

# What determines pump prices?

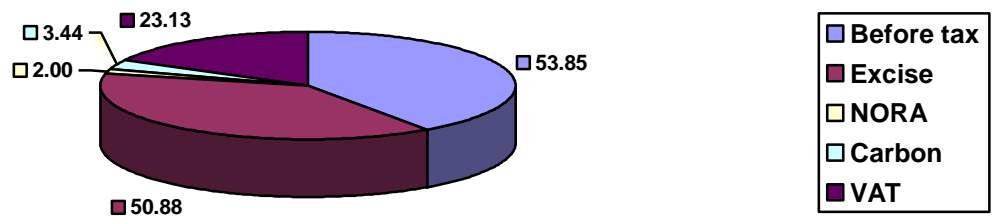
Set out below are the main components that add together to make up the price of petrol at the pump. These include the price of product, which is determined in the international marketplace and the two taxes imposed by the Irish Government. As oil is traded exclusively in US Dollars, the strength/weakness of that currency against the euro also impacts on pump prices. Particular national disasters may have short term consequences but of far greater lasting impact is the continuing increase in demand from China and other rapidly emerging economies. Irish consumers benefit from having an intensely competitive retail market.

## 1. Taxation

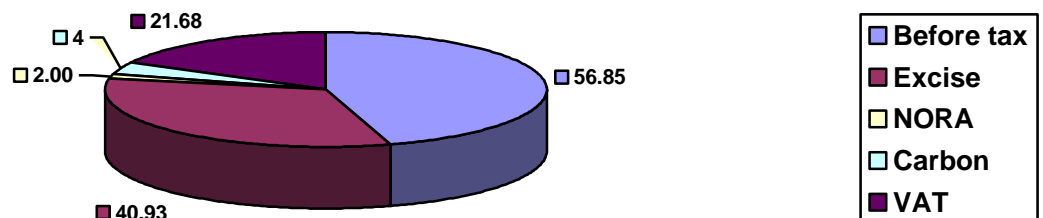
In the Republic of Ireland, tax (excise duty and VAT) is by far the single largest component of the pump price. Following the Budget statement of 7 April 2009, the excise duty on petrol remained at 50.88 cent per litre but the excise on diesel was raised to 40.93 cents per litre (both excluding VAT). The levy imposed by the National Oil Reserves Agency (NORA) on petrol and diesel was doubled to 2.00 cent per litre for both diesel and petrol from 1 October 2009.

The Budget of 9 December 2009 introduced a **carbon tax** which added a pump price of 4.18 cents to a litre of unleaded and 4.86 cents to a litre of diesel. These both reduced by 0.02 cents on 1 January 2010 as the VAT rate reduced from 21.5% to 21%.

**Cost of PETROL  
at 134.4 cents per  
litre**



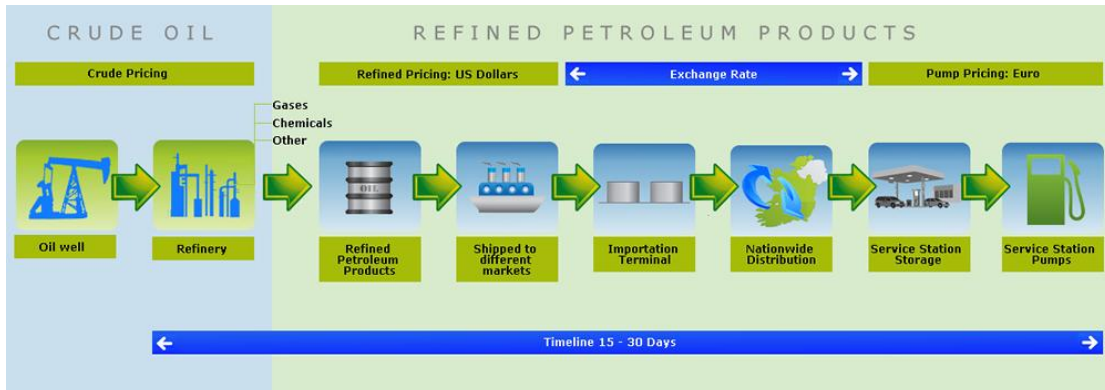
**Cost of DIESEL  
at 125.5 cents  
per litre**



