



Unite Investigates: Profiteering across the economy—it's systemic

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1 Foreword by Sharon Graham: Exposing the crisis of profiteering

Sharon Graham, Unite General Secretary

We’re living in the midst of a cost of profiteering crisis. This new report from Unite’s *Profiteering Commission* exposes how our broken economy is being rigged. From rising supermarket prices to energy bills, we’re all paying the price.

Make no mistake, many companies are doing very well indeed. Politicians try and ignore profiteering, but as this report reveals, the profits of the UK’s largest companies are now 89 per cent higher than before the pandemic.

How is this happening and how are the profiteers getting away with it?

This research is the first to take a forensic look at where profiteering is happening and how corporations are taking advantage of a crisis to raise their prices.

It looks at key industries which between them are driving over 57% of inflation: energy, food, automotive, and the transport sectors including road freight and shipping that keep our economy moving.

This crisis is about choices. Thousands of decision makers in major corporations have been choosing to raise their prices. Governments are choosing to facilitate it.

From price gouging to state-issued licences to run energy and utilities as monopolies, these choices have resulted in the “price spiralling” driving inflation. Make no mistake, profiteering has resulted in the high prices we’ve all had to pay - not workers’ wages.

Corporations and governments have the power to make and exploit the rules, but their power isn’t going unchallenged.

In our workplaces and in our communities Unite is showing we can take on the profiteers and win. Ultimately taking on runaway profiteering is the answer to sky high prices and ending the cost-of-living crisis.

From the North Sea to the docks, the food industry and road transport, Unite members are beating many of the profiteering employers named in this report. The money is there for the pay rises workers need and deserve. From the picket line to the bargaining table, we must win what we are owed.



2 Summary: across the economy, profiteering has fuelled the cost-of-living crisis

Rampant corporate profiteering has fuelled the cost-of-living crisis. As the pandemic eased in 2021, many companies managed to push up their prices and profits. Corporate profiteering – not workers’ wages – has helped drive inflation “spirals”. And even as the economy now heads towards recession, many companies, in many industries, continue to make high profits.

Unite’s first profiteering report, published in July 2022, showed how 2021 profit margins of the FTSE 350 (the UK’s biggest listed companies) jumped 73% compared to 2019. Our new research, using the latest available company figures, shows how profits spiked even more after that. Profit margins for the first half of 2022 were 89% higher than the same period in 2019.

This new report doesn’t just present the latest evidence for overall profiteering. It digs deeper to explain how this has been happening across the economy.

The effects of sky-high profits are well known in energy, where oil and gas companies, and electricity generators, have made windfalls as household fuel bills shoot up. The government’s current windfall taxes on energy profits, full of get-out clauses, just tinker at the edges. But energy is only a part of the story.

Profiteering has been happening in many industries. We follow the supply chains of key goods which are together responsible for the majority of overall inflation. We see how companies from supermarkets to shipping tycoons, car dealers to food manufacturers and agribusiness giants, have been cashing in on drought, war, and post-pandemic demand to push prices and profits through the roof.

It has been happening across different kinds of markets: in government-licensed monopolies, in cartel-dominated industries, and in “competitive” markets too.

The crisis is systemic: corporations and investors, facilitated by governments, have won enormous power to set the rules and reap the rewards. Their economy is failing the vast majority of us, both as workers and consumers.



2.1 Profit margins jumped in 2021 – and even more in the first half of 2022

Unite's first report on profiteering, published in June 2021, showed how many companies pushed up their profits at the end of the pandemic. Profit margins of the UK's big listed companies – the FTSE 350 – jumped 73% higher in 2021 than they had been in 2019.¹

Our new report shows this profiteering continued, and spiked even higher, last year. We have now analysed FTSE 350 company profits for the first half of 2022. (The large majority of companies have not yet published full year profit figures for 2022.) The jump is even bigger: profit margins for this period were 89% higher than before the pandemic in the first half of 2019.

2.2 Profit-price spirals: deep dive on key goods and their supply chains

The initial triggers of inflation were “supply shocks” including climate crises, post-pandemic bottlenecks, and more recently the Ukraine war. But many companies have taken advantage to boost their profits, driving up prices even further.

This report investigates where and how profiteering has caused “spiralling” inflation. It looks at three key types of goods suffering some of the biggest price rises: energy (domestic electricity and gas)²; food; and motoring expenditure (petrol and automobiles).

We have chosen these three Office for National Statistics (ONS) “categories” for three reasons. They have seen some of the highest price rises, and are together responsible for the majority – 57% – of overall inflation (See Section 3.1). They play key roles in the broader UK economy. And also, they include industries where many Unite members work.

We map the supply chains of these goods to identify just where price rises are hitting, and how companies are profiting from them. We then zoom in on key transport industries – road freight, ports, and shipping – which are central to many of them.

The profiteering crisis is already well known in energy. According to leaked Treasury forecasts, UK gas producers and electricity generators could make “excess” profits of up to £170 billion over two years.³ Our own research in this report shows how the world's top 10 oil giants pocketed £174.5 billion between them just in 2021; the UK's Big Four energy generation and supply companies took



£9.5 billion; and the gas and electricity distribution monopolies £6.3 billion. These are the mouths we feed with our fuel bills.

But the issue goes well beyond energy. It runs right through the economy.

- It’s happening close to home. Big supermarket chains, and other retailers such as car dealerships, are boosting profits by increasing their prices even more than rising supply costs. For example, Tesco, Sainsbury’s and Asda – the top three supermarkets – doubled their combined profits to £3.2 billion in 2021 compared to 2019. Big brand food manufacturers have also boosted their profits.
- It’s visible deep in global trade networks. The four global giant agribusiness corporations (ADM, Bunge, Cargill and Louis Dreyfus), which dominate crucial crops such as grains, saw profit shoot up 255%, making a combined \$10.4 billion in 2021. The world’s top ten semiconductor manufacturers made £44 billion between them – 96% more than in 2019.
- It has been particularly glaring in crucial transport industries. The UK, highly dependent on imported goods, is hard-hit by price rises from the giant container shipping multinationals. Eight top shippers including Maersk, COSCO and Hapag-Lloyd made a combined £62 billion in 2021 – boosting their profits by an incredible 20,650% on 2019 (i.e., 200 times higher). Port owners such as DP World and CK Hutchinson have also seen big gains. The profits of the biggest road freight operators were up 149%.

Together, the goods we look at in this report are responsible for 57% of overall inflation; and for each of them there is evidence of runaway profiteering across the supply chain. That is to say, the majority of inflation is being driven by industries where profiteering is rampant. The cost-of-living crisis is a profiteering crisis.

2.3 The economy isn’t working: how markets systematically fail workers and consumers

Reading business and general media, it’s common to hear company bosses worrying that a looming recession will push their profits down. That could yet happen. But so far, many companies, particularly big corporations, have been doing very well indeed. This report uses a wealth of industry-level evidence to look



at just **where** that profiteering has been happening. It also gives a deeper economic analysis, to look at just **how** it happens.

2.31 Economic analysis: Five channels of profiteering

“Free market” economic theory says that prices and profits should come down as firms compete and undercut each other. But across a whole range of markets, this has been failing to happen. The broken economy provides plenty of opportunities for firms to profiteer – that is, take advantage of a crisis.

Specifically, we identify five main economic channels of profiteering:

- 1. Supply crunch.** After a supply chain shock, demand chases reduced supply – this allows companies to push up prices and profits. *(Examples: food crops hit by widespread droughts; semiconductors hit by pandemic production halt, raw material shortages and trade wars.)*
- 2. Demand jump.** An increase in demand for a good, while supply remains constrained, allows companies to lift prices. *(Examples: many consumer products at the end of the pandemic.)*
- 3. Market windfall.** Centralised market pricing structures help companies score “windfall” profits – where a market-wide price jumps due to factors unrelated to many companies’ costs. *(Examples: oil and gas, wholesale electricity market.)*
- 4. Market concentration (oligopoly).** Where a few large companies dominate an industry, they can have greater power to increase mark-ups. *(E.g., oil and gas, shipping, ports, supermarkets.)*
- 5. State-licensed monopolies.** In some key industries, companies are granted government concessions which give them major power to set prices, encouraged by failing regulation. *(E.g., North Sea oil fields, electricity and gas distribution networks, other privatised utilities.)*

These channels often overlap. Underlying many of them is **tacit collusion** by companies to set prices high above costs. (We look in depth at these points, and the underlying economic theory, in Section 3 of this report.)



2.32 Who’s responsible?

Politicians, media, and the Bank of England still largely ignore the profiteering crisis – instead issuing warnings that workers may cause “spiralling” inflation if they demand wages rise to match living costs. But this narrative flies in the face of reality: real wages have seen their biggest falls in decades.

It also contradicts what firms themselves are saying. In a survey from March 2022, 56% of US retailers said inflation had allowed them to raise prices beyond what was required to offset increased costs, with 63% of large businesses reporting they were using inflation to boost profits.⁴ BP’s chief executive has said his business is a “cash machine”,⁵ while BMW’s chief financial officer talks about “a significant improvement in pricing power.”⁶ When they tell us they are ripping us off, we should listen.

Politicians try to shift the blame onto workers, while tinkering with minimal answers like an oil and gas windfall tax that is full of get-out clauses. But this report shows how the problem is systemic. Profiteering is rife both in “competitive markets” and where there is government regulation. Across a range of industries and markets, bosses and investors have been reaping gains from crisis – while the economy systematically fails the vast majority of us, both as workers and as consumers.

2.4 Industry headlines

2.41 Petrol

Petrol prices climbed to record levels over 190p per litre in July 2022, and have remained much higher than long-term averages.⁷ Looking closer, prices have jumped all along the supply chain: from global crude oil, to the spreads charged by refineries, to the final mark-up at the pumps. And at every step, big profits are being made.

- **The top 10 global oil companies made £174.5 billion between them in 2021 – up 37% on 2019. Nine of the top 10 UK North Sea producers have published their 2021 global profits: they made a combined £41.4 billion in 2021, up 50% on 2019.⁸**

Oil and gas production is dominated by a mixture of state-owned giants (e.g., Saudi Aramco and PetroChina) and privately owned multinationals (e.g., BP and



Shell). These companies have benefited from windfall profits so large that BP’s CEO described the company as a “cash machine”.⁹

And their profits are set to be even higher for 2022. The five oil majors which have already posted 2022 figures recorded net profit of £124.2 billion in 2022 – an increase of 271% compared to 2019. As US President Joe Biden commented in July 2022 about one of these companies, ExxonMobil: “Exxon made more money than God this year.”¹⁰

- **Britain’s six petrol refineries are reported to be making more money “than they have ever witnessed”, with the BBC reporting that profits per barrel jumped by 366% in the year to June 2022.**¹¹

Just six refineries control the bulk of the UK’s petrol supply. Half are owned by US multinationals such as Valero and Exxon Mobil, and one is owned by a joint venture between billionaire Jim Ratcliffe’s Ineos and the Chinese government. While refining capacity has remained stable, the margin refiners make on wholesale petrol tripled in 2022 – from around 10p to up to 35p per litre added on petrol prices.¹² The indications are that this has dramatically boosted profits. ExxonMobil’s CEO has described the current context as a “very, very high margin environment”, while industry analysts say “the refiners are printing money at the moment.”¹³

- **Petrol retailers made £1.3 billion profit between 2016 and 2020.**¹⁴ Profits are likely to have risen even further since, due to record prices of over 190p per litre.

Petrol retailing is dominated by the big supermarkets, with the brands of oil multinationals also taking a large share. Because supermarkets do not break down their profits for petrol retail from other income, it is harder to identify profiteering here. But the RAC argues that supermarkets and other retailers have used price rises to make an extra £7 million a month in profit.¹⁵ Our analysis estimates that Tesco, Sainsbury’s and Morrisons would have made a combined £323 million on fuel sales in 2021-22. Profits are likely to have improved further in 2022 as the gap between wholesale and retail prices has increased.¹⁶

2.42 Energy

Household energy bills have hit record levels. Responding to massive public pressure, former Prime Minister Liz Truss fixed the energy bill price cap at £2,500



for an average household. But this is still a record high that will be unaffordable for many.¹⁷

One big driver is wholesale energy prices. The price that generation companies charge for supplying electricity to the grid jumped nearly five times over 2021, triggered largely by a spike in natural gas prices. That has meant windfall profits for gas suppliers and many generators. But the energy distribution networks, and the biggest retailers, are also cashing in.

- **The “Big 4” energy providers (Centrica, E.ON, EDF and Scottish Power) made combined £9.5 billion in profit in 2021, up 84% on 2019.¹⁸**

Some smaller suppliers have gone bust due to cost increases. But the big four energy companies, which are all active in electricity generation as well as retail gas and electricity supply, are profitable and have increased their market share.

Their profit bonanza is set to be even bigger in 2022. Centrica, the owner of British Gas, reported a record-high operating profit of £3.3 billion for 2022.¹⁹ Earlier in the year, they reinstated a dividend worth £59 million.²⁰ The company’s CEO, Chris O’Shea, said it was “the most challenging energy crisis in living memory” – but apparently not for Centrica’s shareholders.²¹

E.ON, meanwhile, posted profits of €2.5 billion in the first half of 2022.²² Earlier in the year, the company’s CEO, Michael Lewis, warned that consumers would have to cope with extraordinarily high fuel bills for at least 18 months - presumably to ensure that the company's dividend payments, announced in the same month, could continue.²³

- **A small number of private companies have been given licensed monopolies to run the electricity and gas distribution systems. These are effectively state-licensed cash machines – the electricity and gas distributors made a combined £6.3 billion in 2021, and both have ongoing operating margins over 40%.²⁴**

National Grid plc has a monopoly to run national electricity and gas transmission networks, while regional distribution grids are run by a small number of private companies. Their prices are supposedly controlled by regulator Ofgem – yet, according to analysis by Common Wealth, the gas and electricity distribution operators have been making long-term operating profit margins of over 40%.²⁵



Our analysis shows they had an even better year than usual in 2021 – with the gas and electricity distributors recording combined profits of £6.3 billion.²⁶ The companies pocketing this money include UK Power Networks, owned by CK Group, the company of Hong Kong's richest billionaire Li Ka-shing; and Northern Powergrid, owned by US billionaire Warren Buffet's Berkshire Hathaway conglomerate.

- **UK generators have already made more than £10 billion in “excess profits” due to spiking electricity prices, according to the Treasury.**²⁷

The wholesale electricity price – the rate at which generators sell their energy to the grid – jumped nearly 5 times higher in 2021.²⁸ This was triggered by increased gas costs: yet gas is responsible for less than 40% of electricity generation, meaning that other generators had a “windfall” as their sales price rose high above costs. UK Treasury officials estimated in May 2022 that UK electricity generators could have made more than £10 billion in “excess profits” by that point.²⁹

- **But this could be just the start. According to Bloomberg, the Treasury currently forecasts that UK gas producers and electricity generators could make “excess” profits of up to £170 billion in the next two years.**³⁰

2.43 Food

There have been huge increases in the costs of food staples in the UK and worldwide. The initial causes were widespread droughts and other climate disasters, compounded by jumps in fuel and other input costs, and most recently the Ukraine war. But all this has been made worse by profiteering along global supply chains – from agribusiness multinationals to high street supermarkets.

- **Tesco, Sainsbury's and Asda – the top 3 supermarkets – nearly doubled their combined profits to £3.2 billion in 2021 compared to 2019.**³¹

The food retail sector is highly concentrated: the top three companies, Tesco, Sainsbury's and Asda control 56% of market share. Despite the rise in wholesale prices, these companies increased their profits by 97% in 2021 compared to 2019.³² Tesco is also ramping up shareholder pay-outs. The company paid out £704 million in dividends in 2021-22 and commenced an enormous share buyback scheme in July 2022 intended to return over £1 billion to shareholders by April 2023.³³



- **Supplying the supermarkets are the food manufacturers. They are also enjoying good times: 8 top UK manufacturers made profits of £22.9 billion in 2021 – with both profits and margins up 21% on 2019.**

While the situation has been described as “extremely challenging” for the food sector, that doesn’t seem to apply to the top UK food manufacturers or their parent companies: healthy profits are being made. Eight of the top UK food manufacturers made a combined total of £22.9 billion in 2021. The biggest winner was Nestle, which alone pocketed net profit of £13.7 billion – up by nearly £4 billion on 2019. The good times for the company have continued into 2022, in no small part thanks to steep price increases.³⁴

- **The four dominant agribusiness conglomerates (Archer-Daniels-Midland, Bunge, Cargill and Louis Dreyfus) have “cashed in”³⁵ on food price jumps to increase profits by 255% in 2021 compared to 2019.³⁶**

Four giant multinationals – known collectively as “ABCD” – play a key role in trading global food commodities. These companies posted combined profits of \$10.4 billion in 2021, up 255% on 2019. Their combined profit margin was also up 173% in the same period.³⁷ Business media have noted that these companies are “reaping big gains” and have “cashed in on booming agricultural markets”.³⁸

- **In 2021, the parent companies of the four main UK fertiliser producers increased their profits by 23% in comparison to 2019³⁹ – even while blaming “soaring energy costs” for factory closures and job cuts.⁴⁰**

Fertiliser, one of the key inputs to agriculture production, has soared in price since 2021. The parent companies of the top 4 UK fertiliser producers made combined profits of \$1.4 billion in 2021, a 23% increase on 2019.⁴¹

2.44 Automotive

A shortage of new cars has seen consumers turning to the second-hand market. UK dealerships have taken advantage of this by boosting the prices of second-hand cars – and their profits. At the other end of the supply chain, suppliers of key components, notably semiconductors, have also seen big profits. And in the middle, car manufacturers are making record gains.

- **Major car dealerships saw a 110% rise in profits and a doubling of profit margins between 2019 and 2021. At the same time, the largest dealerships**



shed thousands of jobs and pocketed millions in government furlough support.⁴²

The drop in new car production has resulted in a surge in second-hand demand; dealers have taken advantage by increasing prices, with family-friendly models in particular jumping in price between 50% and 60%.⁴³ We have profit figures for 65 of the top 100 UK automotive retail groups: their combined 2021 net profit was £1.1 billion, up 110% on 2019, with margins doubling.⁴⁴ The five largest UK dealerships (including Sytner, Arnold Clark and Lookers) received a total of £257 million in government assistance in 2020-21 and slashed a combined 7,410 jobs.⁴⁵

- **The top car manufacturers with UK operations have also managed to get in on the profits bonanza – recording a combined net profit of £45 billion in 2021, up 134% compared to 2019, with margins increasing by 128%.⁴⁶**

As with the prices of used cars, the prices of new cars have increased dramatically. While the chief executive of the Society of Motor Manufacturers and Traders (SMMT) described the situation as "challenging", many car manufacturers have turned a healthy profit.⁴⁷ And the good times have continued into 2022: BMW announced that it had posted net profits of €13.2bn the first half of the year alone, while Stellantis recorded half-year profits of €8.0bn in 2022.⁴⁸ This hasn't fed through into improved conditions for workers, however, as BMW staff face falling earnings and plant closures.⁴⁹

- **The top ten global semiconductor companies have used a surge in demand to make a combined £44 billion profit in 2021, up 96% compared to 2019.⁵⁰**

The US-China and Korea-Japan trade wars, as well as halts in production caused by Covid-19 and natural disasters, have resulted in semiconductor demand outstripping supply. Semiconductor companies have been able to leverage this situation to nearly double 2021 profits versus 2019.⁵¹ The largest semiconductor manufacturer, TSMC – which has over 50% of the global market share – announced that its net profit figure had surpassed the NT\$1 trillion (equivalent to US\$33 billion) mark for the first time, up by more than 70% from a year earlier.⁵²



2.45 Road freight

Issues in the UK road freight industry – particularly a shortage of drivers – have been well covered in the media.⁵³ Other problems include increased fuel and vehicle costs.⁵⁴ Our analysis of company profits, however, shows that freight companies have largely managed to pass on costs related to these issues, boosting profit margins.

- **The combined profit margin of the UK's major road freight companies has jumped 67% on 2019 levels.**⁵⁵

79 of the biggest 100 road freight operators have reported their profits for 2021. Their combined net profit margin has gone up to 4.2%, from 2.5% in 2019.⁵⁶

- **The parent companies of top road freight operators increased their profits by 149% compared to 2019.**⁵⁷

Together, nine of the biggest UK road freight operators– Wincanton, Turners and Royal Mail, along with the global logistics giants Deutsche Post (DHL), FedEx, XPO, Kuehne + Nagel, La Poste (DPD) and UPS – made £21.1 billion in 2021, up from £8.5 billion in 2019, with profit margins increasing by 90%.⁵⁸

2.46 Ports

The UK is the most expensive cargo shipping destination in Europe, with a standard 20ft container costing nearly 25% more to ship from Shanghai to the UK than to continental Europe.⁵⁹

- **The UK's ports are dominated by six companies. Four of these have published 2021 accounts, showing double-digit profit margins.**

ABP Ports, the UK's largest port operator, made £126 million net profit in 2021 with a margin of 21.8%. Peel Ports made £143 million with a similarly high margin of 24%. DP World, notorious for its illegal firing of P&O workers, made £863 million globally – a mere 10.8% margin. And CK Hutchison's global ports division reported operating profits of over £1 billion – on a 25.4% operating margin.⁶⁰

- **Profitable UK port operators are nevertheless set to receive millions in government support as part of the Freeport scheme, including at least £50 million going to DP World.**⁶¹



Other profitable operators like Hutchison Ports will also benefit from government support.⁶²

2.47 Container shipping

Probably the most blatant example of inflation profiteering is container shipping – an industry which is particularly crucial to the UK due to its status as an island nation with a large trade deficit in goods. This industry is dominated by a handful of multinational giants, who have joined together in three alliances that control nearly 85% of world container trade.⁶³ This massive market power is helping shipping companies take advantage of the post-pandemic demand surge to accumulate eye-watering profits.

- **Eight of the top 10 global container shipping companies had reported 2021 profits at the time of writing. Their combined total was £62 billion in 2021 – up an astonishing 20,650% on 2019. On the back of this, they paid out £4.7 billion in dividends last year.⁶⁴ These already record profits are set to be smashed in 2022 as the container lines are forecast to make a staggering £212 billion.⁶⁵**

While shipping companies have faced increased transport expenses, these appear to be far below the freight price increases they've introduced.⁶⁶ Recent reports suggest they will continue to enjoy phenomenal profits in 2022. According to Bloomberg, profits are expected to reach \$256 billion (£212.2 billion) in 2022 results.⁶⁷

- **The US, UK, Canadian, Australian and New Zealand competition authorities are coordinating investigations of suspected anticompetitive conduct by shipping companies.⁶⁸ The companies have been accused of “blatant profiteering” and potential “cartel activity”.**

Five international government authorities are now probing anticompetitive practices in the industry. Australian Competition and Consumer Commission chairman, Rod Sims, has argued that legal exemptions may allow freight companies to “get together and engage in cartel activity”.⁶⁹ In June 2022, US President Joe Biden passed the Ocean Reform Act, which gives the US Federal Maritime Commission to intervene into shipping fees.⁷⁰ International freight forwarding bodies have argued the companies have engaged in “blatant profiteering”.⁷¹



3 FTSE 350

3.1 Profit margins for the UK's biggest listed companies jumped 89% in the first half of 2022 compared with the first half of 2019

Unite's first report on profiteering, published in June 2021, showed how many companies pushed up their profits at the end of the pandemic. Profit margins of the UK's biggest listed companies – the FTSE 350 – were 73% higher in 2021 than they had been in 2019.⁷²

Whilst the cost-of-living crisis continues, the profit margins of the FTSE 350 have soared even further in the first half of 2022, reaching 89% higher than in the first half of 2019.

We analysed the profits of the FTSE 350 index – the 350 biggest companies listed on the London Stock Exchange. Of these 350 companies, we analysed 241 companies which were not classified as asset management companies, and for which we could access half year figures for 2022 and 2019.⁷³ We compared their 2022 figures with those for 2019 – the last normal year before the global pandemic.

On average, the 241 companies in the sample posted an average turnover of £3.2 billion in the first half of 2022. With the aftermath of the pandemic still affecting sales, that was down on the £4.2 billion average turnover in the first half of 2019.⁷⁴

But even though sales were down, profits leapt up even further than in 2021. The average company net profit (after tax and all costs) in the first half of 2022 was £346 million, up from £240 million in 2019. That's a jump of 44% in profits.⁷⁵

If we look at profit margins – the amount companies make as a proportion of sales – those leapt even more dramatically. The overall profit margin of the companies was 10.7% in the first half of 2022 – up from 5.7% in the first half of 2019, and 9.7% in the first half of 2021⁷⁶. This means the average profit margin of the FTSE 350 jumped 89% higher in the first half of 2022 than the first half of 2019.⁷⁷

Biggest UK listed companies, average turnover and profit data 2019-2022⁷⁸



	H1 2019	H1 2020	H1 2021	H1 2022
Turnover	£4,217m	£2,974m	£3,091m	£3,219m
Net Profit	£240m	-£99m	£300m	£346m
Profit Margin	5.7%	-3.3%	9.7%	10.7%

*2019, 2020 and 2022 results are of the 241 FTSE 350 companies in December 2022 that have reported profits for 2022 and 2019. One company did not report 2021 figures. Note the increase in profit margin between 2022 and 2019 comes to 89% using unrounded figures.



