



SURVEY OF THE COMPETITIVE ASPECTS
OF OIL AND OIL PRODUCT MARKETS IN
THE EU – EXECUTIVE SUMMARY

A report to Directorate-General Energy and
Transport of the European Commission

December 2009

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MARKETS IN THE EU – EXECUTIVE SUMMARY



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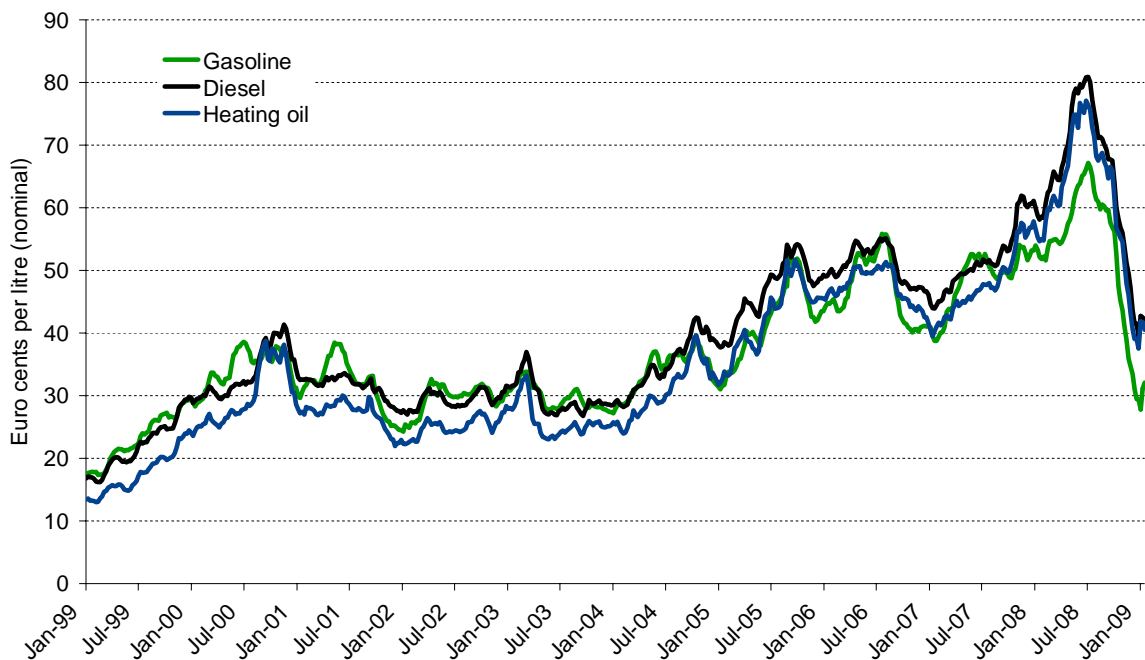
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EXECUTIVE SUMMARY

Introduction

Over the last five years, commercial and retail fuel prices across the EU have risen significantly only to fall dramatically during the last half of 2008. This is illustrated in Figure 1 below, which shows the volatile movements in the EU average pre-tax retail price of gasoline, diesel and heating oil, over the period 1999 to 2009. As can be seen, the volatility over the last five years contrasts with the previous five year period across all products.

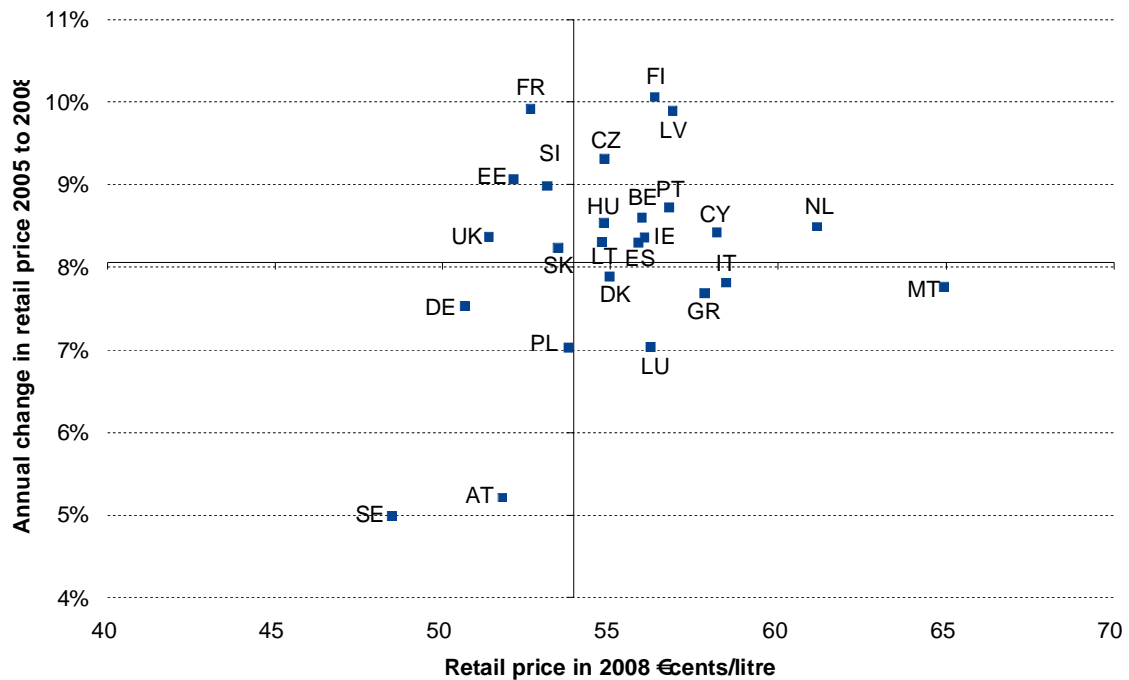
Figure 1 – EU weighted average pre tax retail fuel prices



Source: EU Oil Bulletin

Though movements in the average price broadly track the price of crude oil, there is a wide variation in the level and change of retail prices across the Member States. This is illustrated for gasoline in Figure 2 and similar variations are observed for diesel and heating oil.

