Review of the Jersey market for road fuels

August 2011

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Executive Summary

Consumers in Jersey pay less for road fuel than consumers in the United Kingdom (**UK**), but this is because UK taxes account for about 65% of the price that consumers in the UK pay at the pump. When taxes are removed, the UK has some of the cheapest prices in Europe, while Jersey has some of the highest compared to other European countries. This has long been the case. While it is positive news that today people in Jersey pay less above average UK prices than they once did, it is still the case that, taxes aside, but including discounts, the average Jersey price for a litre of unleaded petrol is about 13p higher than the average UK price. Some retailers in Jersey do offer cheaper than average prices, which is good news for those Jersey consumers willing to shop around.

It is important to stress that consumers in Jersey cannot expect to pay the same pre-tax price for fuel as consumers in the UK. Jersey imports all of its refined road fuel to serve a relatively small market that will never have the economies of scale of the UK market, which is more than 1000 times larger. It is important to ensure, however, notwithstanding the extra costs associated with doing business in the road fuel market in Jersey, that Jersey has the most competitive road fuel market possible, with effective competition driving down prices and keeping firms efficient for the benefit of Jersey consumers.

Our conclusions are that the picture of competition in the Jersey road fuels market has improved over the last decade, and there are some further positive indicators for the future. We also conclude, however, that there is still room for improvement in the competitive pressures facing both retail forecourts and wholesale suppliers.

Main Findings

Removing taxes and duties, Jersey consumers pay, on average, about 14 pence per litre (***ppl***) more than UK consumers on undiscounted unleaded pump prices, and about 13 ppl more when discounts are taken into account. The cheapest price of the major forecourts in Jersey, represented by Motor Mall, is about 6ppl more expensive than the average UK undiscounted price, or 8ppl - 9ppl more if UK retail discounts worth 2ppl – 3ppl are taken into account.

Prices vary significantly from retailer to retailer in Jersey, with an average difference of about 13ppl on undiscounted prices between the most expensive price of the major retailers and Motor Mall. This difference reduces to just above 9ppl when the average value of retail discounts are taken into account, and just over 6ppl if the maximum discounts available are taken into account.

There are some positive indicators of competition in the retail market, not least the presence of Motor Mall apparently adopting a low margin, high volume strategy and offering prices which, given the unavoidable extra costs of the road fuel industry in Jersey, are closer to the UK average than is the case for the prices of other Jersey suppliers. Motor Mall now has 24% of the retail market in Jersey, so its impact is significant.

While the overall trend of competition in the retail market appears to be moving in the right direction – in particular, the overall deviation from the UK average pre-tax price appears to have decreased over time and the average throughput of a Jersey retail forecourt has increased– there are indicators that, even allowing for the extra costs of the retail road fuel industry in Jersey, some retail forecourts have higher gross unit margins than we might expect if competitive pressures were greater.

Jersey is still over-supplied with retail forecourts, with 2.6 times the number of forecourts per person compared to the UK and half as many again as the Isle of Man. Many of the forecourts in Jersey sell very small volumes. If competition is effective in driving down prices and retail margins, retailers with higher overheads per litre would tend to struggle to remain competitive, lose business, volumes drop further, and so, due to their relative inefficiency compared to larger retail sites, would become economically unviable and exit the market. The presence of many low volume forecourts in Jersey, compared to other markets, is an indicator that competitive forces could be stronger.

There are some indications of competition at the wholesale level between Esso, Fuel Supplies (Channel Islands) Limited (***FSCI***) and Total Jersey Limited (***Total***), with Total gaining market share over time and some positive indicators of price competition. Switching by retailers between wholesale suppliers, however, cannot be described as high, although some longer-term exclusive contracts between wholesalers and retailers are due to come to an end shortly, so the prospects for

greater switching in the future appear more positive. Even allowing for the extra costs of the wholesale industry in Jersey, wholesalers have higher gross unit margins than we might expect if competitive pressures were greater.

What can be done?

New entry at the wholesale level seems unlikely, as the small size of the Jersey market is unlikely to be attractive to a new entrant facing two - three with Total - existing suppliers. Regulatory price control at the wholesale level would impose significant costs, not only in the direct cost of regulation itself but costs on the firms, costs of imperfections in regulation, and costs in terms of reducing the attractiveness of Jersey both to any potential new entrants and existing suppliers.

Regulatory intervention at the retail level also does not appear to be either practical, or justified given the positive indicators for the future. It may be possible, however, to further stimulate competition at the retail level, which in turn may impose some additional pressures at the wholesale level by retailers switching to find the best deal.

Consumer behaviour is a key factor in competitive conditions in a market, and relatively less price-sensitive consumers will not, obviously, encourage intense price competition. Instead, retailers may choose to compete on other measures, such as a more personal service, or rely on consumer inertia in selecting a different supplier. Given the price differences between retail road fuel suppliers in Jersey, there does appear to be scope for consumers to shop around more, and so drive greater competition.

One key difference between Jersey and other jurisdictions is that it is not common in Jersey for the price of road fuel to be displayed so it is clearly visible to passing motorists. A survey carried out by the JCRA in early July 2011 found that of 34 retail forecourts, only 9 displayed the price so that it was clearly visible from the road, and of these 9, we considered that only 5 displayed the price in such a way that a passing motorist would notice it without specifically looking for it.

In Jersey, it is possible for a consumer to drive to a forecourt, park next to the pump, and then find out the price, by which time most consumers are likely to go ahead and pay that price rather than exit the forecourt without making a purchase and repeat the exercise at the next forecourt.

Obliging retailers to display prices which are clearly visible from the roadside is likely to facilitate consumers shopping around for road fuel, and also increase general price awareness from consumers noticing the price of fuel as they go about their daily business. This is likely to accelerate the shift in market share to those retailers with cheaper prices, encouraging greater price competition.

While we acknowledge that installation of signs that display the price to passing motorists, like all street furniture, must take account of planning considerations, such as the character of the surrounding area, the level of illumination and the impact on road safety, we believe it is possible to find a balance which may result in real benefits to Jersey consumers.

It appears that there is room for road fuel prices in Jersey to be subject to greater competitive pressures, and if clearly-displayed prices from the roadside resulted in heightened price awareness and competition such that, for example, the average price reduced by just 1ppl, this would be equivalent to a direct £430,000 per year saving to Jersey consumers, in addition to any benefits from increased competition driving greater efficiencies.

Thank you

Many firms, consumers, consumer representatives and States of Jersey Departments helped us with this study. Individual consumers wrote to us to give us their views and filled in our internet survey. Retail forecourts and wholesale suppliers provided us with data, shared their experience, and answered our questions. Many other organisations, such as the Jersey Consumer Council, and the Planning and Environment and Trading Standards Departments, were generous with their time. We are very grateful for all of the assistance given to the JCRA throughout this study.

1 This market study

In March 2011, the JCRA announced the launch of this market study into road fuel. The terms of reference for the study are shown below in Figure 1.1. The study was in part prompted by concerns expressed by consumers and the press about the rising cost of road fuel and in part prompted by the fact that it has been 7 years since a review of this critically important market in Jersey was undertaken. The focus of the study is the supply of road fuels to the general public via retail forecourts in Jersey; that is, excluding bulk, specialist and commercial supply.

Figure 1.1 Terms of reference for the JCRA's road fuel market study

The aims of the market study in relation to road fuel are twofold:
(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.

1.1 Information sources

We sent questionnaires to all Jersey retail forecourts and wholesaler suppliers of road fuel, seeking information about their prices, costs, margins and suppliers. On 19th April 2011 the Minister for Economic Development wrote to the JCRA in a form which allowed it to make use of formal powers to collect information under the Competition (Jersey) Law 2005, and the JCRA used these powers to complete its information collection from retail forecourts and wholesale suppliers. We also asked Jersey consumers to fill in an online survey (a copy of this can be found in Annex 2), and met individually with all wholesale suppliers and the operators of many retail forecourts.

1.2 Earlier studies

2009: Comparative Energy prices in Jersey[1]

This report was commissioned by the States of Jersey to review the size, structure and operation of all the energy markets in Jersey and update previous work, carried out in 2004 by the same consultants. This report concludes that the case for regulation of the energy markets had not been

1Consultancy Solutions, January 2009, *Comparative Energy Prices in Jersey*

proven, but that a lack of value for money being achieved by all industries suggested the need for further investigation.

2004: Review of the Current Arrangements for Importation[2]

This report, published in December 2004, was commissioned to review the leasing of public land to the Fuel Consortium and also presented a detailed look at the costs of doing business in the road fuel industry in Jersey. The report found that Jersey retail petrol margins were about 5 times higher in pence per litre than in the UK. The authors suggested that lack of price transparency restricted consumer choice. We now find that the Jersey retail petrol margins are at least 2 times higher in ppl terms than the UK.

2001: Report by Oxera Consulting Limited[3]

This report investigated the factors influencing the prices of petrol, diesel and heating oil in the Island to explain net-of-tax price differentials between Jersey and the UK for various fuels. The review included an assessment of the effect of the Island's market structure on fuel suppliers' costs and prices and highlighted some market inefficiencies at the retail and wholesale level. In the retail market, Oxera suggested fewer but larger petrol forecourts might lead to lower prices.

2Consultancy Solutions, 2004, *Review of the Current Arrangements of the Importation, Storage and Supply of Petroleum Products to the Distributors and Retail System in Jersey*
3Oxera Consulting Limited, 2001, *Fuel Prices in Jersey: A Report to the Industries Committee of the States of Jersey*

2 The Jersey market for road fuel: background

The supply chain for road fuels comprises the production and refining of crude oil, transportation of those refined products to Jersey, storage and handling in Jersey, distribution to retail forecourts and then the retailing of road fuel to the general public. The earlier stages of fuel production, although critically important to the final price Jersey consumers pay, are outside the scope of this study.

2.1 Source of fuel for Jersey

There are no refineries in Jersey, and all fuel is imported into the Island at the La Collette terminal. Esso and FSCI (owned by Rubis Group, the French energy company (***Rubis***)) import fuel to the Island and, in seeking fuel to ship to Jersey, face some constraints in finding these supplies, such as:

- availability of a range of products - not all refineries produce all the grades required;
- delivery sizes – Jersey's total demand is low compared to most other markets and some refineries specify a minimum order volume; and
- shipping and storage constraints - Jersey ports can only accommodate small coastal tankers, which are not accepted at some refineries.

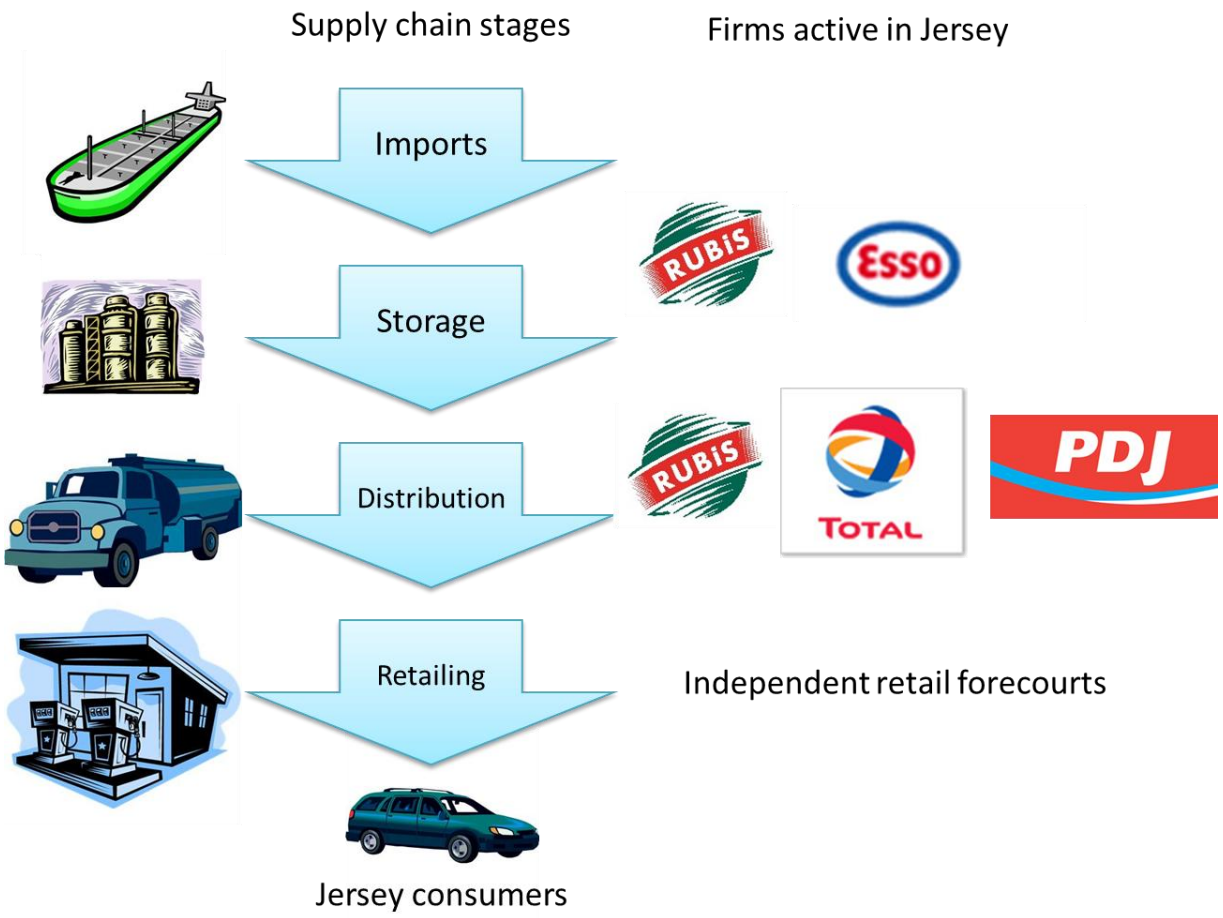
Esso imports from its Slagen refinery in Norway, whilst FSCI, the Jersey wholesale agent for Rubis, imports its fuel from Rotterdam. Esso advised us that various supply alternatives have been considered (Antwerp, Belgium; Port Jerome Gravenchon, France; Rotterdam, Netherlands; Milford Haven, UK and Fawley, UK). However, the Slagen refinery in Norway has been identified as the preferred supply point as it offers the opportunity to load diesel, super and premium road fuels and kerosene from one single location and onto one vessel. Esso told us that co-loading the various products onto one vessel offers the most economical freight cost, despite the distance of 804 nautical miles. For similar reasons, FSCI told us that it sources fuel from Rotterdam, 330 nautical miles away from Jersey, where it buys fuel on the spot market.