4 Economic Analysis: five channels of profiteering

4.1 What is the cost-of-living crisis?

Inflation continues to soar in the UK, with the ONS Retail Price Index (RPI) rising 13.4% in the 12 months to December 2022.⁷⁹ As the table below shows, energy (the ONS' "fuel and light" category) has seen by far the biggest price jump, followed by rising food costs.

RPI of categories in the 12 months to December 2022

Item	% change over last 12 months
Fuel and light	91.6
Food	16.5
Clothing and footwear	13.5
Household goods	12.9
Fares and other travel costs	22.8
Motoring expenditure	9.5
Catering	11.3
Housing	9.4
Leisure goods	4.5
Alcohol and Tobacco	4.6

Source: ONS⁸⁰

To break energy rises down further: gas prices went up 132%, and electricity prices 65%.

The following table shows how much each category contributed to overall inflation:

Category	Contribution to overall inflation	% of total inflation
Fuel and light	4.4	33%



Category	Contribution to overall inflation	% of total inflation
Housing	2.8	21%
Food	2.0	15%
Motoring expenditure	1.3	9%
Household goods	1.0	7%
Clothing and footwear	0.4	3%
Household services	0.3	2%
Catering	0.3	2%
Leisure services	0.3	2%
Alcoholic drink	0.2	2%
TOTAL	13.4%	

Source: ONS⁸¹

That is, even if no other prices had gone up, just the rise in fuel and light prices alone would have meant 4.4% inflation. To put it another way: 33% of total inflation was caused by energy price rises.

The next biggest impact was from housing prices. We do not look at housing prices in this report, as these are likely to be influenced by quite different factors from other goods and services. We look at the two next most important categories for inflation: food, which caused 15% of inflation; and motoring expenditure, responsible for 9% (largely due to petrol costs).

The 3 categories covered in this report – fuel and light, food, and motoring – together accounted for 57% of overall inflation.

4.11 Inflation and the cost of living

Politicians, media, and the Bank of England still largely ignore the profiteering crisis – instead issuing warnings that workers may cause “spiralling” inflation if they demand wages rise to match living costs. But this narrative flies in the face of reality: real wages have been falling steeply, dropping by 5.7% in course of 2022, among the largest falls on record.⁸²



Inflation, in itself, isn’t the big problem. If everyone’s income went up at the same rate as prices, this could cause confusion and some transaction costs – as, e.g., shops have to keep changing their price tags. But it wouldn’t make a major impact on living standards.

The real problem is that prices are going up faster than most people’s incomes. Wages are falling in real terms, and living standards fall. This is the cost-of-living crisis.

Although, of course, not everyone is feeling the pain. Whenever a price rises, someone is getting that extra money. If it’s not going into wages, it must be going somewhere else. Very often, that means profits pocketed by bosses and investors.

4.2 Drivers of inflation: from supply shocks to price spirals

4.21 Round One: supply shocks

Most economists agree that the first wave of current high inflation was caused by supply-side “shocks” – largely unanticipated impacts hitting global supply chains in 2020 and 2021. These included:

- **Climate.** In particular, extreme droughts hit many of the world’s main agricultural regions – from Asia to the Americas – in 2021, and continuing this year. These and other climatic crises caused crunches in supplies of basic staple commodities such as grains. (See Section 6.54.)
- **Disease.** The Covid-19 pandemic helped freeze global supply chains through 2020 and into 2021. Both production and transport processes were wound down as plants and ports closed, and many workers kept at home or fired. When the pandemic ended, demand for goods rose again – but it takes time for production and transport to come back online, and for the workers who were laid off to be rehired.
- **War.** Russia’s invasion of the Ukraine then added a series of blows to global trade flows. On top of already rising energy prices, the Ukraine war cut off a part of global oil and gas supply, sending fuel prices through the roof.⁸³ Russia and Ukraine are also major producers of important commodities, from wheat to titanium, so there were also jumps in their costs.⁸⁴



4.22 Round Two: price spirals

Inflation implies prices rise for many goods at once, across the economy. This isn’t because there is a mysterious “invisible hand” of “the economy” that puts up prices all at once. It’s because thousands of different companies and other decision-makers, in thousands of different markets, decide to raise their prices.

For example, suppose a supermarket’s costs for a bottle of cooking oil go up 50%, from £1 to £1.50. This may be because of a number of supply chain factors: e.g., increases in the price of wholesale oil traded in global commodity markets; increases in shipping prices to move the oil to the UK; increases in road freight prices to move it from port to store.

But now the supermarket has its own decision: should it raise the price it charges its customers, and if so by how much? It could raise the price by less than 50p, and so “absorb” some of the cost increase. It could raise the price by 50p, so “pass on” the cost. Or it could raise it by even more – in which case its own profit increases.

Similar decisions are being made along multiple supply chains, as companies at different points set or negotiate prices. From farmers and other raw material producers, through shippers and processors, all the way to high street retailers.

If many decision-makers keep raising their prices to cover jumps in their costs – or even take advantage of the situation to raise prices higher still – then we risk a situation of “price spiralling”, or what is sometimes called “second round inflation”.

4.3 Profits are pushing up inflation more than wages

Some of the decision-makers include workers bargaining for higher wage rises. But, as seen above, wages in real terms are falling fast, indicating that despite potential wage increases, workers are not able to maintain their living standard. More importantly from the perspective of inflationary pressure, data shows that nominal wage growth, i.e., not adjusted for inflation, has only recently started to increase.⁸⁵ So it’s clearly not workers who are responsible for the bulk of inflation.

In our first report on profiteering, we saw that profit rises were a much bigger factor pushing recent inflation, as measured by the GDP deflator. We saw that many companies had a leap in profits as the pandemic eased. Profit margins of the FTSE 350 companies (biggest companies listed on the UK stock exchange) jumped 73% in 2021 compared with pre-pandemic levels in 2019.⁸⁶



Although politicians, media, and officials such as the governor of the Bank of England keep talking about a “wage-price spiral”, there are in fact much stronger signs of a “profit-price spiral”. If policy-makers really want to deal with the cost-of-living crisis, as opposed to using it as an excuse to hit workers, they should be looking at “profit restraint” – not “wage restraint”.

4.4 Profiteering = taking advantage of the crisis to push up prices and profits

What do we mean by profiteering? Here is a definition from the Cambridge online English dictionary:

- “Profiteering: the act of taking advantage of a situation in order to make a profit, usually by charging high prices for things people need.”⁸⁷

The situation is the supply chain crisis caused by climate, pandemic, and war. Some companies are taking advantage of this situation to charge higher prices – well above their own costs – for things people need.

Not all companies are increasing their profits. Some firms are indeed being hit by inflation themselves.

But many companies are doing well. This may appear surprising, as so far politicians and media commentators in the UK have almost entirely ignored the issue of post-pandemic profiteering (unlike in other countries including the US, where it has become a major topic of public debate). But there is clear evidence of profiteering in numerous industries and sectors across the economy.

This is the evidence we present in this report. Following on from our first report, this study looks at some of the key household goods which are seeing big prices rises – and then digs down into the supply chains behind them. We look at just where price-jump decisions are being made – and who is profiting from them.

4.5 Mapping the supply chain crisis: four key goods + three key transport industries

In this report we start with four key consumer goods which are all seeing major price leaps. These are:

- Energy (electricity and gas bills)
- Petrol



- Food
- Automobiles

We trace back basic supply chains for these five goods. In each case we start with retail sales (household energy bills, forecourt petrol prices, supermarkets and high street shops, car dealerships). Then we work back through wholesale, processing, distribution and transportation, to the key raw materials or “commodity” markets.

Of course, many of these supply chains overlap. For example, oil and gas are fuels used in all the other supply chains. And we zoom in further on three transport and distribution industries which are crucial for bringing many goods to UK customers:

- Road Freight
- Ports
- Shipping

As we work back through key “nodes” in the supply chains, we look at how these different stages contribute to the final prices customers pay in the shops. For each stage, we identify some of the major companies involved; we look at what has been happening to prices; and we look at what has been happening to companies’ profits.

4.51 Methodology: sources

Companies do not publish transparent information on their pricing decisions. Thus, it is not easy to identify profiteering decisions with certainty. Nevertheless, we can find strong **signs** of profiteering in numerous industries and sub-sectors.

We use a variety of sources. These include: financial data supplied by databases including FAME / Orbis and Capital IQ; companies’ own accounts and financial statements; and analyst and media reports.

In Section 2 above, looking at the FTSE 350, we are able to use the latest half yearly profit figures from the first six months of 2022. This is because these UK listed companies are subject to particularly strong reporting requirements. Very few have so far published full year profits for 2022.

In the sector-focused analysis that makes up the bulk of this report, we focus on full year 2021 profits and profit margins. This is because very many important companies in these sectors and supply chains are not listed, and do not publish half year results. We compare these with figures from 2019 in order to avoid a



misleading comparison with the pandemic year of 2020, where most industries saw profit decline.

Using 2021 figures probably underestimates the profit surge: in many cases, companies are reporting even higher profits in their more recent quarterly and half-year statements for 2022. This is reflected in the FTSE 350 results reported in Section 2.

That is: the signs are that the profiteering phenomenon is even bigger than captured in this report. It is possible that a future recession will reduce profits across the economy – but this isn’t happening yet.

4.6 How does profiteering work? 5 key channels allowing companies to boost profits

In all the cases we see in this report, companies are able to increase overall profits because they can charge higher **mark-ups** on goods they sell. Mark-up, here, is the good’s sales price (the price the company sells it for) minus its cost price (the price of the inputs the company needs to produce it).

In many cases, the company’s cost price has also increased – but it manages to increase its sales price even more.

We can talk about companies’ **mark-up power**: that is, their ability to increase the mark-ups on their goods. Some companies, in some industries, have more mark-up power than others. Why is this?

There are a range of reasons. In the report, we identify several profiteering channels or mechanisms. Here are five main ones:

- **1. Supply crunch.** After a supply chain shock, demand chases reduced supply – this allows companies to push up prices and profits.
- **2. Demand jump.** An increase in demand for a good, while supply remains constrained, allows companies to lift prices.
- **3. Market windfall.** Centralised market pricing structures can create “windfall” profits for companies, where a market-wide price jumps due to factors unrelated to their costs.
- **4. Market concentration (oligopoly).** Where a few large companies dominate an industry, they can have greater power to increase mark-ups.



- **5. State-licensed monopolies.** In some key industries, companies are granted government concessions which give them major power to set prices, encouraged by failing regulation.

These channels often work in combination. For example, supply shocks and demand jumps hit simultaneously in many areas of the economy as pandemic-related lockdown restrictions lifted. Where big firms dominate an industry, they can then use their power to take even greater advantage. Sometimes they have state support and failed regulation to thank for a lot of their power. Market pricing mechanisms have then created extra windfalls on top of supply and demand shifts. And market pricing structures don't appear out of thin air: they are created by actors including powerful companies, and their friends in government.

4.61 Channel 1: supply crunch

Climate crises, the pandemic, and other events such as a surge in factory fires induced global supply chain disruptions in 2020 and 2021.⁸⁸ These supply bottlenecks forced many firms to reduce production, or inhibited them from expanding production.

At the same time, demand remained strong for these goods – or increased as the pandemic eased (see below). So stable or increased demand chased lower supply, allowing firms to sell new output, as well as existing inventories, at higher prices.

In some cases, companies' costs have increased – but they have been able to raise sales prices yet more. In other cases, companies may have benefited because their competitors' costs increased while their own supply was not affected.

More recently, the Ukraine war has caused further major supply crunches.

- **Example: semiconductor crunch.** Global semiconductor production was hit by multiple supply shocks coming out of the pandemic, raising costs. But rapid recovery in demand enabled producers to raise their prices even higher. The world's biggest semiconductor producer, TSMC, recently reported a record 59% gross profit margin – openly admitting that such high profit margins are a result of customers being prepared to pay higher prices. This in turn has contributed to higher prices for cars and other goods dependent on electronic components. (See Section 7.5).



4.62 Channel 2: demand jumps

Where demand increases faster than supply can keep up, this can allow companies to raise sales prices. In the recent crisis we note two particular phenomena:

- **Post-pandemic demand rush.** “Pent-up” demand for many goods was quickly released as consumers emerged from lockdown; but supply chains could not return at the same speed; thus, “excess demand”.
 - **Example: fuel.** In the sections below, we see cases of demand increasingly at the end of the pandemic – for example, for oil and gas. This has helped companies in range of sectors push up prices and profits. (See Section 4).
- **Substitution effects.** Where one good is hit by a supply crunch, excess demand can shift to another “substitute” product, allowing its suppliers to raise their prices well above cost.
 - **Example: food oils.** Ukraine is the world’s largest producer of sunflower oil. The war’s shock to sunflower supply has meant demand switching to substitutes such as olive or palm oils – and their prices then also jumping through the roof. Where their producers’ costs have not been impacted in the same way, they have been able to reap “windfall” profits. This has helped giant food wholesalers like Archer-Daniels-Midland (ADM) increase its net profits by 53%. (See Section 6.5).
 - **Example: car dealerships.** As the supply of new cars has been squeezed (including by the semiconductor shortage), car dealers have been able to push up the price of second-hand cars to unprecedented levels. This helped car dealerships in the UK record a year-on-year profit increase of 628% in 2021.⁸⁹ (See Section 7.3).

4.63 Channel 3: market windfalls

In general, we can say a company gets a “windfall” profit where the price of its good jumps in the wider market, while its own costs have not significantly changed. This can result from the supply and demand factors identified above. But we also see cases in which windfall profits are created, or exaggerated, because of the specific ways market price-setting institutions are set up. This may happen because a centralised global or national marketplace has been structured to trade all supplies of a good at the same single price, even though suppliers’ costs differ greatly.



Note: companies may then say that they have “no choice” but to sell at the market price – the market makes them do it. This may not be true – but why would they sell cheaper, if they don’t have to?

Also note: these market pricing mechanisms don’t just appear from nowhere. Regulators, powerful companies, exchanges, financial traders, and other players are involved in determining market structures. Thus, for example, global oil producers in the OPEC+ cartel are actively involved in shaping the structure of the oil market that helps keep their prices high.

- **Example: oil price shocks.** Oil prices are set globally in electronic marketplaces, involving both major speculation and the actual buying and selling of fuel. Benchmark prices have jumped due to factors including the post-pandemic demand surge, the Ukraine war cutting off Russian supply, and intense speculation on futures markets. The production costs of UK North Sea (and many other) producers are not directly affected by these issues. Yet they have benefited from the global price jump to reap windfall profits – with, for example, projected windfall profits of £30 billion from North Sea oil and gas in 2022 alone. (See Section 4.5).
- **Example: wholesale electricity.** In the UK system, there is just one national wholesale price for all electricity sold into the national grid by generators at any given moment. In 2021 this price shot up due to the jump in the cost of gas, even though gas is responsible for less than 40% of electricity generation. That meant many electricity generators, e.g. those using nuclear power, saw their sales price rocket even though their costs hadn’t been affected. (See Section 5.5).

4.64 Channel 4: market concentration

Many of the industries where we see the highest profit rises are dominated by a few giant firms. This makes sense following basic economic logic. If a few companies dominate a market, for example because they are monopolists (the single supplier) or oligopolists (one of a handful of suppliers), they will often have greater power to increase mark-ups – because prices are not bid down by undercutting from competing firms. However, the important aspect is not (only) how many suppliers there are in a market; even sectors with a large number of suppliers will exhibit market concentration if a small number of firms produce the majority of the output.



Firms that already dominate a market segment are less concerned about losing their market share when they increase prices – and are thus more likely to raise prices in order to pass on the costs from supply shocks.⁹⁰

- **Example: container shipping.** Five giant companies now dominate 65% of the international container shipping market – crucial to the supply chains of so many UK consumer goods. Market concentration increased substantially in recent years, while the combined net profits of the top companies increased by a staggering 20,650% between 2019 and 2021. The extent of this profiteering has finally pushed multiple regulators worldwide to investigate “cartel activity” in the sector. (See Section 8.4).
- **Example: petrol refining.** The number of refineries in the UK has declined significantly over recent decades; currently just 6 major sites supply around 85% of total UK fuel demand. The BBC reported that refining profits per barrel leapt 366% in the year to June 2022. (See Section 4.4).
- **Example: food and fuel retail.** Some of UK’s main consumer retail sectors are highly concentrated, with the top supermarket chains in particular having massive market shares. Many of these companies have reported huge profits in the current crisis. (See Sections 4.3, 6.3).
- **Example: agribusiness giants.** The global supply chains of key agricultural products such as grain are dominated by just a few gigantic companies. These include the 4 “ABCD companies” – ADM, Bunge, Cargill, and Louis Dreyfus – whose profits have rocketed during the pandemic. (See Section 6.5).

4.65 Channel 5: government sponsored monopolies

Monopolies or oligopolies can arise for multiple reasons. In the examples above, market concentration has increased in markets which, in theory, are run by private enterprise and free competition.

In other cases, companies are granted monopolies as government concessions. In such cases firms have no competitors at all which can threaten them with undercutting. In theory, prices and profits in these licensed industries are supposed to be controlled by regulators. In practice, regulation is often hands-off and companies are effectively given licenses to print money.

- **Example: electricity grid.** The Distribution Network Operators (DNOs) that run the regional electricity grids have been making 40%-plus operating margins



over several years. These companies have no competition at all – they are granted monopoly concessions by the government. In theory, their prices are controlled by the energy regulator, Ofgem. In practice, their massive profit margins suggest this regulation is failing. (See Section 5.4).

- **Example: oil and gas concessions.** In the UK North Sea, multinational oil companies are granted long-term concessions to make mega profits by exploiting key natural resources. Many other countries have attempted to redistribute the massive profits of oil drillers to their citizens – for example, Norway, the other big North Sea producer, uses its nationalised oil industry to run one of the world's largest investment funds. The UK's North Sea oil reserves, on the other hand, are sold off to multinationals such as BP and Shell. (See Section 4.5).

4.7 Issues for further research: speculation and financialisation, vertical integration, information smokescreens

Besides the five channels above, there are other factors involved in profiteering that we have not investigated in depth in this report. Here we flag up a few issues that could benefit from further research.

- **Speculation and financialisation.** Many of the markets where we see profiteering involve global commodity marketplaces, where speculation may play a large role in shifting prices.
 - **Example: oil trading.** Commentators have alleged that speculative traders play a key role in pushing up crude oil prices, which are significantly influenced by futures markets.⁹¹ One analyst has warned that supply and demand “fundamentals have been rendered almost irrelevant” for oil prices as a result of speculation driven by AI (See Section 4.5).⁹²
- **Vertical integration.** Companies that control more of their own supply chain may be less vulnerable to cost shocks, and have more power to raise prices, than companies that only sell a good at one stage.
 - **Example: electricity.** A number of smaller electricity retailers went bust in 2021 as their wholesale costs jumped. The biggest electricity suppliers may have been shielded from such costs, and in some cases been able to increase profits, because they also own generation operations. (See Section 5.3).



- **Pricing information and “smokescreens”.** Even when companies report high profit increases, they often still issue public statements complaining they are being forced to raise prices due to increased costs. As Lindsay Owens of the US based Groundwork Collaborative has argued, companies can benefit from a “smokescreen” hiding their pricing.⁹³ There is important further research to be done on the role of information – and lack of it – in allowing firms to pass on price increases.

4.8 What does economic theory say? From competition to “tacit collusion” and mark-up power

According to economic theory, if one company in a competitive market increases prices above costs, other firms have incentives to undercut them and steal their customers – so pushing prices back down. This is clearly not happening for many of the core goods we look at. Why not?

The answers differ depending on the markets and mechanisms in operation. Some cases are particularly clear:

- In the “market windfall” case: benchmark oil prices, for example, are determined in a global marketplace. North Sea petroleum producers have no incentive to undercut as they can still sell oil at this high price, and make high profits, without risking losing their market share.
- In the case of “state-licensed monopolies”: these companies have no competitors at all, and so no risk of being undercut.

Note: companies like to present the issue as entirely out of the hands – the market makes them do it. As the CEO of Shell puts it when challenged on the company’s record-breaking profits: “we cannot perform miracles ... it is what it is”.⁹⁴ Of course, Shell actually **could** choose to charge less. But it would indeed be a miracle for a company and its investors to give up an opportunity to make billions. If companies don’t have an incentive to lower prices, they generally won’t.

In industries with high market concentration, it can sometimes be the case that firms actively collude with each other to set high prices. A well-known example is the OPEC (Organisation of Petroleum Exporting Countries) cartel, which still has significant power to set global oil supplies and prices.⁹⁵

But price setting does not necessarily require active collusion. Economic theory suggests that, under certain conditions, firms can behave as if there was an



agreement between them to maintain high prices, even if no illegal behaviour has taken place. This is sometimes referred to as **tacit collusion**, or tacit coordination (Ivaldi et al.).⁹⁶

For example, firms may copy each other in setting high prices because they are all aware that if one undercuts, the others will retaliate and drive everyone’s profits down. Tacit collusion is more likely in markets with fewer competitors, and where high set-up cost barriers make it hard for new firms to enter the market.

This backs up the basic idea that we’re more likely to see inflationary price shocks “passed through” to customers in “concentrated” industries dominated by a few firms. Recent economic evidence also supports this point: Using U.S. data, Konczal and Lusiani (2022) find that firms who had large mark-ups before the pandemic (an indicator of market power) managed to increase their mark-ups even more during the pandemic, implying that inflation is related to mark-up power. Bräuning et al. (2022) find that the passthrough of cost increases to prices is higher the higher the market concentration of an industry.⁹⁷

But what about more competitive markets with lots of companies? For example, we also see high price and profit rises in industries like road freight or car dealerships, which are, on the face of it, not oligopolistic.

Economic theory suggests that tacit collusion is easier to sustain in growing markets where future profit expectations are high: firms understand they can do better in the long run by sticking with high prices than by getting short-term gains from undercutting (Ivaldi et al.).⁹⁸ This indicates that we can expect profit rises in sectors that experienced a surge in demand, such as second-hand car dealerships or clothes, even if competition in these sectors is relatively high.

Another possible – and partial – explanation is that, in the recent crisis, supply bottlenecks limit undercutting incentives. The usual argument is that a company can gain by selling cheaper, but more, than its competitors. But if there isn’t the “more” to sell cheaply, for example because of production bottlenecks, this option isn’t there. For example, road hauliers couldn’t snap up their rivals’ customers if they didn’t have access to the trucks and drivers needed to increase supply. Thus, if all firms in a sector are hit by supply shortages this will limit their ability to undercut each other, thereby incentivising firms to keep prices high.



4.9 The economy doesn’t work for working people: messed-up markets

Further research and analysis is needed into the precise mechanisms through which profiteering takes place in different industries and supply chains. This report is just one step in a much bigger project.

For now, we can summarise some basic observations. First: lots of companies – and their investors – are making big profits on the back of a crisis hitting working people.

Second: neither market competition, nor government regulation, are doing anything much to tackle this problem. On the contrary, both are facilitating it. Profiteering is rampant in both the private sector – where there are often opportunities for “tacit collusion” – and in markets regulated through government concessions.

So far in the UK, the main response by media commentators and politicians of all colours has been to largely ignore the issue of profiteering. But in some cases this has become impossible. These are the most blatant and visible examples, particularly electricity and petrol, where people see rocketing prices at the same time as well-known companies report mega-profits. In these cases, policy responses so far have involved:

- Very limited windfall taxes – so far only on energy companies, and with big get-out clauses;
- Very limited regulatory and competition inquiries: for example, on petrol prices and electricity distribution.

This report shows how profiteering is endemic across the economy, and across markets with a whole range of regulatory and competitive structures. Tinkering with regulations or windfall taxes will not address this problem.

The problem is economy-wide: it is a systemic crisis. Across markets, companies and investors have won unconstrained power to pursue as much profit as they can, facilitated by market institutions and government regulators. This is not going to be addressed until the vast majority of us who are impacted by the crisis, as both workers and consumers, organise to challenge their power.



5 Petrol

5.1 Key points

- Petrol prices hit record levels of over 190p per litre in July 2022, and have remained well above long-term averages. At the start of 2023 unleaded petrol was still over 150p a litre, higher than at any point before 2022.
- We can break down the petrol supply chain into three key steps: crude oil production; refining crude oil into petrol and diesel; finally, retail at the petrol pumps. All of these are stages are seeing price and profit hikes.
- After slumping during the pandemic, crude oil prices jumped back above \$100 per barrel in 2022. Analysts forecast an average price per barrel of just under \$90 in 2023 – considerably higher than historical averages. This has meant massive windfall profits for oil producers worldwide: a mix of state-owned giants and private multinationals. The top 10 global oil companies made £174.5 billion between them in 2021 – up 37% on 2019. Nine top UK North Sea producers made a combined £41.4 billion in 2021, up 50% on 2019. BP's CEO has described his company as a “cash machine”. 2022 profits look set to be even higher, with the five oil majors which have reported full-year results so far posting a 271% increase in net profit compared to 2019.
- Next, refiners add their margin on top of the oil price. This trebled in the last year, from around 10p to up to 35p per litre. Just six refineries control the bulk of the UK's petrol supply. Half are owned by US multinationals, one is owned by a joint venture between billionaire Jim Ratcliffe's Ineos and the Chinese government. Industry analysts describe these companies as “printing money”: profits per barrel increased by 366% in the year to June 2022.
- Finally, petrol retailers take their cut. Petrol retailing is dominated by the big supermarkets. Because they do not break down their profits for petrol retail from other income, it is harder to identify profiteering here. But the RAC argues that supermarkets and other retailers have used price rises to make an extra £7 million a month in profit. Petrol retailers made £1.3 billion in profit between 2016 and 2020, and profits are set to rise even further in 2022.



