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HI TRANS

THE HIGHLANDS AND ISLANDS TRANSPORT PARTNERSHIP

Report to Partnership Meeting – 3rd April 2009

STRATEGY DEVELOPMENT AND DELIVERY

Report on Fuel Prices in the Highlands and Islands

Background

The Part 1 report into Road Fuel Supply in the Highlands and Islands, jointly commissioned by HIE, HITRANS and the Highland Council, was presented to the Board on 5th December 2008. In the discussion that followed, questions were raised regarding fuel price differentials between Orkney, Western Isles and the Scottish mainland. Allegedly, in Orkney these had recently increased to 20ppl compared to the more usual 10ppl, and concerns were raised about the charges being made by the fuel distributors to retail sites. It was also noted that, perhaps in response to this situation, some fuel had been entering Orkney by road tanker transported via Pentland Ferries, bypassing the main island fuel terminals.

Following the discussion, Experian Catalist were commissioned to undertake some additional analysis into recent fuel price patterns and supply routes to the islands.

Their report tracks fuel retail prices at 25 key sites across the Highlands for the 3 month period from 2nd November 2008 to 3rd February 2009, including 4 sites in Orkney and 3 in each of the Isle of Lewis and Shetland. The remainder were spread across the Highland Council area and included Inverness, Caithness, Skye and Wester Ross.

Findings

1. Overall, against a background of rapidly falling prices, the price differentials between island and mainland sites remain consistent throughout the period, with prices in the islands generally being 10ppl higher than Tesco in Wick and 12.5ppl higher than Tesco in Inverness. No evidence was found of the reported 20ppl differences between the sites in Orkney and the Scottish mainland.

2. Whilst the price differentials remain consistent throughout the period, there are short periods in a downward price market when the large volume supermarkets sites are able to reduce their prices ahead of the smaller volume sites both in the islands and on the mainland. The ability of sites to reduce prices in a downward price market is linked to the frequency of re-stocking and hence overall sales volume, so this pattern is as expected. It will, however, lead to some days on which price differentials are greater than the general pattern described above.

3. The report confirms that some fuel was imported to Orkney via road tanker in this period, but it does not appear to have been a significant feature of the overall market, and there has been no notable impact on prices overall. In certain market conditions, it may be cheaper for some retailers to purchase fuel in this manner rather than from the sea-fed terminals operated by Highland Fuels and Scottish

Fuels. The fact that this option exists and has been used implies that Highland / Scottish Fuels do not have a monopoly, and are pricing competitively with other distribution routes.

4. Although not covered in this report, we are aware that since the introduction of RET in the Western Isles, Brogan Fuels have started importing some fuels by road tanker into the Isle of Lewis. The impact of this on the commercial, domestic and road fuel markets in the islands will be reported through the RET monitoring and evaluation exercise being undertaken by Scottish Government / Halcrow.

Conclusions

The report concludes that throughout the period being assessed, there was nothing abnormal about fuel pricing in Orkney, Shetland or the Western Isles, and that the market was behaving normally for a downward price market. It re-asserts that the observed fuel price differentials reflect primarily the lower sales volumes at island sites compared to mainland sites, plus the increased cost of distribution to the islands.

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Appendix: See separate paper enclosed with the papers.