Esso also advised us that Jersey is one of the most complex places in Western Europe into which to import fuel. Firstly, the coastal tankers used to transport fuel to Jersey are much smaller (about 3000 dwt) than those used to supply much larger European markets, which are typically 15000

dwt. This is due to the shallow waters in Jersey and the limited storage facilities at La Collette fuel farm. Secondly, unlike fuel for much larger markets, fuel for Jersey needs to be shipped in mixed loads. Whereas a tanker bound for the UK might just contain unleaded fuel, tankers destined for Jersey need to be able to carry all the products in one shipment; that is, unleaded, super unleaded, diesel, aviation and marine fuel.

FSCI, Total and Petroleum Distributors Jersey (***PDJ***) are active in the distribution of fuel to retail forecourts in Jersey and Jersey consumers are served by 34 forecourts, all but one independently owned[4]but most with exclusive supply contracts with a wholesaler.

Figure 2.1 Firms active in the Jersey supply chain for road fuel sold to the public



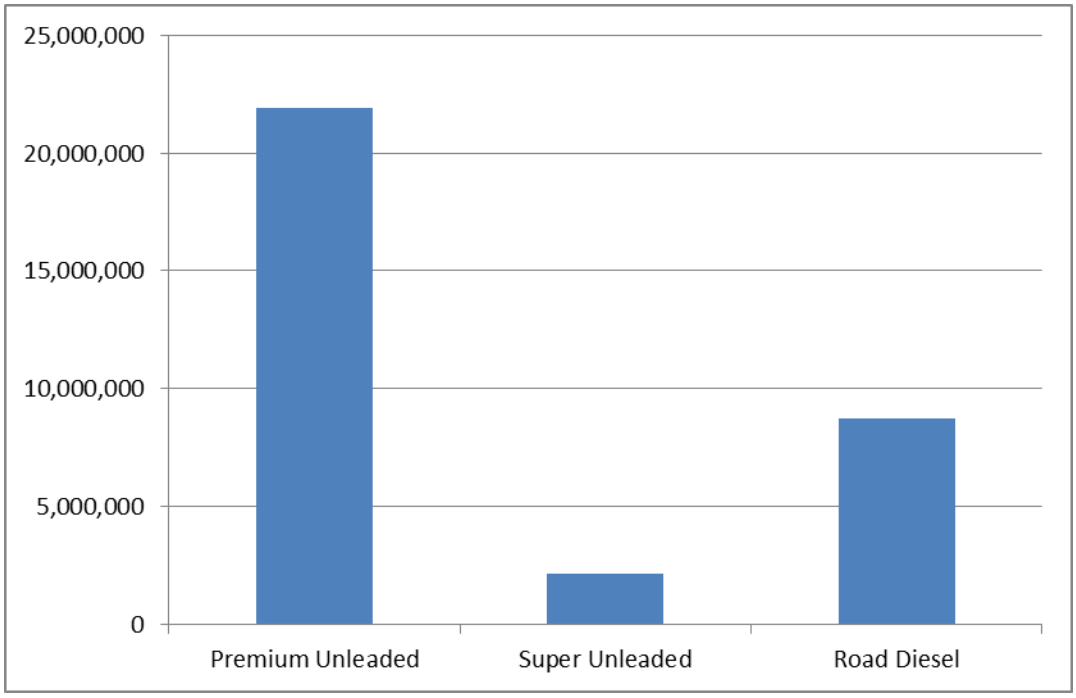
Source: JCRA

4St Mary's Garage is owned by FSCI (Rubis)

2.2 Consumption of road fuel in Jersey

In 2010, 34 retail forecourts supplied about 43 million litres of road fuel to Jersey consumers. The market appears to be slowly declining, with about 43.8 million litres supplied in 2008 and 43.2 million in 2009. The most popular fuel is premium unleaded, accounting in 2010 for 67% of the market, with diesel accounting for 27%, and super unleaded accounting for 6%.

Figure 2.2 2010 split between premium unleaded, super unleaded and diesel supplied to Jersey retail forecourts



Source: JCRA calculations from data supplied by wholesalers

Consumers in Jersey drive fewer miles than consumers in the UK. In our survey[5], Jersey consumers reported that, on average, they drove 4700 miles a year. This compares with average mileage for UK consumers of 8,420 in 2009[6]. The UK's RAC reported in 2009[7] that nearly half of

5 Internet survey run by JCRA April – May 2011. Care must be taken with the results of this survey, as it is based on 200 responses from consumers who were self-selecting and likely to be more engaged with the issue of road fuel prices than the average Jersey consumer

6Department of Transport, National Travel Survey, 2011

7 BBC News, April 2009, Car ownership up as mileage falls

UK households drive only 1 – 5,000 miles a year while 10% travel more than 15,000 miles per year.

People in Jersey on average have a higher disposable income than consumers in the UK. According to the Jersey Income Distribution Survey 2009/10 produced by the States of Jersey Statistics Unit, equivalised incomes were 64% higher in Jersey in 2009/10 than in the UK in 2008/09,before housing costs, and 52% higher after housing costs were taken into account. The median weekly household income for Jersey and the UK is shown in Figure 2.3:

Figure 2.3 Median household income Jersey and the UK

	Before housing costs	After housing costs
Jersey 2009/10	£667pw	£522pw
UK 2008/09	£407pw	£343pw

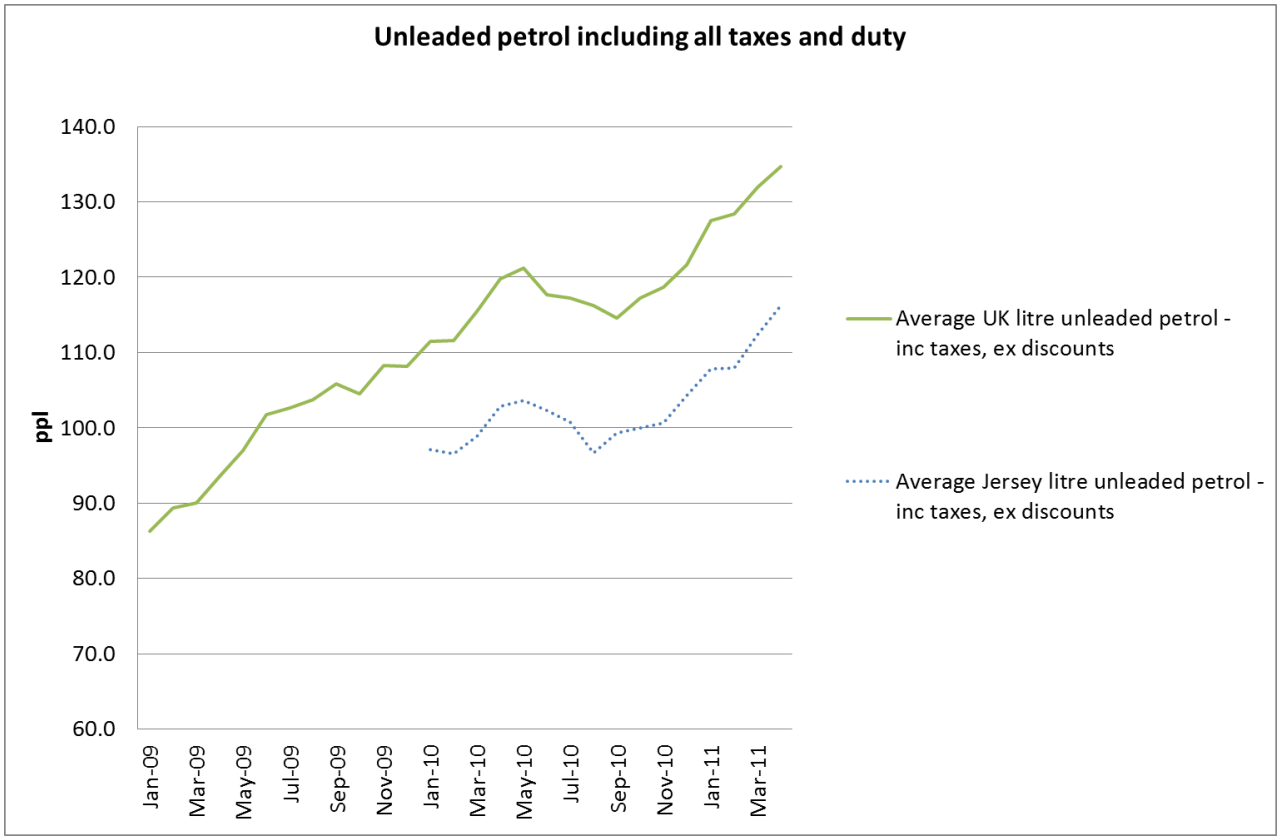
Jersey's 2009/10 Income Distribution Survey also reports that a smaller proportion of individuals live in households with a relative low income in Jersey compared with the UK, both before housing costs (12% in Jersey, compared with 17% in UK) and after housing costs (19% in Jersey, compared with 22% in the UK).

Overall then, consumers of road fuel in Jersey have, on average, higher incomes, drive fewer miles per year, and pay lower actual pump prices (see next section) than consumers in the UK.

3 Retail prices for road fuel: comparisons

Retail prices for road fuel have been steadily rising in Jersey and across Europe, particularly since the autumn of 2010. There has recently been some relief, as the price of Brent Crude fell by $8 a barrel on 23 June 2011 after the International Energy Agency (IEA) decided to release a stockpile of 60 million barrels to make up for production shortfalls in Libya; but there appears to be little prospect of declining prices for any fossil fuel-based product in the long term[8]. Until such time as viable and widespread alternatives to traditional road fuel become available, petrol and diesel will remain important and increasingly expensive purchases for most people in Jersey. This means that it is more important than ever that consumers in Jersey, notwithstanding the long-term trend of increasing oil prices, benefit from competitive markets in the importation, distribution and retailing of road fuel.