5.2 Overview of the UK petrol supply chain

In July 2022, a litre of unleaded petrol cost on average over 190p, a record high – and over 40% higher than a year before.⁹⁹ Prices have come down since then – but at the start of 2023 still remained over 150p, higher than they ever were before 2022.¹⁰⁰

These high prices became a strong issue of public concern in 2022. In March 2022, the Chancellor cut fuel duty by 5p a litre in order to alleviate price pressures. But prices kept on rising.¹⁰¹ In June, the Competition and Markets Authority (CMA) launched an investigation into competition in the fuel market, over concerns the fuel duty cut had not been passed on to drivers.¹⁰² In July, protestors connected to the Fuel Price Stand Against Tax Facebook group caused delays across the UK's motorway network in demonstrations over high fuel prices.¹⁰³

The supply chain for petrol and diesel in the UK includes:

Retailers ← Distribution / transport (HGV tankers) ← Refineries ← Storage ← Offshore transport (shipping, pipelines) ← Oil producers¹⁰⁴

Here we will focus on three key elements: crude oil production; the refining of crude oil into petrol and diesel; and retail of petrol and diesel at petrol filling stations. Later sections in this report look at shipping and road freight.

The price of petrol can broadly be broken down as follows:¹⁰⁵

- **Crude oil price** = price the refiners pay for crude oil they use to make petrol.
- **Wholesale petrol price** = crude oil price + refining spread.

The refining spread is the extra money the refiners add to cover their costs and profit. In some cases, petrol is sold by refiners to independent wholesalers, who then also add their cut before selling on to retailers.

- **Retail petrol price** = wholesale price + fuel duty and VAT + retailer spread.

The retailers buy at the wholesale price, then add on their cut covering their costs and profits. The government also takes a cut via fuel duty and VAT.



5.3 Petrol retail

5.31 Overview of petrol retail market

Petrol is purchased by retail customers from petrol filling stations. There are three main types of petrol and diesel filling station owners in the UK:

- Supermarkets.
- Oil companies: filling stations owned or leased by oil companies, whose name appears on the brand sign.
- Dealers: filling stations owned and operated by a company which is not part of an oil company or supermarket.¹⁰⁶

The total number of petrol filling stations has declined in recent years, with closures primarily among dealer-owned and company-owned filling stations.¹⁰⁷ There has been a concentration in the market, which industry sources say has led to reduced competition, helping retailers to push prices higher.¹⁰⁸

The petrol retail industry has been described as “one of the most investigated industries in the UK” over concerns about its oligopolistic nature.¹⁰⁹ Multiple competition and trade investigations have found that the industry is a “complex monopoly”, with many characteristics associated with anticompetitive conduct.¹¹⁰

5.32 Petrol retail is dominated by four big supermarkets, with the brands of oil multinationals also taking a large share

Four major supermarkets – Tesco, Sainsbury’s, Morrisons and Asda – are responsible for over 40% of total sales.¹¹¹ They have been accused by the RAC and others of ‘dominating’ UK fuel retailing, with other fuel retailers following their lead on pricing.¹¹² The brands of oil and gas multinationals such as BP and Shell also take a large share.

The table below shows the market share of petrol retailing by **brand** sold. Note: oil company branded fuel is sold both at stations they own, and by dealers who buy their fuel.

UK petrol retail by brand

Petrol brand	Market share (Nov 2021)
Tesco	15.8%



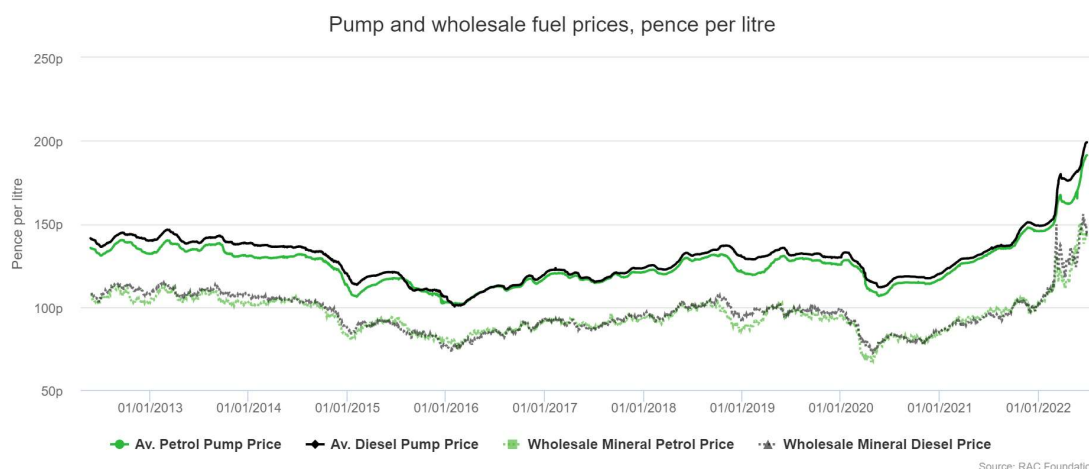
Petrol brand	Market share (Nov 2021)
BP	14.4%
Shell	13.9%
Esso (Exxon Mobil)	12.6%
J Sainsbury	10.1%
Morrisons	9.7%
Asda	7.6%
Texaco (Chevron Corporation)	4.8%
Certas Energy (DCC plc)	2.3%
Jet (Phillips 66)	2.0%

Source: Statista¹¹³

5.33 Retail petrol prices hit record highs in 2022, and retailers' margins have also increased

In July 2022 retail petrol prices jumped to historic highs of over 190p per litre, and were hitting regular daily records.¹¹⁴ The chart below, from the RAC, shows movements in both retail and wholesale prices up to that point:

Pump and wholesale fuel prices



Source: RAC.¹¹⁵

While prices have come down since then, as of the start of 2023 they still remained at historically high levels.¹¹⁶



The difference between wholesale and retail prices includes fuel duty, VAT, and the “retail spread” that retailers add had to their price.

Though it fluctuates, overall the retail had spread has been rising over the last few years. At the start of 2019, for example, the difference between the wholesale and the retail price of petrol was 33p per litre; by the start of 2023, the difference had increased to 42p per litre.¹¹⁷

Some commentators have identified a **‘rocket and feather’** effect: retail prices rise like a rocket when oil prices go up, but fall like a feather when oil prices drop.¹¹⁸ The RAC has repeatedly criticised petrol retailers – especially supermarkets – for taking too long to bring retail prices back down when wholesale prices decrease; while the AA has accused fuel retailers of ‘dragging their feet’ in passing on reductions in oil prices since the spike at the beginning of the Ukraine war.¹¹⁹¹²⁰ The retailers counter that their increased spreads are due to higher costs they are facing – including electricity prices, business rates, and labour costs.¹²¹

5.34 The RAC and other commentators have accused the retailers of profiteering

Commentators have accused the retailers of profiteering. For example, the RAC has accused retailers of taking 2p more in profit a litre than before the March 2022 5p cut in fuel duty – i.e. they had not passed on the fuel cut in full. The organisation argues that petrol retailers may be making £7 million a month in extra profit.¹²²

In response to profiteering accusations, the CMA is carrying out an investigation into fuel pricing. Its initial report, published on 8 July 2022, was taken by the retailers as “clearing” them.¹²³ It said: “There is no strong indication that the rising retailer spread has driven the significant rise in pump prices seen in recent months.”¹²⁴

It’s true that the biggest jumps in prices come before the retail level (as discussed later in this chapter); and also that the retailers have had to bear increased costs. But this doesn’t mean they aren’t also adding to the problem.

The CMA is now carrying out a more detailed “Road Fuel Market Study” – the deadline is July 2023.¹²⁵ The debate on petrol profiteering will rumble on.

The major supermarkets and oil companies do not report their fuel retail profits separately from their other operations. To get an indication of petrol retail profits, we looked at the combined turnover and profitability of all UK companies listed on



Companies House as having a primary activity of retail sale of automotive fuel in specialised stores. This gives us an indication of how profitable petrol and diesel retailing can be:

Revenue and profits of UK petrol retail industry

£m	2016	2017	2018	2019	2020	5 year cumulative
Revenue	11,361	12,433	11,261	10,974	7,803	53,832
Operating profit	337	377	320	419	360	1,814
Net profit	215	273	211	397	243	1,340
Operating profit margin	3.0%	3.0%	2.8%	3.8%	4.6%	3.4%
Net profit margin	1.9%	2.2%	1.9%	3.6%	3.1%	2.5%

Source: FAME database, July 2022

The period covered in this table is before the recent massive price spike: we might expect profits to rise even further.

Although the supermarkets do not publish their fuel profits, they do publish fuel revenues. If we suppose their profit margins were the same as the industry figures above, we can use this to estimate their petrol profit figures for 2021/22. Our analysis estimates that Tesco, Sainsbury's and Morrisons would have made a combined £323 million on fuel sales in 2021-22, as outlined in the chart below:

Estimated fuel profits of major supermarket retailers

	Tesco	Sainsburys	Morrisons
£m	2021/22	2021/22	2021/22
Fuel retail revenue	6,576	4,023	2,384
Estimated operating profit	222	136	80
Estimated net profit	164	100	59
Estimated operating profit margin	3.4%	3.4%	3.4%
Estimated net profit margin	2.5%	2.5%	2.5%

Source: company accounts¹²⁶

In fact, it could be argued that these are likely to be under-estimates: due to their particular size and market power, the supermarkets may make higher profit rates than the industry average (although it's also true that they generally have lower prices).¹²⁷

Commentators note that supermarkets “never say much about their profits from fuel”. Perhaps this is why.¹²⁸



5.35 Verdict: there is no smoking gun, but strong signs of increased profits

The retailers' spread on petrol sales has definitely increased. The RAC and others claim this involves profiteering, while the retailers counter that they are just passing on increased costs. There is no smoking gun, because the big retailers don't publish their petrol profits. But the signs are that this is an increasingly lucrative business for them.

5.4 Refining

5.41 Overview of petrol refining

Refineries are where crude oil is transformed into petrol and diesel for retail sale. After receiving oil from storage facilities, refineries use chemical separation and reaction processes to transform crude oil into petrol, diesel, and other products.¹²⁹ Refiners convert crude oil into fuel for the UK market and for export, as well as importing refined petrol and diesel.¹³⁰

There is an increasing degree of concentration in the UK refining sector. The number of refineries in the UK has declined significantly over recent decades, and the remaining six major UK refineries supply around 85% of total UK fuel demand.¹³¹¹³²

5.42 The six major UK oil refineries supply around 85% of total fuel

The following table details the six major UK oil refineries and their owners:

UK oil refineries

Refinery	Ultimate parent company	Production capacity (crude oil, million tonnes per year)	Share of total capacity
Pembroke	Valero Energy Corp., a US multinational	13.4	20%
Fawley	Exxon Mobil Corporation, a US multinational	12.9	19%
Lindsey	State Oil Limited, a UK multinational which trades as the Prax Group	11.0	16%
Humber	Phillips 66 Company, a US multinational	11.0	16%



Refinery	Ultimate parent company	Production capacity (crude oil, million tonnes per year)	Share of total capacity
Grangemouth	Petroineos Refining Limited, a joint venture between the UK chemicals company Ineos, owned by billionaire Jim Ratcliffe, and Chinese state-owned oil giant PetroChina	10.5	15%
Stanlow	Essar Global Fund Limited, a Cayman Islands-based multinational	9.7	14%

Source: Energy Institute and news media¹³³

5.43 The ‘refining spread’ jumped 3 times higher in 2022, up to 35p per litre, pushing up petrol prices

The price of crude oil and refined products usually “move in lockstep”; but 2022 saw a great divergence. According to the *Guardian*, as of May 2022 crude oil was “hovering around \$110 a barrel and normally wholesale prices for refined products would be just a few dollars higher, but ... diesel is around \$175 a barrel and petrol \$155.”¹³⁴ The margin refiners make on wholesale petrol – known as the ‘refining spread’ – increased to record levels in early 2022.¹³⁵

According to the CMA’s July 2022 report, refining spreads jumped from 10p to around 30-35p per litre between June 2021 and June 2022. Thus, in 2021 refining spread made up about 7.5% of the total petrol price – in mid-2022 it was double that, at between 15-20%.¹³⁶

5.44 The refiners are “printing money”, with profits increased by as much as 366%

Historically, petrol refining has made low profit margins – at least relative to crude oil production. Prior to the pandemic, refining profit margins had been declining for years, and several UK refineries were in financial trouble in 2020/21.¹³⁷¹³⁸ This situation has now dramatically changed – all indicators are that refining profits are at record highs.

The refining spread has trebled, but there is no evidence that refiners’ costs have increased on anything like the same scale. Globally, there has been an issue with declining refinery capacity, and one particular factor is reduced imports from Russian oil refiners. However, as the CMA report points out, there seems to have been “no change in UK oil refining capacity”.¹³⁹



There is strong evidence for dramatically increased refining profits. According to data from Refinitiv, as reported by the BBC, petrol refining profits jumped from \$9.26 per barrel in June 2021 to \$43.11 in June 2022. That means a 366% profit increase.¹⁴⁰ While refining margins subsequently dropped, Bloomberg once again sounded the alarm about soaring margins in January 2023, noting they are “sky-high” from a historical perspective.¹⁴¹

Similarly, figures published by BP, which owns a number of refineries in Europe and the US, shows its own measure of refining profits, the ‘Refining Marker Margin’, jump up from \$7.7 dollars per barrel to \$35.7 from 2021 to 2022.¹⁴²

The CEO of ExxonMobil described a “very, very high margin environment” for refineries. An analyst at data firm OilX told the BBC: “the refiners are printing money at the moment. More than they have ever witnessed.”¹⁴³

Commenting on ExxonMobil’s record quarterly profits in June 2022, the *Financial Times* attributed the company’s success to “soaring refining margins”, along with higher crude oil prices, and concluded that the company looked like a “reliable cash gusher” for at least another year.¹⁴⁴

The link between high petrol prices and refiner profits has become a political talking point, both in the UK and more widely. In the summer of 2022, Howard Cox, founder of the FairFuelUK campaign, blamed oil refineries for not passing on a fall in the price of crude oil since the early days of the Ukraine war: “The refineries are awash with cash and taking big margins,” he said, with *The Guardian* concluding that “refineries appear to be taking a bigger cut.”¹⁴⁵

Such developments are feeding through to company share prices. The S&P index of Refining & Marketing shares reached a peak in November 2022 that was 80% higher than its opening level at the start of the year. In January 2023 it peaked again – reaching a level that was nearly 90% higher than at the beginning of 2022.¹⁴⁶

In June 2022 the share price for Valero, which generates 94% of its revenue from refining activities, surged to an all-time high of over 140 cents – before soaring to nearly 150 cents in January 2023.¹⁴⁷ In May 2022, the president of Phillips 66 told investors “we’re probably as constructive on refining as we’ve been in a long time.”¹⁴⁸

These apparent hyper profits are leading to some government interventions. In the US, in June 2022, President Joe Biden wrote to Valero, Exxon Mobil, and Phillips



66, among others, complaining that they had cut back on oil refining to pad profits.¹⁴⁹

In the UK, the CMA road fuel investigation's initial report notes the massive rise in refining spreads, but strangely doesn't discuss the issue of refiners' profits in any depth. The CMA does say, however, that refining prices will be "a major focus of our market study" due by July 2023.¹⁵⁰

5.45 Verdict: strong signs of profiteering by petrol refiners

There are strong signs of big-time profiteering. According to Refinitiv / the BBC, refining profits jumped by as much as 366%.¹⁵¹

5.5 Crude oil production

5.51 Overview of crude oil production

Oil production is the first key step in the petrol supply chain. For most of the 20th century, the UK was a net importer of crude oil. This changed from the 1980s onwards, with increasing production from the UK North Sea – also called the UK Continental Shelf. But the pendulum has now swung back: since 2005, the UK has tended to import more oil than it exports.¹⁵²

While the UK Continental Shelf supplies over a fifth of the crude oil used by UK refineries, they also source their crude from the global market – four-fifths of the crude oil used by UK refineries comes from abroad.¹⁵³¹⁵⁴

UK crude oil supply

2020	Thousands of tonnes	% of refined crude oil
Net indigenous supply of crude oil	9,368	21%
Imported crude oil	35,058	79%
Total refined crude oil	44,519	100%

Source: Digest of United Kingdom Energy Statistics (DUKES) 2021, table 3.1. Figures in the table do not sum exactly as stock changes are not listed.

Two countries, Norway and the US, now supply more to UK refineries than the UK does itself.



UK crude oil imports

UK Crude Oil imports 2020	Thousands of tonnes	% of total imports	% of total refined crude oil
Norway	11,755	34%	26%
United States	11,359	32%	26%
<i>For comparison: UK net indigenous supply</i>	9,368	N/A	21%
Russian Federation	3,948	11%	9%
Nigeria	2,965	8%	7%
Canada	1,642	5%	4%
Total imports	35,058	100%	79%

Source: Digest of United Kingdom Energy Statistics (DUKES) 2021, tables 3.1 and 3.9

5.52 The global crude oil market is dominated by the giant oil majors

The global oil market is widely recognised as being oligopolistic: although there are many smaller oil companies, the market is dominated by a relatively small number of giant “oil majors”. These have considerable power to set global oil prices and make extremely high profits. The production cost of oil is only a small fraction of its price.¹⁵⁵¹⁵⁶

The oil giants are a mixture of State-owned oil companies (e.g., the national oil companies of Saudi Arabia, Iran, Qatar, Venezuela, Norway, China and others) and multinational PLCs based in the US and Europe. Many of the biggest government oil producers are organised into the OPEC organisation, which is widely accused of acting as a cartel to fix world oil prices. More recently this has been expanded into the OPEC+ alliance.¹⁵⁷

The US and European PLCs are not part of OPEC, and make their own pricing and supply decisions. However, they sell oil at the same global prices as the state-owned firms – and so also benefit from high prices.

As of 2020, this was the global top ten in terms of daily crude oil production:

Top ten companies globally in terms of daily crude oil production

Company	Majority owner
Saudi Aramco	Government of Saudi Arabia
Rosneft	Government of Russia
Petrochina	Government of China
Petróleo Brasileiro S.A. (Petrobras)	Government of Brazil



Company	Majority owner
BP	PLC
Chevron	PLC
Shell	PLC
Exxon Mobil	PLC
China Petroleum & Chemical Corporation (Sinopec)	Government of China
Conoco Phillips	PLC

Source: Statista¹⁵⁸

5.53 UK North Sea Oil is also dominated by global companies

Two countries control the bulk of the North Sea oil fields: the UK and Norway. However, their approaches for distributing the wealth from this oil are very different. The Norwegian government takes much of the profits from its oil, using the money to maintain one of the world's biggest "sovereign wealth funds". In the UK, the vast majority of oil income goes to global companies.

The oil and gas in the UK North Sea is technically the property of "The Crown". However, under the current system companies are given considerable rights to exploit all oil and gas they find in geographical zones transferred to them through license agreements.

Licenses are granted in occasional licensing rounds, regulated by the body now called the North Sea Transition Authority (NSTA). Licensees must show that they have the technical and economic resources to exploit the field. Often several qualifying companies apply for a given license, and they may each be awarded a share. The license holders may share investment in the costs of exploiting the field, but typically one company (which may not always be a license holder) will carry out practical operations as the "operator".

Unlike many other government concessions, North Sea licenses are not auctioned or sold to companies. Instead, companies are granted long term rights to explore for fuel, then drill and sell it, in return for an annual rental fee based on each square kilometre the license covers at that date.¹⁵⁹ This annual charge is minimal: in the latest agreements, the total levy paid for *all licenses* was £32.88 million, a fraction of the profits gleaned from them.¹⁶⁰



The theory is that the UK government instead takes a share in the profits on oil and gas sales through taxation.

In practice, the UK government has given companies extremely generous tax breaks, so that very little of the profits have come to taxpayers. In the last three decades nominal marginal tax rates on North Sea profits have varied between 30% and 75%; but major subsidies for capital and decommissioning costs mean that companies never pay anything like these levels. In fact, the effective tax rate (actual tax receipts divided by the value of gross production) from 1990 to 2017 was only 18% (Boué 2020).¹⁶¹

In contrast, Norway has used its oil wealth to maintain one of the world’s biggest “sovereign wealth funds”. While it operates a similar licensing system to the UK, there are two crucial differences:

- Norway’s state oil company Equinor has a share in all licenses in the Norwegian North Sea.
- Norway takes a substantial share of the profits from private oil companies through tax – with an effective tax rate averaging 46% over the last three decades; compared to the UK’s 18%.¹⁶²

The companies

There are 258 companies with production and exploration licenses in the UK Continental Shelf (UKCS), many of which are subsidiaries of larger groups.¹⁶³ The NSTA consolidates these license holders into 118 parent companies licensed to produce oil and gas in the UKCS.¹⁶⁴

However, in reality just 20 parent companies – operating through 82 license-holding subsidiaries – control the bulk of all currently productive oil fields. These 20 companies were responsible for 81.3% of production in the year to October 2022.¹⁶⁵

Top 20 UK North Sea Oil and Gas Producers, Oct. 2021-Oct. 2022¹⁶⁶

Parent Company	Production share Oct 2021-Oct 2022 (%)	Ultimate Owners
Harbour Energy Plc ¹⁶⁷	13.62	PLC (UK), major owner EIG Partners (US based private equity fund) ¹⁶⁸



Parent Company	Production share Oct 2021-Oct 2022 (%)	Ultimate Owners
TotalEnergies Upstream UK Limited	10.72	PLC (France) ¹⁶⁹
BP Exploration	9.71	PLC (UK) ¹⁷⁰
Shell Plc	7.03	PLC (UK and Netherlands) ¹⁷¹
NEO Energy Group Ltd	6.36	Main owner is HiTec Vision, Norwegian private equity firm ¹⁷²
Ithaca Energy	5.57	Owned by Delek Group, Israeli PLC ¹⁷³
Spirit Energy	3.81	Private joint venture. Majority owner is Centrica (69%), also Stadtwerke München Group (SWM) ¹⁷⁴
CNOOC International	3.31	60% Chinese state owned; PLC listed in Hong Kong and Shanghai ¹⁷⁵
Enquest Plc	2.99	PLC (UK) ¹⁷⁶
Apache Corporation	2.98	APA Corporation, PLC (US) ¹⁷⁷
Taqqa Europa B.V.	2.95	98.6% owned by Emirate of Abu Dhabi, 1.4% publicly traded ¹⁷⁸
Perenco Oil & Gas	2.11	French private company owned by Perrodo family ¹⁷⁹
Repsol Sinopec Resources	1.86	Joint venture between Repsol (Spanish PLC) ¹⁸⁰ and Sinopec (PLC, but 69% owned by state-owned China Petroleum Corporation) ¹⁸¹
Equinor ASA	1.84	Norwegian PLC, 67% owned by Norwegian state ¹⁸²
Korean National Oil Corporation	1.78	Government of Korea ¹⁸³
Neptune E&P	1.1	UK private company. Major investors include private equity funds CVC and



Parent Company	Production share Oct 2021-Oct 2022 (%)	Ultimate Owners
		Carlyle, and Chinese state wealth fund ¹⁸⁴
CNR International	1.05	Canadian Natural Resources, PLC (Toronto) ¹⁸⁵
Ineos Industries	1.02	Ultimate parent is Ineos Limited, a private company registered in Isle of Man. Major shareholder is UK tax-exile billionaire Jim Ratcliffe ¹⁸⁶
Centrica Storage Holdings	0.77	Centrica (UK PLC)
Hurricane Energy	0.7	UK PLC ¹⁸⁷
Total share	81.28	

Also worthy of note is Equinor ASA – majority-owned by the Norwegian state – which is responsible for 70% of oil and gas production in Norway, and hence a major supplier of crude oil to UK refineries.¹⁸⁸

5.54 Global prices for crude oil increased dramatically in 2022, and the low pound meant Sterling prices were higher than ever before

After a pandemic slump, global oil prices again jumped up above \$100 a barrel in February 2022 – and through the year would reach their highest levels since record peaks in 2009 and 2012.¹⁸⁹

At the start of 2023, the Brent Crude reference price (a global benchmark based on the price of oil from the North Sea's Brent field) is currently around \$80 per barrel. Although this is lower than recent heights, it is still well above long term averages: it's important to remember that average oil prices were below \$40 a barrel until 2005.¹⁹⁰



Oil analysts expect prices to rise again this year: a 30 December 2022 survey by Reuters of 30 analysts found a consensus forecast of an average of just under \$90 per barrel in 2023.¹⁹¹

The impact on the UK economy has been even more severe due to the collapsing pound. Oil, including in the North Sea, is generally traded on global markets in dollars. Thus in 2022 oil prices translated into Sterling reached their highest ever levels. For example, the Sterling price of crude oil purchased by UK refineries in May 2022 was 87% higher than a year before.¹⁹²

Sterling index of the price of crude oil acquired by refineries (2010 = 100)



Source: BEIS¹⁹³

Reasons for global price rises include: a surge in demand for goods and travel as the pandemic eased; agreements by the OPEC+ cartel of major national oil producers to limit supply; as well as unplanned supply disruptions, including the war in Ukraine.¹⁹⁴¹⁹⁵

Some commentators have also emphasised the role of speculative traders in pushing up crude oil prices, which are significantly influenced by futures markets.¹⁹⁶ One analyst has warned that supply and demand “fundamentals have been rendered almost irrelevant” for oil prices as a result of speculation using Artificial Intelligence algorithms.¹⁹⁷



5.55 North Sea oil producers are making windfall profits

So the factors pushing up oil prices up are largely about increased global demand and geopolitical supply issues – they are not about increasing production costs. This means producers in the North Sea, and elsewhere, can sell their oil at much higher global prices, with little in the way of higher costs. Thus: massive windfall profits.