Figure 2 – Variations in gasoline prices across countries, net of tax



Source: EU Oil Bulletin

The level of prices, together with the extent and speed of observed price movements, is driven by the interaction between the underlying cost of supplying the product and the effectiveness and form of competition throughout the supply chain. Given the importance of oil for the economies of the EU (oil-based products accounted for around 42% of EU final energy consumption in 2006), the efficient and competitive operation of the downstream oil products market in the EU is important for domestic and industrial consumers as well as for overall EU competitiveness.

Approach of the study

The overall aim of the study has been to investigate the extent to which the markets for gasoline, diesel and heating oil are competitive and well-functioning¹. Of particular interest in this context were the following:

- Is there evidence of horizontal or vertical integration and has it facilitated competition or introduced barriers?
- Is the wholesale trading market efficient?
- Is there evidence of market integration across Member States?
- Have market dynamics (i.e., entry and exit of firms) been consistent with competitive pressures?

¹ Due to the vast number of products it has been necessary to prioritise the most important ones. The selection has been based on the relative importance to society.

We have followed two complementary strands of analysis to identify potential indicators of distortions to the efficient operation of the market:

- a review of the operation, structure and contractual relationships within the downstream supply chain – focussing on the potential barriers raised by horizontal or vertical integration; and
- a quantitative assessment of the key price-cost relationships within the market – to determine whether prices are cost reflective, as would be expected in a competitive market.

The pricing analysis reviewed and compared trends in product prices (wholesale and retail), gross retail margins (GRM) and refining and product (crack) spreads across regions and countries. Where differences in price or margin behaviour were identified further investigation was undertaken to establish if this was a consequence of underlying cost conditions or an indicator of market distortions or failures.

The investigations drew on the market structure review and the relationships throughout the supply chain and focussed around indicators of three broad drivers of pricing behaviour:

- cost structure – for example, the level of fixed costs, scale economies realised and transport costs;
- market structure – for example, the extent of horizontal and vertical integration within market; and
- business models – for example, whether there is evidence of price and margin pressures on businesses through the existence of innovative or low-cost competitors such as hypermarkets or pure-play refiners.

In addition, further qualitative assessment of potential regulatory barriers and recent competition law cases was carried out. Where inefficiencies or distortions in pricing behaviour were identified, estimates of the associated adverse welfare impact (measured by lost consumer surplus and deadweight loss) were provided through application of a simple welfare analysis.

A substantial data collection exercise has underpinned the analysis. Much of the information has been obtained from established sources and reference points in the downstream market that analyse and report on prices and key performance indicators, including crude oil and wholesale product prices, refining and retail margins².

Overview of the supply chain

Figure 3 shows a stylised representation of the downstream oil product supply chain, detailing the physical flows of crude oil and product through the system alongside the supporting contractual relationships. The key physical stages are:

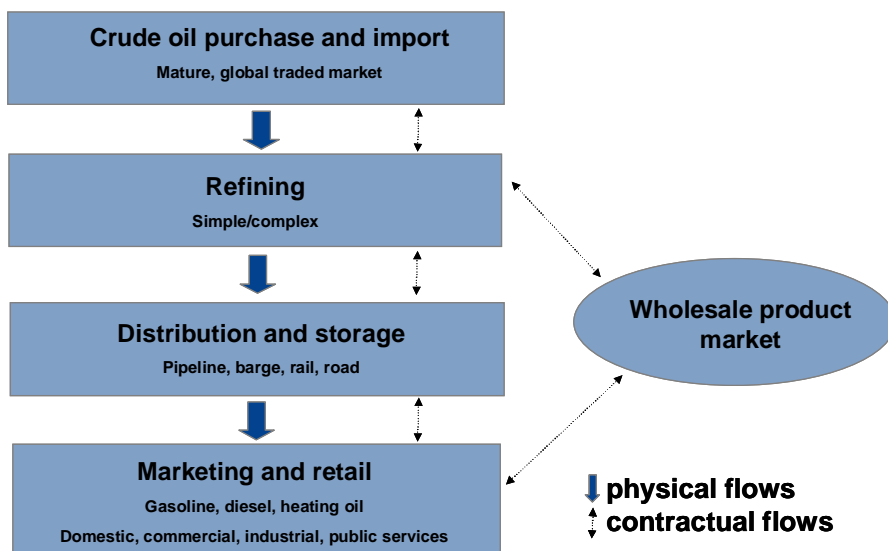
- the purchase of crude oil;
- refining of crude oil into a range of products;
- distribution and storage of the refined products; and

² Six main sources were used during the study to ensure a degree of consistency in the datasets. These were Platts and Argus for crude oil and product pricing, Oil and Gas Journal and (OGJ) and Concawe for refinery statistics, the International Energy Agency (IEA) for refinery margins and Experian Catalist for retail site data.

- marketing and retail to end-users.

The wholesale product market sits alongside this physical chain as a means to obtain agreement of contractual relationships between refiners and distributors/retailers/large users and facilitate competition through the removal of barriers to entry in both activities. We have investigated the operation within and between each of these elements of the supply chain and key findings are summarised below.