Source: Pump prices are from Automobile Association Ireland, July 2010

## 2. Cost of product

Crude oil is a commodity traded on international markets and from it a whole variety of products are refined including petrol, diesel, heating oil, jet fuel. The producers of crude oil range from national states, most of whom operate under the banner of OPEC, to small independent production companies. Crude oil prices are dependant on market forces - principally supply and demand, which in turn can reflect such issues as the producing countries' income needs, global growth patterns and others matters.



The individual companies in the Irish petroleum industry buy refined products and the cost of supply to Ireland is driven by the cost in dollars per tonne of refined products traded out of Rotterdam. For each of the refined products such as petrol, motor diesel and heating oil, there is real time tracking of market information - in effect the price at any moment - known as the Platts Quote. This is based on trades done in that product – similar to the way the Stock Market reflects prices for a company's shares at a point in time. Irish oil companies importing petrol and diesel into Ireland have generally done so taking into account the relevant Platts quote for trade out of Rotterdam for North West Europe.

While the long-term trend in the price of crude oil has generally had an effect on the price of refined products, there is no strict correlation. The pressures of supply and demand for refined products have tended to lag those of crude oil and can be affected by other forces. One obvious example is that heating oil prices have tended to rise during winter as a result of increased demand. Other influences have included the level of stocks of oil in the USA, such as the demand for petrol in summer, etc. Similarly, the supply and demand for one refined product have sometimes followed different patterns to another. Traditionally, diesel in Ireland was always slightly cheaper than petrol on the forecourts. The main reasons for this were because the customs duty rates on diesel were lower than those on petrol while the international prices for both products were normally within the same range.

However, this has changed recently as there is a shortage of diesel at European refineries. The average barrel can only produce so much diesel and European diesel demand has far outgrown that production. Our latest estimate is that Europe imports 25 million tonnes of diesel per annum, mainly from Russia. Also, the increased demand for aviation fuel has also had a limiting effect on diesel production. In addition to this, product prices in Ireland have fluctuated with changing monetary exchange rates. Both crude oil and finished refined products are traded in US dollars. In Europe there is therefore the added variant of the relative strength of the euro versus the US dollar that has served to move the price of product coming to us either upwards or downwards.

This process was understood by the National Consumer Agency in their [\*Investigation into Petrol and Diesel Price Movements\*](#), published in December 2008. "There is little evidence to suggest unwarranted delays in the passing on of wholesale price changes to the consumer at the pump. Direct comparison between fluctuations in crude oil prices and petrol and diesel pump prices is inappropriate and does not reflect the reality of the petrol and diesel supply chain. To more accurately assess flow through of price changes in refined oil products (such as petrol and diesel) to the consumer, it is necessary to compare fluctuations in Platts prices, these being the prices for Refined oil products such as petrol and diesel paid by wholesalers, and prices at the forecourt pump....Examination of the accounts of the larger oil companies in Ireland suggest there is relatively modest profit to be made in the downstream supply of refined oil products. Further along the supply chain, statistics measuring the numbers of service stations and fuel outlets in the country point to sustained shrinkage year on year, which would further suggest this is not a highly profitable area in which to operate, at least at the level of fuel supply only."

**Petrol is inexpensive when compared to other liquid products.** Through investment in technology and expertise, the oil industry has managed to hold down the cost of petrol and diesel. The raw product – crude oil - must be searched for beneath the surface of the Earth, extracted, transported across oceans, refined into petrol and other products which are then freighted to Ireland, stored and delivered locally. Compare the cost of petrol going through that journey and those processes with locally produced milk or bottled water:

	<b>Before tax</b>	<b>After tax</b>
<b>Petrol</b>	55 cents	133 cents
<b>Diesel</b>	57 cents	125 cents
<b>Bottled water</b>	74 cents	90 cents
<b>Milk</b>	106 cents	106 cents
<b>Beer (4.7% alc)</b>	241 cents	348 cents
<b>Orange juice</b>	272 cents	329 cents

