



Marine Fuel Market Study

Channel Islands Competition and Regulatory Authorities

Document No: CICRA 14/59

November 2014

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Marine Fuel Market Study

Background

The marine fuel market in Jersey is small in comparison to the markets for road fuel and heating oil. It comprises two grades of fuel, marine diesel and marine petrol. They are identical to their road fuel counterparts in all respects except for the levels of duty levied on the fuel and the addition or removal of dye in order to indicate the duty applied¹.

Most marine fuel in Jersey is sold via pontoons in the various harbours². In Guernsey, while there are also a small number of harbour pontoons supplying customers, significant sales are also made direct by fuel distributors through “over the harbour wall” sales of fuel. In addition, in both islands, there are small volume forecourt sales available from a handful of local garages.

Marine fuels arrive in the Channel Islands as part of the same supply chain as road fuels and in total, marine fuels make up less than 3% of the road fuel market. Distributors and retailers differentiate fuel for marine use, with lower duty rates, from road fuels by adding appropriate dyes to colour the fuel (red for diesel, blue for petrol). The marine fuel market in turn is dominated by marine diesel, which fuels most large vessels and commercial operators, for example the majority of the fishing fleet, and accounts for the majority of sales by volume and value. Marine petrol is used by many smaller craft but makes up only a small proportion of the overall market by value.

While both Guernsey and Jersey apply zero duty rates for marine diesel fuel, the retail price is typically around 10ppl more expensive in Jersey than Guernsey. The opposite is true for marine petrol, which is duty exempt in Jersey but to which Guernsey applies a duty rate of 37ppl.

Request from Economic Development Minister

CICRA was asked by Jersey’s Minister for Economic Development to investigate the marine fuel market. The difference in the retail price for marine diesel between the Jersey and Guernsey markets, typically around 8-10p/litre, was a prominent issue in the context of that request and forms a focus of the assessment made by CICRA. Therefore the focus of this report is on the dominant fuel, marine diesel, the area where some concern has been expressed at the difference in price between Jersey and Guernsey.

¹ In the UK, large fuel depots may also sell a high sulphur grade of marine diesel, which has a lower price than standard road diesel. It is around 1ppl cheaper and requires a large sales volume to make it worthwhile to stock as a separate product; the local markets are too small to consider it.

² See CICRA merger decision M1000J for further background.

Findings

We find that the two main reasons for the difference in retail price of marine diesel between Jersey and Guernsey are:

- GST on marine fuels in Jersey: 4.4 ppl;
- Ports of Jersey commercial fuel operator charge: 4.8 ppl³.

In total, the addition of 5% GST, the harbour fuel levy adds more than 9ppl to marine diesel prices in Jersey compared to Guernsey.

Another factor adding to the supply costs in Jersey is the level of harbour dues, which at £8.39 per tonne for Jersey compared with £4.75 per tonne for Guernsey, adds another 0.29ppl to the cost of marine diesel supplied in Jersey.

Marine petrol sales make up a small proportion of the overall market and the picture here is reversed, with prices in Guernsey 25ppl more expensive than those in Jersey, without the effect of GST and fuel operator charges this differential would be even greater – up to 37ppl. While a significant number of locally based craft use marine petrol, they are mainly pleasure craft rather than commercial or larger vessels which tend to purchase fuel in significant volumes.

Rationale

While there may be other differences in supply chain costs it is unlikely that these would be sufficient to outweigh the differential created by these two substantial levies. In the absence of GST, the Ports of Jersey commercial fuel operator charges and harbour dues, there may be some price advantage for Jersey in the purchase and delivery of fuel. This is because the overall market for these grades (including road fuel) is larger in Jersey and Guernsey faces additional costs because of the need for specialist vessels to deliver fuel. Economies of scale and the ability to share fixed overheads across a larger volume of sales relative to Guernsey, might be expected to account for a small differential in fuel costs in favour of Jersey, perhaps up to a penny or two per litre, but far less than the additional costs imposed by GST and other levies.

Conclusion

The information supplied to CICRA for the purpose of this market study largely explains a substantial difference in the retail price of marine fuels between Jersey and Guernsey. Prices for marine diesel are around 10ppl more expensive in Jersey because GST, the charges to commercial fuel operators and harbour dues offset slightly lower supply chain costs and any economies of scale in Jersey for marine diesel.