Figure 3 – Oil products supply chain



Crude oil purchase

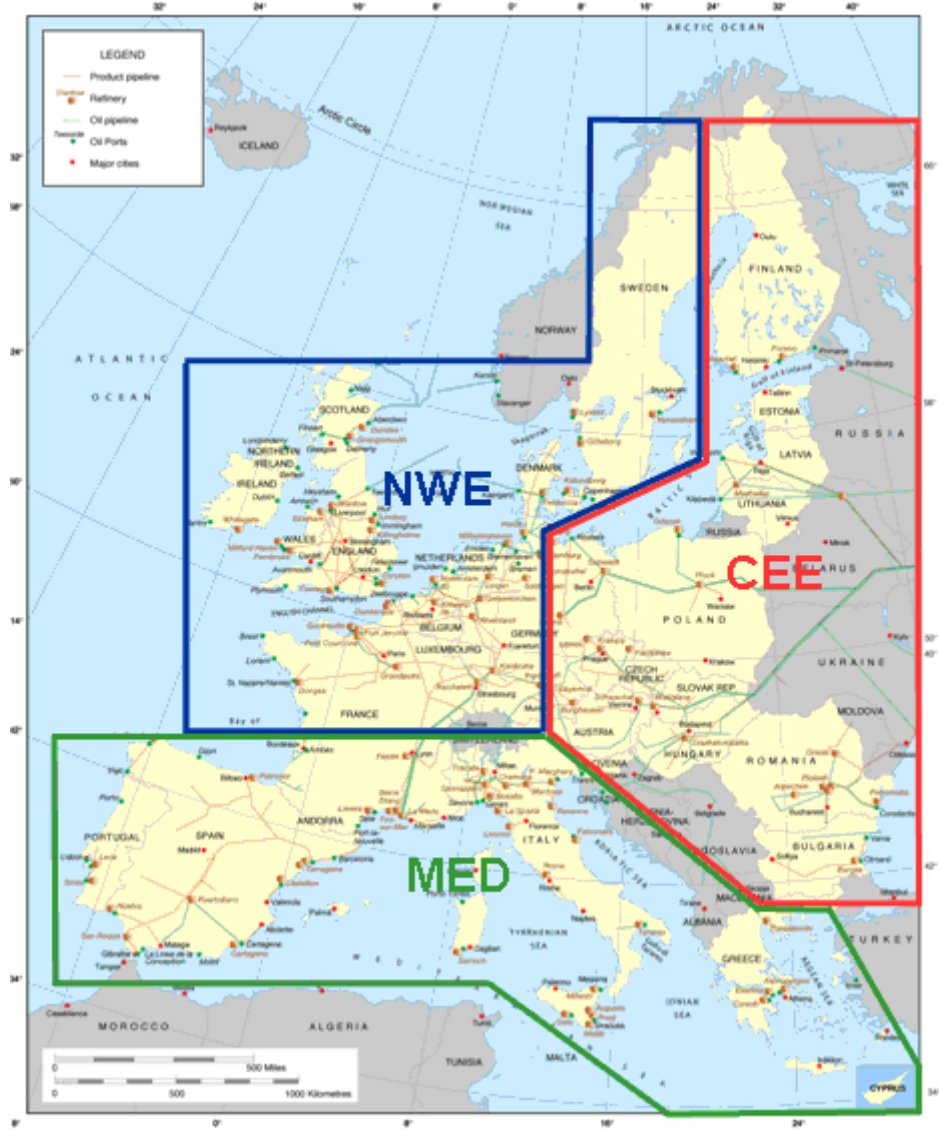
Though the competitiveness of the crude oil market is outside the scope of this study, some knowledge of the features of this market and of crude oil itself is necessary as they have a major impact on the cost of production (both as a raw material and through the associated refining requirements).

The European Union is highly import-dependent. Though there are indigenous sources – predominantly from the North Sea, Romania and northern Italy – they cannot meet EU requirements³. Key import sources include the Former Soviet Union, the Middle East and northern Africa.

This diversity in potential sources of crude means refineries in different geographic locations will use different crude oils, sourcing that to which they have easiest access. Throughout the report, the European oil product market is divided into three regions for discussions of refining and wholesale product markets – North West Europe (NWE), the Mediterranean (MED) and the Central and Eastern Europe (CEE), as shown in Figure 4. This division is based on the consideration of transportation infrastructure, distribution markets and accessibility to different crude streams. For example, North Sea crude blends account for around a half of that used in refineries in NWE, whereas 80% of the crude in the CEE is Urals crude (see Table 1).

³ This situation has deteriorated in recent years with rising demand and falling production.

Figure 4 – Oil product regions in Europe



These differences are important as crude oil is not a homogeneous product. In particular, crude will vary in its sulphur content and its gravity, or thickness, as shown in Table 1. These characteristics affect the value of the crude as they determine the effort required to extract higher value refined product and meet required sulphur standards. Light crudes with low sulphur content, such as Brent, tend to attract a premium over heavier crudes such as Urals.

Table 1 – Crude types and percentage used by source

Crude type	North Sea Blend	Arabian Gulf	West African	Urals	Sahara Blend	Weighted average	
	API					API	Sulphur
Sulphur content	0.3%	1.9%	0.1%	1.3%	0.1%		
Region							
NWE	48%	10%	13%	22%	6%	36.1	0.7%
Med	13%	38%	7%	25%	18%	35.1	1.1%
CEE	6%	12%	0%	80%	2%	33.0	1.3%
Total	29%	22%	9%	29%	10%	35.4	0.9%

Source: Based on IEA, *The European refinery industry under the EU Emissions Trading Scheme*, 2005

Refining

Overall refining capacity in the EU has been relatively stable over the last twenty years. As Table 2 shows, over half of the capacity is situated in NWE and refineries there are larger, enabling them to benefit from greater economies of scale in operation.

Table 2 – EU refinery size by region

Region	Number of refineries	Nameplate capacity mb/cd	Ave nameplate capacity per refinery kb/cd
North West Europe	49	8.4	170
Mediterranean	37	5.0	136
Central and Eastern Europe	17	1.9	114
European Union	103	15.3	149

Note: The total excludes three bitumen and two specialist refineries for which there was no information on nameplate capacity. Sources: Oil & Gas Journal Dec 2008 and Pöyry Energy Consulting

Though most Member States have some refining capability, the capacity is not evenly dispersed. Refineries are often clustered around key infrastructure facilities such as major ports or pipelines, as shown in Figure 5. These clusters act as a focus for wholesale trading and wholesale markets have developed around the main hubs, by far the largest of which is the Amsterdam-Rotterdam-Antwerp (ARA) market.

