UNDERSTANDING PRICES AT THE PUMP

OCTOBER 2016
Petrol and diesel prices have an impact on family finances. Naturally, many of the UK’s 38 million motorists want to know how service stations set the price of petrol and diesel. The answer is linked to the global price of crude oil, often known as Brent crude, but it also includes the cost of refining the oil into petrol and diesel, the wholesale prices of petrol and diesel, taxes and the service station’s own costs.

**What is Brent crude?**

The majority of oil purchases on the global market are set against the benchmark price of Brent crude.
The global price of crude oil is just one part of the price of petrol and diesel at the pump. This global price moves up or down, at times significantly, depending on the balance of supply and of demand for oil in the global market.

The price of crude oil partly drives wholesale fuel prices, which are the prices that refineries charge retailers like Shell after they have converted crude oil into petrol and diesel. Wholesale fuel prices also depend on the cost of refining the crude oil and the level of supply and demand for petrol and diesel.

**What are wholesale fuel prices?**

Wholesale prices of petrol and diesel includes the cost of refining crude oil. The prices are also driven by supply and demand in the global market. High demand for petrol or diesel could cause prices to rise.

**What is the global market?**

This refers to the exchanges on which commodities such as crude oil, petrol and diesel are bought and sold.
Since the global oil market trades in US dollars, the currency exchange rate causes further fluctuations in the wholesale price of fuel when it is converted to pounds Sterling.

Petrol and diesel prices on Shell’s UK forecourts generally track trends in wholesale fuel prices.

In the year January 2014 - 2015, for example, the global price of crude oil dropped 53% and the average wholesale price for petrol and diesel, and prices on Shell’s UK company owned service stations, both fell between 16% - 18%. Similarly, when crude oil and wholesale prices rise, Shell increases the price of its petrol or diesel.

For the latest information on crude oil and wholesale price trends please visit the link below:

What influences Supply & Demand?

- Geopolitical issues
- Seasonal demand - demand for petrol, for example, is highest in the summer, particularly in the USA during the so-called ‘driving season’
- Demand for diesel is higher in winter when the demand for heating oil is high
- Temporary disruptions such as reduced refinery capacity or bad weather which delays fuel shipments.
Around two-thirds of the cost of a litre of fuel goes to the British government in the form of taxes. Fuel duty in the UK is set at 57.95 pence per litre, regardless of the price of petrol and diesel and 20% Value-Added Tax (VAT) is then charged on top of the total cost. These taxes make petrol and diesel prices in the UK among the highest in Europe. In October 2015, for example, UK motorists paid around 70% tax on a litre of petrol, while the figure was 65% in France and in Germany and 57% in Spain, according to figures from the UK government.**

In the UK, fuel duty is the same for both petrol and diesel, in contrast to most other European countries where taxes on diesel are lower. Demand for diesel in the UK is also higher than the production capacity of UK refineries. This means that high volumes of diesel need to be imported from overseas, so transport costs add to the price of diesel in the UK.


*Based upon a price of 115.9 ppl in October 2016
The costs of transporting fuel to forecourts, and running service stations, is also reflected in the price of a litre of fuel.

The UK is a competitive market with low profit margins for service stations. The right petrol and diesel pricing is therefore critical to Shell’s success. We are constantly balancing our pump prices according to a number of factors. These include the wholesale price of fuel, our own retail site costs, including staff costs, rent, building maintenance and marketing and the level of competition in the local area.

Fuel retailers like Shell typically make around 2% profit, or a few pence on every litre of fuel we sell in the UK. Retailers need this profit in order to stay in business.
With around 1,100 Shell-branded service stations serving five million customers every week, Shell is one of the biggest fuel retailers in the UK. We own and operate around 550 of these service stations, and set pump prices based on the factors described above. Independent dealer groups own and operate the remaining Shell branded sites, and set their own pump prices. Shell is prevented by law from telling dealer groups what prices to charge their customers.

Shell will not sell fuel at a loss and that means we cannot always match the pump prices of our competitors. Instead, we offer motorists convenient locations, attractive loyalty programmes and high-quality fuels.

Our network meets the growing demand for convenience in the UK, as consumers change their shopping habits by favouring top-up shops in local stores instead of weekly out of town shopping trips.

Three in four service stations in Shell’s UK network are on A-roads, giving customers access to fuel and services where they need them.

Shell does not operate refineries in the UK. That means we buy most of the fuel we sell from other refineries and suppliers. We then blend our own additives into our FuelSave and Shell V-Power Nitro+ petrol and diesel. These high quality and high performance fuels are the product of our strong investments in research and development.