

Exhaust gas analysers

A report on the supply in the UK of the service of calibrating and servicing gas analysing equipment



MONOPOLIES AND MERGERS COMMISSION

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**Presented to Parliament by the Secretary of State for Trade and Industry by Command of Her Majesty
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¹These members formed the group which was responsible for this report under the chairmanship of Mr B C Owens.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests. The omission is indicated by a note in the text.

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1 Summary

1.1. On 4 February 1993 we were asked to investigate and report on the supply in the UK of the service of calibrating and servicing gas analysing equipment. Our inquiry is limited by its terms of reference (see Appendix 1.1) to equipment used to analyse exhaust gas emissions from motor vehicles as part of the MOT test. We refer to this equipment as exhaust gas analysers (EGAs).

1.2. Tests of exhaust gas emissions were introduced to the MOT test in November 1991. Their purpose is to reduce atmospheric pollution from poorly-tuned engines. To carry out the test every MOT station is required to have an EGA of a type approved by the Vehicle Inspectorate (VI). The EGA must be calibrated regularly, normally every three months, in order to ensure that it continues to give accurate readings. The VI requires these periodic calibrations to be carried out by an engineer approved by the National Measurement Accreditation Service (NAMAS). An engineer needs separate approval for each model of EGA which he is to calibrate.

1.3. We found that a complex monopoly situation exists within the meaning of the Fair Trading Act 1973 in favour of four leading suppliers of EGAs and the companies appointed by two of them to calibrate their brands of EGAs. These companies supply over 60 per cent of the calibration and servicing of EGAs. They all restrict access to the manuals that would be needed by a potential competitor seeking NAMAS approval to calibrate their EGAs.

1.4. The market for calibration and servicing of EGAs barely existed before the MOT test requirement was introduced. Now there are over 19,000 EGAs installed in MOT stations. There was strong competition among over 30 companies for the supply of these EGAs. However, as far as calibrating and servicing them is concerned, there is very little competition since in general only the EGA supplier or his calibration agent has the necessary NAMAS approval for a particular brand. Some companies (but not those involved in the monopoly situation) have helped independent 'agents' to gain approval. But only one small firm (with some associates) has entered the market independently of the main suppliers to compete with them.

1.5. As well as withholding access to manuals, some suppliers also make it difficult for third parties to enter the calibration market by limiting access to the software used in calibration and by declining to offer training. These practices also impede entry to the market for servicing EGAs since an EGA has to be recalibrated after it has been repaired. Restrictions in warranties also help to maintain the monopoly situation.

1.6. The suppliers argue that calibration and servicing are part of the same market as the original supply of the EGA. In this single market customers base their choice of EGA not only on the price and quality of the machine but also on the costs and quality of after-sales service, including calibration and servicing. The suppliers go on to argue that since the market for the original equipment is highly competitive, a monopoly supplier of calibration and servicing for a particular brand of EGA will not be able to exploit his monopoly position. To do so would lead to a loss of sales not only of EGAs but also of other garage equipment.

1.7. We accept that the market, as it is currently organized, has these characteristics. Although the suppliers' practices make it difficult for independent calibration firms to enter the market they do not have adverse consequences for users. This is confirmed by the lack of any significant evidence of disbenefits in terms of high prices, excessive profits or customer dissatisfaction with the quality of service. We therefore conclude that none of the facts found in our investigations operate, or may be expected to operate, against the public interest.

1.8. We recognize, however, that the market is still comparatively new and it is possible it will develop in a way which allows the practices to have adverse effects. In those circumstances it would be open to the Director General of Fair Trading to exercise his powers under the Fair Trading Act 1973 or the Competition Act 1980 if there were evidence of such effects.

1.9. Finally, we comment on some aspects of the EGA approval arrangements and the calibration requirements which were raised during the course of our inquiry. We propose some changes which could enhance competition in the calibration and servicing of EGAs. We believe that the relevant government agencies should consider whether these are practicable when they review the MOT arrangements.