Figure 5 – Map of refinery clusters



Though capacity has been stable, the market has not been stagnant. There have been changes in ownership, including the establishment of several pure-play refiners such as Petroplus, Ineos and SARAS. We have also seen asset swaps, divestments and acquisitions within the EU as players alter their portfolio positions and geographic focus, such as BP’s exit from the UK refining market and increase in capacity in the German market through the acquisition of Veba. As the relationships between NOCs and governments in the MED and CEE regions alter over time, we may anticipate further changes within these regions.

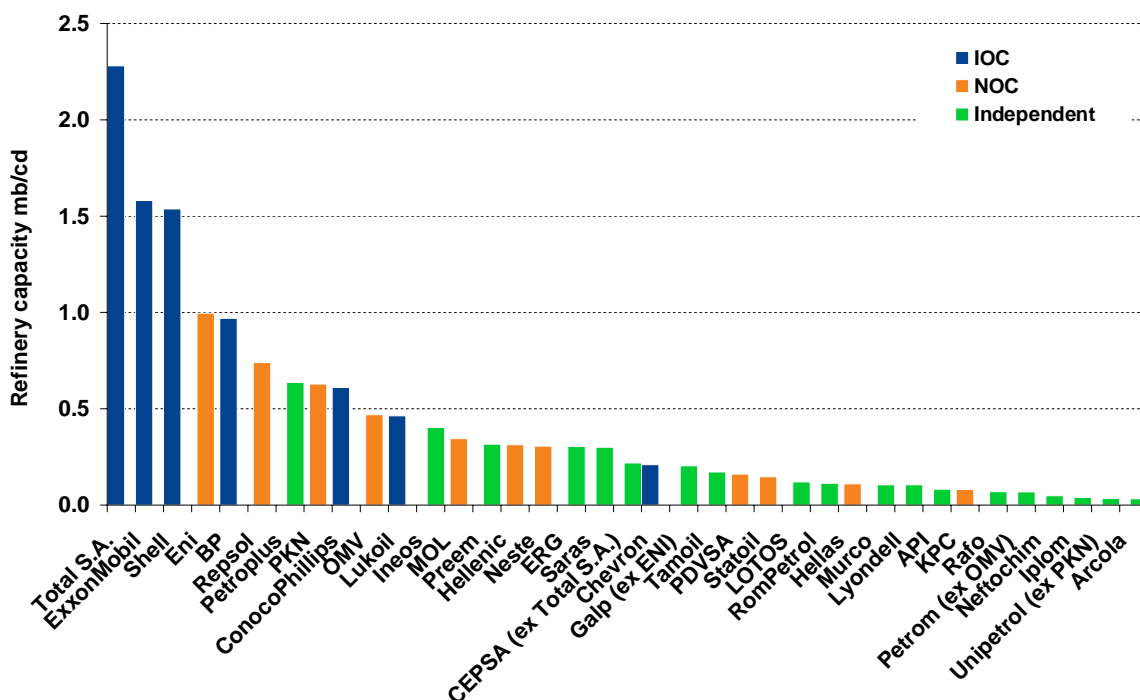
As of 2009, the top six refinery players in the EU account for around 50% of capacity (see Figure 6), but the market itself is not overly concentrated when assessed using a standard measure of market concentration such as the Herfindahl-Hirschmann Index (HHI).

Interestingly, the main players differ between the regions. Whereas the International Oil Companies (e.g. Shell, Total, BP, ExxonMobil) have a strong presence in the NWE market, they are less prominent in the MED market. Here National Oil Companies, such as Repsol and ENI, are the major players. The CEE market, being smaller and less advanced in its liberalisation and privatisation remains very much the province of NOCs.

Another difference between regions is in the type of refining capacity they have – simple or complex⁴. Complex refining, while more capital intensive and more expensive, enables higher yields of more valuable and marketable products – such as diesel. NWE has a higher proportion of simple refining capacity than either the MED or CEE. In the longer term, possible reliance on heavier crudes and a continuing shift in demand towards higher value products such as diesel and away from gasoline, may require additional investment to increase the capacity of complex refining units.

⁴ The distinction is simplistic and there are several types of refining process.

Figure 6 – Refinery players in the EU by distillation capacity – 2009



Sources: Oil & Gas Journal Dec 2008 and Pöyry Energy Consulting

Wholesale markets

A vital link between refining and retail marketing is the wholesale petroleum products market. An efficient, open, wholesale market facilitates competition by providing access for independent refiners and retailers to contractual counterparties and improving price signals and transparency. Wholesale trading markets, centred around the refining clusters exist and are increasing in transparency, liquidity/depth and range of players involved. Our initial findings indicate that:

- ARA is a transparent reference point for product prices;
- the range of products traded in MED is narrower and the liquidity of the market is lower than in NWE; and
- CEE countries price off published reference prices in both the MED and ARA regions as a wholesale market has yet to develop in that region.

Retail

Fuel retail markets over the last 10 or 20 years have undergone significant consolidation and changes in the position of the main players. As Table 3 shows, though there are differences in the market shares of the largest players, in general, the markets do not appear excessively concentrated.

