



# **Increasing fuel prices and market distortion in a domestic road haulage market: the case of the United Kingdom**

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## **Abstract**

Differences in diesel fuel prices can significantly distort competition both between and within domestic road haulage markets. This is well illustrated by the case of the UK, where diesel fuel prices are by far the highest in the EU. The paper examines the effects of high and rising fuel prices on cabotage penetration in the UK road freight market and reviews a series of measures that have been proposed to 'level the playing field' between British and foreign hauliers. Within domestic haulage markets, carriers also vary in the extent to which they can recover fuel price increases from shippers. The paper reviews recent empirical evidence on this subject collected in the UK and outlines several methods of compensating hauliers for fuel price rises.

*Keywords: Road haulage; Fuel prices; Taxation; Cabotage; UK.*

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## **Introduction**

Within the European Union, fuel typically accounts for between a quarter and a third of the total costs of operating a truck. This makes economic conditions in the road haulage industry highly sensitive to the prevailing price of fuel, particularly during periods of rising fuel prices. If changes in fuel prices and the structure of vehicle operating costs were uniform across the continent, cross-border competition in the European road haulage industry would be largely unaffected by fuel price inflation. In reality, however, fuel prices have increased at varying rates in both absolute terms and relative to other haulage costs. Fuel price rises have also had a differential impact within national haulage markets, partly because of differences in the nature of distribution operations and vehicles used, but also because some hauliers are better able than others to recover fuel price increases from their clients.

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