³ On average, range 4.5-5.1ppl in St Helier, less in other locations where fuel volumes are very small.

This is a significant difference for those able to exercise choice over where they buy fuel and some fuel purchasers (e.g. the “super yacht” market) appear to do so. This price difference represents a saving of £500 on a 5,000 litre or 5 tonne fuel purchase. However, other factors such as access to harbours, berthing charges or other requirements are also considerations in choice of location rather than only price.

While CICRA could conduct a further more detailed analysis of the cost elements in the supply chain, in the upstream (import, storage, wholesale/bulk supply) market, this would require assumptions allocating large tranches of potentially common costs to a small part (<5%) of the overall road fuel market. Because marine fuel is only a small fraction of the road fuel market, the allocation of specific costs, particularly by wholesalers or distributors, is likely to limit the explanatory power of further analysis and has therefore not been carried out⁴.

Next steps

If the States of Jersey / EDD / Jersey harbours overall aim is to encourage marine fuel sales in Jersey there are a number of actions that could be taken to improve the position and reduce prices. Important initial steps would be to:

- review the ports of Jersey charges to commercial fuel operators;
- reconsider the application of VAT to marine fuels; and
- revise tariffs for harbour dues for liquid fuel imports.

In combination, these three factors would serve to reduce elements of fuel costs which are not controllable by commercial operators (and are outside the influence of world market prices) by close to 10 pence per litre. This would bring the marine diesel fuel price in Jersey much more closely into line with the price in Guernsey.

⁴ Note that the retail price for marine petrol, which makes up a small part of the market, is higher in Guernsey than Jersey because duty (of 36.6ppl) is levied on marine petrol sales in Guernsey. The difference in retail price observed between the islands is in line with what would be expected given the differences in duty and tax treatment.

ANNEX

Marine fuel excise duty, taxes and levies

There are two types of taxes which may be applied to fuel purchases in the Channel Islands, excise duty and sales tax (GST).

In Guernsey, there is no GST or port authority levy, and only excise duties apply. Diesel for marine use is duty exempt, while marine petrol attracts a reduced rate of duty of 36.6ppl (pence per litre) compared to road fuels for which the full duty rate is 51.8ppl.

In Jersey, the picture is more complicated, fuels for marine use, both diesel and petrol, are duty exempt, avoiding the 43.6ppl duty levied on road fuels. But they are subject to GST at 5% and to a port authority levy of 4.8ppl which applies to all fuel purchases made at Ports of Jersey harbours. In addition, commercial fuel operators are charged 4.5 to 5 pence per litre of fuel sold (less at outlying harbours). However this is not a tax as such, but represents a concession fee or rental charge applicable to fuel suppliers in Jersey harbours. Nevertheless it is inevitable that it will be passed on to customers as an element of retail prices in much the same way.

The taxes are described below and their application summarised below and in the following tables.

Excise duty

Excise duty is an internal tax⁵ levied on the volume or amount of fuel used or sold, and set by the States of Guernsey and the States of Jersey. For hydrocarbon fuels it is generally levied on a per litre basis with different duty rates for different types of fuel and exemptions or reduced rates for certain end uses.

GST

GST is a sales tax levied as a proportion of the final sales price. There are no sales taxes in Guernsey, Jersey applies a 5% sales tax (GST, goods and services tax) across all goods and services – including fuel.

Which taxes apply where?

	Marine Diesel		Marine Petrol		Road Fuel	
	Gsy	Jsy	Gsy	Jsy	G	J
Excise duty	exempt	exempt	Y	exempt	Y	Y
GST (Jersey)	-	Y	-	Y	-	Y

“ - ” = not applicable (no GST or ports fuel levy in Guernsey)

⁵ Note that this is different from a customs duty, which is a tax on imported goods. Customs duties in the CI (as part of EU customs territory) are set by the EU and UK Government, excise rates are set locally.

What are the effective rates (2014)?

	Marine Diesel		Marine Petrol		Road Fuels*	
	G	J	G	J	G	J
Excise duty	nil	nil	36.6ppl	nil	51.8ppl	43.6ppl
GST (Jersey)	n/a	5%	n/a	5%	n/a	5%
Typical uplift from taxes & levies in ppl	nil	4-5ppl	37ppl	4-5ppl	52ppl	48ppl

*"Road fuels" include petrol and diesel.