

# The CC: increase in fuel retail prices is not a competition law violation

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The Competition Council (the CC) conducted a market research to analyse how the fuel retail price is formed and what are the main factors influencing fuel retail price. The analysis proved that the rise in fuel retail prices is not based on a violation of competition law; instead, it is caused by objective circumstances related to the beginning of the Russian invasion of Ukraine. At the same time, the fuel retail market is dense and competition among market participants keeps growing.

Nine market participants operate in the fuel retail market including its leaders Neste, Circle K, Virši, and Viada; the rest of companies takes a small part of the fuel retail market. The CC notes that the market is dense and competition between networks becomes stiffer. This means that market participants are less likely to abuse their market power. At the same time, the CC points out that the retail fuel market is oligopolistic and easily transparent, therefore it is characterized by intelligent adaptation, namely, competitors monitor the prices offered by other market participants and react to their changes. Such adaptation, if it takes place independently, by evaluating the offer of competitors without assistance and setting their own price, does not constitute a violation of competition law.

## The formation and influencing factors of the fuel price

The fuel retail price consists of five components: fuel purchase price, excise duty, VAT, minimum reserve fee, and fuel mark-up. Of these, most of the retail price (93 %) is made of components that the fuel retailer has little chance to influence such as the fuel purchase price (46 %), or has no chance to influence such as taxes and the minimum reserve levy (47 %). The fuel purchase price depends on the exchange price as well as exchange rate fluctuations – factors that are affected by geopolitical events and climate change. The CC points out that the most important factors that have an impact on the fuel retail price are the exchange price of fuel products, exchange rate fluctuations, and the location of the filling station.

When assessing the increase in the fuel retail price, which was observed in March of this year, the CC finds that the rise in the fuel retail price is basically correlated with the increase in the fuel purchase price. In addition, there is also a correlation with changes in the exchange rate (USD to EUR) and fluctuations in the oil exchange price. This is also evidenced by fuel retailers, noting that sharp and unpredictable fluctuations in these factors were experienced due to the Russian invasion of Ukraine on 24 February 2022.

Within the research it was concluded that the fuel retail mark-up in Latvia is relatively low, but it increased sharply in March. However, the information provided by fuel retailers indicates that they are mostly unable to raise retail fuel prices to unreasonably high levels due to increased competition in the fuel retail market. Fuel retailers mostly make profits by relying on fluctuations in the fuel wholesale market, because during periods when the fuel purchase price decreases or fluctuates, filling stations have the opportunity to make more profits. Analysis of financial statements of major oil suppliers and processors indicates that the refiners and not the fuel retailers have made significantly higher profits at a time when fuel retail prices were soaring.

## Consumer awareness of fuel prices

During the market monitoring the CC found an asymmetry between the filling stations and the information available to consumers on the current fuel prices offered by fuel retailers on the market, placing the filling stations in a more advantageous position against the consumer. The CC considers that such information should be quickly and easily accessible to the consumer, for example, following German or Austrian practice and ensuring a uniform system for publishing fuel prices and incorporating in the regulatory framework the obligation for fuel retailers to provide the system with information on current fuel retail prices. As a result, a consumer who is aware of current fuel prices at the filling stations closest to him or her would be able to put pressure on the fuel retail price by promoting greater competition between fuel retailers at the fuel final price level.

## Fuel price rise at the international level

A sharp rise in fuel prices in March of this year was observed not only at the national level, but also internationally. Since taxes are the constituent component of the fuel retail price, which has the greatest impact on the price, a number of the EU Member States have reduced the tax rates applicable to fuel, most often focusing exactly on the reduction of excise taxes.

Also competition authorities in other countries such as England, Austria, and Poland, have turned their attention to the fuel retail market in response to the sharp rise in retail prices. The CC has the same conclusions as were made by foreign competition authorities: the rise in fuel retail prices is not based on a violation of competition law, but on objective circumstances related to the fuel retail market, especially taking into account the uncertain market conditions that arose at the beginning of the Russian invasion of Ukraine, which led to price instability in the market.

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