Figure 3.1 Undiscounted, unleaded petrol price per litre, including all taxes, UK and Jersey



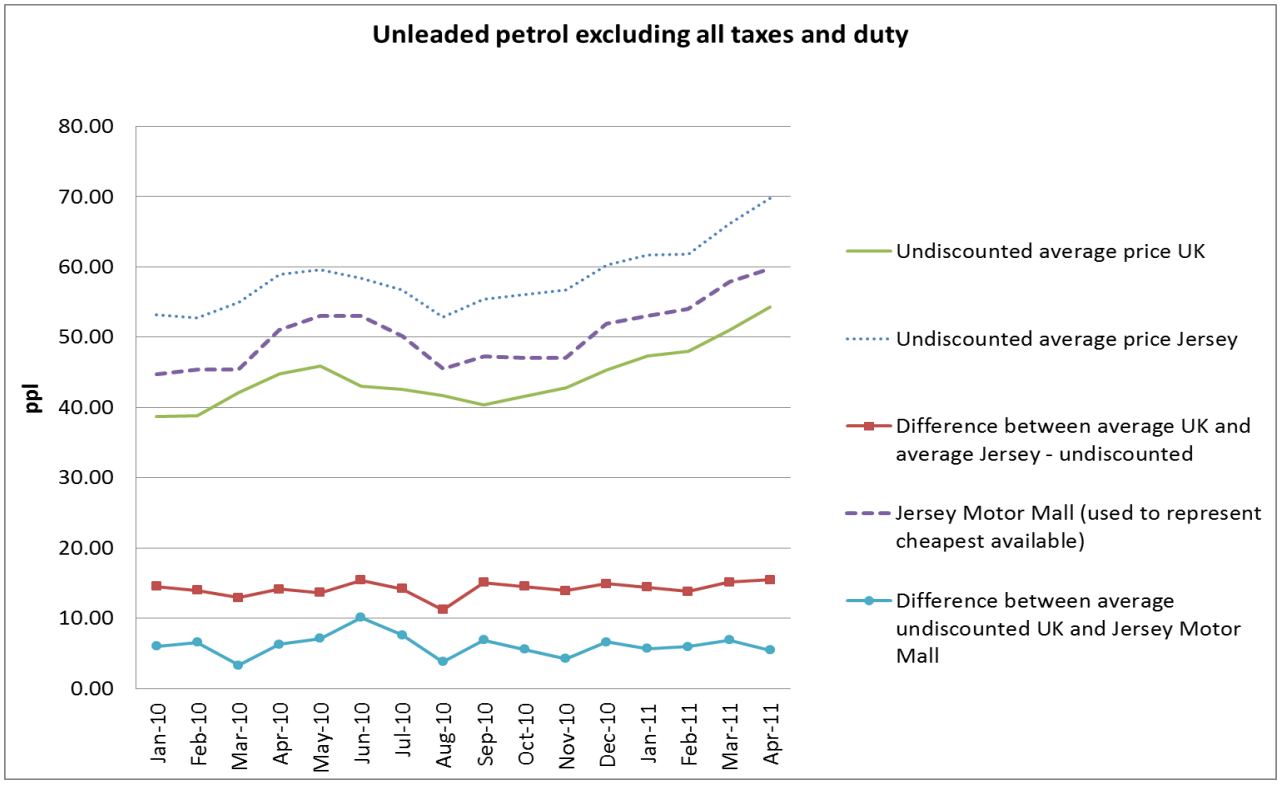
Source: DECC, and JCRA calculations from data supplied by retail forecourts

8 The age of cheap energy is over, 21 April 2011, IEA, *Findings from the World Energy Outlook*

The data shown in Figure 3.1 is an average price for the UK and Jersey, including all taxes, and excluding all discounts. The DECC[9] data takes the prices from the major suppliers in the UK – the supermarkets and the retailers of the major oil companies – and weights each pump price by the volume sold at that price. The JCRA has repeated this calculation for Jersey, using prices and market shares for major retail forecourts representing over 50% of the market. This methodology represents a fair picture of the actual average undiscounted price paid.

The prices in Jersey and in the UK appear to follow a very similar trend although, of course, with much higher taxes in the UK, Jersey consumers consistently pay less at the pump. Although the actual price paid by Jersey consumers is less than in the UK, once taxes are removed, the picture is very different.

Figure 3.2 Undiscounted, unleaded petrol price per litre, excluding all taxes, UK and Jersey



Source: DECC, and JCRA calculations from data supplied by retail forecourts

It is important to stress that it is to be expected that the price of road fuel in Jersey (net of taxes) will be higher than in much larger markets such as the UK. Costs are higher in Jersey, and the

9DECC: The UK's Department of Energy and Climate Change

relatively small Jersey market does not have the economies of scale of larger markets. The price comparisons in this section are not presented with the expectation that the prices in Jersey *should* be the same as in other, larger, markets, but as a quantification of the difference - which we then go on to analyse in terms of how much may be accounted for by unavoidably higher costs, and how much may be accounted for by the state of competition, which, potentially, may be improved.

Figure 3.2 above shows the prices for unleaded petrol, calculated on the same basis as discussed previously, but with all UK and Jersey taxes removed. When making price comparisons, it is important to take an average of comparisons over time – petrol prices change week to week and so snap shot data on one date is of very limited value. In our comparisons, we have taken average values over the period January 2010 to April 2011 unless stated otherwise.

Jersey consumers pay, on average, about 14ppl more than UK consumers on undiscounted pump prices, and about 13ppl more when discounts are taken into account[10]. The cheapest price of the major forecourts in Jersey, represented by Motor Mall, is about 6ppl more expensive than the average UK undiscounted price, or 8ppl - 9ppl more if UK retail discounts worth 2ppl – 3ppl are taken into account (Motor Mall does not offer a discount off the headline pump price).

It is impossible to prepare similar price comparisons for other small islands as the type of analysis presented above requires a wide range of price and volume data and this is not freely available, other than for larger European countries. Some data on regional price deviations from the UK average are available. For example, in January 2011, the local press on the Isle of Wight[11] reported that a litre of unleaded was 3ppl more expensive than the rest of the UK. In March 2011, the UK Office of Fair Trading (**OFT**) reported that in the Isle of Man unleaded petrol was 4.29ppl more expensive than the average UK price, and in February 2011 published statistics[12] that showed the deviation from the average UK price for a litre of unleaded petrol is apparently on a downward trend, ranging from 8.01ppl (in August 2010) to 3.14ppl (in January 2011). Some older data[13] shows that the largest deviation from the UK average is 8ppl in Stornoway, Scotland.

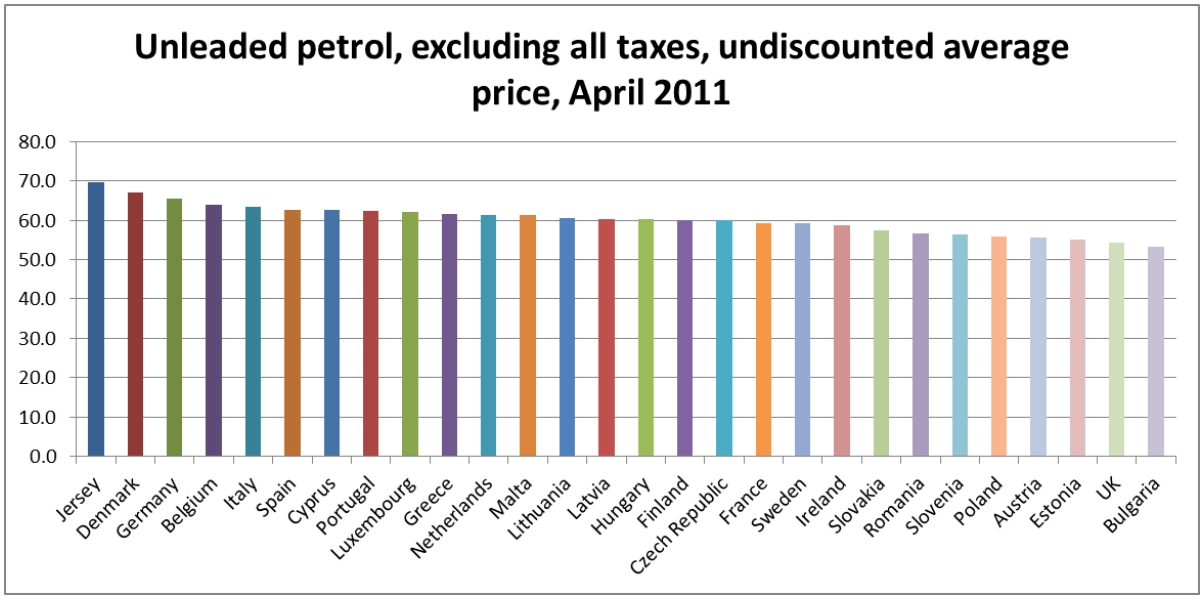
10See later – we calculate UK discounts are worth about 3ppl, and Jersey discounts about 4ppl, on average
11Isle of Wight County Press on Line, 21 January 2011
12http://www.gov.im/lib/docs/oft/lf2february20112.pdf
13 Source from http://www.whatgas.com. The states of Jersey inflation calculator gives a figure of 2.3% for inflation between late 2009 and late 2010, which is not large enough to materially alter the conclusions from a comparison with the 14ppl Jersey average calculated from data throughout 2010 and early 2011

Figure 3.3 Deviations from the UK average for 1 litre of unleaded petrol – 12 November 2009

Aberdeen	0.9p cheaper
Dundee	1.4p cheaper
Edinburgh	0.1p more expensive
Glasgow	Same as UK average
Inverness	3.5p more expensive
Stirling	0.4p more expensive
Stornoway	8p more expensive

Finally, to put Jersey pump prices in a European context, although again noting that most of the countries with available data are much larger than Jersey, Figure 3.4 shows the undiscounted price of a litre of unleaded petrol (excluding taxes) compared across Europe.

Figure 3.4 European comparisons



Source: European Commission, and JCRA calculations

In April 2011, average UK unleaded petrol prices, including taxes, were the eleventh-highest in the European Union (EU) at 134.7ppl, although excluding taxes, the UK is almost the cheapest. The highest price including taxes was in Greece at 149.7ppl, whilst the lowest price was in Bulgaria at 102.2ppl. Excluding taxes, in April 2011, the undiscounted price of a litre of unleaded petrol in Jersey was 8.4ppl more expensive than Malta and 15.5ppl more expensive than the UK.

3.1 UK discounts from the headline pump price

The UK road fuel market is characterised by price promotions and discounting by supermarkets, with frequent, well-publicised, offers and reductions from all the major supermarkets – often referred in the UK press as the supermarket "petrol price war". For example, in June 2011, when the IEA opened emergency reserves, Tesco, Asda, Morrisons and Sainsbury's heavily promoted their immediate price cuts. Asda then reduced its price again by another 2ppl to undercut the reductions made by the others, and Tesco launched a promotion offering customers 10p off every litre of fuel when they spent £60 or more in store or online. Asda responded with a statement saying that its customers "don't have to buy into gimmicks and promotions to benefit from cheaper petrol – no one should have to pay a premium on food to lower the cost of fuel".

It is rare in the UK to be unable to find a supermarket discount or promotion off the advertised pump price. For example, in early June 2011, consumer websites listed 6ppl off fuel with Morrisons with a £40 spend in store, and Tesco offering 5ppl off fuel with 2 packs of Tesco (9 roll) toilet roll[14]. On 2 July 2011, moneysavingexpert.com, one of the most popular UK consumer sites, recommended the offer shown below in Figure 3.5.

Fuel loyalty cards are not a big feature of the UK market, although most of the major oil companies still do offer some form of reward card. The discounts from these cards, where they can be used for fuel purchases, tend to be modest. Shell Drivers Club, for example, gives one point for every litre of fuel, with 500 points worth £2.50 in vouchers which can be used for money off fuel, exchanged for Air Miles, or donated to carbon dioxide reduction programmes or charities. The discount from the pump price of this scheme is 0.5ppl. The Texaco card offers 1 point per £1 spent, and 500 points can be exchanged for £5 Texaco vouchers, Air Miles, or vouchers to use with retailers such as M&S and iTunes. At a pump price of £1.34 per litre, this scheme represents a discount of about 1ppl.

14Moneysavingexpert.com 11th June 2011

Figure 3.5 July 2011 example UK supermarket discount

Sainsbury's 10p/litre off petrol or diesel with £60 spend

Starting Wednesday 29 June, spend £60 or more at Sainsbury's online or in store to get a voucher for 10p/litre off petrol or diesel at its petrol stations. Vouchers are scheduled to be given out until Sunday 3 July, and redeemable at Sainsbury's stations for 14 days including the date of issue. To give you an idea of the typical saving, we've checked prices for 5 UK Sainsbury's forecourts and found an average unleaded price of 131.3p. This means you'll pay about 121p/litre after the discount, though it'll vary by location. By comparison, the UK average price of unleaded is 134.81p, whilst the cheapest is 128.9p and most expensive is 149.9p (sourced from Petrol Prices on 28 June).

Quick tip: If your shop's going to come to over £120, split it into two separate transactions of £60+ to get two vouchers, then use the other to fill up at the end of the promo just before your voucher expires.

Source: moneysavingexpert.com 2July 2011

The UK supermarket promotions that we observed in June and July 2011 offered discounts in the range of 5ppl to 10ppl. 40% of fuel is supplied by supermarkets, and we understand that most shoppers buying their fuel at supermarkets take advantage of the relevant fuel promotions and discounts. An estimate of the average range of UK discounts then is around 2ppl to 4ppl (0.4 x 5 and 0.4 x 10), and in the analysis in later sections of this report, we have used a figure of 3ppl for the value of UK discounts, which appears a safe assumption, as it ignores any discounts available on the remaining 60% of fuel (although as described above, in any event, these other discounts tend to be more modest than the supermarket discounts).

3.2 Jersey discounts from the headline pump price

Motor Mall, the largest road fuel retailer in Jersey, does not discount from its headline price. Roberts Garages Limited (**Roberts**) claims that [*redacted*] of its customers are eligible for a discount of 9.5ppl. Channel Islands Co-Operative Society (**Co-Op**) gives 4% dividend on all fuel purchases made at its St Peter station – 5ppl at a pump price of £1.26 – and double dividend

promotions of 8% are also on offer from time to time. In our analysis, we have used a figure for discounts based on [*redacted*]% of Co-Op's customers benefitting from 4% discount all of the time, and an extra 4% discount 50% of the time.

