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TESTING FOR SPANISH REGIONAL MARKET INTEGRATION IN THE RETAIL OIL INDUSTRY

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Overview

Until the middle of the eighties the national downstream oil activities in Spain were totally controlled by the government through a monopoly (i.e., "Campsa"). From then on, the distribution and retailing activities of fuel oil products were gradually liberalized, allowing the entry of competitors, in order to meet the requirements to join the European Union. Nowadays it could be reasonable to think that the regional retail markets are completely integrated. Under this ideal context any systematic positive differences in retail prices (net of taxes) across regions that cannot be attributed to production costs should be eliminated by the entry of new competitors and, therefore, the cost pass-through to retail prices should be regionally homogeneous in the long-term. Nevertheless, in view of the high degree of market concentration and their divergences among regions (probably promoted by the actions of regional governments), some doubts arise about the full integration of the Spanish regional markets. In this paper we will try to shed light on this question based on a cross-sectional comparison of the transmission of international shocks of wholesale raw oil prices.

Data and methodology

With this aim in mind, we have used a set of panel data for gas-oil retail prices, which is composed of daily information (from 2006 to 2009) across each one of the Spanish regions (i.e., NUTS 3). Taking into account the possible spatial dependence among the regions, we apply a fixed-effects model with cross-sectional dependence correction (i.e., Driscoll and Kraay (1998) standard errors).

Results

Empirical evidence suggests that, despite liberalization, retail oil markets are still significantly segmented at the regional level. We also provide some evidence in favour of the hypothesis that this segmentation tends to be greater between (NUTS 3) regions with different autonomous governments than for those regions belonging to the same autonomous community (NUTS 2). We also asked whether divergence in market concentration across regions could be empirically revealed as a source of the differences in long-run oil price transmission. Results indicate that cost pass-through tends to be higher in regions where the degree of market concentration is greater, in accordance with the theoretical predictions derived from a Cournot approach.

Conclusions

Our results indicate that it is difficult to obtain a good integration of oil regional markets in face of concentration heterogeneity. Substantial difference in criteria across communities when it comes to giving administrative authorizations to companies to operate in their territory might play an important role in the existence of regional segmentation.

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