Table 3 – Summary of throughput in motor fuel retail market

Country	MS of largest player	MS of 3 largest players	HHI	Number of players > 5% MS	Names of three largest players
Austria	22%	58%	1,430	6	OMV, BP, Shell
Belgium	18%	44%	1,061	7	Total S.A., Q8, Esso
Denmark	23%	61%	1,733	5	Statoil, Shell, OK
Finland	35%	73%	1,066	5	Neste Oil, Teboil, ABC
France	32%	56%	1,514	6	Total S.A., Intermarche, Carrefour
Germany	23%	56%	1,420	6	Aral, Shell, ConocoPhillips
Ireland	17%	48%	1,134	6	Texaco, Esso, Topas/Statoil
Italy	27%	55%	1,460	8	Agip, Esso, Api
Luxembourg	19%	54%	1,472	6	Shell, Total S.A., Aral
Netherlands	20%	44%	1,096	6	Shell, Texaco, Total S.A.
Portugal	37%	66%	1,967	4	Galp, Repsol, BP
Spain	40%	69%	2,219	4	Repsol, Cepsa, BP
Sweden	41%	81%	2,748	4	OKQ8, StatoilHydro, Preem
UK	16%	41%	999	8	BP, Tesco, Shell

Note: When four companies are listed, the last two have the same market share

Sources: Experian Catalyst 2008 for all countries except Germany, and Energie Informationsdienst Feb 2009 for Germany

Several trends have been identified from the overview:

- consolidation in the number of sites, leading to rising average throughput and reductions in the number of sites per capita, both of which should lower operating costs;
- the emergence of supermarkets and hypermarkets selling road fuel at their sites in some markets in NWE, most notably, the UK and France;
- an increase in the provision of supplementary services, such as convenience stores, by retail players;
- limited success of new entrant fuel suppliers (outside the supermarkets) in establishing market share (though Conoco in Sweden was an exception); and
- a reduction in the relative position of the larger IOCs in some of the retail markets.

Table 4 below shows that the company rankings of refining capacity and retail sales by volume are similar, suggesting a significant degree of vertical integration. However, our analysis does not indicate that this is a material issue within the NWE market, due to its active wholesale market, which mitigates the ability and incentive to exercise any implied market power. Vertical integration is still prevalent in some MED and CEE markets, reflecting the previous NOC incumbent positions.

Table 4 – Top ten refinery owner and fuel marketers

Ranking	Refinery owner by capacity	Fuel marketer by sales volumes
1	Total S.A.	Shell
2	ExxonMobil	Total S.A.
3	Shell	BP
4	ENI	Esso (ExxonMobil)
5	BP	Agip (ENI)
6	Repsol	Repsol
7	Petroplus	Q8 (Kuwait Petroleum Company)
8	PKN	Intermarche
9	ConocoPhillips	Carrefour
10	OMV	ConocoPhillips

Sources: OGJ, December 2008; Experian Catalist 2008 & 2009

Summary

In summary, we found the following.

- The level of horizontal integration at refining and retail levels does not appear excessive. While there has been some consolidation in both markets, concentration ratio measures such as the HHI are typically low to moderate.
- There is vertical integration, but other competitive pressures within the wholesale markets reduce the incentive or ability to use such a position to deter entry or increase profit.
- Wholesale trading is well-established in NWE and is developing in the MED. The indexation of CEE prices to MED and NWE indices is beneficial but a well functioning regional trading market would be preferable for efficient integration.
- There are high volumes of cross-border trading between countries within and beyond EU boundaries.
- Though overall market shares may appear stable, there have been major asset ownership changes in the market. This process is likely to accelerate as NOCs in MED and CEE come through liberalisation and privatisation processes.

Price-cost relationships

Price-cost relationships are important to analyse since they provide us with evidence of how well markets are functioning and whether any of the potential structural issues identified are materially impacting behaviour.

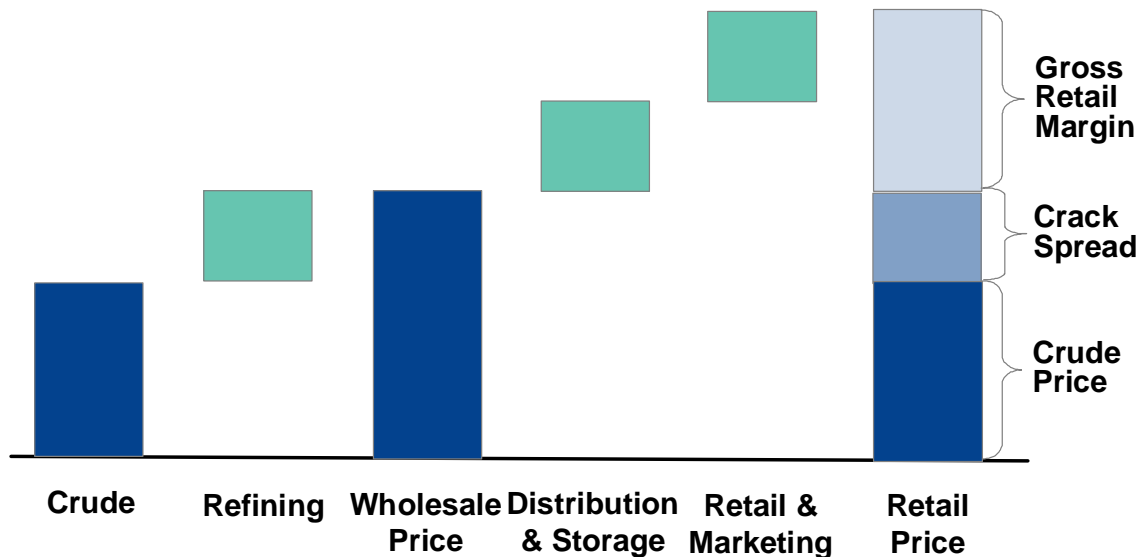
Costs are incurred at each stage in the supply chain. The analysis in this study distinguishes between the:

- refining to wholesale stage, where the costs include the crude oil price and the costs of refining the crude oil into the relevant product; and
- wholesale to retail stage, where the costs include distribution, storage costs, retail and marketing.

Figure 7 below illustrates how these costs feed into the final retail price. In addition, it shows the metrics used in the price-cost analysis:

- the crack spread, which is the difference between the wholesale product and the crude oil price⁵; and
- gross retail margin (GRM) which is the difference between the retail and the wholesale product price.

