# Fuel for thought

As petrol and diesel prices head skywards, we reveal the cheapest places to fill your tank and ask whether diesel cars can really save you money

Recession? What recession? Oil companies have recently hiked the cost of petrol far beyond the rate of inflation. According to industry analyst Experian, the average pump price for a litre of unleaded petrol in June 2009 was 102.7p, compared with 95.0p in April – that's an 8% increase in just three months.

The last time the cost of petrol went up that rapidly was during the price spike of summer 2008, when oil prices were well over $100 a barrel, compared with around $71 at present.

The cost of diesel has also gone up, but at a much slower rate. The average cost of a litre is now 104.8p, compared with 102.6p in April. This has narrowed the gap between petrol and diesel to just 2.1p a litre, compared with a 13.4p difference in summer 2008.

So why is the cost of fuel fluctuating so much? What's behind variations in the price at the pumps across Europe, and why is diesel more expensive?

## Fuel tax

The UK currently has the highest diesel price in Europe (see the bar chart, opposite). This is partly because diesel is taxed at the same rate as petrol in the UK. In France, Germany and most other European countries, on the other hand, diesel attracts a lower rate of tax – hence the lower price per litre.

In the UK, tax makes up well over 60% of the cost of fuel at current prices.

### IN BRIEF

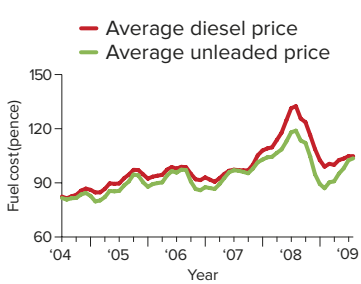
**In this report we help you to:**

- understand fuel price fluctuation
- cut the size of your fuel bills
- see if a diesel car is cheaper to own.

The government takes 54.19p of fuel duty (or 'hydrocarbon oil duty') for every litre of petrol and diesel sold – and this is set to increase by a further 2p a litre from 1 September 2009.

This figure is fixed (in between budgets) and is therefore immune from any fluctuation in fuel prices. However, bear in mind that the Chancellor also collects VAT on the cost of the fuel and, controversially, on the fuel duty, which heightens the effects of fuel price rises for consumers.

**Five-year comparison of average petrol and diesel prices**




## Supply and demand

As you'd expect, the price of fuel – and the difference in cost between petrol and diesel – is primarily governed by supply and demand. Over the past 12 months, for example, the recession has caused demand for fuel to fall steeply. Demand for diesel and petrol has fallen by 7% and 5% respectively – one reason why diesel has become less expensive relative to petrol (see the line graph, above).

However, diesel is still that bit more expensive than petrol because fewer

## IS A DIESEL CAR CHEAPER TO OWN?

The fuel economy advantage offered by most diesel engines over petrol means that, in the case of large and luxury cars, diesel versions are usually cheaper to run.

However, when it comes to small cars the difference is often less clear cut, with the higher list price of most diesel models offsetting any fuel consumption savings.

Let's look at the Which? Best Buy Mazda2, for example.

Assuming that you cover 10,000 miles a year, it would take nearly eight and a half years to recoup the extra upfront cost of the Mazda2 diesel over the cheaper petrol model (£1,500).

In fact, the predicted resale value of the diesel version is also slightly lower, making it a poor choice unless you intend to keep the car for many years.

You can use our simple petrol versus diesel calculator at www.which.co.uk/petrolvdiesel to work out whether a diesel car is right for you.

| | MAZDA2 1.3 TS2 5dr PETROL | MAZDA2 1.4D TS2 5dr DIESEL |
|---|---|---|
| List price | £10,645 | £12,145 |
| Fuel economy (claimed) | 54.3mpg | 68.9mpg |

PHOTOGRAPHY SHUTTERSTOCK, NEWSPRESS

refineries in Europe produce it and the longer-term trend is towards greater diesel use. As Nick Vandervell of the UK Petroleum Industry Association says: 'This is partly due to the growing popularity of diesel cars, which often offer better fuel use and lower CO2 emissions.'

However, while demand is likely to grow, supplies are dwindling. Despite the greater number of cars on the road, overall petrol and diesel production in Europe has been in a steady period of decline since 1990 owing to improvements in engine efficiency. According to Vandervell, 'the shortfall in diesel supply must be made up with imports, mainly from Russia' – another reason for an increase in costs.

He also points out that until UK refineries are upgraded to cope with the pressure of producing 'off-road' (or 'red') diesel for industry as well as ordinary 'road' diesel, we'll continue to be partly reliant on diesel imports.

To make matters worse, diesel prices can also be subject to a seasonal increase in autumn/winter, when more oil is needed to make gasoil for heating and less is available for diesel production.

## Petrol prices

Rising petrol costs are harder to justify. Although petrol production is in decline in Europe, we still produce a surplus, and much of this is exported to the US.

Vandervell explains that, ironically, many US-based oil-processing plants have scaled back their production or have closed altogether, as importing petrol from Europe is now cheaper than importing crude oil and processing it into petrol on site. This has reduced petrol supplies in Europe, pushing up prices.

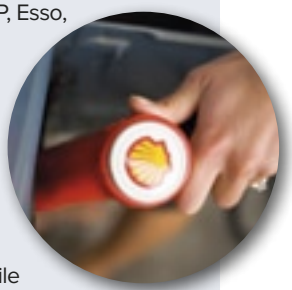
## Future for fuel

High fuel prices are bad news for consumers, even those who don't drive, as retailers inevitably pass on increased transportation costs. And, with dwindling supplies and increasing demand from developing nations, the situation is likely to get worse over the next few years.

There are ways to keep your costs down though – see 'Cut the cost of fuel', right, to find out how.

# Cut the cost of fuel

### How to fill up your car for less



- Fill up at supermarket petrol stations such as Asda, Morrisons, Sainsbury's and Tesco. According to AA data, these are, on average, well over 2p a litre cheaper than traditional petrol retailers, such as BP, Esso, Shell and Texaco.
- Avoid refuelling at motorway service stations. Our survey in the summer 2009 issue of *Which? Car* revealed that motorway fuel stations charged more than 5p a litre extra for diesel and nearly 4p a litre more for petrol than the cheapest fuel station within a five-mile radius. Filling a 55-litre tank with diesel cost £7.15 extra at the most expensive motorway services we visited.
- If you're buying a new car, choose one with good fuel economy and think about whether a diesel model will serve you best (see 'Is a diesel car cheaper to own?', opposite.

- Unless you have a high-performance engine, filling up with 'super fuels', such as BP Ultimate diesel or Shell V-Power unleaded, may be a waste of money. Which? tested several products (see Which?, October 2008) and found that any performance gains were very small relative to the extra cost of the fuel, and that there was no real benefit to economy (see www.which.co.uk/superfuels). Some shop-bought fuel additives also claim to save fuel – to find out if they really do, look out for our additive test in Which? next month.
- Finally, websites such as www.petrolprices.com or www.whatgas.com can help you locate the cheapest fuel stations in your area. Simply enter your postcode and how far you're willing to travel.

## Fuel prices across Europe