The UK government has made some small moves to tax these windfalls. In May, the UK government announced a windfall tax on the UK oil and gas industry's surging profits, with then chancellor Rishi Sunak saying that the sector was "making extraordinary profits".¹⁹⁸ In chancellor Jeremy Hunt's November 2022 statement, this windfall tax was increased to 35%. However, the effective tax rate remains much lower than these headline figures due to generous tax breaks.¹⁹⁹

The table below summarises financial performance of top oil and gas companies active on the UK Continental Shelf. These are the 9 companies in the top 10 that had published profit data for 2021 at the time of writing.²⁰⁰ Together, the 9 companies recorded net profit of £41.4 billion in 2021 – an increase of 50% compared to 2019; and a net profit margin of 8.5% - an increase of 69% compared to 2019.

Profits of top UKCS oil and gas companies

Company	Net profit - 2021 (£m)	Net margin – 2021	Net profit - 2019 (£m)	Net margin – 2019
Harbour Energy plc	74.70	2.9%	165.2	9.3%
TotalEnergies SE	11,840.0	8.7%	8,507.1	6.4%
BP plc	5,586.9	4.8%	3,039.8	2.5%
Shell plc	14,845.0	7.7%	11,961.5	4.6%
Delek Group Ltd (Ithaca Energy)	340.0	18.0%	51.2	7.0%
CNOOC Limited (CNOOC International)	8,175.0	28.6%	6,619.7	26.2%
APA Corporation (Apache)	718.6	12.1%	-2,682.7	-55.9%
Spirit Energy	-304.0	-23.2%	-271.0	-15.3%
Repsol Sinopec Resources UK	138.0	18.5	196.9	20.1
Combined profits / margin	41,414.2	8.5%	27,587.7	5.0%



Company	Net profit - 2021 (£m)	Net margin – 2021	Net profit - 2019 (£m)	Net margin – 2019
Change compared to 2019	+50.1%	+69.2%		

Source: CapitalIQ, 01/2023²⁰¹

Note: those are total profit figures for global companies – not all of those profits come from the UK North Sea. The complex corporate structures of the global companies operating here makes it impossible to isolate the profits from North Sea operations in their accounts. Instead, we have estimated recent UK North Sea profits using information from the North Sea Transition Authority (NSTA).

The NSTA produces data on income and expenditure for exploration, development, and extraction, allowing us to estimate operating profits for the overall industry.²⁰² These data do not include financing and other administrative costs. To estimate these, we calculated average costs from the accounts of 33 subsidiaries of the top 20 producers. To get an estimate of final net profits, we also applied an effective tax rate of 18% (see discussion above).²⁰³

- Based on these figures for 2021, we estimate that the industry made a **net profit of £12.2 billion**.
- Based on the average Brent crude and UK gas prices for this year, and applying the methodology above, **forecast profits on the UKCS are set to hit £30.2 billion in 2022**.²⁰⁴

5.56 This is a worldwide issue: the global oil majors are making massive windfall profits overall

The picture is similar when looking at the top 10 oil producers globally. Together, these companies recorded net profit of £174.5 billion in 2021 – an increase of 37% compared to 2019; and a net profit margin of 10.1% - an increase of 35% compared to 2019.

Profits of global oil majors

Name	Net profit - 2021 (£m)	Net margin – 2021	Net profit - 2019 (£m)	Net margin – 2019
Saudi Aramco	77,741.6	26.3%	66,585.6	26.7%
Rosneft	8,690.2	10.2%	8,573.7	8.5%



Name	Net profit - 2021 (£m)	Net margin – 2021	Net profit - 2019 (£m)	Net margin – 2019
PetroChina	10,715.2	3.5%	4,953.7	1.8%
Petrobras	14,138.7	23.6%	7,539.4	15.2%
BP plc	5,586.9	4.8%	3,039.8	2.5%
Chevron	11,539.4	10.0%	2,207.8	2.1%
Shell plc	14,845.0	7.7%	11,961.5	4.6%
Exxon Mobil	17,015.5	8.3%	10,827.4	5.5%
Sinopec	8,278.3	2.6%	6,234.5	1.9%
ConocoPhillips	5,966.5	17.3%	5,428.1	21.6%
Combined	174,517.3	10.1%	127,351.5	7.5%
Change 2021-2019	+37.0%	+34.9%		

Source: CapitalIQ, 07/2022²⁰⁵

This is also the case for Equinor, the primary source of Norwegian crude oil for UK refineries. In 2021, Equinor reported net profit of £6.3 billion, an increase of 355% compared to 2019, with the company's net profit margins increasing by 224%.²⁰⁶

5.57 2022 profits are set to be even higher, with many oil companies reporting all-time record figures

If 2021 was a great year for oil majors, 2022 looks set to be their best ever. In February 2023, Shell announced that it had posted the highest profits in its 115-year history – and the accounts of the oil majors which have already posted 2022 results paint a similar picture.²⁰⁷ Together, these five companies recorded net profit of £124.2 billion in 2022 – an increase of 271% compared to 2019; and a net profit margin of 11.2% – a 136% increase compared to 2019.

Profits of global oil majors – 2022 so far

Name	Net profit - 2022 (£m)	Net margin – 2022	Net profit - 2019 (£m)	Net margin - 2019
BP plc	-2,064.1	-1.0%	3,039.8	2.5%
Chevron	29,434.2	15.0%	2,207.8	2.1%
Shell plc	35,114.4	11.1%	11,961.5	4.6%
Exxon Mobil	46,261.4	13.9%	10,827.4	5.5%
ConocoPhillips	15,503.5	23.2%	5,428.1	21.6%
Combined	124,249.4	11.2%	127,351.5	7.5%
Change 2022-2019	+271.3%	+136.1%		

Source: CapitalIQ, 02/2023²⁰⁸



BP bucked the trend by reporting a loss – however this was largely due to an “exceptional” item, as the company was forced to sell its Russian assets at a loss of \$20.4 billion. According to BP’s own chosen metric – ‘underlying replacement cost profit’ – the company joined its peers in reporting a record annual profit. It is no wonder that BP’s CEO Bernard Looney recently described the company as “a cash machine”.²⁰⁹

The story is unlikely to change when other oil majors report their 2022 results. Saudi Aramco, for example, said it made no less than \$87.9 billion net profit in the first half of 2022 – already more than it had made in the whole of 2021.²¹⁰

Summing up the situation, the *Financial Times* described it as a “cash bonanza for Big Oil”.²¹¹

5.58 Verdict: profiteering is taking place – crude oil producers are currently “cash machines”

Oil companies have been enjoying massive windfall profits since the pandemic eased. As BP’s Bernard Looney described his own company, they are “cash machines”. This includes in the North Sea, where drilling concessions given to companies by the UK government are effectively licenses to print money.



6 Energy (electricity and gas bills)

6.1 Key points

- Domestic energy bills have hit record levels. Responding to massive public pressure, former prime minister Liz Truss fixed the energy bill price cap at £2,500 for an average household, which has been maintained (for the moment) by the Sunak government. But this is still a record high that will be unaffordable for many.
- One big driver is wholesale energy prices. The wholesale electricity price – the price generators charge for supplying electricity to the grid – jumped nearly 5 times higher over 2021, triggered in turn by a spike in natural gas prices. That has meant windfall profits for gas suppliers and many generators. But there has also been further profiteering along the supply chain.
- The “Big 4” energy suppliers (Centrica, E.On, EDF and Scottish Power) made combined £9.5 billion profit in 2021, up 84% on 2019. And as smaller suppliers went bust, these big players increased their market share even further.
- A small number of private companies have been given licensed monopolies to run the electricity and gas distribution systems. These are effectively state-licensed cash machines – the gas and electricity distributors made a combined £5.3 billion in 2021, and both have ongoing operating margins of over 40%.
- The wholesale electricity price jump means massive generation profits. Less than 40% of UK supply is generated by gas, but most generators sell at the same single price whether they use gas or not. So those which aren’t dependent on gas have had windfalls. The Treasury estimated that UK generators have made over £10 billion in “excess profits” as a result.
- The other main winners are the big oil and gas firms which produce the gas that is used in homes and converted into electricity. These include Norwegian state-owned Equinor, the Qatari gas company Qatargas, and multinational giants active in the North Sea such as BP and Shell.

6.2 Overview of the energy supply chain

The supply chain for electricity in the UK includes:



1. Retail suppliers ← 2. Transmission / Distribution networks ← 3. Generation ← 4. Fuel suppliers (focusing on natural gas)

The gas supply chain is similar to the electricity supply chain - however instead of being converted into electricity, gas is delivered from terminals or pipelines into the transmission and distribution networks, and from there into people's homes.²¹²

In this chapter, we will look at each stage of the electricity and gas supply chains. At the retail end we look at the two utilities together – there is strong overlap between the same handful of suppliers. Although they have different transmission and distribution networks, National Grid plc plays a key role in both.

6.3 Energy retail supply

6.31 Overview of the retail energy market

Households have contracts with retail electricity and gas suppliers, with gas and electricity often sold together by retailers through 'dual fuel' tariffs. According to a 2016 study from the Competition and Markets Authority (CMA), there were 28 million domestic electricity customers and 23 million domestic gas customers, and of these 20 million were dual fuel customers. In other words, dual fuel customers, who buy electricity and gas from the same supplier, make up the majority of the market.²¹³

The supply companies themselves buy electricity and gas in wholesale marketplaces (electronic exchanges), where the main sellers are electricity generators, gas shippers, and other wholesale customers, traders and brokers.²¹⁴²¹⁵ Importantly, many of the biggest retail suppliers in the electricity wholesale marketplaces are also generators.

We can break down an energy bill into:²¹⁶

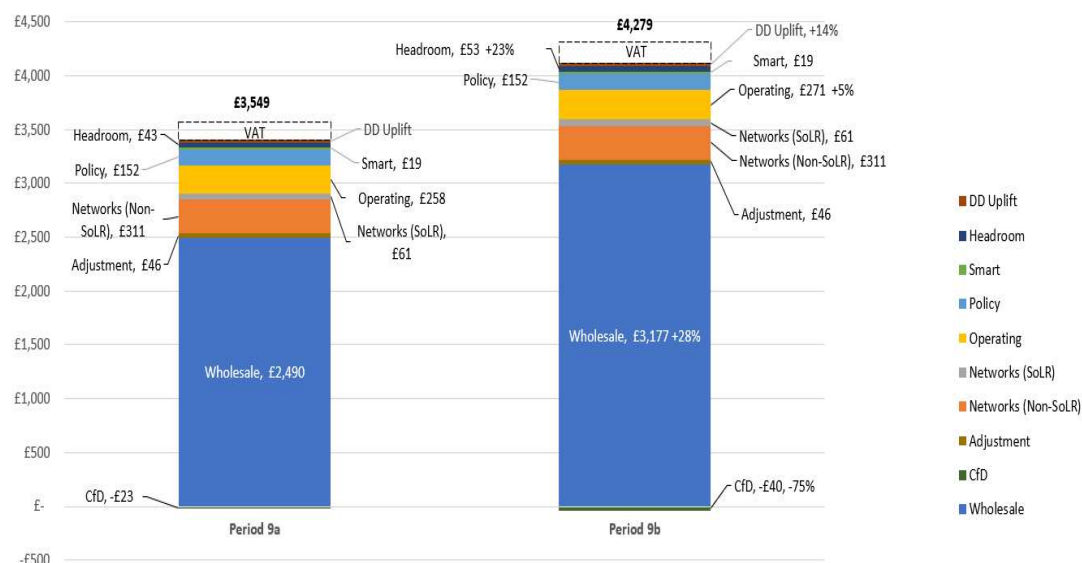
- **Wholesale cost:** what the supplier pays to generators, shippers and traders for gas and electricity. Ofgem says wholesale costs can account for up to 40% of the final bill.²¹⁷
- **Network costs:** including fees to the network operators who move the gas and electricity (National Grid, and local Distribution Network Operators);
- **Taxes:** VAT, plus "policy costs" which include charges related to environmental and social schemes;



■ Supplier’s margin: the supplier’s other business costs – and its profit.

Breakdown of the energy bill price cap January-March 2023

Cost stack breakdown for default tariff cap from January - March 2023. For typical dual fuel, direct debit customer



Source: Ofgem.²¹⁸ “Operating” segment includes retail supplier’s costs and profits.

6.32 The top 6 biggest retail energy suppliers control over 80% of the market

Supply companies buy electricity generated by the generation companies at the wholesale price and sell it to household and business customers at a retail price (subject to Ofgem’s price cap for households). There is substantial overlap between electricity and gas suppliers: in the domestic market, “dual fuel” customers who buy both from the same supplier make up the majority of the market.²¹⁹

A handful of companies dominate. Back in 2011 the top 6 suppliers controlled almost 100% of the domestic energy market. This has now dropped to around 80%. But the number of smaller licensed suppliers has fallen recently – from a peak of 62 in 2018 to just 17 today – as several went bust and their customers were transferred to the big players, who acted as “suppliers of last resort”.²²⁰²²¹²²²

Four of the original “Big Six”, sometimes called the “legacy suppliers”, still retain leading positions. These are British Gas (the parent company is Centrica), Scottish



Power, E.On and EDF. All of these are also major electricity generators.²²³ They have been joined by OVO, which took over SSE’s supply business in 2020, and Octopus Energy, which took over Bulb in October 2022, to create a new “Big 6”.²²⁴²²⁵

Domestic energy suppliers

Supplier (parent company)	Electricity market share % Q4 2021	Gas market share % Q4 2021	Ultimate owners
Centrica (British Gas)	19.6	28.2	PLC (listed on LSE), biggest shareholders are global investment funds ²²⁶
E.ON	17.6	14.7	German PLC ²²⁷
OVO	13.7	11.3	Private UK company, owned (at least 75%) by Stephen Fitzpatrick ²²⁸
EDF	11.5	9.6	French state ²²⁹
Octopus Energy	10.7	11.1	Owned by private UK investment company Octopus Capital, with other global private equity investors ²³⁰
Scottish Power	9.2	8.0	Subsidiary of Iberdrola – Spanish listed PLC, biggest shareholders are Qatar and BlackRock
Bulb Energy	5.2	4.6	Due to be taken over by Octopus after collapse and government support ²³¹
Shell Energy	4.7	5.0	Subsidiary of Shell, UK-Dutch PLC ²³²
Utilita	2.7	2.7	Private UK company, owned (at least 75%) by Bill Bullen ²³³
Other Small Suppliers	4.7	4.8	

Source: *Ofgem*²³⁴



6.31 There have been massive spikes in the prices of domestic energy contracts over the last few months

Different types of domestic energy contracts include fixed and variable tariff deals. Variable tariff contracts are subject to a regulatory price cap, fixed contracts are not.²³⁵

There has been a massive spike in all contract prices in recent months. Prior to that, energy prices had been pretty stable – both fixed and variable contracts averaged around £1,000 per year since 2012.²³⁶

For January-March 2023, the energy price cap is set at £4,279 for an average household bill. (Note: the cap actually applies to the unit energy costs and daily standing charges, rather than the whole bill; this headline figure is what Ofgem says an average household will pay given those capped prices.)²³⁷

As of 28 April 2022, the average fixed tariff contract was £3,025 – around 3 times higher than it has been over the last ten years. Almost all of this jump has been since summer 2021.²³⁸

Due to massive public pressure, in September 2022 former Prime Minister Liz Truss announced the “energy price guarantee”: the government will pay the difference above £2,500 for the “average household”. The current government has said that it will maintain this until 31 March 2023; after that the level will be raised to £3,000 for another year.²³⁹

As we see below, a large chunk of the energy price rises is going into the profits of companies including gas extractors and electricity generators. Effectively, then, the government’s “energy price guarantee” means tax payers are subsidising these companies’ profits to the tune of tens of billions of pounds.

6.32 While smaller companies have gone bust, the 4 big “legacy” suppliers have made big profits – £9.5 billion in 2021, up 84% on 2019

Along with the increase in retail energy costs, wholesale costs have gone up massively.²⁴⁰ But does this mean that suppliers have taken a profit hit – or have they been able to pass on their cost rises to consumers?

Certainly, smaller suppliers have been hit by rocketing wholesale costs – resulting in 27 going bust.²⁴¹ However, all of the big “legacy” energy suppliers that still have supply operations – Centrica, Scottish Power, E.On and EDF – made healthy profits in 2021.



The big players may also have benefited from:²⁴²

- Being able to pass on at least a large share of their supply costs to retail consumers, thanks to Ofgem raising the price cap.
- Picking up customers from the failed smaller suppliers.

Profits of Big 4 suppliers-generators

Group ²⁴³	Net profit 2021 (£m)	Margin 2021	Net profit 2019 (£m)	Margin 2019
Centrica	1,210	8.2%	-1,023	-7.9%
Scottish Power	78	1.5%	516	10.1%
E.On	3,940	6.0%	1,313	3.8%
EDF	4,294	6.1%	4,368	7.2%
Combined profits / margin	9,522	6.1%	5,204	4.6%
Change 2021-2019	+84.0%	+33.4%		

Source: CapitalIQ, 07/2022²⁴⁴

Aggregating across the four groups shows that overall, the profits of the “Big 4” suppliers-generators were up by 84% from 2019 to 2021, with profit margin up 33%.

For at least some of these companies, the profit bonanza is set to be even bigger in 2022. Centrica, the owner of British Gas, reported a record-high operating profit of £3.3 billion for 2022.²⁴⁵ Earlier in the year, they reinstated a dividend worth £59 million.²⁴⁶ The company’s CEO, Chris O’Shea, said it was “the most challenging energy crisis in living memory” – but apparently not for Centrica’s shareholders.²⁴⁷

E.ON, meanwhile, posted profits of €2.5 billion in the first half of 2022.²⁴⁸ Earlier in the year, the company’s CEO, Michael Lewis, warned that consumers would have to cope with extraordinarily high fuel bills for at least 18 months - presumably to ensure that the company’s dividend payments, announced in the same month, could continue.²⁴⁹



However, it should be noted that the profits don’t simply reflect the companies’ UK retail supply operations. All of these companies are active in both gas and electricity supply and electricity generation; and some are active beyond the UK. These group figures do not break down the money made from these different activities.

Under Ofgem rules, energy companies with significant supply and generation activities are required to produce “consolidated segmental statements” showing how much money they make from different operations. But the requirements are low: at the time of writing in February 2023, for example, E.On had still not published its segmented statements for 2021.²⁵⁰²⁵¹ Thus we are unable to make a full assessment of where their profits come from.

6.33 Verdict: uncertain – although the top companies are doing well

Clearly, many small suppliers were knocked out by cost rises. The big suppliers may have been more able to pass on their costs, and in the long run could benefit from lower competition. Overall, their parent company accounts show the top companies are profitable – but it is likely these profits come from generation and other activities rather than supply.

6.4 Energy distribution

6.41 Overview of energy distribution

The UK’s electricity network is broken down into two levels of distribution. The nation-wide transmission system carries electricity at high voltages of 132 kV to 400 kV.²⁵² This is then stepped down to local/regional distribution networks at lower voltages. These are operated by another set of companies called the Distribution Network Operators (DNOs).²⁵³

Similarly for gas distribution, the nation-wide transmission system carries gas at high pressure, before delivering it to lower pressure regional gas distribution networks.²⁵⁴

6.42 A small number of private companies have been given licensed monopolies to run the electricity and gas distribution systems

The transmission and distribution networks are strong examples of “natural monopolies”. Privatisation schemes in these sectors did not attempt to create any



form of competitive markets: instead, companies are simply granted monopoly concessions to run national or regional grid infrastructure. These are regulated by Ofgem.²⁵⁵

National Grid PLC owns the gas transmission network across Britain, and the electricity transmission network for England and Wales.

In Scotland, there are two other electricity transmission companies: Scottish Hydro Electric SHE, owned by SSE plc; and Scottish Power Transmission SPT, owned by Scottish Power.^{256,257}

In the distribution system, there are 14 licensed electricity Distribution Network Operators (DNOs), owned by just six companies; and 8 Gas Distribution Networks (GDNs), owned by four companies.²⁵⁸

Northern Ireland has a separate regulatory system and company structure.²⁵⁹

Electricity DNOs and owners

Parent company	Regional operators	Ultimate Owners
National Grid PLC	As well as the national transmission grid, National Grid PLC owns: Western Power Distribution (West Midlands) plc; Western Power Distribution (East Midlands) plc; Western Power Distribution (South Wales) plc; Western Power Distribution (South West) ²⁶⁰	PLC listed on LSE. 5 biggest shareholders (start 2022) were US-based investment funds Capital Group, BlackRock and Vanguard; plus government funds of Abu Dhabi and Norway. ²⁶¹
Electricity North West Limited	Electricity North West Limited	Private consortium including Kansai (Japanese energy company), CIC (Chinese state investment fund), Equitix (London-based investment fund) ²⁶²
Northern Powergrid	Northern Powergrid (Northeast) Limited; Northern Powergrid (Yorkshire) plc	Berkshire Hathaway ²⁶³ (US conglomerate controlled by billionaire Warren Buffet ²⁶⁴)
UK Power Networks	London Power Networks plc; South Eastern Power Networks; Eastern Power Networks plc	CK Group ²⁶⁵ (global conglomerate controlled by family of Hong Kong billionaire Li Ka-Shing ²⁶⁶)



Parent company	Regional operators	Ultimate Owners
SP Energy Networks	SP Distribution plc; SP Manweb plc	Scottish Power, which is owned by the Spanish PLC Iberdrola ²⁶⁷
Scottish & Southern Electricity Networks	Scottish Hydro Electric Power Distribution plc; Southern Electric Power Distribution plc	SSE PLC ²⁶⁸
Cadent Gas Ltd	Gas Distribution Networks (GDNs): North West; West Midlands; East Midlands; S Yorkshire, E of England and N London	Quadgas – a consortium of Macquarie, Hermes, state of China (CIC investment fund), state of Qatar (through QIA investment fund), Dalmore Capital, Amber Infrastructure ²⁶⁹
Northern Gas Networks	NE England GDN	CK Group; with a minority stake owned by SAS Trustee Corporation, Australian government employees' pension fund ²⁷⁰
Wales & West Utilities	Wales and SW England GDN	CK Group ²⁷¹
SGN (Scotia Gas Networks)	Scotland GDN; Southern England GDN	Consortium of 3 Canadian investment funds: Brookfield, Ontario Teachers' Pension Fund, Omers Pension Fund. ²⁷²

Source: Ofgem²⁷³ and Cadent Gas²⁷⁵

6.43 Although distribution charges should not be impacted by fuel supply costs, they went up 13% in 2022

In theory, transmission and distribution charges should not be impacted by fuel supply costs. They are set by operators under regulation by Ofgem. The theory is that companies are allowed to make a set forecast revenue, necessary to maintain and develop the networks. Charges should relate to the quantity of demand for electricity flowing through the system, but not to the prices set by either generators or suppliers.²⁷⁶

In practice, Ofgem's price cap calculations show that network charges increased significantly in 2022. In the winter 2021-2 period, the amount of the average



energy bill going to the networks was £268; this increased to £371 (up 39%) in summer 2022. (In the latest price cap for early 2023 it is £372.²⁷⁷) The bulk of that rise (£68) was due to the “supplier of last resort” charge by suppliers who have taken on customers from the suppliers that went bust. But this still left a £35 (13%) increase for network costs.²⁷⁸

6.44 Energy distributors consistently make 40%+ operating margins, and their profits are even higher this year

According to a report by Common Wealth, distribution companies are making massive profits.²⁷⁹ As reported by the *Financial Times* in March 2022:²⁸⁰

“UK gas and electricity distribution companies have higher profit margins than any other sector, prompting calls for intervention at a time of soaring energy bills and frequent electricity blackouts in parts of the country.

The regional infrastructure monopolies whose pylons and cables carry electricity from power stations to end users are achieving operating margins of 42.5 per cent, according to analysis by industry research provider IbisWorld, while gas distributors are earning 40.5 per cent.”

This is borne out by our analysis of the net profits and margins of the 7 electricity transmission and distribution network parent companies:

Electricity transmission and distribution network parent company profits

Company	2021 net profit (£m)	2021 net margin	2019 net profit (£m)	2019 net margin
National Grid PLC	1,640	11.1%	1,511	10.1%
UK Power Networks Holdings Limited	493	28.0%	456	27.3%
Western Power Distribution PLC	571	34.2%	604.5	35.9%
Northern Powergrid Holdings Company	154	16.8%	214	25.1%
Electricity North West Limited	53	11.9%	72	15.7%
Scottish Power UK PLC	78	1.5%	516	10.1%
SSE PLC	2,276	33.3%	1,409	19.3%



Company	2021 net profit (£m)	2021 net margin	2019 net profit (£m)	2019 net margin
Combined	5,266	16.6%	4,782	14.9%
Change 21-19	+10.1%	+11.1%		

Source: Company accounts; CapitalIQ and Fame databases.

There is a clear overall picture: electricity distribution is highly profitable. The table shows that companies raked in a combined profit of £5.3 billion in 2021, with profits and margins increasing by over 10% compared to 2019. Some of this may be a result of profiteering from the current crisis.