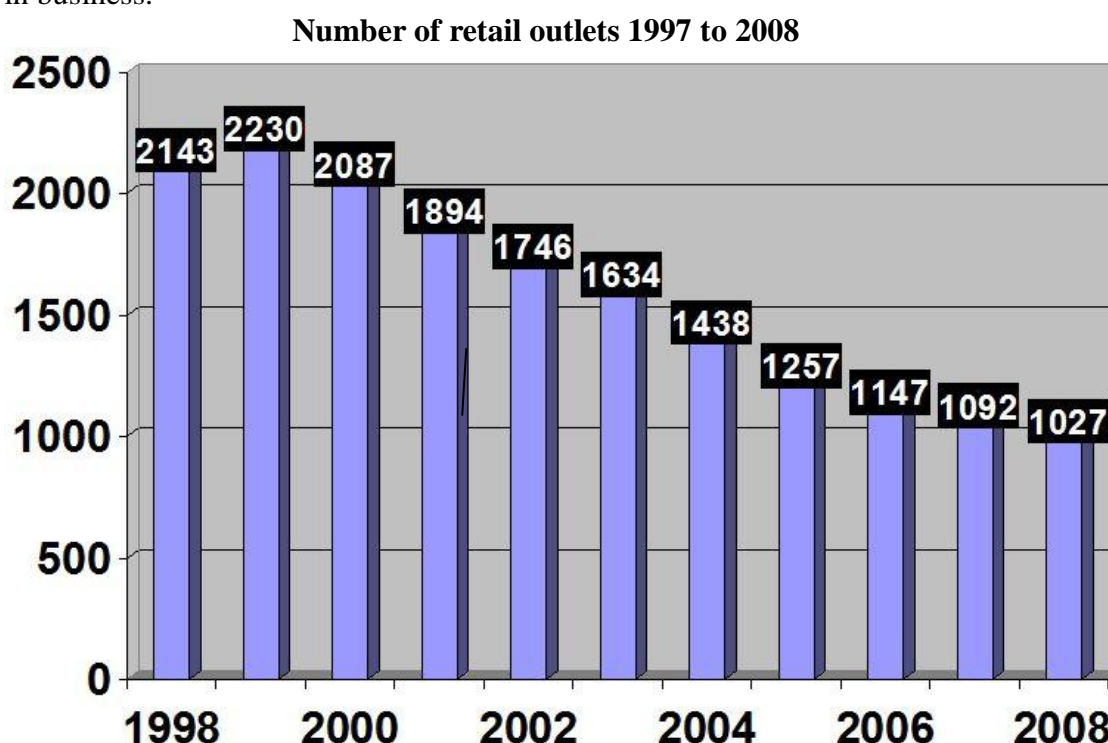
*Dublin, July 2010*

### 3. Competitive Irish market

There is a very competitive Irish motorfuels market. So competitive is the market that pump prices on different company forecourts have often moved up and down almost simultaneously, reflecting movements in the major components of the petrol price – tax (announced on Budget Day each year), refined product prices and the exchange rate – which generally affect all supplies into Ireland at the same time.

The Irish Government removed the Maximum Prices Order in 1991 and deregulated the market, following a public Fair Trade Inquiry into the industry. Since then, average pump prices have generally moved in line with the cost of product to the industry and the taxation that is added to this. The very open competition between retailers ensures that consumers get good value. Since 1997 it has been obligatory on all motor fuel retailers to display prices on signage with large numerals near the roadway. Consequently, unlike most other things consumers buy, petrol and diesel prices are clearly visible from your car before you even enter the premises.

The Automobile Association survey of petrol prices in the eurozone countries shows Ireland at about midway. <http://www.aaireland.ie/petrolprices>. As in any free market, there may be variations in price between different retailers and different parts of the country for logistical and other reasons. It is a matter for any retailer to balance the benefits of high volumes against low margins. However, intense competition has taken its toll and many stations have been unable to remain in business.



*The above table reflects the number of sites of IPIA members. While there are other retail sites in Ireland, the pattern over the past decade is clear.*