or services including shopping around, making less impulse buys and switching to economy brands, However when purchasing fuel, Northern Ireland consumers have little or no option other than shopping around to control the amount they spend on fuel. When it comes to purchasing fuel, consumers do not have the option of switching to an economy brand and may not be able to limit the amount of miles they travel.

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<sup>15</sup>Northern Ireland Statistics and Research Agency (NISRA) – The Inter-Departmental Urban-Rural Definition Group in February 2005 proposed that settlements with a population of 4,500 or less should be defined as rural. On the basis of this definition, approximately 65% of the Northern Ireland’s 1.7 million inhabitants live in urban areas and 35% in rural areas.

<sup>16</sup> Canny Consumers? Are consumers standing up for their rights? August 2012

Although the supermarkets only make up 4 per cent of the outlets they hold approximately 25 per cent of the market share and are a significant factor in influencing price in the areas in which they are located as evidenced by the following consumer comments:

*I would suggest that you look into the prices charged by the "big" supermarkets. For instance in Ballymena, Tesco and Sainsbury have no other competition and pricing seems to be fixed - i.e. little or no difference between them, whereas in Coleraine, throw Asda into the mix and you can be certain to get your fuel up to 4p per litre cheaper than in Ballymena. ( yes, even at Asda and Sainsburys).*

*On the same day a large UK supermarket with petrol stations throughout NI can have a price differential of 3p a litre between Lisburn and Coleraine. At the Coleraine station the price is 3p lower than Lisburn. There is, however, in Coleraine another different UK supermarket offering lower prices.*