A similar picture emerges from analysis of gas distribution company profits – with combined profits of £2.6 billion in 2021, and profits and margins both increasing by 13%:

Gas transmission and distribution network parent company profits

Company	2021 net profit (£m)	2021 net margin	2019 net profit (£m)	2019 net margin
National Grid PLC	1640	11.1%	1511	10.1%
Cadent Gas Limited	630	30.4%	542	27.2%
Northern Gas Networks Holdings Limited	77	17.5%	99	24.1%
Wales & West Gas Networks (Holdings) Limited	23	5.1%	-66	-14.9%
SGN	267	21.8%	243	19.7%
Combined	2,637	13.9%	2,329	12.2%
Change 2021 – 2019	+13.2%	+13.5%		



Source: Company accounts.²⁸¹ Note that National Grid is included in both sets of tables.

Together, the electricity and gas distributors made a total net profit of £6.3 billion in 2021.²⁸²

However, the electricity and gas distribution companies were making extremely high profits before the pandemic too, and have enjoyed high profit margins for years. This appears to be a long-term issue where companies have been given monopoly concessions which are effectively licenses to print money.

In theory, the regulator Ofgem should be making sure profiteering doesn’t take place – on this account, the regulatory system is failing.

On 30 November 2022 Ofgem announced a new price control regime for the local Distribution Network Operators, to cover the next five years until 2028.²⁸³ As Unite pointed out in their response, the regime would see the public overpaying energy distributors by at least £1.5 billion.²⁸⁴

6.45 Verdict: very strong signs of long-term profiteering by energy distributors

The supposedly “regulated” monopolies in this sector are recording massive profit margins. This is not just post-pandemic profiteering, but a longer-term problem in the industry.

6.5 Electricity generation

6.51 Overview of electricity generation

The bulk of electricity is fed into the transmission network from over 400 power plants, from old-style gas (and a few remaining coal) power stations to giant wind farms. The 400+ major power stations are operated by over 50 companies.²⁸⁵

UK Electricity Generation by Type 2021

Type	TWh	%
Gas	122.7	39.8%
Wind and solar	76.8	24.9%
Nuclear	45.9	14.9%
Other renewables	39.9	12.9%
Oil and other fuels	10.9	3.5%



Type	TWh	%
Coal	6.5	2.1%
Hydro	5.5	1.8%
Total	308.2	100.0%

Source: BEIS, 'Energy in Brief 2022', p. 28.²⁸⁶

As well as local generation, some electricity is also imported via cables from France, Belgium and the Netherlands.²⁸⁷

6.52 Top 10 electricity generators

Despite the substantial number of firms, there is high concentration amongst the biggest companies. There is also overlap between the biggest generation companies and the top retail suppliers. As this chart shows, 2 of the “big 4” suppliers are also in the top 10 generators.

Top 10 UK power plant owners

Parent companies	capacity (MW)	main fuel types	Ultimate owners
EDF Energy	12143	nuclear, coal, gas, wind	French state ²⁸⁸
RWE Npower	10893	gas, wind	PLC, listed in Germany and US (largest shareholder currently BlackRock) ²⁸⁹
SSE Group	7346	wind, gas, hydro	PLC, listed on London Stock Exchange (LSE) ²⁹⁰
Uniper UK	6655	gas, coal	Currently PLC with Finnish government major shareholder; German Federal Government recently announced plans to buy 99% ²⁹¹
Orsted	4311	Wind	50.01% Government of Denmark; PLC, listed Nasdaq Copenhagen ²⁹²
EPUKi	4124	gas, coal, oil	EPH, Czech energy group majority owned by billionaire Daniel Kretinsky ²⁹³
Drax Power	3280	biofuel, hydro	PLC, listed on LSE, largely owned by global institutional investors ²⁹⁴



Parent companies	capacity (MW)	main fuel types	Ultimate owners
Vitol	3252	Gas	Privately management-owned holding company registered in Netherlands ²⁹⁵
Scottish Power	2624	Wind	Owned by Iberdrola, Spanish PLC, biggest shareholders are Qatar and BlackRock ²⁹⁶
Intergen	2560	Gas	Jointly owned ²⁹⁷ by Sev.En Energy (owned by Czech billionaire Pavel Tykac) ²⁹⁸ and China Huaneng (owned by Chinese state) ²⁹⁹

Source: *Digest of UK Energy Statistics (DUKES) list of power stations in the UK, with owners and capacity, as at end May 2021.*³⁰⁰

6.53 Wholesale electricity prices jumped nearly 5 times higher over 2021

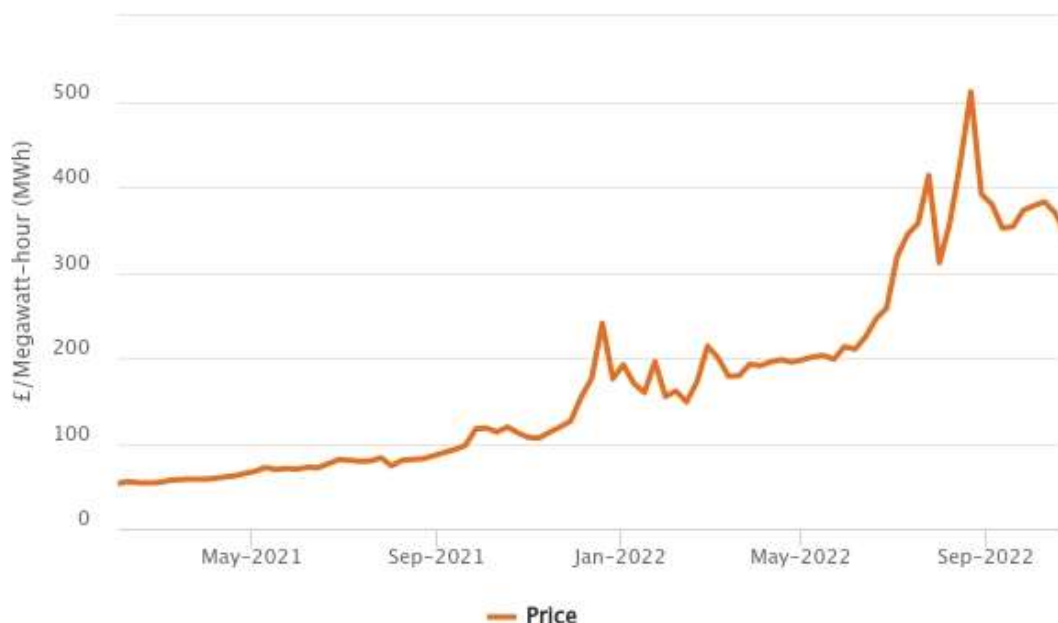
In the UK system there is just one national wholesale price for all electricity sold into the grid by generators at any given moment. This means that power stations get the same price for their electricity regardless of what fuel they use, or where they are in the country.³⁰¹

Wholesale electricity prices have jumped massively over the last two years. At the start of February 2021, the average price of a forward delivery contract (i.e., an arrangement to deliver electricity in coming months) was £53 per megawatt-hour. This doubled to over £100 in September 2021, then more than doubled again to £241 in December 2021. The price peaked at £511 in August 2022, and currently remains well over historic levels.³⁰²

Wholesale electricity prices: Forward Delivery Contracts - weekly average price (£ / megawatt-hour)



Electricity Prices: Forward Delivery Contracts – Weekly Average (GB)



Information correct as of: December 2022

Source: Ofgem³⁰³

This is not just a UK issue: there has been a similar scale rise in wholesale electricity prices across Europe. This is largely due to the surge of natural gas prices, which effectively set the cost for the wholesale electricity market – even for suppliers not using gas (see Section 5.6).³⁰⁴

6.54 UK electricity generators could have made more than £10 billion “excess profits” from the wholesale price leap

According to the *Financial Times*, in May 2022 Treasury officials calculated that UK electricity generators could at that point have made more than £10 billion in “excess profits” from the leap in the wholesale electricity price – just five months into the year.³⁰⁵ The figure is likely to have risen significantly since then.

The core issue is that the wholesale electricity price is tightly linked to the price of natural gas, which has shot up (see Section 5.6 below on that). This is due to the



way the wholesale electricity market has been set up. Buyers (the supply companies) pay one price for all the electricity they buy, no matter its source. This price is largely set in relation to the “highest marginal cost” of a unit of electricity: the amount the most expensive electricity producer needs to cover its costs – in this case, the gas generators.³⁰⁶

The outcome is that, even though only around 40% of electricity comes from gas, gas generators can effectively set the wholesale market price to cover their jumped-up costs. In terms of profits, this then means:

- **Non-gas generators make windfall profits.** For the other 60%, such as wind or nuclear power, generators can now sell their power at a much higher price, while their costs have not jumped. Thus “windfall” profits fall into their laps.
- **And maybe gas generators can profit too?** Generators reliant on gas have seen their costs rise. But they could still increase their profits if they are able to push up the electricity price by even more than needed to cover their costs.³⁰⁷

Unfortunately, it is not easy to pinpoint individual companies’ generation profits: few of the companies involved have transparent accounts which separate out their income from this source.

It should be noted that some renewable generators won’t have made such a windfall profit because they don’t receive the current wholesale price. Instead, they are locked into previous prices under “contracts for difference” (CfD) agreements.³⁰⁸ However, this only applies to a minority of companies. According to data from the government’s CfD operating company, the Low Carbon Contracts Company: around 20% of wind and solar generators, and 17% of “other renewables”.³⁰⁹

- **Note: broken market pricing.** Windfall electricity profits are a direct result of the particular way the wholesale electricity market has been set up, based on “short run marginal costs”. Politicians and media can often present this as just “the way things are” – or maybe high prices are all “Putin’s fault”. But the UK electricity market does not have to be set up in this particular way (and certainly Putin doesn’t have much to do with that). The EU has been discussing reforming electricity pricing in the European wholesale market; short-lived previous UK chancellor Kwarteng also raised this issue.³¹⁰



6.55 Verdict: strong signs of profiteering by electricity generators

In May 2022 the UK Treasury calculated that generators may have made over £10 billion in windfall profits due to the leap in electricity prices – the full amount is likely to be much higher.³¹¹

6.6 Fuel supplies: natural gas

6.61 Overview of natural gas supply

Here we will focus on natural gas, which, alongside being distributed to end users, also contributes the biggest share of UK electricity generation – fuelling just under 37% of UK electricity in 2020.³¹²

Gas, for both heating and electricity generation, is transported through the National Transmission System (NTS) infrastructure (also operated by National Grid PLC); and then through local distribution networks.³¹³ The majority of natural gas entering the NTS system comes from the North Sea via pipelines, both from the UK Continental Shelf and the Norwegian Continental Shelf.³¹⁴ About 50% of the UK's gas supply is now imported (i.e., not from the UK North Sea).³¹⁵ The majority of that comes from Norway – 64% in 2021.³¹⁶

Around 28% of imports arrive by ship as liquified natural gas (LNG).³¹⁷ This arrives in three main terminals: Isle of Grain, near London; and South Hook and Dragon – both in Milford Haven, Wales.³¹⁸ These UK ports are also key nodes in the wider European LNG market: the UK has Europe's second biggest LNG regasification infrastructure after Spain, and much of the LNG that arrives here is re-exported to other countries.³¹⁹

The main LNG supplier in 2021 was Qatar (39% of UK LNG imports), followed by Russia (22% of LNG imports in 2021 – this level will have fallen substantially in 2022). Other LNG sources include the US, Algeria, Trinidad & Tobago and Peru.³²⁰

6.62 Main suppliers include the Norwegian state oil company, the UK North Sea oil companies – including multinationals like BP and Shell – and Qatargas

As the bulk of the supply comes from the North Sea, including Norway, the single largest supplier of natural gas to the UK is likely to be Equinor ASA, which is responsible for 70% of all oil and gas production on the Norwegian Continental Shelf.³²¹ As discussed in Section 3.5, the top 20 oil and gas producers on the UK Continental Shelf are:³²²



Top 20 UK North Sea Oil and Gas Producers, Oct. 2021-Oct. 2022³²³

Parent Company	Production share Oct 2021-Oct 2022 (%)	Ultimate Owners
Harbour Energy Plc ³²⁴	13.62	PLC (UK), major owner EIG Partners (US based private equity fund) ³²⁵
TotalEnergies Upstream UK Limited	10.72	PLC (France) ³²⁶
BP Exploration	9.71	PLC (UK) ³²⁷
Shell Plc	7.03	PLC (UK and Netherlands) ³²⁸
NEO Energy Group Ltd	6.36	Main owner is HiTec Vision, Norwegian private equity firm ³²⁹
Ithaca Energy	5.57	Owned by Delek Group, Israeli PLC ³³⁰
Spirit Energy	3.81	Private joint venture. Majority owner is Centrica (69%), also Stadtwerke München Group (SWM) ³³¹
CNOOC International	3.31	60% Chinese state owned; PLC listed in Hong Kong and Shanghai ³³²
Enquest Plc	2.99	PLC (UK) ³³³
Apache Corporation	2.98	APA Corporation, PLC (US) ³³⁴
Taq Europa B.V.	2.95	98.6% owned by Emirate of Abu Dhabi, 1.4% publicly traded ³³⁵
Perenco Oil & Gas	2.11	French private company owned by Perrodo family ³³⁶
Repsol Sinopec Resources	1.86	Joint venture between Repsol (Spanish PLC) ³³⁷ and Sinopec (PLC, but 69% owned by state-owned China Petroleum Corporation) ³³⁸
Equinor ASA	1.84	Norwegian PLC, 67% owned by Norwegian state ³³⁹



Parent Company	Production share Oct 2021-Oct 2022 (%)	Ultimate Owners
Korean National Oil Corporation	1.78	Government of Korea ³⁴⁰
Neptune E&P	1.1	UK private company. Major investors include private equity funds CVC and Carlyle, and Chinese state wealth fund ³⁴¹
CNR International	1.05	Canadian Natural Resources, PLC (Toronto) ³⁴²
Ineos Industries	1.02	Ultimate parent is Ineos Limited, a private company registered in Isle of Man. Major shareholder is UK tax-exile billionaire Jim Ratcliffe ³⁴³
Centrica Storage Holdings	0.77	Centrica (UK PLC)
Hurricane Energy	0.7	UK PLC ³⁴⁴
Total share	81.28	

In terms of LNG shipments, as the biggest single supplier of LNG to the UK is Qatar, the company responsible for the bulk of such shipments is likely to be Qatargas, the world’s largest natural gas company.³⁴⁵

6.63 Natural gas prices have risen massively, due to high global demand as well as supply shocks

Like oil and wholesale electricity, gas is largely traded in centralised electronic marketplaces. There is one main reference price for natural gas in the UK, called the UK National Balancing Point (NBP) price. This represents the price of gas flowing through the UK’s gas National Transmission System.³⁴⁶

NBP prices have jumped massively in the last two years. Over the ten years prior to the pandemic, they tended to hover somewhere around 50p / therm. In August 2021, however, the average monthly price for buying NBP gas a “day ahead” rose



above 100p, then shot above 200p in October 2021, reaching a peak of 356p in August 2022. Prices have dropped since then to oscillate closer to 200p – but are still well above the historical norm.³⁴⁷

Natural gas prices: day ahead contracts - monthly average for Great Britain (p / therm)



Source: Ofgem³⁴⁸

Politicians and media reports often use a simple narrative of “it’s all Putin’s fault”. But Russia invaded Ukraine in February 2022, and gas prices started jumping months before that.

Most analysts blame a jump in global demand for gas – as well as a combination of supply and storage issues – for the beginning of the jump. According to Mike Fulwood at the Oxford Energy Institute (October 2021):

Cold weather in early 2021 led to a spike in demand in Asia while lower hydroelectricity production in South America pulled liquefied natural gas cargoes away from Europe. To make matters worse, numerous issues at LNG export plants relating to lack of fuel and technical problems constrained supplies. At the same time, there was lower European gas production in part due to delayed maintenance because of the pandemic. Alongside weaker than expected pipeline imports from Russia and a boost in demand following a drop in wind power, this all further impeded Europe’s ability to refill its depleted stocks.³⁴⁹



The impact of the Ukraine war then compounded all of that. Some commentators have also emphasised the role of speculative traders in driving – and possibly “distorting” – gas and oil prices, which are now largely driven by futures markets.³⁵⁰

6.64 There have been windfall profits for natural gas producers

The factors pushing gas prices are mostly related to increased global demand – notably a jump in Asian demand for LNG. More recently, the Ukraine war has also impacted gas supply from Russia.

These issues are not related to increasing supply costs for most gas producers. So the actual gas drillers – whether in the UK North Sea, Norway, or Qatar – are facing a massively increased prices for their gas, with little in the way of higher costs. Thus: windfall profits.

Gas is largely produced by the same big companies that drill crude oil, and both international oil and gas majors and producers focused on the UK Continental Shelf have recorded large increases in profits compared to 2019. In the words of BP’s CEO Bernard Looney, these companies are “cash machines”.³⁵¹

- In section 4.5 (above) we used North Sea Transition Authority data and company accounts to estimate a total net profit for UK North Sea oil and gas producers of **£12.2 billion** in 2021. Based on the average Brent crude and UK gas prices for this year, and applying the same methodology, we estimated forecast profits for 2022 will jump even higher to **£30.2 billion**.

6.65 Verdict: profiteering is taking place, with oil and gas majors currently ‘cash machines’

As discussed in Section 3.5, there has been a big jump in profits for oil and gas producers. Companies are taking advantage of high demand and high global prices, while their own costs barely change, to make much higher profit rates.



7 Food

7.1 Key points

- There have been huge increases in the costs of food staples in the UK and worldwide. The initial causes were widespread droughts and other climate disasters, compounded by jumps in fuel and other input costs, and most recently the Ukraine war. But all this has been made worse by profiteering along global supply chains – from agribusiness multinationals to high street supermarkets.
- The big supermarkets are finding it increasingly easy to make a profit: their profits have risen 30% compared to 2019. The top three – Tesco, Sainsbury's and Asda – between them have 56% market share. Their profits doubled to £3.2 billion in 2021, up 97% on 2019.
- Supplying the supermarkets are the food processors and manufacturers, who are also enjoying good times. Eight of the top 10 UK manufacturers have reported their 2021 profits, making a combined total of almost £23 billion. Both profit levels and margins were up 21% on 2019.
- Further upstream in the supply chain, the Big Four global agribusiness conglomerates (Archer-Daniels-Midland, Bunge, Cargill and Louis Dreyfus), control 90% of global grain supply as well as much of other key food supplies. These are also “reaping big gains” from food price hikes, with combined profits of \$10.4 billion in 2021 – a 255% jump compared to 2019.
- The key inputs of fuel, feed, and fertiliser are all contributing to the rising cost of food. The cost of fertiliser rose by 80% in 2021 alone – a boon for fertiliser manufacturers that saw profits increase by 23% on 2019. But these profits have been dwarfed in 2022, with “record” results for the likes of CF Industries and Wynnstay.

7.2 Food supply chain overview

The agri-food supply chain includes the following stages:

Food retailers ← Food commodity wholesalers and traders ← Food commodity processors/manufacturers ← Farmers ← Suppliers of inputs (e.g., fertilisers)³⁵²



Around 46% of the UK's food supply is imported; the large majority from the European Union.³⁵³ This means that transport (see Section 8) as well as currency conversion issues are also important in the food supply chain.

In this section we will focus on four key areas where profiteering is evident. These are:

- **Food retail.** Dominated by the big supermarket chains, who have been making high profits.
- **Food manufacturing/processing.** Food and drink production is the UK's largest manufacturing sector in terms of both sales and employment. The top companies have seen their profits rise.
- **Food commodity trading.** Many staple food commodity supplies are dominated by the global “Big 4” agribusiness companies (ADM, Bunge, Cargill, and Louis Drayfus). Their profits have also shot up.
- **Fertiliser production.** 3 key food production inputs are the “3 Fs”: feed, fuel and fertiliser. Fertiliser companies have also seen rising profits. (As have fuel suppliers – see Section 4.5).

7.3 Retail: supermarkets

7.31 Overview of supermarket food retail

In the UK we now buy the majority of our food from a few big supermarket chains, and this report will concentrate on these. The supermarkets buy from a variety of suppliers, including directly from farmers and from food processing companies.

7.32 Food retail is highly concentrated: the top three supermarkets have a combined market share of 56%

The following table provides of the major supermarket and online grocery retailers in Great Britain, ranked in order of their grocery market share:

Supermarket grocery market share

Company name	Grocery market share as of June 2022
Tesco plc	27.3%
J Sainsbury plc	14.9%
Asda Group Limited	13.7%



Company name	Grocery market share as of June 2022
WM Morrison Supermarkets Limited	9.6%
Aldi	9.0%
Lidl	6.9%
Co-operative Group Limited	6.2%
John Lewis Partnership plc (Waitrose)	4.8%
Iceland	2.3%
Ocado	1.8%

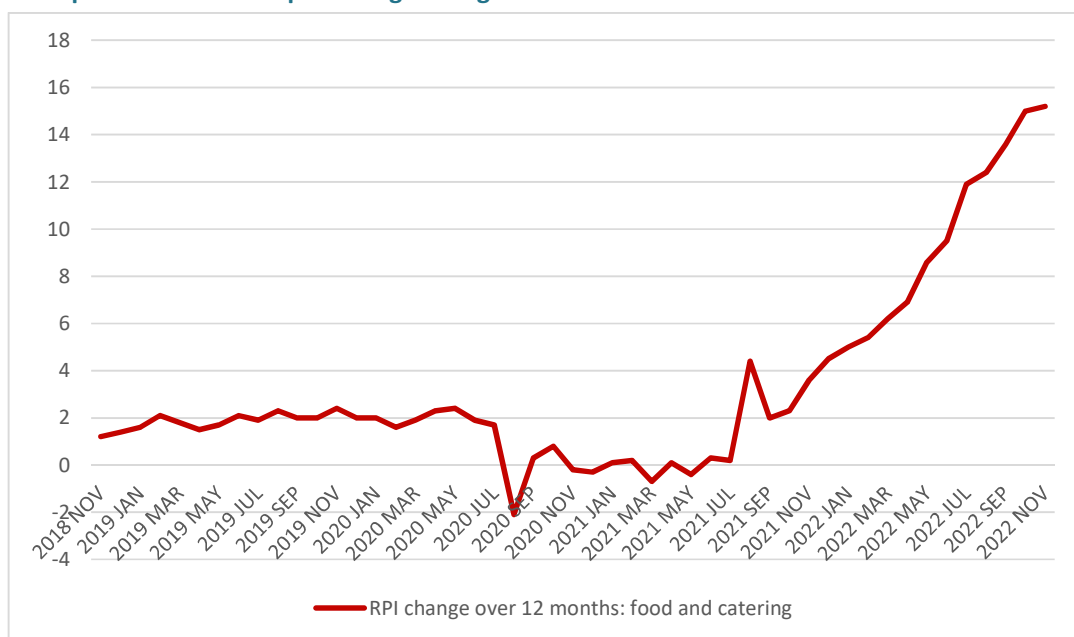
Source: Statista³⁵⁴

This is a concentrated market: the top three supermarkets have a combined market share of 56%.

7.33 Food inflation has been rising since Summer 2021, reaching 15% by October 2022

In recent years food price inflation has been minimal: as measured by ONS RPI, it has stayed below 5% since 2012, hovering around 2% in 2019, and then around zero during the pandemic. Food prices started to rise significantly in August 2021. Since then, prices have risen dramatically, reaching a 15% inflation rate in October 2022 and remaining above that point since. This is a level last seen in 1980.³⁵⁵

Food price increase: RPI percentage change over last 12 months



Source: ONS.³⁵⁶



The increase in food prices is making it increasingly difficult for people to afford the food they need. According to research published by The Food Foundation in May 2022, by that point there had been a 57% jump in the proportion of households cutting back on food or skipping meals.³⁵⁷

7.34 There has been significant wholesale price inflation, particularly in 2021 and early 2022 – but it is hard to break down exactly where price rises are happening along the supply chain

Unlike retail prices, there are no clear and reliable statistics on UK food wholesale prices. While the ONS collects data on UK agricultural produce, almost half of the UK's food supply is imported.³⁵⁸

Industry market research suggests that food price inflation has been largely driven by wholesale prices, at least for many goods. For example, research by supply chain analyst company Prestige Purchase claimed that, in April 2022, average UK wholesale food prices were up 10% up year-on-year.³⁵⁹

There are better data on aggregate global food prices for key commodities. UN Food and Agricultural Organisation figures show that global food commodity prices shot up around 60% from September 2020 until reaching historic record levels in March 2022 (see Section 6.5. below).

However, as we see below, there is also evidence that retailers have boosted their profits by rising retail prices even higher than their costs.

It is also noteworthy that, although they are still at high levels, global commodity prices have been falling since Spring 2022 – while retail prices have been rising even higher.

7.35 The profits of the biggest supermarkets have increased by 30% since 2019. For the top three, profits have increased by 97%

The below table provides an overview of the financial performance of the major grocery retailers. Together, the 9 retailers for which 2021 data was available at the time of writing recorded combined net profits of £2.7 billion – an increase of 30% compared to 2019 – with their combined margin increasing by 23% compared to 2019.