Rubis Forecourts offer the Rubis account card which gives 4ppl discount. For every 2.5 litres of fuel purchased in this way, 1 point is awarded to the customer's account and 1 point = 10 pence, so a customer purchasing 50 litres of fuel will earn £2.00 worth of points. These points can be redeemed against the outstanding cash balance on the customer's account or the cash equivalent can be spent with participating partners such as Condor Ferries, Aurigny Airlines, St Peter's Garden Centre, Reegill Electrics, Air Miles or Jersey Trees for Life.

Falles offers both the Rubis card discounts and a range of discounts associated with its account card of between 5% and 15%, although discounts in the range of 5% are more common than discounts of around 15%.

Using the figures above for the value of discounts and, where it is available, the percentage of consumers who benefit from these discounts, puts the average value of discounts in Jersey between zero and about 6.2ppl. Weighting these figures by market shares for the larger forecourts, and so taking into account the fact that the largest retailer - Motor Mall - does not discount, results in an overall value for Jersey discounts of about 4ppl.

In conclusion, the result of the undiscounted price comparisons between the UK and Jersey should be adjusted downwards, in favour of Jersey, by about 1ppl to account for the higher discounts available in Jersey compared to the UK. Some stakeholders argued that Jersey discounts were worth much more than those available in the UK, and others argued that Jersey discounts were worth much less. We note that our overall conclusions about the state of competition have a relatively high tolerance to changes in the estimated value of Jersey retail discounts.

3.3 Price comparisons – conclusions

Consumers in Jersey, on average and adjusting for discounts and stripping out tax, pay about 13ppl more for a litre of unleaded petrol than consumers in the UK. In 2001, a similar calculation

prepared by Oxera showed that Jersey consumers paid about 17ppl[15] more than consumers in the UK and so, based on this measure, while the difference still appears significant, the picture appears to be improving - albeit slowly.

Lack of data hinders comparisons with other smaller economies, but the data that is available indicates that Jersey consumers may be paying more above the UK average price than consumers in the Isle of Man and remote areas of Scotland[16]; although in meeting our objective of comparing Jersey with a benchmark competitive market, it is more meaningful to take note of the comparisons with the UK rather than other small markets which may be less competitive.

As we discussed earlier, we present price comparisons between the UK and Jersey in order to quantify the differences in price and not with the expectation that prices in Jersey and in the UK should be the same. The rest of this report looks at what may account for the difference.

15Oxera stated in its 2001 report that it had poor information about the relative value of UK and Jersey discounts
16 This conclusion must be treated with some caution in relation to Scotland given that the underlying data and calculations are not available to us and because road fuel prices tend to change day to day and week to week, so that snap shots of data on a single date are far from ideal

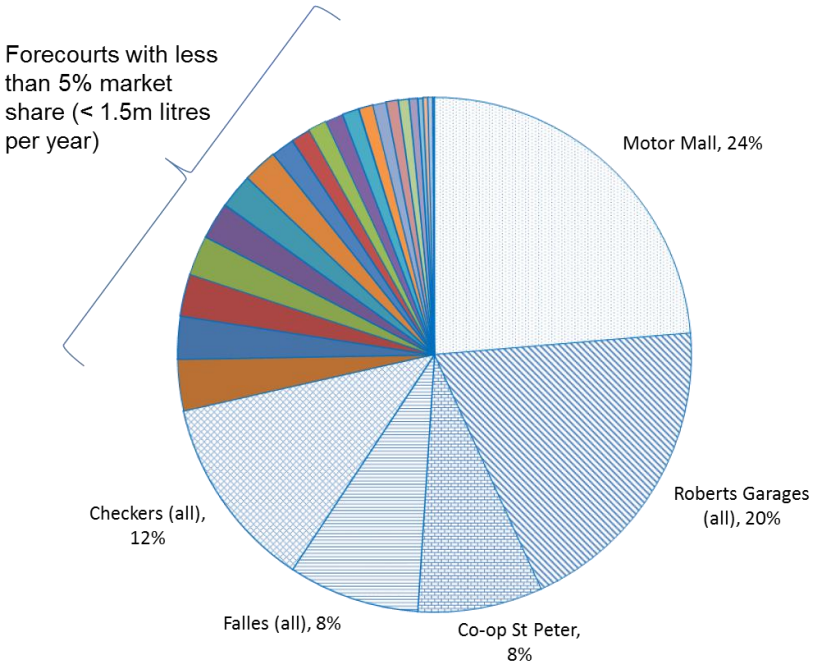
4 Retail Market

4.1 Structure of the retail market

In 2010, Jersey motorists spent about £41.4 million on road fuel and the 34 retail forecourts in Jersey supplied 43 million litres of road fuel, compared to 8,892 retail forecourts in the UK, which together supplied well over one thousand times the total volume supplied in Jersey. In proportion to the relative populations, however, Jersey has many more forecourts than the UK: 2.6 times more per head of population. This has been the case for some time, with Oxera making a similar finding in 2001, and only 4 retail forecourts closing in Jersey over the last decade. In 1977, there were 62 retail forecourts in Jersey but this earlier decline is largely attributed to the States of Jersey refusing to renew licences for forecourts selling across the pavement. Jersey has one retail forecourt per 2,720 people. The Isle of Man has 21 retail forecourts and a population of 80,000, or 1 forecourt per 3,800 inhabitants.

The largest retailer, with 24% of the market is Motor Mall, followed by Roberts (on 3 sites) at 20%. Three other retailers – Falles, Checkers Express (Sandpiper) and Co-Op – have more than 5% of the market and all the other retailers together have less than 5% of the market.

Figure 4.1 2010 retail forecourt market shares



Source: JCRA calculations

In 2004, Roberts was reported to have a 23.5% market share, C.I. Traders (now Sandpiper, shown as Checkers in the figures and tables) 17.5%, Co-Op 7.4%, and Falles 6.1%.

Figure 4.2 shows that, over the last 3 years, the larger forecourts have taken market share from the small forecourts, with a decline in the total market share represented by forecourts that have less than 5% of the market (although not every individual small forecourt has experienced a fall in market share).

Figure 4.2 Retail forecourt market shares 2008 – 2010

Retail	2008	2009	2010
Motor Mall	19%	22%	24%
Roberts Garages (all)	19%	19%	20%
Co-op St Peter	7%	8%	8%
Falles (all)	7%	7%	8%
Checkers (all)	12%	13%	12%
Others	36%	31%	29%
Total volume million litres	**43.8**	**43.2**	**43.0**

Source: JCRA calculations from data supplied by the industry

Earlier reports[17] show a higher total volume for the retail market than we display in this report – in part, this is because the size of the market is reducing over time but also we believe that our data, collected from both the retailers and the wholesalers, is likely to be more accurate than that used in earlier reports.

Most retail forecourts in Jersey sell other products, such as groceries, newspapers and cigarettes (this is also common in the UK), and some retailers combine fuel sales with car repairs and car dealerships. Most retail forecourts in Jersey are independent but have exclusive supply agreements with wholesalers – the nature and duration of these agreements are discussed in more detail later.

Twenty Jersey retail forecourts, nearly 60% of the total number of forecourts, supply less than 1 million litres of fuel a year. This is very much in contrast with the UK, where low volume sites have declined sharply in recent years – as competition has driven down prices in the UK, small volume sites have struggled financially and many have closed. This concentrates volumes of fuel

17Such as the 2004 Consultancy Solutions report

on fewer sites and results in overall greater efficiency (although of course from a competition point of view, consolidation does not continue to be desirable indefinitely).

Figure 4.3 Jersey and UK retail forecourt market statistics

Retail Market Structure

Jersey	UK
34 retail forecourts	8,892 retail forecourts
Jersey has 2.6 times as many retail forecourts as the UK (per head of population)	There are 35.14 million registered UK vehicles, with each forecourt supplying an average of 3,952 vehicles
There are 120,000 registered Jersey vehicles, with each forecourt supplying an average of 3,529 vehicles	Over the past ten years, the number of retail forecourts has been falling at a rate of approximately 450 per year
In 2001, there were 38 retail forecourts in Jersey, 4 more than today	The UK supermarkets supply 40% of road fuels
The average throughput of a retail forecourt is 1.26 million litres per year	The average throughput of a retail forecourt is 4 million litres per year. For a supermarket, it is just under 12 million litres per year
All but one retail forecourt in Jersey is independent	Supermarkets own 14% of sites. Oil majors own 22% of sites and independents 62% of sites

Source: JCRA data collection and calculations, and "Jersey in Figures"2010, UK Petroleum Industry Association (UK PIA) statistical review 2010, UK Office of National Statistics

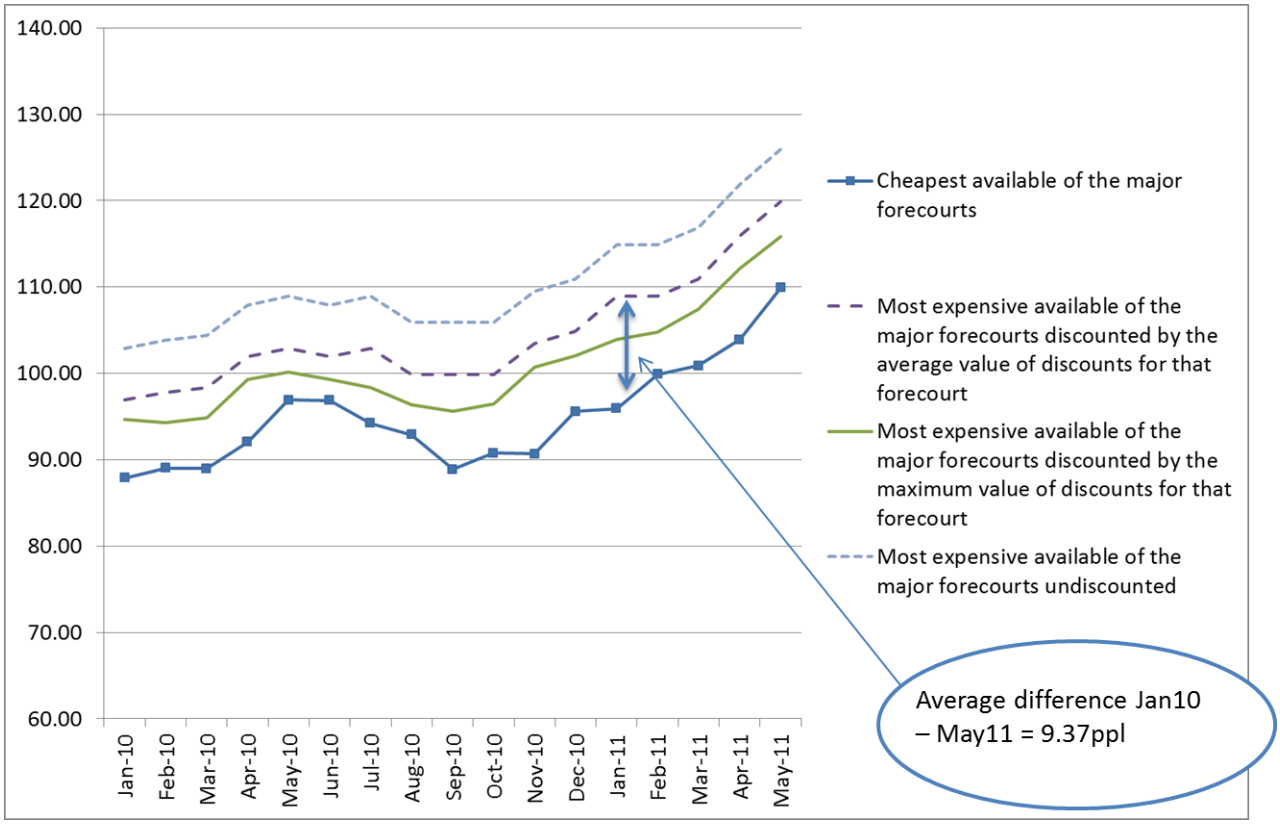
Forecourts on the Isle of Man supply about 50 million litres of fuel per year and have an average throughput of 2.3 million litres. The average throughput of a Jersey forecourt is 1.26 million litres below that of the average throughput of an Isle of Man forecourt, but the larger retailers in Jersey sell higher volumes than the average Isle of Man forecourt.

Prices vary significantly between the larger retailers in Jersey, with an average difference of about 13ppl[18] on undiscounted prices between the most expensive price of the major retailers and Motor

18Averaged difference between January 2010 and May 2011

Mall. This difference reduces to just above 9ppl when the average value of retail discounts are taken into account, and just over 6ppl[19] if the maximum discounts available are taken into account.

