The supermarkets are killing off the independent petrol stations [1]

Written by **Tim Worstall** [2] | Tuesday 6 August 2013

A complaint from the independent petrol retailers that those dastardly supermarkets are killing off their business. Which I'm sure they are, opening larger stations, selling fuel at cost and so on. Given that this benefits the consumer long may it continue as well. I don't insist that they should not be allowed to complain about this: that's what trade associations are for. To push the interests of their members, just as unions do for their. Only that we don't have to pay all that much attention to such special pleading. However, they make one complaint that is worthy of closer examination. The supermarkets turn over their fuel faster (this being part of why they are more efficient) and this means that there's less stock actually on the forecourts of the country [3].

> Based on the report, the Government concluded that "in the event of a total disruption to petrol and diesel supplies the retail sector holds up to eight days of fuel capacity to meet current demand". But the PRA was already highly critical of the Government's "grossly misleading" conclusions ? even before it discovered it had understated the supermarkets' share of the market. Mr Madderson said DECC had misunderstood how the market works: "They are saying we have eight days capacity. In our view it's two to four days, especially if the supermarkets have a bigger market share than we thought."

Is this a problem? I don't know. Certainly I think I'd be slightly worried if I thought that the country had only 30 minutes of fuel on forecourts. What is the right number is I think is a matter of opinion not one of fact. I'd also posit that something that entirely stops the flow of fuel completely for more than two days is probably something that means we've got larger problems than whether we can drive to the shops.

But what interests me here is the other side of this story. So, let us agree, there is only 3 day's supply at the stations, not the 8 everyone thought. What's the implication of that?

Annual road transport usage of fuel seems to be around 40 million tonnes [4]. 5 day's worth of that is some 500k tonnes, or in litres (assuming petrol is equal in density to water, which is close enough) and at a price of £1.35 a litre, that's some £675 million.

That is, in order to support the road transport system, supply it with fuel, this reduction in the stocks has led to that £675 million's worth of fuel not just sitting around in the system. The capital requirements to support the stocks in the system have therefore declined by exactly that £675 million. If you prefer, the amount of capital that has to be allocated to the transport fuel system has declined by that sum, a sum that can now be used to go off and do something more useful or interesting. Say, finding a cure for Simon Cowell (or is that a cure to Simon Cowell?).

And that's what I think is the interesting point here. OK, maybe 3 day's supply of fuel isn't enough, maybe it is. But there's always another side to these things. In this case, to insist that 8 days is available, someone, somewhere, has to find £675 million to finance that stock. I agree that it is possible that, *in extremis*, not having the fuel there could cause us all damage. But how much should we all be paying to make sure that greater supply is there? What is, if you like, the insurance premium we should be willing to cough up?

Most importantly, is that insurance premium worth the loss of all the other things we can do with that sum of capital?

As I say up top, I don't know what the correct answer is. But I would insist that this is the right way to consider the question. Increasing stocks at petrol stations might indeed be a nice idea: but it's not costless.

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