Supermarket profits

Name	Net profit – 2021/22 (£m)	Net margin – 2021/22	Net profit – 2019/20 (£m)	Net margin – 2019/20
Tesco plc	1,481	2.4%	971	1.7%
J Sainsbury plc	677	2.3%	152	0.5%
Asda Group Limited	1,010.5	4.3%	487	2.1%
WM Morrison Supermarkets Limited	-250	-1.4%	348	2.0%
Aldi	5	0.0%	211.5	1.7%
Lidl	29	0.4%	-13.6	-0.2%
Co-operative Group Limited	45	0.4%	33	0.3%
John Lewis Partnership plc (Waitrose)	-68	-0.6%	108	1.1%
Ocado	-223	-8.9%	-213	-12.1%
Combined profits / margin	2,706	1.5%	2,084	1.2%
Change compared to 2019	29.8%	23.2%		

Source: CapitalIQ. Note: the supermarkets have widely different reporting periods – see endnote for details of periods covered.³⁶⁰

The biggest supermarkets, in particular, have seen bumper profit boosts in the last year. Tesco, Sainsbury's and Asda – who together have a market share of 56% – saw their combined 2021 net profits increase to £3.2 billion, nearly doubling compared to 2019 (a 97% increase). Their combined net margin increased by 89%.

And profit levels may get even higher: these results were published when prices were still increasing.

The big supermarkets argue that their costs are also going up. But these high profit rates suggest that they have been able to raise prices even more. This includes on their own “value” brands. Research by media company NationalWorld found price rises of up to 100% between May and June 2022 for 175 products among almost 700 basic range products at Tesco, Sainsbury's, Morrisons, Asda and Aldi.³⁶¹

Even within the industry, there is much talk of “price gouging”. When Sainsbury's reported its 2021/2022 results in April 2022, the supermarket insisted it wasn't price gouging. But it accused its competitors of doing so. Chief Executive Simon



Roberts said: “We are inflating behind the market, our direct competitors are inflating ahead of the market.”³⁶²

Yet, even as they publish high profits, the big chains have been complaining that they worry their profits could drop in future due to increased costs. Morrisons and Tesco, for example, have forecast drops in profits between 2022 to 2023 due to the effects of inflation and the war in Ukraine.³⁶³

We should take these announcements with a pinch of salt. Even if costs do start to bite, in many cases profits will be falling from a very high level. In January 2023, for example, Sainsbury’s predicted that its full-year profits could reach £690 million.³⁶⁴ Meanwhile, Tesco is ramping up shareholder pay-outs. The company paid out £704 million in dividends in 2021-22 and commenced an enormous share buyback scheme in July 2022 intended to return over £1 billion to shareholders by April 2023.³⁶⁵

The *Financial Times*’ Lex column has also noted their public complaints may be “mildly disingenuous”, noting “historically, inflation boosts supermarket profits”, with higher prices for food staples boosting rather than denting spending in their stores.³⁶⁶

- Note: many of the same supermarkets are also major petrol retailers, and may also be making strong profits there. (See Section 4.3).

7.36 Verdict: strong evidence of profiteering by the biggest supermarket chains

The big supermarket chains that dominate food retail have boosted their profits. They grumble about rising costs, but so far seem to have the pricing power to pass these on to consumers – and make more money for shareholders in the bargain.

7.4 Food manufacturing

7.41 Overview of food manufacturing

Food manufacturing or processing means converting raw materials into products that are sold by retailers. The big retailers do some of their own processing, but buy supply from third parties. These include goods sold as independent brands, and also supermarket “own brand” products which are outsourced to manufacturers.



Food processing is the UK's largest manufacturing sector in terms of both total sales and employment – employing around 440,000 people across the UK.³⁶⁷ Around 54% of finished food products consumed in the UK are produced in the country, although often using imported ingredients.³⁶⁸

7.42 The largest food producers in the UK are a mixture of UK-headquartered conglomerates and manufacturers, and multinational groups headquartered overseas

According to OC&C Strategy Consultants, in 2021 the UK's ten largest food producers by revenue were:³⁶⁹

Largest food producers by revenue

Company	Activities, well-known brands
Associated British Foods	British Sugar (Silver Spoon), Jordans, Kingsmill, Mazola, Patak's, Ryvita, Twinings, and many more ³⁷⁰ (Also Primark clothing)
Hilton Food Group	Slaughterhouses, meat and seafood processing ³⁷¹
Boparan Holdings	2Sisters (processes about 1/3 of UK supermarket chicken), Bernard Matthews, Fox's biscuits, as well as Carluccio's and other restaurant brands ³⁷²
Arla Foods	Milk and dairy suppliers, Lurpak ³⁷³
Unilever UK	Marmite, Wall's, Magnum, Hellman's, Colman's, and many others, as well as soap and other consumer goods products ³⁷⁴
Cranswick	Meat processing, Cypressa ³⁷⁵
Müller UK and Ireland	Dairy suppliers, Müller branded yoghurts and related products ³⁷⁶
Mondelez UK	Cadbury, Oreos, Philadelphia, and TUC biscuits, among others ³⁷⁷
Bakkavor	Processed food producers – “the number one producer of meals, salads, desserts, and pizza and bread, for the big 4 supermarkets - Tesco, M&S, Sainsbury's and Waitrose” ³⁷⁸
Nestle UK	“Over 2000 brands” – Rowntrees, Nescafe, Carnation, and baby milks, among others ³⁷⁹



The major producers are a mixture of UK-headquartered conglomerates such as Associated British Foods (also the parent company of Primark) and Unilever; UK-headquartered food manufacturers and processors such as Hilton Food Group, Boparan Holdings, Bakkavor and Cranswick; and the UK operations of multinational food groups headquartered overseas, such as Müller, Mondelez, Nestle and Arla.

7.43 The top UK food manufacturers and their parent companies reported combined profits of £22.9 billion in 2021, up 21% on 2019

Eight of the top ten UK food manufacturers or their parents companies had released 2021 financial data at the time of writing. These eight companies reported a combined net profit of £22.9 billion in 2021, a 21% increase on 2019, with their combined profit margin also increasing by 21%:

Top UK food manufacturer profits

Name	Net profit - 2021/22 (£m)	Net margin – 2021/22	Net profit - 2019/20 (£m)	Net margin - 2019/20
Associated British Foods plc	478	3.4%	878	5.5%
Hilton Food Group plc	37	1.1%	33	1.8%
Arla Foods amba	279	3.0%	264	3.0%
Unilever plc (Unilever UK)	5,081	11.5%	4,766	10.8%
Cranswick plc	104	5.2%	83	5.0%
Mondelez International Inc. (Mondelez UK)	3,176	15.0%	2,967	15.2%
Bakkavor Group plc	57	3.0%	37	2.0%
Nestle SA (Nestle UK)	13,695	19.3%	9830	13.6%
Combined profits / margin	22,906	13.7%	18,857	11.4%
Change compared to 2019	+21.47%	+21.1%		

Source: CapitalIQ³⁸⁰

The bulk of the profits were generated by Nestle, who recorded net profit of £13.7 billion in 2021 – up by nearly £4 billion on 2019. Upon reporting a net profit figure for 2022 of £8.34 billion, the company said they had been “hit pretty hard by inflation”, and had no choice but further increase prices.³⁸¹ This came after the company’s revelation in July 2022 that “steep price increases to offset rising input costs had bolstered sales” for the company.³⁸²



7.44 Verdict: signs of profiteering by food manufacturers

While the situation has been described as “extremely challenging” for the food sector, that doesn’t seem to apply to the top UK food manufacturers or their parent companies: healthy profits are being made.

7.5 Global food commodity processors and traders

7.51 Overview of global food commodity conglomerates

Increasingly, much of the UK’s – and the whole world’s – food supply is controlled by a handful of conglomerates who process and trade many key food ingredients such as grains or cooking oils. This is another stage where we can see profits shooting up on the back of crisis.

7.52 The Big Four global agribusiness conglomerates (aka ‘ABCD’) dominate food commodity wholesaling, controlling 90% of global grain supply

The global supply of many food – and other – commodities is controlled by just a handful of global corporations. The biggest and most powerful of these are four companies: Archer-Daniels-Midland (ADM), Bunge, Cargill and Louis Dreyfus, sometimes called the “ABCD” companies because of their initials. To give a sense of their power, a 2012 report by Oxfam concluded that these 4 corporations control 90% of the global grain trade.³⁸³

The main activities of the four companies can be summarised as follows:

- **ADM:** operates over 400 crop procurement facilities and 270 food processing plants across the globe. It trades and processes foodstuffs like cereal grains and oilseeds, as well as ingredients and flavourings, supplements, and nutritional products.³⁸⁴ In the UK alone it trades grain, seed, fertiliser, feed and other commodities³⁸⁵; is the biggest processor of rapeseed³⁸⁶; and is the UK’s leading independent flour miller.³⁸⁷
- **Bunge:** trades, processes and refines foodstuffs including oilseeds, palm oils, corn, wheat, rice and soy for use in animal feed, processed food, biofuels, foodservice or as raw ingredients.³⁸⁸
- **Cargill:** trades, purchases and distributes agricultural commodities, as well as producing ingredients for processed foods. It also trades other commodities, produces animal feed, and offers financial and other services.³⁸⁹



- **Louis Dreyfus:** trades and processes goods including animal feed, pet food, cereals, coffee, edible oils, fruit juices, pulses, rice, sugar, pharmaceuticals and cosmetics products. It also trades textiles and cotton and provides transportation services.³⁹⁰

7.53 Global food commodity prices shot up in 2021 and reached all-time record highs in March 2022

The United Nations' Food and Agricultural Organisation (FAO) tracks the global prices of key food commodities: cereals, oils, sugar, meat and dairy. Its overall Food Price Index shot up in 2021 and the first half of 2022, climbing 60% over 18 months. In September 2020 food commodity prices were just under the same average level of 2014-16; in March 2022 they peaked at 60% higher.³⁹¹

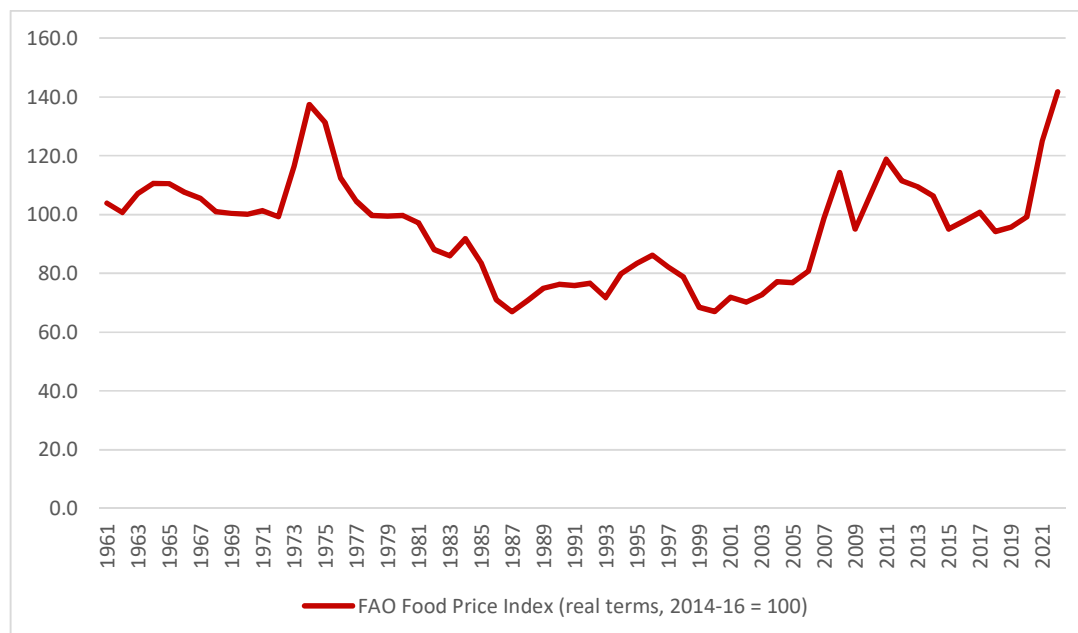
The biggest jumps were in two key commodities: cereals, which reached an index high of 173.5 (i.e., 73.5% above 2014-16 average) in May 2022; and above all food oils, which jumped up around 150% to 251.8 in March 2022.

Since March 2022 global food prices have fallen from those historic highs – although as of January 2023 the overall index was still 34% up compared to 2020.³⁹²

To put the scale of this inflation in context, the chart below shows the Food Price Index in real (overall inflation-adjusted) terms since 1961. This shows that the 2021-22 price jump was the biggest in the records, beating the last major inflation shock in the 1970s.³⁹³



FAO Food Price Index



Source: FAO³⁹⁴

7.54 Causes of the food crisis: climate, disease and war

Wholesale food prices increases have mainly been attributed to “supply-side shocks”. These have included:

- **Climate:** Many major food producing regions have suffered recent droughts and poor harvests. In 2021 there were major drought conditions affecting harvests of corn, coffee, soya and other key commodities in South America, the US, Asia, Europe and elsewhere.³⁹⁵

The *Financial Times* noted that extreme weather events in 2021 – and resulting damage to crops – caused spikes in the prices of agricultural commodities, from Brazilian coffee to Belgian potatoes. A recent report by Stockholm Environment Institute said climate change would “dramatically impact agricultural production all around the globe,” potentially resulting in heavily reduced crop yields.³⁹⁶ Italy, for example, in Summer 2022 underwent its worst drought in 70 years, placing European rice production at risk.³⁹⁷

- **War:** The war in Ukraine has caused serious disruption to food supplies. The direct impact was greatest on wheat, maize, barley, sunflower oil and rapeseed oil. Russia and Ukraine together produce 60% of the world’s sunflower oil and



14% of global wheat production. Sanctions on Russia have also hit the supply of fertilisers. Russia was the world’s top exporter of nitrogen fertiliser and, together with Belarus, supplied 39% of the global output of potash, another major fertiliser.³⁹⁸³⁹⁹

However: it is important to note that the big rise in food prices started before the invasion of Ukraine in February 2022. The war is most likely responsible for the dramatic spiking of prices seen in Spring 2022; but even before that food prices were already at (real terms) levels not seen since the 1970s.

- **Supply costs: The “3 Fs”:** feed, fuel, and fertiliser. Many agricultural commodities will have been impacted by knock-on supply costs from inputs further up their supply chains. For example, meat producers have been hit by shortages in feeds such as soybeans.⁴⁰⁰ Fuel price hikes, which will have impacted many producers, have been discussed in Section 3. Another key agricultural input is fertiliser – which we look at in Section 5.6. As discussed in other sections, demand jumps and blocked supply chains at the end of the pandemic have been a factor in these.
- **Other supply costs:** There are other inputs that go into specific food supply chains, which have also been hit with rising prices. For example, food producers have complained about price rises of packaging.⁴⁰¹

7.55 Substitution effects have also seen the price of goods unaffected by supply-side shocks increase; the price of olive oil, for example, jumped 18%

One key pattern is that, when a supply shock causes a shortage of one good, demand then jumps for another good that can “substitute” for it. For example, as the Ukraine war has caused a major shortage of sunflower oil, retailers and producers have switched to other oils such as rapeseed, palm, and olive – which have in turn jumped in price.⁴⁰²⁴⁰³

The UK price of olive oil, for example, increased by 18% in the year to May 2022.⁴⁰⁴ This was not due to any disruption in production: according to the European Union, olive oil production grew by 11% in the 2021/22 crop year.⁴⁰⁵

The price of palm oil also rocketed in the aftermath of Russia’s invasion of Ukraine, again apparently without any significant disruption to production.⁴⁰⁶⁴⁰⁷



7.56 The big four food commodity traders are all 'reaping big gains' from food price increases – their profits have jumped by 255% since 2019

Companies with stocks of staple foods, or the market power and expertise to negotiate price changes, have been – in the words of the Wall Street Journal – “reaping big gains”.⁴⁰⁸

While each of the big four food commodity traders have different areas of operation, all posted strong profits in 2021:

- ADM posted “record” profits of \$2.7 billion for 2021. Profits have continued to rise in 2022: its worldwide results for the first three months of 2022 were described by analysts as “stellar”, with net profit increasing 53% from the previous year.⁴⁰⁹⁴¹⁰ In October 2022 it posted its highest third quarter profits ever.⁴¹¹ ADM in particular has gained from the rocketing price of oil due to drought and the Ukraine war. It refines or bottles a range of different oils in the UK, including household brands Olivio, Crisp n’Dry and Mazola, all of which have risen in price.⁴¹²⁴¹³
- Bunge posted “outstanding” profits of \$2.1 billion for 2021.⁴¹⁴ It also gained from the food oil shock – the company noted its Refined and Specialty Oils business had benefited “from favourable demand trends”.⁴¹⁵
- Cargill had the most profitable year ever in its 156-year history in 2021, thanks to “cashing in on booming agricultural markets”, according to Bloomberg.⁴¹⁶ It made a net profit of \$4.9 billion, pushing three members of the Cargill family, which controls the company, into the list of the 500 richest people on the planet.⁴¹⁷
- Louis Dreyfus also posted an 82.5% rise in 2021 profits to \$697 million.⁴¹⁸

The below table provides an overview of the financial performance of the big four commodity traders. Together, the companies recorded net profits of \$10.4 billion – an increase of 255% compared to 2019; and a net profit margin of 3.2% - an increase of 173% compared to 2019.

Commodity trader profits

Name	Net profit - 2021 (\$m)	Net margin – 2021	Net profit - 2019 (\$m)	Net margin – 2019
Archer-Daniels-Midland Company (ADM)	2,709	3.2%	1,379	2.1%



Name	Net profit - 2021 (\$m)	Net margin – 2021	Net profit - 2019 (\$m)	Net margin – 2019
Bunge Limited	2,078	3.5%	-1,280	-3.1%
Cargill	4,900	3.6%	2,600	2.3%
Louis Dreyfus Company B.V.	697	1.4%	230	0.7%
Combined profits / margin	10,384	3.2%	2,929	1.16%
Change compared to 2019	+254.5%	+173.1%		

Source: CapitalIQ and company accounts⁴¹⁹

We have focused here on the global big four, but they are not the only agribusiness companies who have done well. Leading UK palm oil producer MP Evans, for example, has hiked its planned dividend payments, thanks to the increase in palm oil prices.⁴²⁰ The company attributes the rise, in part, to the “tragic events in Ukraine”.⁴²¹

Thanks to such results, investors appear to think some oils companies are good bets. In June 2022 a private equity firm bought leading oil producer KTC Edibles, which supplies more than 250 million litres a year of edible oil to manufacturers, retailers and wholesalers across the UK and globally. The private equity firm Endless said it liked the way “KTC has demonstrated its importance to the UK food industry at a time of increasing volatility across the global food market”.⁴²²

7.57 Verdict: strong signs of profiteering by food commodity traders

The Big 4 food conglomerates, which dominate much of global food supply chains, saw boosted profits in 2021. Other companies specialising in goods such as oils, whose prices have boomed due to supply shocks, have also benefited.

7.6 Inputs: Fertilisers

7.61 Overview of fertiliser production

Fertiliser is one of the key inputs to agribusiness production. The ‘Big 3’ fertilisers in commercial production are nitrogen, phosphorus and potassium.⁴²³ Nitrogen-based fertilizers are made by mixing nitrogen from the air with hydrogen from natural gas, while phosphorus- and potassium-based fertilizers are produced from mined ores.⁴²⁴



The six biggest national exporters of fertilisers are Russia, China, Canada, Morocco, the US and Saudi Arabia. Collectively, they accounted for over half of globally exported fertilizers during 2021.⁴²⁵

7.62 The largest fertiliser manufacturers in the UK are multinationals

According to the market research company IBISWorld, the three largest companies in the fertiliser manufacturing industry in the UK are:⁴²⁶

- The US fertiliser company CF Industries Holdings Inc., through its subsidiary CF Fertilisers UK Ltd.;
- The Irish agribusiness company Origin Enterprises plc, through its subsidiary Origin UK Operations Ltd.; and
- The Norwegian fertiliser company Yara International ASA, through its subsidiary Yara UK Ltd.

In addition, the UK agribusiness company Wynnstay plc claims to be the UK's second largest fertiliser blending company, through its subsidiary Glasson Grain Limited.⁴²⁷

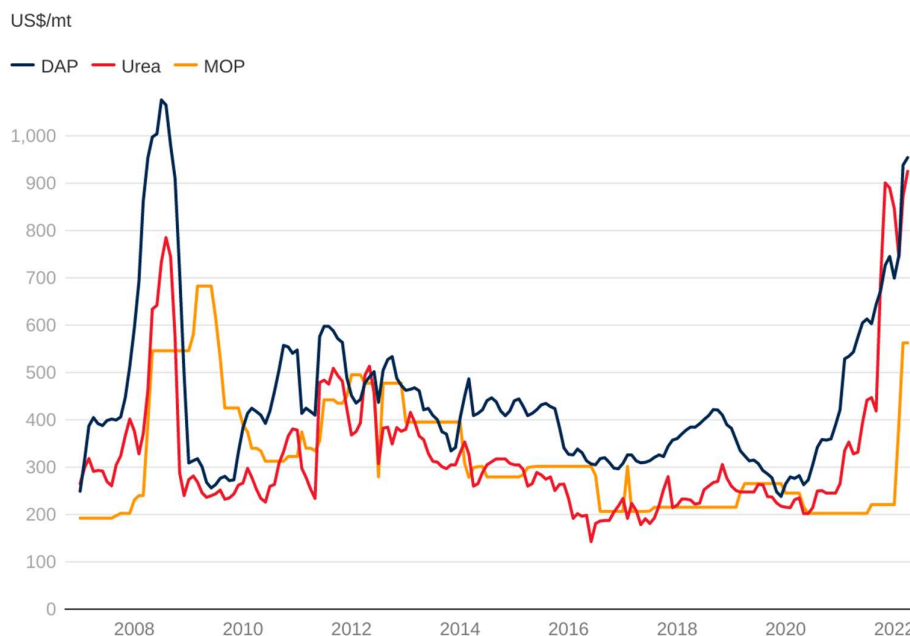
7.63 Fertiliser prices rose by 80% in 2021

According to World Bank data, fertiliser prices rose by 80% across 2021, and had jumped a further 30% by May 2022. They have since eased from this peak, but they remain at historically high levels.⁴²⁸ Soaring prices have been driven by a range of factors, including surging gas prices, supply disruptions caused by sanctions on Belarus and Russia, and export restrictions, for example in China.⁴²⁹



Global fertiliser prices

Fertilizer prices



Note: DAP = diammonium phosphate. MOP = muriate of potash. Last observation is April 2022.
Source: Bloomberg; World Bank.

Source: World Bank.⁴³⁰

Nitrogen fertiliser relies on natural gas, and the spike in natural gas prices has already slowed down the production of nitrogen in Europe and North America. In addition, 39% of the global output of potash, a source of potassium for fertiliser, is produced in Russia and Belarus, and this is no longer accessible.⁴³¹⁴³²

7.64 The major fertiliser manufacturers have seen profits increase by 23% compared with 2019 – but this hasn't prevented job losses and plant closures

Much of the news around fertiliser manufacturers in the UK has focused on the problems they have been facing. In June, for example, CF Industries, Britain's biggest fertiliser producer and carbon dioxide supplier to the country's meat, beer and soft drinks sectors, blamed soaring energy costs for the planned closure of its Ince plant in Cheshire, leading to the loss of around 350 jobs.⁴³³

The Ince plant, plus another in Billingham, had been closed since September 2021, with the company blaming soaring gas prices in Europe for making the production of fertiliser uneconomical.⁴³⁴



This narrative suggests that rises in fertiliser prices are solely to do with gas price rises, with fertiliser manufacturers simply passing these on to customers. Company results, however, do not support this story. The table below provides an overview of the financial performance of the four major companies in the UK fertiliser manufacturing market. While their combined net profit margins decreased slightly compared to 2019, their combined net profits increased by over a fifth – from \$1.16 billion to \$1.42 billion.

Fertiliser manufacturer profits

Name	Net profit - 2021 (\$m)	Net margin – 2021	Net profit - 2019 (\$m)	Net margin - 2019
CF Industries Holdings Inc.	917	14.4%	493	10.7%
Yara International ASA	449	2.7%	599	4.7%
Origin Enterprises plc	45	2.3%	59	2.9%
Wynnstay Group plc	12	1.8%	8	1.2%
Combined profits / margin	1,424	5.6%	1,159	5.8%
Change compared to 2019	+22.9%	-3.7%		

Source: CapitalIQ⁴³⁵

2022 is proving to be an even better year for the fertiliser manufacturers, with CF Industries and Wynnstay both reporting “record” results, and Yara reporting net profit of US\$2.8 billion.¹

Such results have provoked a backlash from farmers grappling with rocketing input prices. Many say price gouging is part of the problem, and farmers in the US have

¹ <https://cfindustries.q4ir.com/news-market-information/press-releases/news-details/2023/CF-Industries-Holdings-Inc.-Reports-Full-Year-2022-Net-Earnings-of-3.35-Billion-Adjusted-EBITDA-of-5.88-Billion/default.aspx>

<https://wynnstayplc.co.uk/media/2502/wynnstay-group-plc-full-year-results-for-the-year-ended-31-october-2022-1-february-2023.pdf>, p. 1.

<https://www.yara.com/siteassets/investors/057-reports-and-presentations/quarterly-reports/2022/4q-2022/4q-2022-report.pdf>, p. 10.



demanded the government take action. On March 11, the US Department of Agriculture (USDA) launched an inquiry into anti-competitive market practices in fertiliser, seed and agricultural inputs.⁴³⁶ U.S. Agriculture Secretary Tom Vilsack warned fertilizer companies and other farm suppliers against taking “unfair advantage” of the war in Ukraine, and said the USDA would be monitoring unjustified price increases.⁴³⁷

7.65 Verdict: it is hard to prove outright whether profiteering is happening, but there are signs of fertiliser manufacturers benefiting from increased prices

2021 margins remained broadly stable, while profits increased compared to the pre-pandemic period. The indications are that fertiliser companies have had a record year in 2022.