Figure 4.4 Differences between major Jersey retailers, litre unleaded petrol, January 2010 – May 2011



Source: JCRA calculations from data supplied by retail forecourts

Motor Mall consistently has the lowest prices of the larger retailers, and has around 24% of the market. Its strategy is clearly to price low and drive high volumes, and this is a positive competitive force in the Jersey retail market; Motor Mall's average price is around 6ppl higher than the average undiscounted UK price (8-9 ppl taking into account UK discounts).

In our survey of Jersey consumers[20], we asked people whether they knew which forecourt/s offered the cheapest prices in Jersey. Of a total of 200 respondents, 142 consumers responded in the

19 That is, the cheapest price of the major forecourts compared to the most expensive price of the major forecourts, taking account of the maximum level of discounts, averaged over the period January 2010 to May 2011

affirmative and were able to name the forecourt/s. The space in which to respond to the question was unlimited and some people listed more than one forecourt. The results are shown in figure 4.5.

Figure 4.5 Mentions in response to the question "which forecourt has the cheapest price"?

Forecourt	Times mentioned
Motor Mall	124
Airport, Airport car centre, Airport garage, Airport garage X mile, X mile, Airport motor centre, Airport road garage	30
Trinity, Freelance, Augres, Freelance Augres, Freelance Trinity, Augres Trinity	12
MBC	6
Co-Op	2
Kensington Place	2
The following were all mentioned once: Autocare, Checkers, Davis Bros, Longueville, Hastings Road	-

X Mile is identified by Jersey consumers as one of the cheaper forecourts and is noted as being one of the few forecourts that has adopted a strategy of differentiating its fuel by adding additives and not displaying brands of any of the wholesalers**.**

Overall, Jersey consumers would appear to benefit from shopping around. It does appear that Motor Mall has increased its market share over time but it has not yet taken enough of a share from its larger competitors to make the latter match its prices. That is, the drop in volume experienced by the loss of any market share to Motor Mall may not yet be as costly to competitors as to drop prices to Motor Mall's levels to win back that market share.

One stakeholder put it to us that since Motor Mall offers lower prices, and some consumers are simply choosing not to pay them, this is evidence of a competitive market offering consumer choice. We disagree with aspects of this view - not all consumers can be served by Motor Mall, and it is far from clear that Jersey consumers have a straight choice between a relatively competitive price and one that is less so, but actively choose to pay the higher price.

20 Internet survey run by the JCRA April 2011 – May 2011. Care must be taken with the results of this survey, as it is based on 200 responses from consumers who were self-selecting and likely to be more engaged with the issue of road fuel prices than the average Jersey consumer

Consumer behaviour is a key factor in competitive conditions in a market, and relatively less price-sensitive consumers will not, obviously, encourage intense price competition. Retailers will instead choose to compete on other measures such as a more personal service, or rely on consumer inertia in selecting a different supplier. Although it might be the case that some consumers in Jersey are very aware of the different prices of road fuel offered by different suppliers, but are indifferent as to those price differences and choose to pay higher prices, it seems likely that a proportion of consumers may be unaware of the price differences between retailers, or without convenient access to the lower-priced suppliers, find themselves with little choice.

4.2 Low volume sites in the UK

Over the last 20 years, the number of retail forecourts in the UK has reduced dramatically, from over 18,000 in 1992 to just under 9,000 today – a decline of over 50%.The pressures on small volume fuel retailers in rural areas generally mirror those of other rural services, such as shops and post offices, which have also seen a dramatic decline. However, in the case of fuel, increased price competition is often quoted as a reason for the closure of low volume sites generally - in both rural and urban areas[21]. As competition drives down the price and retail margins, retailers with higher overheads per litre struggle to remain competitive, lose business, volumes drop further, and so, due to their relative inefficiency compared to larger sites, become economically unviable and exit the market. Increasing costs also play a part in this trend, such as costs involved in complying with more stringent environmental legislation, with larger retailers better able to finance capital expenditure to upgrade or change infrastructure.

Citizens in the UK, while as consumers welcoming the competitive pressures on fuel prices, do not generally have a positive view of the closure of rural, low volume, fuel retailers. Concerns raised include the impact on the local community in terms of local facilities, jobs, increased drive time to refuel and particular concerns for less mobile people and elderly people where a long drive to the nearest large forecourt may represent a challenge.

21 UK Petroleum Industry Association (UKPIA) briefing note, 2009, Rural filling stations

4.3 Why do so many low volume sites persist in Jersey?

In simple terms, low volume sites in Jersey stay in business because consumers buy from them. We have heard arguments that Jersey consumers favour local suppliers, often have close links with the individuals working in, and owning, local businesses and are loyal to these businesses. It is also the case that disposable incomes in Jersey, on average, tend to be higher than the UK and, driving fewer miles, Jersey consumers may be less sensitive to the price of road fuel than UK consumers.

Stakeholders told us that they thought small Jersey retail forecourts stay in business because they sell other products, not just fuel. Offering other products alongside fuel is typical in the UK - where independent rural filling stations exist, they are still often run by the local car mechanic, and of course the UK supermarkets operate a model of selling food and fuel together, and most of the UK forecourts of the oil majors include at least a convenience store. It is also the case on the Isle of Man that fuel retailers offer other products. Mixed product lines in the UK and Isle of Man have not, however, resulted in the same proportion of very small retailers staying in the market as in Jersey. It seems likely that it is a profitable strategy to share the fixed costs of sites across different products and services, or sell on other products to maximise spend from a consumer stopping to refuel, and it may well be the case that offering the convenience of a fuelling station alongside other services increases footfall. Nevertheless, these facts do not change our underlying analysis and conclusions – increased competitive pressure on fuel retailers tends to result in the reduction in the number of smaller volume retailers. If the offer of fuel makes other products more profitable, then firms will compete for these profits. If offering fuel makes a business less profitable than it otherwise would be, the business is likely to exit the fuel market.

Stakeholders told us that many small Jersey sites are struggling, with some near to exiting the market. We were also told, in anecdotal terms, that some small volume retail forecourts stay in business because the terms of loans with wholesalers oblige them to do so, although from the returns from our questionnaire to retail forecourts, this does not appear to be widespread. Regardless, however, it seems unlikely that sites which are uneconomic could remain in business despite the terms of any loan agreements – in the presence of competitive prices set by more efficient larger forecourts, if competition is effective, it is likely that there comes a point where losses exceed any benefit of remaining in business for smaller retailers.

4.4 Retail Market: conclusions

There are some positive indicators of competition in the retail market, not least the presence of Motor Mall apparently adopting a low margin, high volume, strategy and offering prices which, given the unavoidable extra costs of doing business in the road fuel industry in Jersey, appear more competitive than the average Jersey price compared to the UK. We discuss the extra costs involved in supplying road fuel in Jersey in the following sections.

Despite the pressures of Motor Mall and its increase in market share, a significant difference persists between the cheaper prices of Motor Mall and other large retailers. While the JCRA acknowledges that consumers may value the presence of so many lower volume retailers in local communities, their continued presence does point to the conclusion that there is room for improvement in terms of downwards pressure on prices across the Island.

The overall trend of competition in the retail market, however, appears to be moving in the right direction – in particular, the overall deviation from the UK average price has decreased over time. If price competition starts to force consolidation, this is likely to drive efficiency improvements to the benefit of consumers, and this is a positive indication that competitive forces may be stronger in the future.

4.5 Advertising the price of road fuel so it is visible from the road

One key difference between Jersey and most European countries is that it is not common in Jersey for the price of road fuel to be displayed so it is clearly visible to passing motorists. A survey carried out by JCRA in early July 2011 found that of the 34 retail forecourts, only 9 displayed the price so that it is clearly visible from the road, and of these 9, it was considered that only 5 displayed the price such that a passing motorist would notice it without specifically looking for the price information. Returns from a questionnaire to the retail forecourts also showed 8 garages claim to display prices so they are clearly visible from the road. Annex 1 contains photographs of the type of fuel price displays typical in Jersey.

Figure 4.6 Consumers' views on whether forecourts display prices[22]

Thinking of the forecourt you visit most often, which of the following statements most closely represents your opinion of the forecourt's fuel price advertising?		
	Percent	**Count**
Fuel prices are well displayed and are visible from the roadside	24.5%	46
Fuel prices are only displayed within the forecourt and are not visible from the roadside	29.3%	55
Fuel prices are only displayed once the pump is activated	36.7%	69
I am not bothered whether the forecourt displays its fuel prices	2.1%	4
Don't know	7.4%	14
		Answered question: 188 Skipped question 12

The Price Indicators (Jersey) Regulations 2008 require prices to be unambiguous, easily identifiable and clearly legible, on or in proximity to the goods. Therefore just displaying a price at the pump is sufficient to satisfy Jersey Regulations. There is no legislation in the UK that explicitly requires the display of fuel prices from the roadside, although the UK's Consumer Protection from Unfair Trading Regulations 2008 deal with the concept of misleading omissions and, arguably, not displaying the price so that it is visible from the roadside could be challenged under these Regulations if a failure to do so could be shown to alter consumers' transactional decisions.

It is extremely rare in the UK for a forecourt not to display the price on a large electronic sign and it seems likely that a failure to do so would be viewed as suspicious by most UK consumers. Stakeholders told us that price competition in the UK is such that the price displays are seen as essential marketing and advertising tools.

22 Internet survey run by JCRA April 2011 – May 2011. Care must be taken with the results of this survey, as it is based on 200 responses from consumers who were self-selecting and likely to be more engaged with the issue of road fuel prices than the average Jersey consumer

Road fuel is a frequently purchased good – and consumers have the opportunity to learn about the price, and terms and conditions, of frequently purchased goods. However, the price of road fuel changes more rapidly, and often more significantly, compared to other goods. In Jersey it is possible for a consumer to drive to a forecourt, park next to the pump, and then find out the price – this is likely to play to a consumer bias of commitment and consistency[23]; that is, once people have made some commitment to an action, they are likely to be consistent and follow through with that course of action. In this case, the action is the choice of trader.

Consumers may become price aware about road fuels from various sources: from consumer price comparisons in the press, from experience and word of mouth. In the UK, there are two additional sources: consumer price comparisons sites on the Internet, which are becoming increasingly popular, and roadside displays. It seems extremely likely, given the nature of the product, that roadside displays play an important role in increasing awareness of price differences between retailers, not only because to know the price before entering the forecourt facilitates practical shopping around, but that noticing the advertised price of fuel as people go about their daily business may also be a significant factor.

Stakeholders gave us a range of views on roadside displays: some argued that prices displayed so they are visible from the roadside would make no difference at all, while others agreed that it would make a positive difference and said they would be in favour of all retailers displaying fuel prices so they are visible from the road. In our survey of Jersey consumers[24], 183 people (91%) said that they thought the price of petrol should be clearly displayed so it is visible from the roadside. Most industry stakeholders raised the question of planning permission, and one retailer told us that it had been refused permission to erect a pricing sign. Another had a more positive experience with the Planning and Environment Department, saying that it had managed to find a satisfactory solution.

We discussed these issues with officers from the Planning and Environment Department, who were keen to stress that they were open to reasonable proposals for displaying pricing signs, taking

23A full discussion of commitment and consistency can be found in the OFT report Advertising of Prices, December 2010 (http://www.oft.gov.uk/OFTwork/markets-work/completed/advertising-prices/)
24 Internet survey run by JCRA April 2011 – May 2011. Care must be taken with the results of this survey, as it is based on 200 responses from consumers who were self-selecting and likely to be more engaged with the issue of road fuel prices than the average Jersey consumer

into account the character of the area, the particular circumstances of the property, the level of illumination, and the impact on road safety.

We asked retail forecourts whether they displayed the price so it was visible from the road, and if not, why not? Most did not answer the question, although responses did include:

"Makes the place look tacky and have to be changed constantly"

"We do not advertise pump prices because we are not in a position to compete with much larger sites that pump circa 9 or 10 times as much volume as we are able to. We rely on our location and loyal customers who understand the costs of doing business as a small parish service provider are much higher than other larger sites that are able to facilitate much larger volumes and can also afford to use fuel as a loss leader"

The second quote above includes a suggestion that not displaying the price so it is visible from the road may be part of a strategy to avoid price competition, at least for this particular retailer. We do not dismiss the point about the value of local service providers and, as we acknowledged earlier, although consumers may welcome keen price competition driving down prices, those same consumers, as citizens, may regret the resulting decline in small local providers.

Obliging retailers to display prices would impose a cost and at least a proportion of these costs are likely to be passed on to consumers. There is no evidence from those already displaying prices that that cost is a factor in current retail levels. To put the issue of costs in context, however, it appears that there is room for retail prices in Jersey to be subject to greater competitive pressures. For example, if clearly displayed prices from the roadside resulted in a heightened price awareness among consumers that increased competitive pressure which resulted, for example, in a 1ppl reduction in the average price paid, this amounts to a direct £430,000 per year saving to Jersey consumers, in addition to any benefits from increased competition driving greater efficiencies.