Figure 7 – Components of pre tax retail fuel price

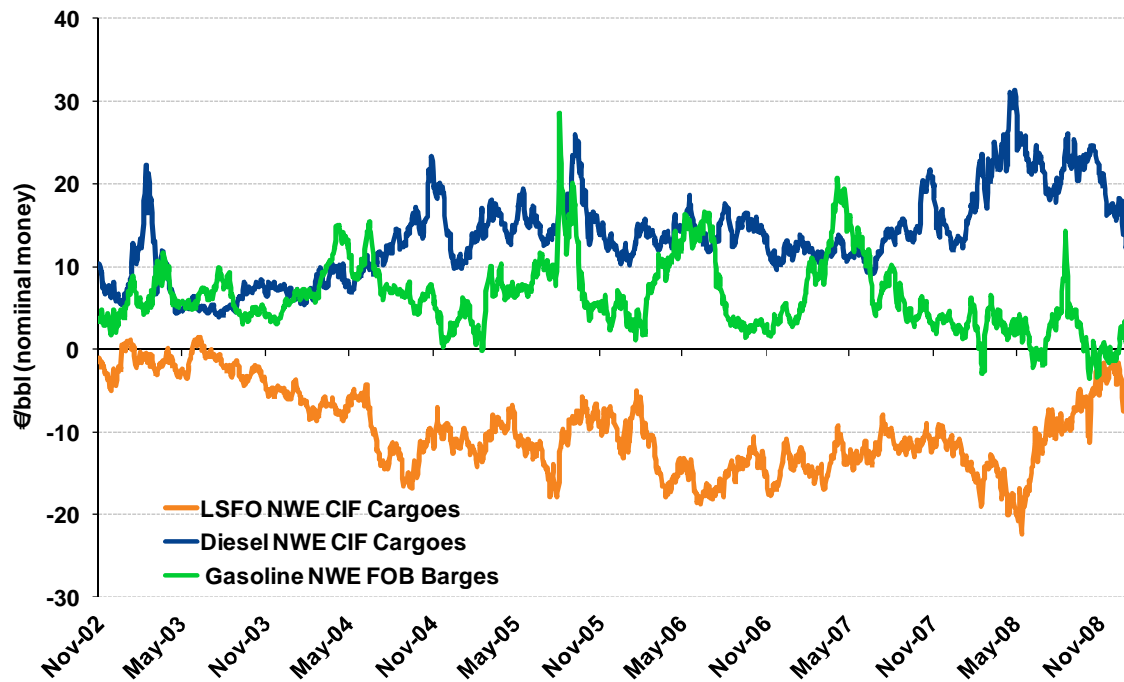


Refinery to wholesale

Figure 8 illustrates the crack spread over the last five years or so for the three main products under investigation in the NWE region. What this shows is that the crack spreads for each of the three products are materially different. This reflects the relative value of the products – in recent years, diesel/gasoil has been more valuable as a consequence of dieselisation (reinforced by structural imbalances in the EU refining configuration). In general, LSFO crack spreads have been negative meaning it reduces the margin earned by a refiner.

⁵ This is not the refining margin (i.e. the profitability that results from processing a barrel of crude oil). The crack spread looks at the gross value for a particular product, the refining margin at the net realised value of all products manufactured from that barrel. The latter is the sum of the realised value of all refined products manufactured from that barrel minus the purchase price of the barrel of crude oil.

Figure 8 – Trends in NWE crack spreads



Source: Platts & Pöyry Energy Consulting analysis

Crack spreads have generally been found to follow the same pattern in the MED region, but the levels of the crack spreads have been greater. This may be due to three possible differences between the regions:

- the input fuel cost (the cost of the crude used);
- the refining costs (related to the complexity of the assets in the region); and
- the wholesale price achievable in the market.

Observed differences can largely be explained by cost differences:

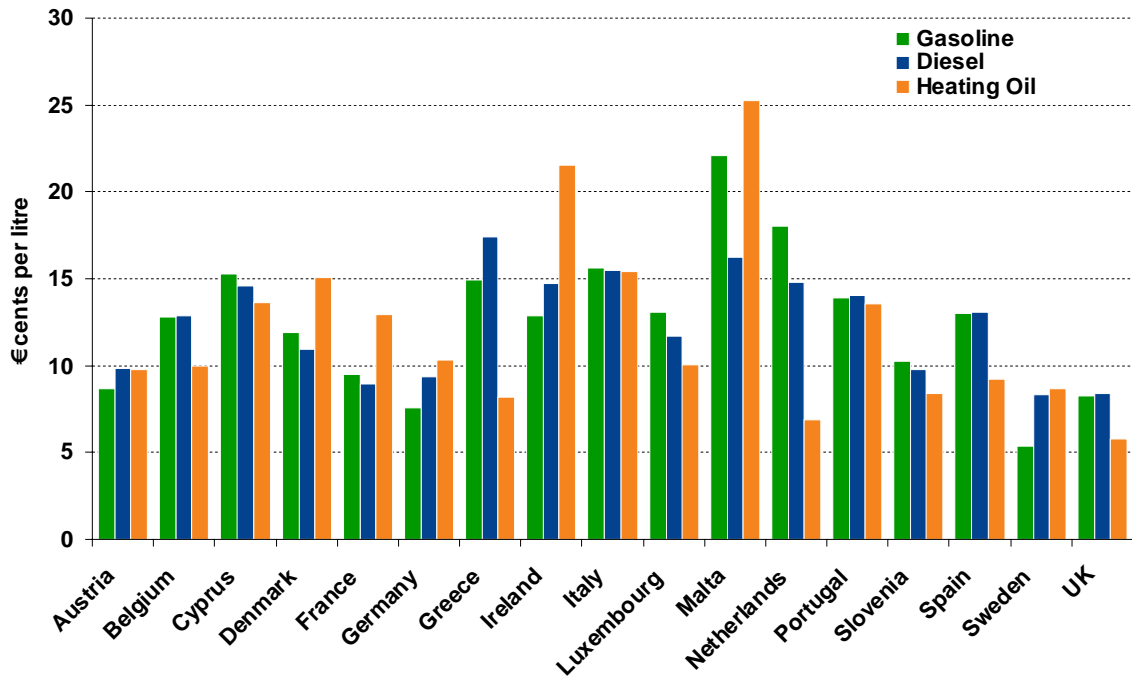
- MED uses cheaper (higher sulphur) crude than NWE;
- this may be offset by the higher upgrade ratio in refineries in the MED meaning that they require greater margins to cover the higher operating costs, depreciation and cost of capital; and
- as refineries in NWE are larger and larger refineries can spread their fixed costs over greater volume of output, it is expected that on balance the unit costs of production will be lower in NWE than in MED.