8 Automotive

8.1 Key points

- A shortage of new cars has seen consumers turning to the second-hand market. UK dealerships have taken advantage of this by boosting the prices of second-hand cars – and their profits. At the other end of the supply chain, suppliers of key components, notably semiconductors, have also seen big profits. And in the middle, car manufacturers are making record gains.
- Cars were one of the goods with the highest inflation rates in 2021 and early 2022, peaking at 18.3% in March 2022, although prices finally stabilised in November 2022. At the March 2022 peak, second-hand cars were 32% more expensive than they were the previous year, with higher increases for family friendly models. Major car dealerships gained from this with a 110% rise in profits and a 114% increase in profit margins compared to 2019, posting total combined profits of £1.1 billion in 2021. Meanwhile, the five largest UK dealerships received a total of £257 million in government assistance during the pandemic and slashed a combined total of 7,410 jobs.
- Car manufacturers with UK operations have also managed to get in on the profits bonanza. The top car manufacturers active in the UK recorded combined net profit of £45 billion in 2021, up 134% compared to 2019, with margins increasing by 128%. And the good times have continued into 2022: BMW announced that it had posted net profits of €13.2bn for the first half of the year alone, a 74% increase on its half-year performance in the previous, record-breaking year. Stellantis recorded half year profits of €8.0bn in 2022, up 34%.
- The critical shortage in semiconductors has been a great opportunity for their manufacturers, who have nearly doubled profits. The top 10 made a combined £44.0 billion profit in 2021, up 96% compared to 2019. The largest semiconductor manufacturer, TSMC, which has over 50% market share, announced that its 2022 net profit figure had surpassed the NT\$1 trillion mark for the first time – up by more than 70% from a year earlier.



8.2 Supply chain overview

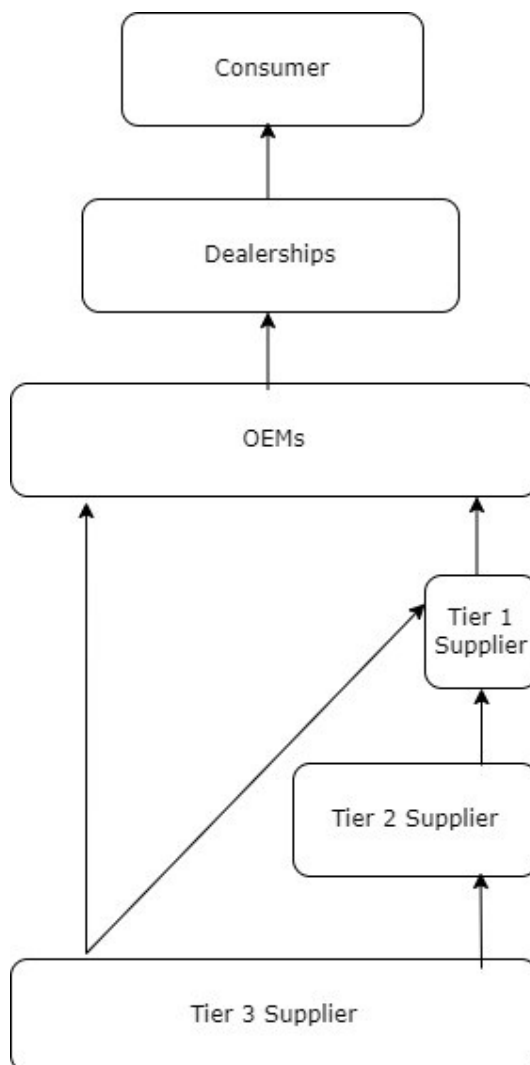
Car production is concentrated in the hands of massive global manufacturers – often called the OEMs (Original Equipment Manufacturers). In the UK, their vehicles are largely sold by dealerships – some licensed to sell for particular manufacturers, with others acting as “independents”, particularly in the second-hand market.

At the other (“upstream”) end of the chain, there are suppliers who sell materials and parts to the car manufacturers. These can be broken down into three “tiers”. Tier 1 suppliers sell finished systems or modules directly to car manufacturers; tier 2 suppliers sell parts that end up in cars (as well as other goods); while tier 3 refers to suppliers of raw or semi-raw materials like metal or plastic.⁴³⁸

The diagram below sets out this basic supply chain:



Automotive supply chain



In this section we will zoom in on three areas where profits have jumped – dealerships, car manufacturers, and semiconductor suppliers.

8.3 Dealerships

8.31 Overview of automotive dealerships

Car dealerships sell new or used cars at the retail level. Many dealerships have direct contracts with an automotive OEM or its sales subsidiary, while others are independent and sell a variety of new and used vehicles of different brands.



8.32 The UK automotive retail market is not highly concentrated

According to Automotive Management Online, as of June 2021 the top 10 UK automotive retail groups by turnover were:

Top 10 UK automotive retail groups by turnover

Company	Turnover (£ 000s)
Sytner	4,916,206
Arnold Clark Automobiles	3,798,200
Lookers	3,699,900
Pendragon	2,924,600
Vertu Motors	2,547,665
Marshall Motor Holdings	2,154,415
Group 1 Automotive	1,537,101
TrustFord	1,406,437
Jardine Motors Group	1,357,829
JCT	1,279,405

Source: Automotive Management Online⁴³⁹

According to IBISWorld the new car market has a low level of market concentration, with the four largest players expected to account for 14% of total industry revenue in 2022-23, while the used car market has a moderate level of market concentration.⁴⁴⁰

8.33 The retail price of cars showed rapid inflation in 2021 and the first half of 2022, before stabilising recently

Cars were one of the goods suffering from the highest inflation in 2021 – 8.3%, as against overall RPI of 4.1% that year, or 4.5% for all goods (as opposed to services). Price hikes then took off in the first months of 2022 – peaking with an inflation rate of 18.3% (on the previous year) in March 2022. Since then, auto prices continued to rise, but at a decreasing rate, until finally prices stabilised (zero inflation) in November 2022.⁴⁴¹

8.34 The retail price of second-hand cars rose for 24 months in a row to March 2022; family friendly models jumped over 50% in a year

According to ONS figures, motor vehicles have been one of the goods most heavily impacted by inflation.⁴⁴² This trend is not unique to the UK – it has also taken place across the EU and in the US.⁴⁴³ The biggest jump is in second-hand prices which,



according to ONS, has been one of the main factors putting “the strongest upward pressure in inflation from transport in recent months”.⁴⁴⁴

According to research by AutoTrader, as of March 2022 second-hand prices had risen for 24 months in a row, and were an average of 32% (£4,400) higher than they were in March 2021.⁴⁴⁵ Prices of family-friendly car models in particular increasing by between 50% and 60% over the 12 months to May 2022.⁴⁴⁶

According to the ONS, key factors behind this price surge include:⁴⁴⁷

- increased demand following the end of the pandemic;
- the global semiconductor shortage;
- a reduced supply of new cars;
- fewer 1 year-old cars on the market due to a fall in car registrations during Covid;
- extensions of lease contracts; and
- fewer part exchanges caused by delays in new car supply.

Fundamentally, there is a shortage of new cars, and consumers have been turning instead to the second-hand market. This increased demand has allowed second-hand dealers to push up their prices.

8.35 Automotive retailers’ profits have increased by 110% and margins increased by 114% since 2019 – while in some cases paying staff less than the minimum wage

In the US, there have been widespread accusations that dealers are engaged in profiteering. General Motors reportedly wrote to dealers to accuse them of charging “sums far in excess” of recommended retail prices, while parts of the business press have argued that high US car prices are due to “price gouging rather than inflation”.⁴⁴⁸

There is certainly evidence for such assertion: in a survey released earlier this year, which found that 56% of US retailers had taken advantage of inflation to raise prices beyond what was required to offset increased costs, the automobile retail sector stood out: nearly three-quarters (72%) of automobile sellers reported they were using inflation to boost profits.⁴⁴⁹



As in other industries, there has been notably less public debate on price gouging in the UK. But we can see big profit rises for UK car dealers – suggesting they too have pushed up prices well above costs.

According to *Car Dealer* magazine, profits in the sector have risen. The trade journal states that car dealerships in the UK made a combined profit of £764m in 2021 – a 628% rise on 2020's £105m.⁴⁵⁰

This figure compares recent profits with the exceptional pandemic year of 2020 – hence potentially overstating the increase in profits. To investigate further, we collected Capital IQ data on the Automotive Management Online list of top UK automotive retail groups.⁴⁵¹ At the time of analysis, 65 of these companies have published 2021 profit results. We compared these with profits from 2019, before the pandemic. This comparison shows a 110% rise in net profits from 2019 to 2021:

Automotive retailer profits

Automotive dealers combined finances	Net profit (£m)	Net profit margin
2021	1,064	2.0%
2019	507	1.0%
Change compared to 2019	+110%	+114%

Source: Capital IQ⁴⁵²

There is a further dimension to the profits of the largest car dealerships: they have also been accused of laying off staff – all while receiving millions in government support during the pandemic which they do not intend to pay back.⁴⁵³ Below is a table highlighting furlough payments and workforce changes for the five largest UK car dealerships:

Government assistance and workforce changes for largest automotive retailers

Company	Government assistance	Workforce +/-
Arnold Clark	£75m	-350
Sytner	£45m	-1,020
Lookers plc	£45m	-2,140



Company	Government assistance	Workforce +/-
Pendragon plc	£62m	-4,070
Vertu Motors plc	£30m	+170

Source: *The Times and Fame*⁴⁵⁴

In total, the five largest car dealerships received government assistance of £257 million. At the same time as benefiting from such assistance, these companies reduced their employee headcount by a total of 7,410 staff, and have either paid or are intending to pay dividends to shareholders.⁴⁵⁵ On top of this, Vertu was one of 191 companies revealed in August 2021 to have been paying their staff less than the minimum wage.⁴⁵⁶

8.36 Verdict: strong signs of profiteering by automotive retailers

We see big profit spikes for the car dealers in the last year, suggesting they have been able to raise prices well above their costs. This mirrors the US picture of rampant “price gouging” in the sector.

8.4 Car manufacturers

8.41 Overview of UK car manufacturing

The UK has a large car manufacturing sector, with over 182,000 people employed in the industry. Over 30 car manufacturers build more than 70 vehicle models in the UK, with 8 out of 10 cars produced in the country exported overseas.⁴⁵⁷ At the same time, nearly 9 out of 10 new cars sold in the UK are imported from other countries.⁴⁵⁸

8.42 UK car manufacturing is dominated by major multinationals

According to the Society of Motor Manufacturers and Traders (SMMT), the top manufacturers of cars in the UK in 2020 were the following:

Top manufacturers of cars in the UK

Brand / company	Volume of cars produced in UK in 2020	% of total
Nissan	245,649	27%
Jaguar Land Rover (Tata Motors)	243,908	26%



Brand / company	Volume of cars produced in UK in 2020	% of total
MINI (BMW)	175,736	19%
Toyota	116,261	13%
Honda	69,366	8%
Vauxhall (Stellantis)	32,234	4%
Others	37,774	4%
Total	920,928	100%

Source: SMMT and industry press⁴⁵⁹

All of these companies are either major car manufacturing multinationals in their own right (Nissan, Toyota and Honda) or wholly-owned by major car manufacturing multinationals (Jaguar Land Rover, which is owned by the Indian manufacturer Tata Motors; MINI, which is owned by the German manufacturer BMW; and Vauxhall, which is owned by the Dutch-headquartered manufacturer Stellantis).

Most of these companies are also among the largest car manufacturers globally: Nissan, BMW, Toyota, Honda and Stellantis were among the top ten worldwide in terms of cars sold in 2021.⁴⁶⁰

8.43 As with the prices of used cars, the prices of new cars are increasing

According to a study by consumer motoring website Honest John, new car prices rose by more than a quarter, in some cases, in the three years to March 2022. The price of a new Vauxhall Astra, for example, rose from £18,895 in 2019 to £23,805 in March 2022 (a 26% increase).⁴⁶¹

Despite high demand for cars, however, new car sales have slumped - with media reports suggesting that car manufacturers unable to take advantage of the demand because of supply chain problems. The chief executive of the Society of Motor Manufacturers and Traders (SMMT) said the situation was "challenging".⁴⁶²

And yet in the face of such "challenges", car manufacturers active in the UK haven't failed to turn a profit.

8.44 The top car manufacturers active in the UK recorded combined net profit of £45 billion in 2021, up 134% compared to 2019

Nearly all of the parent companies of the top UK car manufacturers increased their profits substantially in 2021 compared to 2019. Together, they posted combined net profit of £45 billion, up 134% from 2019, with their combined net margin increasing by 128%:



Car manufacturer profits

Company	2021/22 net profit (£m)	2021/22 net margin	2019/20 net profit (£m)	2019/20 net margin
Nissan Motor Co Ltd	1,350	2.6%	-5,010	-6.8%
Tata Motors Limited	-1,147	-4.1%	-1,288	-4.6%
BMW AG	10,400	11.1%	4,165	4.7%
Toyota Motor Corporation	17,855	9.1%	15,199	6.8%
Honda Motor Co Ltd	4,430	4.9%	3,402	3.1%
Stellantis NV	11,927	9.5%	2,712	5.4%
Combined	44,814	7.6%	19,180	3.3%
Change 2021 – 2019	+133.6%	+128.5%		

Source: CapitalIQ⁴⁶³

And the profits bonanza has continued into 2022 – even as attempts are made to drive down wages and conditions:

- In 2022, BMW announced that it had posted net profits of €13.2bn the first half of the year alone: representing a 74% increase on its half-year performance in the previous, record-breaking year.⁴⁶⁴
- BMW executives are on record discussing the gains they've made thanks to inflation. In September 2021, the *Financial Times* reported that BMW Group planned to “limit the volume of premium models they ship even once the industry-wide chip shortage eases, in a bid to lock in the hefty price increases they have achieved during the pandemic ... customers’ willingness to pay higher prices during the pandemic [as a result of supply constraints] has emboldened them to go further.”⁴⁶⁵ According to BMW Group’s chief financial officer, Nicolas Peter, BMW had “seen a significant improvement in pricing power in the last 24 months”, and they planned to “maintain our pricing power on today’s level.” This increased ‘pricing power’ has clearly fed through into the company’s bottom line.
- It hasn’t, however, fed through into improved conditions for the company’s workers. Despite such stellar results, BMW workers at the company’s Oxford



MINI plant raised concerns about a loss of earnings due to supply disruption-linked plant closures in March 2022, with reports that production line staff were getting 40% of their wage and agency staff were not getting paid at all.⁴⁶⁶ BMW have also used temporary stoppages at the Oxford plant caused by the semiconductor shortage as an opportunity to alter existing collective agreements.⁴⁶⁷

- Stellantis reported record half year profits of €8.0bn in 2022, up 34% compared to the previous, record-breaking year.⁴⁶⁸⁴⁶⁹ Stellantis was in the news earlier in the year when shareholders rejected a proposed €19m pay package for the company's chief executive – with one investor describing it as “indecent”.⁴⁷⁰

8.45 Verdict: strong signs of profiteering by car manufacturers

While car manufacturers wring their hands about “challenging” conditions, and in some cases make attempts to undermine conditions for workers, they nevertheless appear to be benefitting handsomely from the inflationary environment – with profits soaring in 2021, and breaking new records in 2022.

8.5 Key material suppliers: the case of semiconductors

8.51 Overview of semiconductor manufacturing for the automotive sector

Auto supply chains have been hit by shortages and price jumps in key raw materials, parts and components. One of the biggest, and best known, problems is with semiconductor chips – a key component of all modern cars, as well as many other products.

Semiconductor shortages have been a major obstacle to recovery in the sector, in some cases forcing manufacturers to close production lines. Consultant AlixPartners has estimated that the semiconductor crisis cost the automotive industry \$210 billion in lost revenue in 2021 as many OEMs were forced to halt or reduce production, with 7.7 million fewer vehicles being produced as a result.⁴⁷¹

The semiconductor shortage grew out of a number of interlinked issues:⁴⁷²

- in 2018 and 2019, the US-China and Japan-Korea trade wars caused ripple effects in semiconductor supply chains, leading to increased lead times, raised pricing, and constraints on raw materials.



- in 2020, Covid-19 halted production for many manufacturers for nearly six months. When production did resume, manufacturers had to quickly adjust to increased demand from other sectors.
- in 2021, a series of natural disasters and accidents at key manufacturers, combined with raw material price rises, compounded shortages further.

These factors have genuinely increased costs for semiconductor manufacturers. Yet they've been able to raise sales prices even higher.

TSMC, the world's biggest contract semiconductor manufacturer – with a global market share of 54%⁴⁷³ – has halted its practise of lowering prices each quarter for certain clients.⁴⁷⁴ In May 2022, TSMC announced that it planned to put up prices for the second time in less than a year. The company previously increased prices by up to 20% in August 2021.⁴⁷⁵⁴⁷⁶

8.52 The profits of the major semiconductor manufacturers have increased by 96% compared to 2019, with margins up by 59%

In January 2023, TSMC announced that its net profit figure had surpassed the NT\$1 trillion mark for the first time (equivalent to US\$32.9 billion), up by more than 70% from a year earlier.⁴⁷⁷ In previous announcements, the company has said that its current high profits are a result of customers being prepared to pay higher prices.⁴⁷⁸

TSMC is not alone in this. In the table below we analyse 2021 vs. 2019 profits for the global top 10 chip manufacturers. Overall, the combined net profits of the top ten semiconductor companies were £44.0 billion in 2021, up 96% compared to 2019, with profit margins also rising by 59%.

Profits of major semiconductor companies

Company	Net profit 2021 (£m)	Net margin 2021	Net profit 2019 (£m)	Net margin 2019
Samsung Electronics Co Ltd	24,331	14.0%	14065	9.3%
Taiwan Semiconductor Manufacturing Company (TSMC)	15,897	37.6%	8714	32.3%



Company	Net profit 2021 (£m)	Net margin 2021	Net profit 2019 (£m)	Net margin 2019
United Microelectronics Corporation	1,487	26.2%	206	5.5%
Semiconductor Manufacturing International Corporation	1,257	31.3%	177	7.5%
Powerchip Semiconductor Manufacturing Corp.	429	24.5%	-37	-4.1%
Vanguard International Semiconductor Corporation	315	26.9%	148	20.7%
DB HiTek Co. Ltd.	197	26.1%	68	13.0%
Hua Hong Semiconductor Limited	193	16.0%	123	17.4%
Tower Semiconductor	111	9.9%	68	7.3%
GlobalFoundries Inc.	-185	-3.8%	-1035	-23.6%
Combined	44,031	18.6%	22496	11.7%
Change 2021 – 2019	+95.7%	+59.1%		

Source: CapitalIQ and Visual Capitalist⁴⁷⁹

8.53 Verdict: strong evidence of profiteering by semiconductor manufacturers

While costs for semiconductor manufacturers have increased, they also appear to have been able to leverage shortages to drive up both prices and profits, resulting in significantly increased net profits and margins.



9 Transport: road freight, ports and shipping

9.1 Key points

9.11 Road freight

- Supply issues in the UK road freight industry – including a driver shortage, as well as increased fuel and vehicle costs – have been well covered in the media. Our analysis of company profits, however, shows that freight companies have largely managed to pass on cost rises, boosting profit margins.
- The combined profit margin of the UK's major road freight companies jumped 67% in 2021 compared with 2019 levels. The biggest companies have done even better. Nine of the top ten UK operators had reported 2021 profits at the time of writing; together they made £21.1 billion in 2021 – up 149% from £8.5 billion in 2019. Many of these companies are global logistics giants such as Deutsche Post, FedEx and UPS.⁴⁸⁰

9.12 Ports

- The UK is the most expensive cargo shipping destination in Europe. A standard 20 foot container costs 25% more to ship from Shanghai to the UK than continental Europe.
- The UK's ports are dominated by six companies. Four of these had published 2021 accounts at the time of writing, and all are showing double-digit profit margins.
- ABP Ports made £126 million net profit in 2021 with a margin of 21.8%. Peel Ports made £143 million, with a similarly high margin of 24%. DP World, notorious for its illegal firing of P&O workers, made £863 million globally – a margin of a mere 10.8%. CK Hutchison's global ports division reported operating profits of £1,025 million – on a 25.4% operating margin.
- Profitable UK port operators are nevertheless set to receive millions in government support as part of the Freeport scheme, including at least £50 million going to DP World.



9.13 Container shipping

- Probably the most blatant example of inflation profiteering is container shipping – an industry which is particularly crucial to UK supply chains, given its status as an island nation with a large goods trade deficit. This industry is dominated by a handful of multinational giants, who have joined together in three alliances that control nearly 85% of world container trade. This massive market power is helping shipping companies take advantage of the post-pandemic demand surge to accumulate eye-watering profits.
- Eight of the top 10 global container shipping companies had reported 2021 profits at the time of writing. Their combined net profit figure was £62 billion in 2021 – up an astonishing 20,650% on 2019. This enabled them to pay out a combined total of £4.7 billion in dividends in the same year. Profits are predicted to rise further to a staggering \$256 billion in 2022.
- With widespread accusations of “blatant profiteering” and “cartel activity” directed at the container shipping giants, the US, UK, Canadian, Australian and New Zealand competition authorities have set up a working group to coordinate investigations of suspected anticompetitive conduct in the sector.

9.2 UK road haulage

9.21 Overview of road haulage

Road haulage companies are a central part of the wider logistics sector. They move imported goods between ports, warehousing hubs, and final destinations. 98% of all food and agricultural products and consumer products and machinery in Great Britain are transported by road freight.⁴⁸¹

We can separate companies that hire drivers to carry road freight into two categories:⁴⁸²

- **Hire and reward operators:** These companies specialise in providing road freight transport to third-party customers. They may also provide warehousing and other logistics services.
- **Own-account operators:** These companies carry road freight as part of their wider business, but do not operate road freight transport for third party customers. Examples include supermarkets or foodservice companies.



9.22 The UK's road freight sector is fragmented: the top four companies are estimated to control just 11.4% of the market

IBIS research puts the number of hire and reward companies alone at close to 55,000.⁴⁸³ This does not include own-account operators, so the total number of road freight operators will be even higher.

