Petrol and Diesel Price Differential

- Forecourt pump prices are influenced by a number of factors, including taxes, crude oil and refined product prices, exchange rates and competition.

- In the UK excise duty and VAT in 2016 accounted for around 70% of the average pump price of a litre of petrol or diesel.

- Competition in the UK has kept pre-tax prices amongst the lowest in the EU.

- With increased demand for diesel in the UK, Europe and globally a growing gap has developed between the wholesale price of petrol and diesel and this has been reflected in the pump price for diesel and petrol.

Background

The price of crude oil and the resultant impact on fuel prices is a subject that attracts a lot of interest. The UK petrol and diesel market is very competitive and normally delivers the cheapest pre-tax pump prices in Europe. The influences upon pump prices are explained in more detail in our briefing ‘Understanding Pump Prices’, but essentially these include crude and product prices, exchange rates, Government duty and VAT, overall demand combined with seasonal factors, and local competition.

Demand for diesel has been growing in the UK and Europe, as well as globally. This has had a major impact upon the wholesale ex refinery price, with diesel normally being higher than that of petrol, particularly during winter months.

What are the causes?

There are a number of factors at work, which broadly fall into the category of market or structural influences. Market factors include:

- increased crude oil prices, with particular demand for “sweeter” lower sulphur crudes like those from the North Sea
- increased global demand for transport fuels, particularly diesel
- seasonal winter demand for heating gas oil which is similar to diesel and made from the same basic refinery components
- summer export of petrol to the USA
- short-term market factors reflecting fuel specification changes, extreme cold weather or temporary supply problems

Structural influences include:

- a growing imbalance in the UK and in most other EU countries between petrol and diesel production and demand
- fuel specification changes

In the UK, substantial investment was made at refineries during the late 1980s and after, to meet the anticipated increased demand for unleaded petrol. Since then refinery investment has largely been focused on producing cleaner sulphur-free fuels, reducing emissions and improving energy efficiency. In fact, petrol demand in the UK peaked in the early 1990s and has been declining ever since. In part this is because petrol cars have become more fuel efficient. Increasingly, UK demand for diesel fuel has been driven by growth in the goods vehicle transport and improvements in diesel engine technology which has encouraged motorists to switch to more fuel efficient diesel powered cars with lower CO₂ emissions. Vehicle Excise Duty and
company car tax rates linked to CO$_2$ have been an additional factor. Tax policy has also played a part; the rate of duty on diesel in most EU countries is lower than that on petrol. The UK is now in a position where some diesel and components to make diesel fuel have to be imported to meet demand. The net deficit is estimated at just under 11 million tonnes a year, which represents about 47% of total consumption (BEIS, 2015). In common with other EU countries, the deficit is largely met by imports, mainly from Russia. In the last year, the differential in wholesale prices of diesel and petrol reached just under 4p per litre at times. This differential between diesel and unleaded petrol is reflected in pump prices at filling stations.

There also tend to be seasonal variations in wholesale prices. During winter months, demand for heating gas oil, a similar product to diesel and made using similar refining components, rises and has tended to increase the price of diesel. During the summer, increased demand for petrol from the USA is met by exports from the UK and other European refineries. This has tended to increase the wholesale price of petrol in NW Europe to a level closer to that of diesel. (See figures 1 & 2 below)

**Figure 1:** Crude oil, petrol spot and pump prices (excluding Duty and VAT) January 2008 - December 2016 (Source: Wood Mackenzie)

**Figure 2:** Crude and diesel spot and pump prices (excluding Duty and VAT) January 2008 – December 2016 (Source: Wood Mackenzie)

**Conclusions**

In common with other EU countries, diesel supply in the UK has become tighter in recent years. This has been reflected in wholesale prices and pump prices that are often higher than petrol prices. Pump prices will fluctuate, influenced by the factors outlined above. However, there will still be variances across the market due to regional or local conditions and the differing objectives of filling station owners. Strong competition contributes to UK petrol and diesel prices being consistently amongst the lowest in Europe, excluding duty and tax, but taxation remains the largest component of the pump price.