The JCRA is of the view that displaying prices so they are clearly visible from the road is likely to contribute to the development of competition in road fuel and make a positive contribution to consumers' rights to have sufficient notice of the price to be paid before they have made a commitment to a particular trader. While we acknowledge that there will be a balance to be struck between planning restrictions and the clear display of prices, it seems unlikely to us that this balance is impossible to achieve.

The JCRA strongly recommends that all forecourts should display price signs that are clearly visible from the roadside**.** If the JCRA's recommendation is accepted, further work would need to be undertaken with the Department for Planning and Environment, Trading Standards and the industry to formulate the obligation to display prices in practical terms. It seems possible that the change could be brought about relatively easily by incorporating the requirement into the Prices Indicators (Jersey) Regulations 2008. Any change would, of course, need to be followed up with appropriate enforcement so the change becomes part of the normal business practice of the road fuel market in Jersey. We note that the Isle of Man brought about a requirement to display the price of fuel so it is visible from the roadside with the following wording in its Price Marketing Order 2005[25]:

…In the case of motor fuel an indication of unit price shall be displayed on the premises from which it is sold in such a manner that it is easily read by a person in a motor vehicle on the highway from whichever direction he may lawfully approach and enter the premises.

25 Statutory Document No. 9712005

5 Wholesale Market

5.1 Structure of the wholesale market

All petroleum products imported into Jersey are handled by the La Collette Terminal. The operation, and history, of the La Collette Terminal, is covered in great detail in other reports[26] about fuel importation and distribution in Jersey and so the detail is not repeated here. In summary, the facts relevant to our competition analysis of the road fuels market are that La Collette Terminal Limited (LCTL) operates the terminal on behalf of a consortium between FSCI, owned by Rubis, and Esso. FSCI owns 60% of the consortium assets and Esso owns 40%. LCTL is a wholly owned subsidiary of Rubis, and acquired 60% of the assets of the terminal from Shell UK in 2009.

The lease for La Collette, signed in 2007 for 10 years between the States of Jersey and Esso and Shell (now Rubis for these purposes) states:

> To permit the use of the Demised Premises and of the apparatus, equipment and other facilities which the Tenant is entitled to use under Clause 7 for the through-putting and storage of petroleum products by any third party which is for the time being permitted by all relevant Competent Authorities to conduct the business of suppliers of oil products in Jersey ("Permitted Third Party User") upon a Permitted Third Party User making application to the Tenant for such permission provided always and it is acknowledged that the Tenant shall be entitled to require the payment by each Permitted Third Party User of a reasonable fee for the benefit of such permission and to stipulate such reasonable conditions to be observed by each Permitted Third Party User in the exercise of such permission as shall be necessary to ensure the safe efficient and proper use of the relevant areas, apparatus and equipment, which conditions may (save in any case where it would be reasonable for the relevant Permitted Third Party User to self-insure) include a requirement that Permitted Third Party Users effect insurance in respect of road tankers.

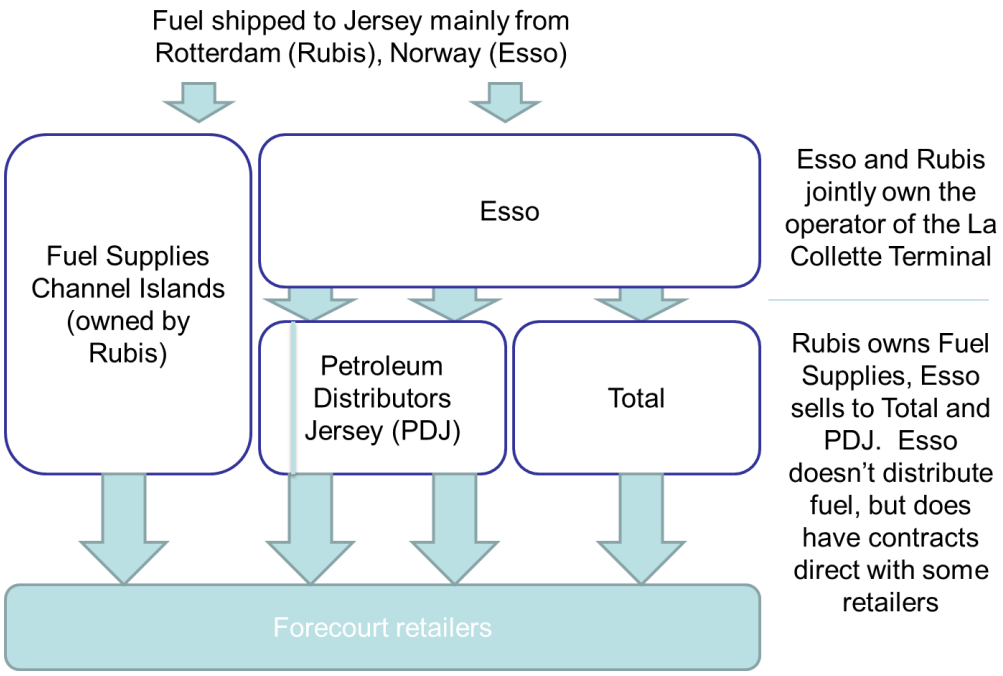
This suggests that third parties may seek access to facilities for the throughput and storage of fuel at La Collette although, of course, whether this is feasible and practical for a third party would depend on the price required. If a new entrant ever sought access to La Collette it is possible that

26See Oxera report and Consulting Solutions reports as earlier references

JCRA may be called on to resolve any dispute using its general competition law powers. FSCI and Esso import fuel into Jersey. Total purchases its requirements from Esso. Esso distributes fuel through PDJ. FSCI distributes its own products. As at the 21st June 2011, Total is reported to have sold 810 UK service stations and its associated logistics infrastructure, Channel Islands and Isle of Man businesses, to Rontec Investments L.L.P. (**Rontec**) - a consortium comprising Snax 24, Investec and Grovepoint Capital.

Apart from the recently announced transfer of Total's operations, the structure of the wholesale market appears to have changed little over time apart from the acquisition in 2009 of Shell's activities by FSCI, and the 1996 acquisition by Total of BP's operations.

Figure 5.1 Wholesale Market Structure



Source: JCRA

5.2 Market Shares at the wholesale level

In 2001, Oxera reported that of the forecourts selling fuel to the public, 50% had exclusive contracts with Esso, 35% with Shell, and 15% with Total. In 2010, the percentage of forecourts supplied by Esso was 40%, FSCI 43% and Total 16%. In terms of volume supplied through the retail forecourts to the public, 2010 market shares are shown below in Figure 5.2.

In 2001, Oxera did not report market shares by fuel volume, but in 2004 Consultancy Solutions estimated the following volume market shares: Esso 43%, Shell 45% and Total 12%.

The biggest change in market shares appears to be the rise of Total's market share by volume, which is attributed to Motor Mall, supplied by Total, which did not feature in the market shares of 2004 but now has around 24% of the retail market. Esso's market share has remained broadly the same as that reported in 2004, and the market share of FSCI has declined from Shell's 2004 figure of 45%.

Figure 5.2 2010 Volume Wholesale Market Shares, road fuel supplied to the public through retail forecourts, 2008 - 2010

	2008	2009	2010
Esso	46%	45%	43%
FSCI	29%	28%	27%
Total	25%	26%	28%
PDJ (Esso)	< 1%	1%	3%
Total volume million litres	**43.8**	**43.2**	**43.0**

Source: JCRA calculations from data supplied by wholesalers

5.3 Wholesale Prices and switching

Wholesale prices supplied to each retail forecourt in Jersey were collected by the JCRA from the wholesalers, on a weekly basis for 2010 and January to May 2011. Total, FSCI and Esso all issue a standard price and supply to each retail forecourt with a discount off that standard price.

Some retail forecourts told us that they did not just select wholesale suppliers on the basis of price but also took into account the quality and reliability of the services offered. A discount according to volume is to be expected, as scale economies in delivery and the general transaction are normal. We looked at the discounts from the wholesale standard prices for all retail forecourts throughout

2010 and the first 5 months of 2011, along with the volumes supplied to each forecourt, and we suspect that discounts vary not only by volume supplied, but by the willingness of retail forecourts to shop around, and the ability to negotiate and drive a hard bargain. Some of the differences we observed may be accounted for by differences in costs (for example, contributions to capital investment by retailers), but, nevertheless, this data does appear to indicate that it would be worth retailers shopping around between the wholesale suppliers for the best deal. There is, however, some information that counters this conclusion in the form of reports from some retailers saying that they have struggled to obtain competitive bids from all suppliers.

When we spoke to the wholesalers, most claimed that barriers for retail forecourts switching wholesale supplier were relatively low and the new wholesaler would share the rebranding costs. Stakeholders provided the following examples of retail forecourts switching supplier:

- Falles Longueville switched from Esso to Shell in 2005;
- Motor Mall switched from Esso to Total in 2007;
- MBC switched from Esso to Total in 2005 and from Total to FSCI in 2007;
- Bel Royal Motors switched from Esso to Total in 2005 and from Total to Esso in 2010;
- Full Service Centre switched from Esso to Total in 2005 and from Total to FSCI in 2011;
- Falles Airport Garage switched from Total to FSCI in 2009;
- Checkers Xpress group of sites moved from Shell to Esso in 2002; and
- Augres switched from Esso to Total in 2009.

These examples are encouraging, although when viewed on a yearly basis, they do not represent an especially high level of switching.

Figure 5.4 Switching from wholesale supplier examples found per year

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of switching examples	1	0	0	2	0	2	0	3	1	1

Contracts between wholesale suppliers and retail forecourts, as reported by the retail forecourts, range between 1 year and 10 years with newer contracts tending to be of a more appropriate duration of less than 5 years. The JCRA notes that many of the contracts of a longer duration have recently ended, or will soon end. Some stakeholders that we spoke to said that since some of the

longer duration contracts are now coming to an end, there is some likelihood that the rate of switching by retailers between wholesalers in the future will be higher than in the past.

In 2007, the JCRA considered the issue of the length of exclusive contracts between fuel wholesalers and retailers in its decision relating to an exclusive supply agreement between Esso and Roberts[27]. The JCRA determined that 5 years was an optimum exclusivity period for such an agreement. The JCRA also placed a restriction determining that at any time during the term of the agreement, if Esso proposed increasing the length of the exclusivity period, Roberts was able to contact other wholesalers to request competitive quotes.

5.4 Wholesale Market: Conclusions

A market structure which contains only 2 players importing fuel to Jersey does not raise expectations that the market is likely to be intensely competitive. Esso and FSCI alone are unlikely to have strong incentives to compete fiercely, and drive down wholesale prices, to win market share from each other. Total, however, adds a third player to the picture, and this is positive from the point of view of competition.

The position of Total is interesting. Total buys from Esso in Jersey, and Esso buys from Total in Guernsey under seemingly very similar arrangements. These arrangements can be expected to significantly increase Total's bargaining position with Esso in Jersey, and given Total's increasing market share since 2001, these arrangements appear to contribute positively to competition.

The overall competitive picture at the wholesale level then is one of a limited number of players, in a relatively small market, some switching between wholesalers by retailers which may increase in the future and some indications of wholesale rates that are more competitive than others. Although not an importer of road fuel, the position of Total, supplying the largest retailer Motor Mall and holding reciprocal arrangements with Esso in Guernsey, appears to make a positive contribution to the overall competitive picture. The impact of the recent sale of Total's Channel Island operations to Rontec, in terms of whether Rontec will continue to operate under the same arrangements as Total, is not yet known.

27Decision C 105/06, JCRA June 2007, Concerning the motor fuel supply agreement between Esso Petroleum Company Ltd and Roberts Garages Ltd

6 Retail and wholesale margins

It is to be expected that margins for retailers and wholesalers of road fuel in Jersey will be higher than in UK. First, because the costs at both the retail and wholesale levels can be expected to be higher, and second, as set out in earlier sections, the smaller Jersey market – because of structure but also because of consumer behaviour – is unlikely to be as competitive as the UK market. This section attempts to explore how much the higher margins may be attributed to extra unavoidable costs of road fuel wholesalers and retailers in Jersey and how much may be due to less competition compared to the UK.

The analysis here is necessarily based on broad brush indicators, and contains certain assumptions. This is in order to keep it proportionate to the resources available, the total cost of the work, and the burden placed on firms in answering data requests, and by necessity, given the data available for comparison. Nevertheless, providing the appropriate tolerances of the results are always considered, appropriate conclusions can still be drawn.

6.1 Extra costs of doing business in the Jersey road fuels market

The nature of the extra costs of doing business in the petrol market in Jersey has been covered extensively in earlier reports[28] and include:

At the wholesale level compared to the UK any extra costs associated with:

- shipping and freight costs between refinery and La Collette;
- port and harbour dues and costs incurred in the importation of fuels to Jersey;
- the throughput of fuels through La Collette; and
- the distribution and delivery to retail forecourts.

At the retail level compared to the UK any extra costs associated with:

- low volume forecourt throughput for *some* retailers;
- labour costs;
- higher service quality; and
- land rental costs.