Wholesale to Retail

Our analysis at retail level focused on the levels of and changes in GRMs in the North West Europe and Mediterranean regions. Our analysis shows that:

- higher gross retail margins are seen in the MED than NWE; and
- margins are generally similar for diesel and gasoline.

Figure 9 – Gross retail margins in 2008 by country and product



Source: Platts, EU Oil Bulletin and Pöyry Energy Consulting analysis

Figure 9 above shows the differentials in GRMs across countries, which may be a consequence of one or more of the following factors:

- cost structures and levels – since competitive prices should reflect costs, fundamental differences in cost should result in different margins;
- market structure – to the extent that horizontal or vertical integration affects the ability of players to influence prices and extract monopoly rents;
- commercial business models – affecting the extent of competitive pressure on costs and innovation in service models and operations; and
- regulatory interventions – barriers to entry and exit that arise from regulatory interventions or restrictions.

To ascertain the impact of each of these drivers we have identified a series of indicators that represent each driver. The indicators are presented in Table 5. These have been chosen after review of the available data and analytical consideration. They are, by necessity, imperfect and incomplete – for example, the average distance travelled for distribution would have been a desirable cost proxy, but we were unable to obtain consistent data in this area. However, they provide an indication of the strength of the drivers as an explanation of market performance.

We focused on a sub-set of countries for this assessment, chosen because of their relatively high or low margins, so we are able to compare and contrast the market characteristics between the two groups.

Table 5 summarises the main indicators considered and Table 6 presents the implications of these indicators. In the latter, the blue column shows where a relation between the

indicator and high GRMs would expect to be found, e.g. high GRMs are assumed to be related to high implied fixed costs and low throughput per site.

Table 5 – Parameters used in in-depth analysis

Country	Implied retail fixed costs (€cents/litre)	Throughput per site (1,000 litre pa)	C-stores sites share ¹	Hypermarket sites share, volume	High concentration (HHI > 1,800)	Vertical integration ⁴
Austria	11.80	1,997	66%	0.1%	No	22%
France	6.10	3,583	36%	51.6%	No	38%
Germany	8.07	4,268 ²	98%	10.0% ³	No	75% ³
Sweden	12.10	3,015	42%	0.0% ⁶	Yes	35% ⁵
UK	8.39	3,995	85%	36.0%	No	39%
Greece	15.29	n/a	71%	n/a	n/a	n/a
Italy	17.00	1,816	24%	0.2%	No	47%
Netherlands	8.68	2,006	60%	0.9%	No	54%
Portugal	15.12	2,617	60%	9.8%	Yes	34%
Spain	13.81	2,949	78%	3.6%	Yes	68%
Hungary	n/a	n/a	n/a	2.5% ⁷	No ⁹	n/a
Poland	n/a	n/a	n/a	5.5% ⁸	Yes ⁹	n/a
Estimated average	11.70	2,985	62%	19.8%	n/a	n/a

1 Datamonitor 2007

2 UPEI and Energie Informationsdienst

3 Energie Informationsdienst

4 Percentage of retail volume potentially supplied by refineries that are a) located in the same country; and b) owned by the same company as the retail site

5 Swedish Petroleum Institute

6 Hypermarkets are prevented from selling motor fuels in Sweden

7 IEA Review of Hungary in 2006 cite the Hungarian Petroleum Association stating Tesco owns 24 out of 952 sites

8 POPIHN

9 Calculated on number of sites due to lack of volume data

Source: Experian Catalist 2008 & 2009 and Pöyry Energy Consulting except where stated

Table 6 – Summary of marker outcomes and their impact on GRMs

Country	Implied fixed costs for retail sector ¹		Throughput per site ²		C-stores sites share ³		Hypermarket sites share, volume ⁴		Concentration ⁵		Vertical integration ⁶		GRMs	
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
Austria		✓*	✓			✓	✓		✓		✓		✓	
France	✓			✓	✓			✓	✓		✓		✓	
Germany	✓			✓		✓		✓	✓			✓	✓	
Sweden		✓		✓*		✓		✓		✓	✓		✓	
UK	✓			✓		✓		✓	✓		✓		✓	
Greece		✓	-	-	-	-	-	-	-	-	-	-		✓
Italy		✓	✓		✓		✓		✓		✓*			✓
Netherlands	✓		✓		✓*		✓		✓			✓*		✓
Portugal		✓	✓		✓		✓*			✓	✓			✓
Spain		✓		✓*		✓	✓			✓		✓		✓
Hungary	-	-	-	-	-	-	✓		✓		-	-	-	-
Poland	-	-	-	-	-	-	✓			✓	-	-	-	-

1 High is above average of 11.7

2 High is above average of 2,985

3 High is above average of 58%

4 High is above average of 19.8%

5 HHI more than 1800

6 High is when more than 50% of retail sales can be supplied from the site owners' refineries within the same country.

* Value lies close to border between high and low

Using Table 5 and Table 6, the following observations can be made.

