

# Oil Market Report: July 2022

The fuel market in July continued on its crazy journey to total and complete unpredictability, with prices at the beginning of the month falling over 10 pence per litre in 2 days. This meant that by the 8<sup>th</sup> July, prices were a full 20ppl lower than they had been in mid-June. However, as the value of the £ continued to free-fall against the \$ and OPEC failed to come up with any meaningful proposed production increases, these losses were soon wiped out and prices inevitably ticked back upwards - thus keeping their vice-like inflationary grip on industry, governments and consumers.

Most of us now need a decent break and what better way to kick off the holiday season, than by dissecting Portland's holiday fuel usage! Portland will be taking not one, but two holidays this summer – firstly to Spain and then to the more familiar shores “north of the border”. Quite frankly a point had been reached where choosing between a week in the Med and a camping midgest in the rain was increasingly difficult, so Spain and Scotland was the compromise.

The trip to Spain means a flight from Leeds-Bradford Airport. Unlike the London Airports (Heathrow, Gatwick and Stansted) and Manchester Airport, Leeds-Bradford is not connected to the UK's oil pipeline system. This means that all fuel must come by truck – normally a full load articulated lorry carrying around 38,000 litres of Kerosene Jet Fuel (known in the trade as Avtur = Aviation Turbine Fuel or “Jet A1”). The vast majority of jet fuel for Leeds-Bradford comes direct from the Humber refineries and product is then stored in the airport tank-farm (this is a valuable “spot” in your Airport i-spy book) before being transferred to planes by on-tarmac fuel bowzers. My journey will involve either an Airbus 320 or Boeing 737, both of which have a fuel capacity of around 27,000 litres. This will get the plane over to Spain, where refuelling will take place in advance of the return trip.

On arrival, we will pick up a hire car. Being used to the UK's high fuel prices, there shouldn't be too much of a wince factor when we come to fill up at a Spanish Service Station. In fact with petrol duty in Spain at 50 euro cents per litre (cpl), we might almost enjoy paying the lower price (this versus 53 pence per litre in the UK – equivalent to 61cpl). Even better news will come if we get to hire a diesel car, because diesel incurs even less duty (37cpl versus 61cpl / 53ppl in the UK), which means the pump price is likely to be in the range of 190 cents per litre (~165ppl). As a non-Spanish resident however, we will not be able to benefit from the recently mandated 20 cpl fuel price reduction. This was put in place by the Spanish Government in the Spring, in an attempt to deal with the cost of living crisis now pummelling all European economies.

Post-Spain, there will be a few days back at work and then it will off to Scotland, once again driving but this time in our own diesel car. Now we definitely will feel the pain of £2 per litre fuel and it's worth noting at this point that Great Britain is the only country in Europe where diesel duty is the same as petrol. All other countries have lower duty for diesel (in an attempt to support local trucking industries) and this is sometimes up to 30 cents per litre (25ppl) lower than petrol. As an interesting historical anecdote, these materially lower duty rates for diesel was one of the main factors behind the buoyant growth in diesel car sales across Europe in the 2000's and 2010's.

Anyhow back to the holiday. Once we get to the ferry port for our island destination, it will be time to change the transportation fuel one more time. Small and mid-sized ships tend to use Marine Gasoil, which is no more than a type of diesel similar to the fuel put in cars, trucks and buses. But larger ships and ferries use a different type of fuel called Heavy Fuel Oil. This (as its name suggests) is a much heavier grade, “gloopy” in appearance and much closer in its characteristics to crude oil than other refined petroleum products. This of course means that when burned, Heavy Fuel Oil gives off significantly more emissions than lighter grades of fuel. At the same time though, Fuel Oil does pack a heavy punch when it comes to power generation and if you are moving a 5,000 tonne vessel carrying over 100 cars and trucks, then efficient power transmission is what you need. On top of that, ferries of this size will be relying on engines with 10,000+ horsepower, and these beasts drink engine oils, lubricants and greases to ensure smooth running and engine longevity. So in addition to the 15-20 million litres of fuel oil that a large Hebridean ferry will annually burn for the purposes of propulsion, you can add in a further 300-400,000 litres per annum of lubricant usage. The very definition of a “hard to abate” carbon intensive sector...

That's a problem for another day though. Now it's time to slap on the (petroleum based) sun-cream, crack open a few (CO2 infused) cold beers and relax. For those of you lucky enough to get away, we hope you have an absolutely great holiday!