28 See Oxera and Consulting Solutions reports as earlier references

In 2001, Oxera reported that it considered that an extra 3ppl (2001 costs) would cover the efficiently incurred costs compared to the UK at the wholesale level. At the retail level, Oxera estimated that around 1.5ppl may be due to attended supply at retail forecourts, 2–4ppl associated with higher land costs, and around 1–2 ppl from the lower throughput of the retail forecourts (all 2001 costs). Some retail forecourts that we spoke to argued strongly that they had much higher labour and land costs than the UK, quoting figures such as 43% higher labour costs, for example.

In 2004, Consultancy Solutions estimated that the additional costs of the wholesale Jersey supply chain for road fuel were 3.3ppl. In early 2011, the JCRA asked Consultancy Solutions to update its 2004 analysis to 2011. This analysis, estimating the extra costs for Jersey at 5ppl, is shown in Figure 6.1 below.

Figure 6.1 Consultancy Solutions estimation of January 2011 extra costs of Jersey compared to the UK

	Jersey	**UK**	**+/-**
Primary Distribution Cost	0.85	0.552	0.30
Transit Stock loss	0.03	0.05	-0.02
Port Dues	0.72	0.014	0.70
Terminal Throughput Fees	0.40	0.23	0.17
Terminal Stock Loss	0.03	0.05	-0.02
Additive Cost	0.60	0.10	0.50
Secondary Distribution	1.90	0.60	1.30
Jersey Distributor margin net of operating costs	2.00	0.00	2.00
Total	**6.53**	**1.60**	**4.93**

Figure 6.1 shows the estimated differences between Jersey and the UK for various stages of the supply chain. For example, Consultancy Solutions estimates that there is 0.3ppl extra costs involved in the primary distribution compared to the UK and this is because of the different ports of origin for fuel to Jersey compared to the UK. Port dues in Jersey, detailed in the table above,

add another 0.7ppl, and economies of scale in terminals results in a lower terminal throughput fee in the UK. Secondary distribution in Jersey represents an additional cost over the UK and Consultancy Solutions consider that again, this results from economies of scale in UK operations.

The data shown in Figure 6.1 are estimates so it is useful to compare them with recent data available for Islands similar to Jersey. The Isle of Man 2010 Report on liquid fuel prices put the cost of getting fuel to the Isle of Man in 2008 at 1.08ppl (including harbour dues) and estimates the cost of storage and on-island distribution at 1.73-1.99ppl. Compared to the Isle of Man, the estimated costs for Jersey seem somewhat high, particularly for secondary distribution, although of course the two islands are not identical.

The JCRA asked all of the wholesalers to provide their estimates of the figures shown in Figure 6.1, and comment on the finding that the extra costs in Jersey amount to some 5ppl, including the JCRA's view that this estimate may be on the high side. While general comments about the nature of the extra costs were received, no data to contradict the overall findings was obtained. One wholesaler argued that the extra costs were in the order of 8.5ppl but did not present any data to substantiate this claim.

6.2 Pence in the pump price

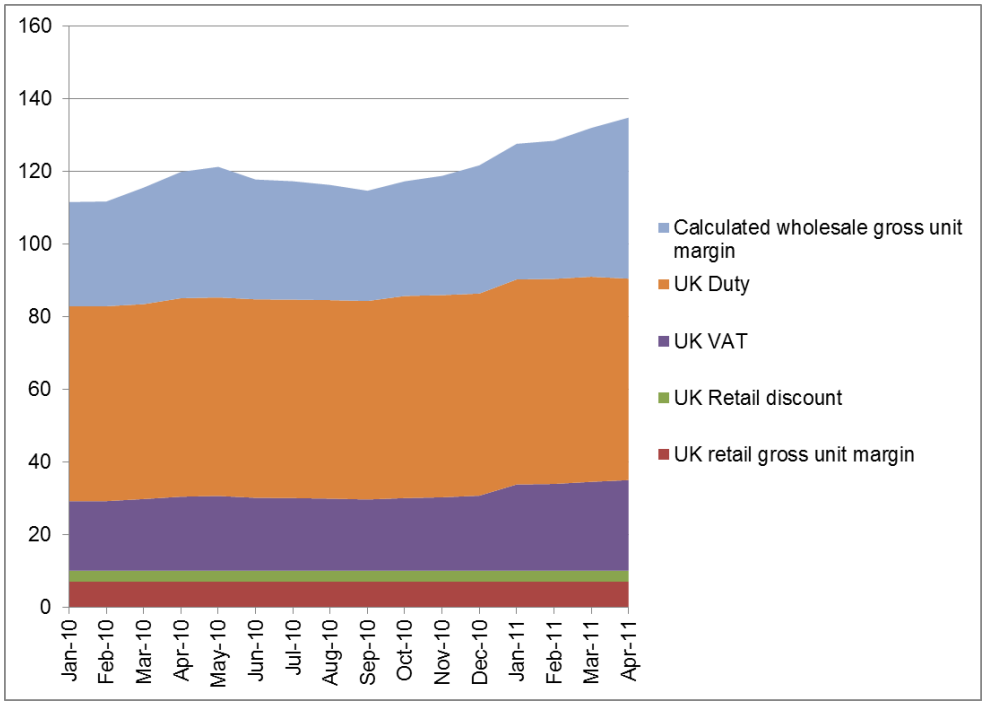
The price for a litre of fuel that a consumer pays at the pump is made up of sales taxes and duty, an amount retained by the retail forecourt which covers its costs and profit (retail gross unit margin), and an amount retained by the wholesaler which covers the cost of the product itself and the wholesaler's costs and profit (wholesale gross unit margin). By comparing this breakdown of the pump price between the UK and Jersey, the extra amounts retained at both the retail and wholesale levels can be displayed so it is easy to visualise where consumers' money ends up for each litre of road fuel bought.

All of the ppl analysis in this section is, or is in reference to, the price of a litre of unleaded petrol unless stated otherwise.

Figure 6.2 shows this analysis for the UK used as the basis of comparison with Jersey over time. Figure 6.3 shows a snap shot of this analysis in a pie chart for April 2011. In Figure 6.2, the total

area is the average undiscounted pump price in the month shown, calculated according to the methodology described in section 3. From this, we identify the average UK retail discount, calculated at 3ppl, also described in section 3 of this report.

Figure 6.2 Breakdown of the headline pump price for the UK over time, litre of unleaded petrol



Source: data sources and calculation described in report text

A figure of 7ppl for the UK gross retail margin (or the difference between the ex-refinery price and the discounted retail price not including any taxes) is used in the analysis and appears to be an estimate very much on the safe side, particularly when considering that this figure includes the cost of distribution to the retail petrol stations in the UK. This figure of 7ppl is higher than those used in earlier reports, and it is generally accepted that retail margins in the UK are thin and have been reducing over time. In 2008, UK PIA[29] stated that:

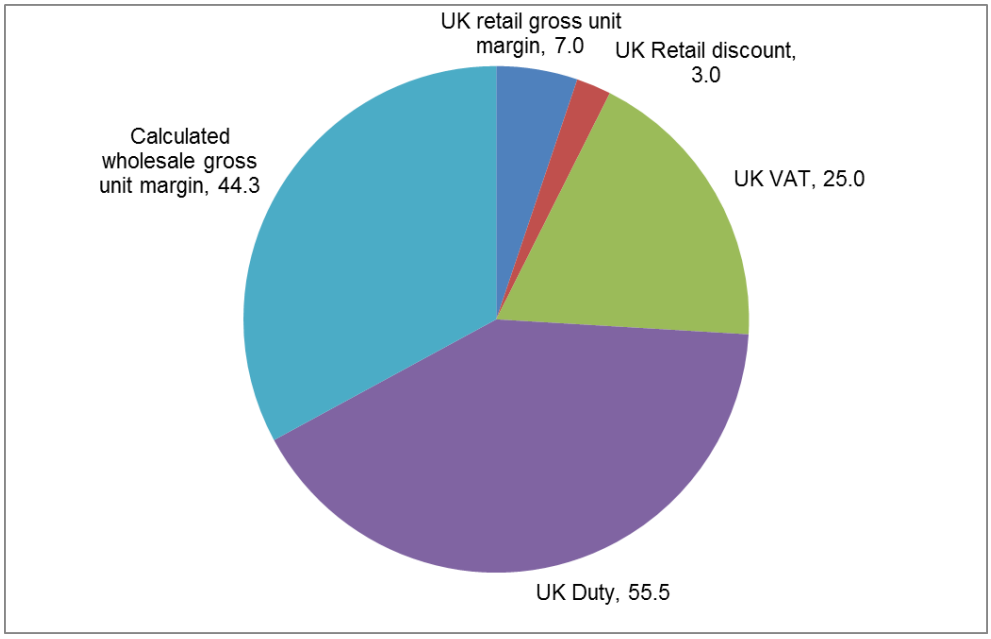
For those companies with UK fuel marketing activities, particularly retail forecourts, over the last fifteen years this has become increasingly a high volume low margin business, characterized by strong competition. This is evidenced by the fairly flat trend in the difference between the ex refinery wholesale price of petrol and diesel and the pre-tax forecourt pump price – often referred

29 UKPIA, August 2008, Downstream oil industry profitability

to as the gross retail margin – which has ranged between 5-6 pence per litre over the last four years.

Consultancy Solutions' 2011 calculations, produced for the JCRA, estimated the gross retail unit margin in the UK at 4.32ppl. In January 2011, Petrolprices.com reports the same figure as 5ppl. In March 2011, in its briefing note *Understanding the Pump Price*, UK PIA used a figure of 7ppl for the gross retail unit margin stating that this needed to cover: costs of transport to a storage terminal/depot; storage and distribution to a filling station; marketing and promotion costs; and the costs of operating the filling station and staff. A key difference in the comparisons below for Jersey is that the wholesale price shown includes distribution to the retail forecourts.

Figure 6.3 Breakdown of the headline pump price for the UK at April 2011, per litre of unleaded petrol, total 134.74p



Source: data sources and calculation described in report text

The figure of 3ppl for UK retail discounts also appears to be on the safe side, as discussed in the earlier section on retail discounts, but for the purposes of this analysis, it may be appropriate to be cautious with this estimate. There are allegations from independent retailers in the UK that the supermarkets use road fuel as a "loss leader" and the supermarkets' fuel prices are artificially low. The JCRA has not been able to verify that this is actually the case, but nevertheless, the point should be considered when viewing the overall conclusions from this analysis.

Using Jersey wholesale and retail prices collected over the period January 2010 to May 2011, we calculated the gross retail and wholesale unit margins over this time period, in the same format as described above for the UK, for 4 of the larger Jersey retailers and their wholesale suppliers, and compared them to the data for the UK. The actual data for each supplier is highly confidential and so has been redacted from the public version of this report. The lowest gross unit retail margins we observed tended to be just below the average value for the UK. The highest, around 12 ppl on average, is significantly higher than the UK.

Although the JCRA acknowledges that labour costs and land rental costs for Jersey retailers may be higher than for those in the UK, this does not account for the range of differences in prices from the UK average between the Jersey retailers. We can expect such costs to be broadly the same between Jersey retailers although there is a difference in terms of volume between the retailers, and this is likely to add *some* unavoidable costs (as discussed earlier, however, not all of the costs of lower volume sites may be sustainable if competitive pressures increased).

Data from the OFT in the Isle of Man, an island with a similar sized population to Jersey which also imports all of its refined road fuel by sea, and where the wholesale price to the retailers also includes delivery to the forecourts, puts the 2008 retail margins at 4.30ppl for petrol and 3.01ppl for diesel, with a weighted average of 3.7ppl. The average forecourt in the Isle of Man has a throughput of 2.4 million litres, and the volumes of the retailers used in our analysis generally have volumes per forecourt above those of the average Isle of Man forecourt.

Comparing the Jersey margins with averages from other countries has its disadvantages. In an ideal world we would compare similar retailers and have knowledge of efficiently incurred costs, but such depth of data is not available. Nevertheless, retailers on the Isle of Man with higher volumes than average will tend to have lower costs per litre, and retailers with lower volumes higher costs per litre than average. So scale economies due to volume would not seem to account for the difference between these Jersey retailers' margins used in the analysis in this section, and the Isle of Man average margin. Other costs such as property prices or labour costs may account for some of the difference but, nevertheless, the scale of the difference at the higher end of the observed range remains substantial. Consultancy Solutions calculated in January 2011that the extra

costs involved in operating in Jersey were approximately 5ppl. One of our stakeholders suggested that the extra costs are in the region of 8.5ppl. The minimum gross unit margin deviation from the UK average was consistently more than 5ppl, and mostly above 8.5 ppl, and the maximums observed even more so.

The UK 7ppl gross unit retail margin figure used in the analysis covers distribution to the forecourts, while in Jersey, this cost is included in the wholesale price. The implication of this extra estimate in the analysis is that the combined retail and wholesale gross unit margin is likely to be more reliable than the split between wholesaler and retailer. Even considering a shift of 2 – 4ppl from the wholesale margins we calculated, to the retail margins we calculated, does not invalidate a conclusion that some wholesale gross unit margins in Jersey are likely to be above those of the UK, even allowing for extra unavoidable costs of doing business in Jersey, and strengthens the conclusions we draw about the retail margins.