- Countries with higher costs, as indicated by low average site throughput and high estimated fixed costs, do generally have higher GRMs, which would be expected since the GRM must recover the operating costs of the site.
- There is no clear correlation between concentration at the retail level and the observed GRM nor vertical integration and GRM, suggesting that large players are not unduly able to influence prices. The one country with a high degree of concentration in the retail sector and high vertical integration is Spain, which has GRMs above the EU average but below its regional average.
- The countries with low GRMs and low cost structures generally have higher levels of hypermarket entry. This suggests that effective entry and competition in the retail segment places downward pressure on costs and margins where it is observed. The fact that these pressures are not evident in some of the MED and CEE markets may explain their higher cost structures at present.
- Responses to competitive pressure include reliance on non-fuel activities to support margins. It is clear that the prevalence of C-stores in low margin countries may be a good indicator that fuel market competition is effective.
- Sweden, despite having the lowest margins, does not appear to conform. However, the high concentration is a function of recent consolidation activity and previous entrants had effectively introduced low-cost operating techniques through the deployment of automat stations.

A further cause of margin differentials may be data imperfections. The retail price data for the GRM calculations was taken from the EU Oil Bulletin and concerns with the reporting and collection methodology for this time series have been raised in a recent report by the Market Observatory for Energy (MOE).⁶ The report specifically mentioned that the Netherlands reported retail prices, though based on wholesalers' recommended prices, were generally 6 eurocents/litre above the average observed prices faced by consumers.

This has significant implications for any analysis. For example, applying the lower figure for the Netherlands results in a reduction in its estimated pre-tax gasoline GRM of 4.8 eurocents/litre. These data inconsistencies are not confined to the Netherlands, as the MOE report shows, though it also provides no indication that the extent of divergence between reported and observed prices is of the same order of magnitude in other Member States. Without more detailed analysis of the underlying data we are unable to make consistent adjustments to all countries and have therefore retained use of the EU Oil Bulletin time series.

Consistent and comparable retail price data is essential for effective and timely monitoring of the performance of the downstream oil retail markets and the extent of the differences in the Netherlands data highlights the need for these deficiencies to be addressed quickly and credibly.

Potential impact of inefficiencies in gross retail margins

Because EU27 expenditure on the three products analysed is substantive, even small inefficiencies identified may have a substantial welfare impact. For example, if the estimated margins in the Netherlands, Greece, Italy, Portugal, and Spain were to converge on the weighted average margins of their regional group, consumers in those countries would potentially gain about €2.2 billion as shown in Table 7. However, since the larger part of this would be a pure transfer from producers, the net welfare impact is significantly lower, at only €21m, because consumption is not assumed to respond much to price changes. These figures are dependent both on assumptions of the extent to which prices or margins can be reduced and on the accuracy of the current GRM estimates.⁷

Table 7 – Potential consumer surplus and net welfare impact (€million per annum)

	Consumer surplus	Net welfare effect
Netherlands	1,148	19
Greece	232	1
Italy	830	1
Portugal	24	0
Spain	0	0
TOTAL	2,234	21

⁶ Survey on the Petroleum Products' Price Data Collection Published in the Weekly Oil Bulletin, Market Observatory for Energy (February 2009)

⁷ As noted, inconsistencies in the EU Oil Bulletin data reporting for the Netherlands means that actual consumer prices may be considerably lower than implied by the time series used. This would further serve to lower the overall benefit from market interventions.

Conclusions and recommendations

A competitive market should be characterised by low barriers to entry and exit for suppliers and customers, non-discriminatory access to supplies and infrastructure. Our review of the physical and contractual relationships in the oil product supply chain shows:

- there is little evidence of overly concentrated markets at retail or refinery levels;
- high vertical integration across the chain can be offset by well functioning wholesale markets;
- many of the price differences between regions and countries are consistent with underlying cost differences; and
- the differences in cost structure at the retail level relate more to the strength of competitive pressure forcing innovation in service models.

There do not appear to be any fundamental structural barriers at a pan-European level, though there are specific national barriers that may affect welfare losses. An example would be regulations that prevent hypermarket sites from building retail forecourts.

A catalyst is needed to incentivise changes in retail market models in the future, whether this is through supermarket entry or aggressive retailers offering new services and adopting new cost saving practices. If there are players in the market that constantly challenge the incumbents we would expect low GRMs and dynamic responses and consolidation. In fact this seems to be the case in several of the low GRM countries.

Limited incentive for low-cost/price players in some markets is only a cause for concern if it is due to barriers to entry (e.g. hypermarket restrictions in Greece or lack of access to blending facilities in Hungary). In contrast low margins would function as a perfectly acceptable disincentive.

Against this background there is little formal action that can be undertaken at a European level. Nevertheless, regular benchmarking of performance across Member States based on identified key indicators for competitiveness in oil and oil products market may be beneficial in monitoring progress in a similar manner to studies in other energy sectors. However, to do so the Commission will need accurate data. Two improvements are proposed in this regard.

First, as pointed out in this report, information in most of the CEE countries could become more transparent. Today there is a lack of statistical data, not least on prices in crude and product markets, in most CEE countries, making informed comparisons of markets difficult. This hampers any analysis of the market in this region and national agencies (e.g. NCAs) could consider establishing monitoring measures that focus on market performance including, for example, comparisons regarding the level of and development of different spreads and GRMs and market accessibility.

Second, the lack of consistency and comparability of reported retail price data across Member States needs to be addressed to ensure efficient monitoring of the relative performance across markets and fuels. The report of the MOE earlier in 2009 should serve as a basis for improving the reporting methodology of Member States for the EU Oil Bulletin.

At a national level there is also a need for authorities to ensure regulatory barriers such as mentioned above are minimised. Predominantly this could be carried out by removing restrictive regulations regarding the establishment of hypermarket sites and/or by a swift and generous application of permits for establishing sites. In addition, ongoing monitoring

of the activities of the incumbent NOCs to prevent them from exploiting the advantages of their historic incumbency position should be performed.

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Econ Pöyry report no R2010-LGH-EU Oil Review, Project no. 6A080018