According to IBIS, the only specialist road freight transport company with a market share over 5% is DHL. The 4 largest hire and reward companies between them are estimated to control just 11.4% of the market.⁴⁸⁴ The top 19 operators account for 12% of all HGVs in the UK registered for use (around 44,000 vehicles out of a total of around 372,000).⁴⁸⁵

A caveat to this is that there appears to be higher concentration in cross border road transport, where a few major players exist – including DSV, Kuehne + Nagel, UPS, and Hermes.⁴⁸⁶

Top 10 “Hire and Reward” Road Freight Transport Companies by HGVs

Company	No. HGVs
DHL	7,115
Royal Mail	3,700
Wincanton	3,404
XPO Logistics	3,277
Fedex/TNT	2,346
UPS	2,163
Eddie Stobart	1,794
Turners (Soham)	1,784
Kuehne + Nagel	1,382
DPD	1,327

Source: Mordor Intelligence.⁴⁸⁷



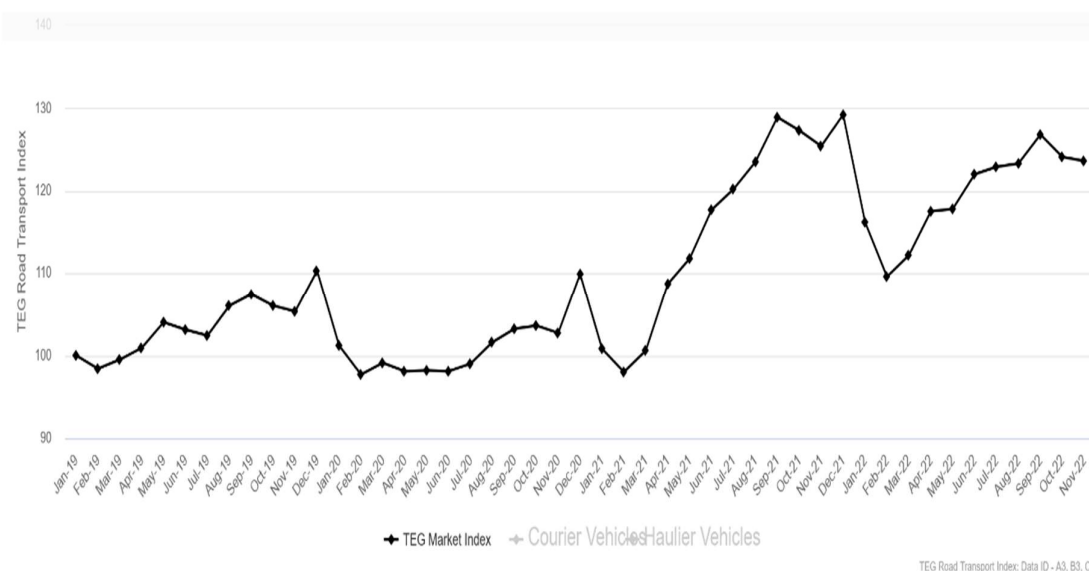
9.23 Prices have been increasing for over a year, which road haulage companies attribute to increased costs

As of March 2022, road freight prices had been increasing on a year-on-year basis for 14 months in a row (for example, prices in January 2022 were higher than prices in January 2021).⁴⁸⁸

The Transport Exchange Group produces an index tracking the price-per-mile cost for UK road freight (haulage and courier) vehicles each month. As seen in the chart below, climbed rose dramatically by 30% through 2021, reaching a peak in December 2021.⁴⁸⁹

Prices then dropped significantly for two months at the start of 2022 (note: this fits a usual pattern of Christmas peak in the industry), before rising again until August 2022. In recent months road freight prices have stabilised but remain considerably higher than in 2019 and 2020.⁴⁹⁰

Transport Exchange Group TEG Market Index



Source: Transport Exchange Group⁴⁹¹

Issues in the UK road freight industry – particularly a shortage of drivers – have been well covered in the media.⁴⁹² In January 2022 the Road Haulage Association (RHA) highlighted a number of reasons for road haulage price increases, including



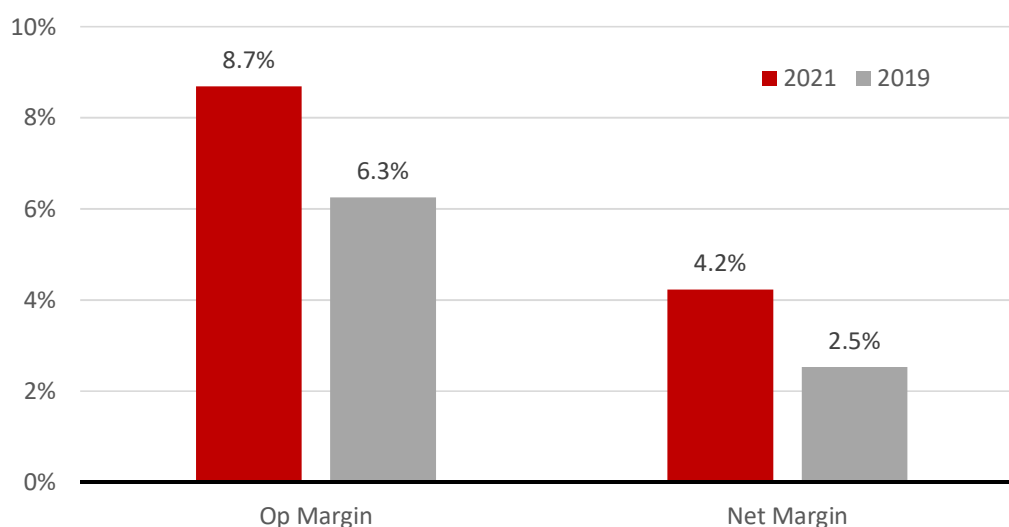
increases in costs of tyres, fuel, vehicles, repairs and maintenance, insurance, rents, and driver pay.⁴⁹³

9.24 Even so, road freight companies have increased their profits – by 149% compared to 2019 among the largest operators

Despite these cost rises, road freight companies appear to have managed to raise prices even more – and so increased their profits. Of the top 100 UK road freight companies, 79 have published 2021 accounts at the time of writing. The combined net profit margin for these companies was 4.2%; compared with 2.5% before the pandemic in 2019.⁴⁹⁴

That is, their profit margins increased 67% compared with before the pandemic.

UK Road Freight Top 79 Companies Combined Profit Margins, 2021 vs 2019



Source: Capital IQ⁴⁹⁵

Of the top ten UK “hire and reward” road freight transport companies, at the time of writing nine have posted group results for 2021. Seven of the nine companies reported significantly increased net profits and margins compared to the pre-pandemic period. Overall, profits were up by 149% and margins were up by 90%.

Net Profits of Top UK Road Freight Retailers

Name	Net profit - 2021/22 (£m)	Net margin - 2021/22	Net profit - 2019/20 (£m)	Net margin - 2019/20
Deutsche Post AG (DHL)	4,244	6.2%	2,223	4.1%
Royal Mail plc	612	4.8%	161	1.5%



Wincanton plc	48	3.4%	39	3.2%
XPO Logistics Inc.	239	2.5%	316	3.9%
Fedex Corporation (Fedex/TNT)	3,037	4.1%	1,042	1.9%
United Parcel Service Inc. (UPS)	9,520	13.2%	3,352	6.0%
Turners (Soham) Holdings Ltd	47	9.0%	29	6.5%
Kuehne + Nagel International AG	1,646	6.2%	622	3.8%
La Poste SA (DPD)	1,738	6.0%	697	3.2%
<i>Combined profits / margin</i>	21,129	7.2%	8,481	3.8%
<i>Change compared to 2019</i>	+149.2%	+90.1%		

Source: Capital IQ⁴⁹⁶

Note: these are predominantly large global companies which have major freight and delivery operations outside the UK. Further investigation would be needed to try and break down the sources of their profits, including how much came from UK road transport in particular.

9.25 Verdict: strong signs of profiteering, indicating road freight companies have been able to increase prices even above costs

Profit margins for the major road freight companies have not only recovered to 2019 levels but exceeded them by 67%; while the biggest parent companies saw both profits and margins increase by considerably more. This indicates that they may have been able to increase prices to more than compensate for their increased costs.

9.3 Ports

9.31 Overview of port industry

Ports are crucial nodes in multiple supply chains. Some ports are primarily responsible for processing shipping containers for onward distribution, while others are focused on specialist services such as oil and liquified natural gas (LNG). 95% of UK global trade (by volume) is facilitated by the ports and maritime sector.⁴⁹⁷

Port revenues are generated from a series of charges. Pricing structures can differ across operators, but Associated British Ports (ABP) provides a useful illustrative breakdown:



ABP Revenue Streams

Type of revenue	Value in 2021 (in £millions)	Notes	% of total 2021 revenue
Traffic	232.7	Charges relating to volumes of cargo crossing the quay	52%
Call	100.8	Revenue related directly to the visit of a vessel to port	22%
Cargo operations	45.5	Fees for handling, processing, storing cargo	10%
Fixed	18.4	Revenue from fixed payments by customers to cover capital investment	4%
Utilities	17.7	Fees for providing utilities services to tenants	4%
Shortfall	10.5	Charges arising from customers failing to meet contracted volumes	2%
Dredging	8.3	Dredging services	2%
Other	17.4	Various misc. other services	4%
Total	451.3		100%

Source: ABP accounts⁴⁹⁸

9.32 The UK port industry is dominated by six major operators

The six major operators and their ports are listed in the table below:⁴⁹⁹

Top Six UK Port Companies

Company	Ports
Associated British Ports (ABP) ⁵⁰⁰	Troon, Ayr, Sillloth, Barrow, Fleetwood, Garston, Swansea, Port Talbot, Cardiff, Barry, Newport, Plymouth, Teignmouth, Southampton**, Ipswich, Lowestoft, King's Lynn, Grimsby, Immingham, Hull, Goole.
Peel Ports Group ⁵⁰¹	Liverpool, London Medway, Heysham, Great Yarmouth, Clydeport, Manchester Ship Canal



Company	Ports
Hutchison Port Holdings ⁵⁰²	Harwich, London Thamesport, Felixstowe
Forth Ports ⁵⁰³	Tilbury, Grangemouth, Leith, Dundee, Rosyth, Fife (Burntisland, Kirkcaldy, Methil)
PD Ports ⁵⁰⁴	Hartlepool, Teesport, Howden, Keadby, Groveport, Isle of Wight
DP World ⁵⁰⁵	London Gateway, Southampton**

Source: Company reports and websites⁵⁰⁶

** The Port of Southampton is owned and operated by ABP, but the container terminal is operated by DP World.

9.33 UK ports are the most expensive in Europe

The companies' complex charging systems make it hard to identify overall price movements. But there are many indicators of rising costs.

In November 2021, *The Independent* cited a ManSys report that found the UK is the most expensive cargo shipping destination in Europe. Three British ports in particular – Liverpool, Southampton and Port of London – are the most expensive in Europe. On average, the cost of shipping a standard 20ft container from Shanghai to the UK is nearly 25 per cent higher than shipping to continental Europe.⁵⁰⁷

In February, *The Daily Telegraph* reported that dwell times – the amount of time ships spend in port – had more than doubled in a year at UK ports. Ships spend an average of over seven days discharging at British ports, compared to five days in Europe.⁵⁰⁸

These delays may be beneficial to port operators' financial performance. The chairman of Hutchison Ports' parent company, Victor Li, told an investor call in March 2022 that port congestion had been positive for the company because it generated additional storage revenues, as containers remained on the docks for longer.⁵⁰⁹ Industry reports suggest that this is a wider phenomenon, with the profits of global terminal operators boosted by charging extra surcharges and storage fees.⁵¹⁰

In May 2022, the industry publication *The Loadstar* reported that UK ports have also taken advantage of a change in government border policy to introduce new exit and entry fees – including “customs clearance fees” of £17-£25 per entry, with



DP World's ports also charging £11 per removal. An industry source claimed these fees were "a bullshit money-making exercise."⁵¹¹

9.34 The UK's leading port operators have either increased or maintained healthy profits, with ABP and Peel Ports recording net profit margins of over 21%

Four of the top six companies have published results at the time of writing. Among these companies, profits and margins have either increased or remained healthy.

ABP Finances 2019-21

ABP	2021	2019
Revenue (£m)	579	579
Net profit (£m)	126	124
Net profit margin	21.8%	21.4%

Source: ABP company reports⁵¹²

While's ABP's revenue was stable, it recorded slightly increased profits and margin over 2019.⁵¹³

Peel Ports Group Finances 2019-21

Peel Ports Group	2021	2019
Revenue (£m)	594.5	759.5
Net Profit (£m)	143.2	-87.3
Net Profit Margin	24.1%	-11.5%

Source: Peel Ports Group company reports⁵¹⁴

Peel Ports Group saw its profit increase dramatically in its 2021 results, compared to 2019.⁵¹⁵ This was despite a 22% drop in revenues.

DP World Finances 2019-21

DP World	2021	2019
Revenue (£m)	8,004.5	5,952.5
Net profit (£m)	862.7	925.2
Net profit margin	10.8%	15.5%

Source: DP World company reports⁵¹⁶



DP World, owner of the London Gateway and Southampton terminals, reported global profits of £863 million in 2021, with a net profit margin of 11%. Its overall profits and profit margins were down compared to 2019, but remain extremely healthy.

These profit figures reflect the period before DP World moved to further lower its costs by firing 800 workers in its P&O Ferries business in March 2022.⁵¹⁷ The company is also involved in a tax dispute with HMRC over under-reporting the value of land it bought for its London Gateway terminals in 2010. DP World paid stamp duty on a valuation of £30.6 million but bought the land for £112.6 million – meaning a saving of over £3 million in tax.⁵¹⁸

Despite these factors, DP World's UK terminals are also two of the UK's twelve new 'freeports' and the company is therefore expected to benefit from at least £50 million of government support.⁵¹⁹

Hutchison Ports Finances 2019-21

Hutchison Ports	2021	2019
Revenue (£m)	4,035	3,502
Operating profit (£m)	1,025	897
Operating profit margin	25.4%	25.6%

Source: Hutchison company reports⁵²⁰

The table above shows profits for the global ports division of the CK Hutchison group – which has seen a 14% increase in operating profit compared to 2019. Note: we use operating rather than net profit figures here because CK Hutchison is a global conglomerate with many interests besides ports and does not segment net profits for its ports business alone.

Hutchison Ports is also a beneficiary of the government's investment in freeports through its key partnership role in the Freeport East project in Felixstowe, which will receive £12 million in seed funding from the government.⁵²¹⁵²²

9.35 Verdict: UK port operators have maintained high profits throughout the pandemic

UK port operators have tended to maintain excellent profit margins, rather than necessarily improving them. There are indications that these companies have



supported themselves through specific acts of profiteering – including using storage fees and surcharges to profit from port congestion, and introducing “bullshit” customs clearance fees.

9.4 Container shipping

9.41 Overview of container shipping

Over 80% of the world’s traded goods travel via sea, and most of these goods are transported in container ships.⁵²³ As such, the cost of container shipping has a large influence on the price of retail products and wider inflation levels.⁵²⁴ Thus we mainly focus on container shipping in this section.

The rest of global shipping capacity is primarily concentrated in dry bulk shipping, which ships “dry” commodities including iron ore, coal and grain; and tanker shipping, which transports crude oil, liquefied natural gas (LNG) and chemicals.⁵²⁵

9.42 The shipping container industry is an oligopoly: three major alliances have just under 85% market share

There is heavy market concentration in container shipping. The top five companies have a market share of 65%, and the top ten have a market share of 85%:

Top Ten Global Container Shipping Companies by Market Share

Top 10 Global Shipping Companies	Market share
Mediterranean Shipping Company (MSC)	17.4%
Maersk	16.6%
CMA CGM	12.9%
COSCO	11.2%
Hapag-Lloyd	6.8%
Evergreen	6.1%
ONE (Ocean Network Express)	5.8%
HMM	3.2%



Top 10 Global Shipping Companies	Market share
Yang Ming	2.7%
Zim	2.0%

Source: Alphaliner, 07/2022⁵²⁶

These companies are divided into three major partnership groups that share space on ships and co-ordinate schedules:⁵²⁷

- **2M Group:** Maersk; MSC
- **Ocean Alliance:** CMA CGM; Evergreen; COSCO; OOCL
- **The Alliance:** Hapag-Lloyd; Yang Ming; HMM; ONE

These three alliances account for nearly 85% of global shipping capacity and have a 99% market share on Asia/Europe routes.⁵²⁸

One major benefit of these alliances, according to Bank of America, is in pricing – with the oligopolistic ownership structure in the sector removing price competition and making it easier for container shipping companies to benefit in the event of demand jumps or supply crunches.⁵²⁹

9.43 Container shipping prices were ‘sky high’ in 2021 with major consequences for overall inflation – particularly for island nations dependent on imports like the UK

Container shipping companies generate revenue from freight rates: the charges to move a container from one location to another.⁵³⁰ They can also make money from demurrage charges (when a container remains in port longer than agreed); and detention charges (when the empty container is returned to the company later than agreed).⁵³¹

Global freight shipping costs shot up from Summer 2021. Between January 2017 and August 2020, weekly average prices as measured by the Freightos Baltex Index (FBX) oscillated between \$1,000 and £2,000 dollars for a 40ft container. (Note: this index aggregates industry prices across a range of common shipping routes.) The FBX price nudged above \$2,000 at the start of September 2020 then climbed rapidly, reaching prices over \$10,000 in August to October 2021.⁵³²

At the time of writing in January 2023, FBX prices are well down on the 2021 peak – though still over \$2,000, so above pre-2020 levels.⁵³³



The International Monetary Fund (IMF) has argued that increased shipping costs have major inflationary impacts across economies.⁵³⁴ The effects are persistent and long-term, with their impact peaking a year after the original increases and lasting up to 18 months.⁵³⁵

The IMF's research also suggests that island nations and economies that import more goods than they export will be the worst affected. In 2021, the UK had a £156 billion deficit on trade in goods, meaning that it is particularly exposed to the inflationary effects of international shipping costs.⁵³⁶

Heading into 2023, forecasts are unclear. The UN expects shipping activity to reduce next year as the global economy slows.⁵³⁷

9.44 The top container shipping companies made a combined £62 billion net profit in 2021 – a staggering 20,650% up on 2019

Profits have jumped dramatically for the major container shipping companies in the last two years. Although prices have now dropped, industry analysts anticipate continued high profits in 2023. According to the Financial Times, writing in September 2022:

“In just three years, the container shipping industry will have made as much money as the entire previous six decades. Propelled by soaring demand following the pandemic, shipping groups have enjoyed a level of profitability that few in the notoriously volatile sector could have dreamt of.”⁵³⁸

The shipping research group Dewry estimates the container industry as making operating profits of \$210 billion in 2021, rising to \$270 billion in 2022, before dropping to around \$150 billion in 2023. These figures are dramatically above just \$7 billion in 2019, or \$26 billion in 2020.⁵³⁹

Our research calculated the combined net profit for eight of the top ten global container shippers. Data was not available for ONE at the time of writing, or for the largest company, MSC, which as a privately owned Swiss-registered company publishes minimal financial information.⁵⁴⁰

The eight companies reported 2021 net profits totalling £62 billion. This represents a staggering 20,650% rise compared to 2019, with profits over 200 times higher. In the same period, net margins increased from 0.3% to 34% – a 10,559% increase.

In 2019, three of these eight companies made a small profit – but the combined margin was dragged down to just 0.3% due to a substantial loss from HMM. Two



years later, container shipping is one of the most spectacularly profitable industries surveyed in this report.

Container Shipping Company Profits 2019 vs 2021

Company	Net profit 2021 (£m)	Net margin 2021	Net profit 2019 (£m)	Net margin 2019
AP Moeller-Maersk	13,251	29.0%	-63	-0.2%
CMA CGM	13,215	32.0%	-173	-0.8%
Cosco Shipping Holdings	10,381	26.8%	734	4.5%
Yang Ming Marine Transport	4,404	49.5%	-109	-2.9%
Hapag-Lloyd	7,622	40.7%	307	2.9%
Evergreen Marine Corporation	6,370	48.8%	3	0.1%
HMM	3,309	38.7%	-386	-10.7%
Zim	3,427	43.3%	-14	-0.5%
Combined total	61,979	33.9%	299	0.3%
Change compared to 2019	+20,650%	+10,559%		

Source: Capital IQ, 07/2022.

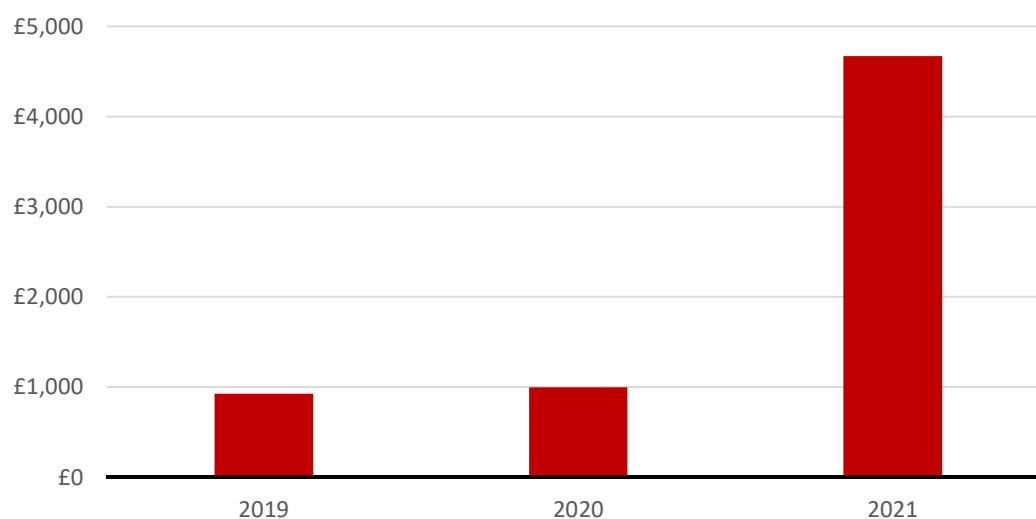
Recent financial updates confirm that companies will continue to enjoy phenomenal profits in 2022. Maersk, for example, reported record full year financial results, with net profit of \$29.3 billion, and Hapag-Lloyd reported an “extraordinarily strong result” for the year, with preliminary figures indicating an operating profit figure of \$18.5 billion.⁵⁴¹

9.45 These companies paid out a combined £4.7 billion in dividends in 2021.⁵⁴²

All of the eight companies paid dividends to shareholders from their 2021 profits – as opposed to just 5 paying dividends in 2019 and 2020.⁵⁴³ Together, they paid out a total of £4.7 billion to their shareholders in 2021.



Container Shipping Company Combined Dividends 2019-21



Source: Capital IQ, 07/2022 and company reports⁵⁴⁴

9.46 The container shipping companies have been accused by multiple parties of engaging in “blatant profiteering” and “cartel activity”

The fact that the container shipping industry is dominated by a handful of companies, which work in alliances, has led some to suggest sky high prices and profits result from a classic case of “cartel” activity. The industry has been subject to repeated accusations:

- In January 2022, the representative body of the UK international freight services industry, the British International Freight Association (BIFA), called on the UK government to investigate the container shipping market, with BIFA members accusing it of “blatant profiteering”.⁵⁴⁵
- The multinational industry body the International Federation of Freight Forwarders Associations (FIATA) has called for an investigation into “violent” behaviour by shipping companies, describing the market as an oligopoly.⁵⁴⁶
- Australian Competition and Consumer Commission chairman, Rod Sims, has argued that legal exemptions may allow shipping companies to “get together and engage in cartel activity”.⁵⁴⁷
- UK retailers have commented on the “very surprising” issue of shipping companies moving their prices in tandem.⁵⁴⁸



- The US Justice Department, Canadian Competition Bureau, the Australian Competition and Consumer Commission, the New Zealand Commerce Commission and the UK Competition and Markets Authority have set up a working group to share intelligence and coordinate investigations of suspected anticompetitive conduct by shipping companies.⁵⁴⁹
- In June 2022, US President, Joe Biden, signed a new Ocean Reform Act that will give the US Federal Maritime Commission powers to intervene in the fees charged by shipping companies. This was in response to these fees contributing to consumer price inflation in the US.⁵⁵⁰ In October 2022, the FMC issued proposed rules on detention and demurrage billing requirements, which two industry bodies filed a petition against. The petition was rejected unanimously at the beginning of 2023 with FMC Chairman Daniel B. Maffei calling out the industry bodies’ “attempt to subvert the regulatory process”.⁵⁵¹
- Container lines are expected to break the net income record set in 2021 by 71% in 2022. Companies are expected to make a staggering \$256 billion.⁵⁵²

9.47 Tanker shipping has been less profitable; but dry bulk shipping companies have also recorded “multi-year high” profits, with a combined 35% margin in 2021

Industry press reported that 2021 profits for dry bulk shipping companies were also at “multi-year highs”, partly as a result of port congestion which has reduced vessel supply.⁵⁵³ Profit margins for the top ten US-listed companies indicate that this sector may have had a similarly profitable year to the container sector:

Top Ten US-listed Dry Bulk Shipping Companies 2019-21

Company	Net profit - 2021 (£m)	Net margin - 2021	Net profit - 2019 (£m)	Net margin – 2019
Star Bulk	503	47.7%	-12	-2.0%
Golden Ocean	389	43.9%	28	5.3%
Navios	86	19.9%	-145	-39.8%
Genco	134	33.3%	-42	-14.4%
Eagle Bulk	137	31.1%	-16	-7.4%



Company	Net profit - 2021 (£m)	Net margin - 2021	Net profit - 2019 (£m)	Net margin – 2019
Safe Bulkers	129	53.0%	12	8.1%
Diana Shipping	42	26.8%	-8	-4.8%
Grindrod Shipping	88	26.1%	-33	-16.0%
Pangaea Logistics	50	9.4%	9	2.8%
Seenergy Maritime	31	27.0%	-9	-13.5%
Combined total	1,588	34.5%	-217	-7.4%
Change compared to 2019	+833%	+567%		

Source: Capital IQ, 07/2022⁵⁵⁴

The tanker shipping sector appears to have been less profitable, although industry analysts suggest a recovery will occur in 2022-3.⁵⁵⁵⁵⁶

9.48 Verdict: container shipping companies have made mega-profits on the back of the pandemic, and look set to continue profiteering

Even though their costs have increased, the container shipping companies have been able to raise their prices much higher still – resulting in huge increases in profits and margins. The extent of this profiteering has finally pushed multiple regulators to focus on the sector.





- 1 Unite Investigates: Corporate Profiteering and the Cost of Living Crisis, June 2022
<https://www.unitetheunion.org/media/4757/unite-investigates-corporate-profiteering-and-the-cost-of-living-crisis.pdf>
- 2 Categorised as “fuel and light” by the Office for National Statistics (ONS).
- 3 <https://www.bloomberg.com/news/articles/2022-08-30/uk-predicts-up-to-170-billion-excess-profits-for-energy-firms>
- 4 <https://digital.com/half-of-retail-businesses-using-inflation-to-price-gouge/>
- 5 <https://www.ft.com/content/7928da07-c075-4e9b-a230-bfa4e80d98c6>
- 6 <https://www.ft.com/content/f55a1d96-1146-4e17-88a9-1a0fbaf57de6>
- 7 Fuel Watch, RAC website: <https://www.rac.co.uk/drive/advice/fuel-watch/>
- 8 Unite research into company accounts, using CapitalIQ and Fame databases as well as company documents. See full report industry sections for details.
- 9 <https://www.ft.com/content/7928da07-c075-4e9b-a230-bfa4e80d98c6>
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- 13 <https://www.bbc.co.uk/news/business-61750251>
- 14 Unite research into company accounts, using CapitalIQ and Fame databases as well as company documents. See full report industry sections for details.
- 15 <https://www.theguardian.com/business/2022/may/17/why-has-the-cost-of-diesel-at-the-pump-hit-a-record-high>
- 16 <https://www.racfoundation.org/data/wholesale-fuel-prices-v-pump-prices-data>
- 17 <https://www.ofgem.gov.uk/publications/ofgem-updates-price-cap-level-and-tightens-rules-suppliers>
- 18 Unite research into company accounts, using CapitalIQ and Fame databases as well as company documents. See full report industry sections for details.
- 19 <https://www.bbc.co.uk/news/world-europe-64674131>
<https://www.ft.com/content/44954510-6b79-46af-8333-168cf1e305b5>
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