One of our stakeholders argued that the correct comparison for the unit margin analysis shown in this section would be to compare the lowest prices and margins in the UK with the lowest prices and margins in Jersey, and the highest prices and margins in the UK with the highest prices and margins in Jersey. While we acknowledge that comparing the prices and margins in Jersey with the UK or Isle of Man averages has the disadvantage of resulting in a somewhat broad brush analysis, we do not consider that an analysis based on the lowest and highest prices and margins would be any better. The lowest prices found in the UK may be related to volumes far in excess of those found in Jersey, and the highest may well be the result of lower than normal conditions of competition, or exceptionally high costs. Our aim in this analysis is to draw some conclusions about whether the higher prices in Jersey may be accounted for only by the extra costs of doing business in Jersey or whether a proportion of them may be accounted for by the state of competition in the market. To this end, we consider that making comparisons with UK average figures, which we assume result from an overall competitive market, and using the Isle of Man average as another comparator, is better than a comparison than with the extremes found in the UK market.

7 Conclusions

We have considered a broad range of indicators of the state of competition in the retail market for road fuel in Jersey including:

- the strategies and pricing of Motor Mall and its largest market share and the strategies for growth by other retailers;
- results from price comparisons both with UK prices and between Jersey retailers;
- the growth in the average throughput of a forecourt over time, yet the persistence of so many smaller retailers in Jersey;
- the evidence which points towards a finding that some retail forecourts have higher gross unit margins than we might expect if competitive pressures were greater; and
- the lack of price advertising and the likely impact of this on consumer behaviour.

We conclude that over time, competition in the retail market has improved and there are some positive indicators that it will continue to do so, but there is still room for improvement in the strength of competitive forces facing the retail forecourts.

At the wholesale level, we have considered a similar range of indicators to inform us about the state of competition:

- some indications of price competition at the wholesale level between Esso, FSCI and Total, both from the analysis of prices and changes in market share;
- limited expectations of any new entry at the wholesale level;
- switching by retailers between wholesale suppliers cannot be described as high although the outlook for the future appears more positive; and
- the evidence which points towards a finding that wholesalers have higher gross unit margins than we might expect if competitive pressures were greater.

We conclude that although there are some positive indicators of competition at the wholesale level there are also reasons to think that competition at the wholesale level could be stronger.

7.1 What can be done?

New entry at the wholesale level seems unlikely, as the small size of the Jersey market is unlikely to be attractive to a new entrant facing two - three with Total - existing suppliers. In the event that a new entrant is interested in using the facilities at La Collette, the terms of the lease between the terminal operator and the States of Jersey provide a useful starting point. It is also possible that an investigation under the Competition (Jersey) Law 2005 would find in favour of a new entrant seeking fair access.

Apart from encouraging new entry, which currently does not appear likely, other options include some form of regulatory price control. Based on the evidence we have seen, we do not consider such a remedy could be justified. Wholesale price regulation may actually dampen what price competition there is, encouraging suppliers to price in reference to a regulatory benchmark. Price regulation would also impose significant costs, not only in the direct cost of regulation itself but costs on the firms, costs of imperfections in regulation, and costs in terms of reducing the attractiveness of Jersey both to any potential new entrants and existing suppliers.

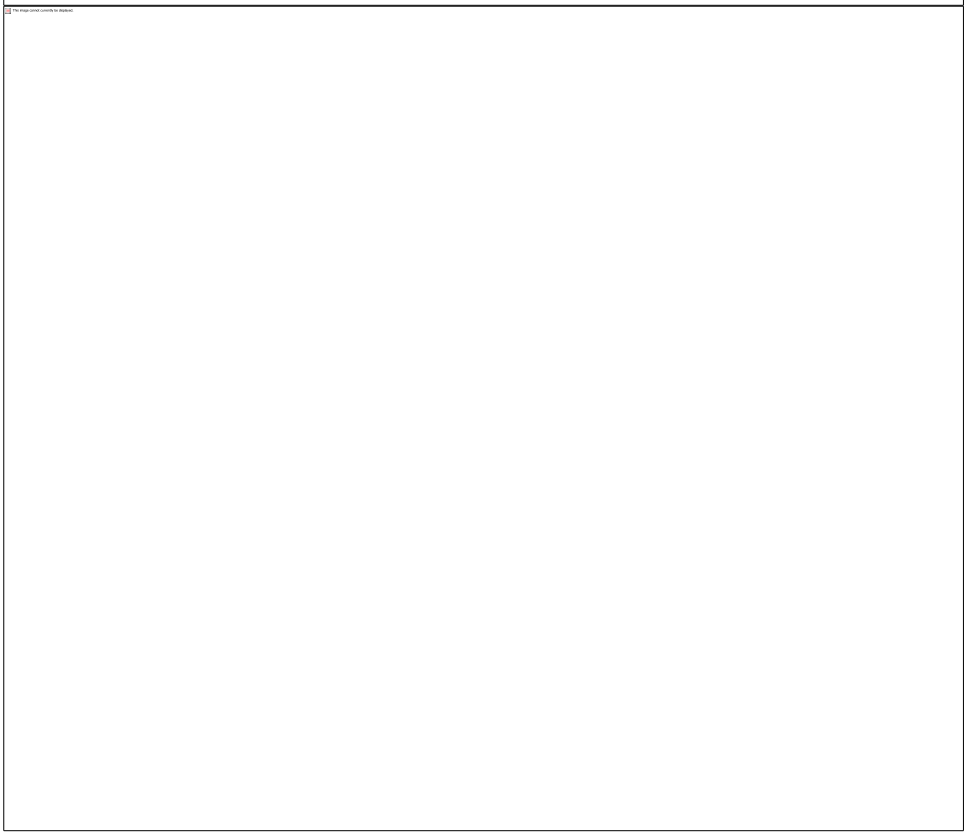
Regulatory intervention at the retail level does not appear to be either practical, or justified given the positive indicators for the future. Given the price differences between retail suppliers in Jersey, there does appear to be scope for consumers to shop around more, and so drive greater competition. We consider that obliging retailers to display prices which are clearly visible from the roadside is likely to have a positive impact on competition, increasing the pressures on retailers and in turn encouraging them to switch supplier and put pressure on the wholesale suppliers. We acknowledge, however, that if competition at the wholesale level remains somewhat muted, action at the retail level will be less effective than if competitive conditions could be improved at both the retail and wholesale levels.

Annex 1 Photographs of forecourts and signs in Jersey – taken 10th July 2011

Examples of clearly visible signs - Airport Car Centre X Mile and Coop St Peter

Examples of unclear signage - M&S St John & MBC, Red Houses, St Brelade

Examples of no signage at all - St Ouen's Motor Works and La Moye Garage



Annex 2

Motor Fuels Internet Survey – Summary of Responses

1. Are you involved in the sale, or distribution, of motor fuels in Jersey? For example, do you, or a close member of your family, own or work for a forecourt supplying motor fuels, or a company that distributes motor fuels?				
			Response per cent	Response count
		Yes	1.5%	3
		No	98.0%	196
		Don't know	0.5%	1
			Answered question	200
			Skipped question	0

2. In the last month, have you refuelled a vehicle in Jersey?				
			Response per cent	Response count
		Yes	99.5%	195
		No	0.5%	1
		Don't know	0.0%	0
			Answered question	196
			Skipped question	4

3. Are you:			
		Response per cent	Response count
	A resident in Jersey	100.0%	195
	A regular visitor?	0.0%	0
	Here on holiday?	0.0%	0
	Here on business?	0.0%	0
	Prefer not to answer this question	0.0%	0
		Answered question	195
		Skipped question	5

4. Do you know which forecourt (or forecourts) have the lowest prices for road fuel in Jersey?				
			Response per cent	Response count
		Yes	73.2%	142
		No	26.8%	52
			Answered question	194
			Skipped question	6

5. Please enter the name of the forecourt or forecourts which you think offer the lowest prices for motor fuel.				
				Response count
			Answered question	142
			Skipped question	58

6. Thinking about the last time you refuelled was this for?				
			Response per cent	Response count
		Business purposes (not including daily travel to and from work)	2.1%	4
		Private use	83.0%	161
		A mixture of the two	14.9%	29
			Answered question	194
			Skipped question	6

7. Thinking about the last time you refuelled, do you remember the approximate price you paid per litre?				
			Response per cent	Response count
		Yes	75.3%	146
		No	24.7%	48
			Answered question	144
			Skipped question	56

8. Approximately how much did you pay?				
		Response average	Response per cent	Response count
Pence per litre		112.97	16,268	144
			Answered question	144
			Skipped question	56

9. Thinking about the last time you refuelled, do you think the forecourt you went to offered the cheapest, or nearly the cheapest, price in Jersey?				
			Response per cent	Response count
Yes			61.8%	118
No			24.1%	46
Don't know / can't remember			14.1%	27
			Answered question	119
			Skipped question	9

10. Did you choose that forecourt because you knew it offered a low price?				
			Response per cent	Response count
Yes			97.5%	115
No			2.5%	3
Don't know / can't remember			0.0%	0
			Answered question	118
			Skipped question	82

11. Why didn't you go to a forecourt that offered lower prices?				
			Response per cent	Response count
Won't make much difference to the overall price paid			4.2%	2
Don't know which forecourt has cheaper prices			16.7%	8
The forecourt I went to was convenient			54.2%	26
Always go to the same forecourt			22.9%	11
Don't know / can't remember			2.1%	1
			Answered question	48
			Skipped question	152

12. Thinking about the last time you refuelled a vehicle, how satisfied were you with the PRICE paid?				
			Response per cent	Response count
		Very satisfied	1.6%	3
		Fairly satisfied	10.0%	19
		Neither satisfied or dissatisfied	17.9%	34
		Fairly dissatisfied	28.9%	55
		Very dissatisfied	40.0%	76
		Don’t know / can’t remember	1.6%	3
			Answered question	190
			Skipped question	10

13. Thinking about the last time you refuelled a vehicle, how satisfied were you with the OVERALL SERVICE you received?				
			Response per cent	Response count
		Very satisfied	25.9%	49
		Fairly satisfied	33.3%	63
		Neither satisfied or dissatisfied	32.3%	61
		Fairly dissatisfied	5.3%	10
		Very dissatisfied	2.6%	5
		Don’t know / can’t remember	0.5%	1
			Answered question	189
			Skipped question	11

14. Thinking about the last time you refuelled a vehicle, how satisfied were you with the FORECOURT FACILITIES?				
			Response per cent	Response count
		Very satisfied	23.3%	44
		Fairly satisfied	38.6%	73
		Neither satisfied or dissatisfied	31.2%	59
		Fairly dissatisfied	5.8%	11
		Very dissatisfied	0.5%	1
		Don’t know / can’t remember	0.5%	1
			Answered question	189
			Skipped question	11

15. Do you think forecourts should clearly advertise the price of fuel so it is easily visible from the roadside?		
	Response per cent	Response count
Yes	96.8%	183
No	3.2%	6
Don't know / can't remember	0.0%	0
Answered question		189
Skipped question		11

16. Thinking about the last time you refuelled a vehicle, how satisfied were you with the FORECOURT FACILITIES?		
	Response per cent	Response count
Fuel prices are well displayed and are visible from the roadside	24.5%	46
Fuel prices are only displayed within the forecourt and are not visible from the roadside	29.3%	55
Fuel prices are only displayed once the pumped has been activated	36.7%	69
I am not bothered whether the forecourt displays its fuel prices	2.1%	4
Don't know	7.4%	14
Prefer not to answer the question	0.0%	0
Answered question		188
Skipped question		12

17. The next questions are about you. The reason we need to ask these questions is to ensure we have sampled a wide range of people. All your details and answers will be anonymous and confidential. Please select your age band from the following:		
	Response per cent	Response count
16-24 years	3.2%	6
25-34 years	15.4%	29
35-44 years	20.7%	39
45-54 years	22.9%	43
55-64 years	17.0%	32
65-74 years	19.1%	36
75 and over	1.6%	3
Prefer not to answer the question	0.0%	0
Answered question		188
Skipped question		12

18. What gender are you?		
	Response per cent	Response count
Male	67.6%	127
Female	32.4%	61
Prefer not to answer the question	0.0%	0
Answered question		188
Skipped question		12

19. Which Parish do you live in / are you staying in?		
	Response per cent	Response count
Grouville	8.6%	6
St Brelade	18.7%	35
St Clement	7.5%	14
St Helier	21.9%	41
St John	2.1%	4
St Lawrence	7.0%	13
St Martin	4.3%	8
St Mary	1.1%	2
St Ouen	7.0%	13
St Peter	5.9%	11
St Saviour	13.4%	25
Trinity	2.7%	5
Prefer not to answer the question	0.0%	0
Answered question		187
Skipped question		13