

The Rt. Hon. Chris Grayling MP
Secretary of State for Transport
Great Minster House
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From: Mr Andrea Coscelli
Chief Executive - CMA

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Dear Mr Grayling

Motorway service area fuel prices

Further to my letter of 18 April 2018, I am writing to update you on the CMA's meeting with officials from the Department for Transport (DfT) and Highways England. The meeting provided a useful opportunity to understand the nature of the concerns about fuel prices at motorway service areas, and to discuss next steps.

We appreciate that for many motorists, the higher cost of fuel at motorway service areas is of concern and can impose a financial burden. Like you we are keen to ensure that they can benefit from the lower prices and better service that can result from competition.

As you already know, in 2013 our predecessor, the Office of Fair Trading (OFT), examined a decade of petrol and diesel pricing as part of its study into retail fuel prices. This included examining price differentials found at different types of forecourts, such as rural vs urban, and forecourts located at motorway service areas. This work found there were some legitimate reasons for higher prices at motorway service areas, as the costs of running a forecourt at these locations can be significantly higher than those faced by forecourts in other areas (for example, the costs of purchasing or leasing the land, and the costs of building and maintaining infrastructure to cater for a larger number of heavy goods vehicles).

However, the OFT was also concerned that there was not enough information available to motorists about the fuel prices offered along their journey, so allowing them to choose the cheaper option. The lack of this information would also contribute to higher prices, as it prevents competition from driving prices down by putting pressure on providers to compete, and therefore reduce prices, to attract customers.

In other countries such as Italy there are roadside signs displaying the prices of fuel at motorway service areas. There is some evidence that these measures have contributed to lower prices by helping motorists make such choices and introducing greater competition. For example, the introduction of signs on all Italian motorways was estimated to have lowered average gasoline mark-ups at these stations by 20%.

We are therefore keen to gain a deeper understanding of the trial run by Highways England in response to the OFT's recommendations to do likewise in England. While the evaluation of this trial reported that there was no overall effect on prices, it covered a relatively small stretch of the M5 involving just 5 motorway service areas, and was in place for only a limited time, making the trial potentially vulnerable to manipulation if the providers were opposed to these measures.

We also note that the pricing analysis contained in that evaluation report shows that, compared to other petrol stations, prices fell when the measures were introduced, but rose when the trial was coming to an end. Given that similar measures have reduced prices in other countries, we want to more closely examine the trial to see if we can replicate those benefits here and the potential for taking them further.

Following this, as discussed and agreed with your officials, the CMA will work closely with colleagues from DfT and Highways England on the best ways to improve the information on pricing so motorists have information about the cost of fuel along their route, and can make their best choice. As part of this, we will also work with your team to understand, based on available data, whether the average price differential has changed since the OFT's study and if so whether this could be due to competition concerns or because the underlying costs faced by motorway service stations have increased.

In your letter to me, you also suggest that the CMA opens a formal investigation into this matter. Following our meeting and the next steps agreed as set out above, I believe the quickest and most effective way of having a positive impact for motorists is to work together on this matter now. We will be in a position to identify effective measures to help motorists much sooner this way than if we undertook a formal investigation (particularly given the OFT's study into this area only relatively recently).¹

I am grateful for your raising this matter, and we look forward to working together with your officials in identifying suitable policy measures to address them.

Yours sincerely

Andrea Coscelli
Chief Executive

¹ Under the current legal framework, a full market investigation can take 18 months to 2 years, depending on the complexity of the market, followed by a further period for any remedies to be implemented. This is also usually after preparatory work in the form of a market study (which will allow the CMA to understand whether the legal threshold for a market investigation has been met), which can take six months.