Evolution of prices and margin in the Spanish retail automotive fuels market: What do they reflect?

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Overview

Since the abolishment of the Spanish state monopoly on oil products in 1993, the Spanish-based refiners (Repsol, Cepsa and BP) have lost market share in the retail sector, while new operators have gained ground. However, a high horizontal and vertical concentration still persists today, which has fuelled a continuous discussion about the non-competitive market behavior of the oil companies. This paper brings clarity about the competitive functioning of the Spanish retail automotive fuels market, analyzing how prices and margins have evolve since the beginning of the current century.

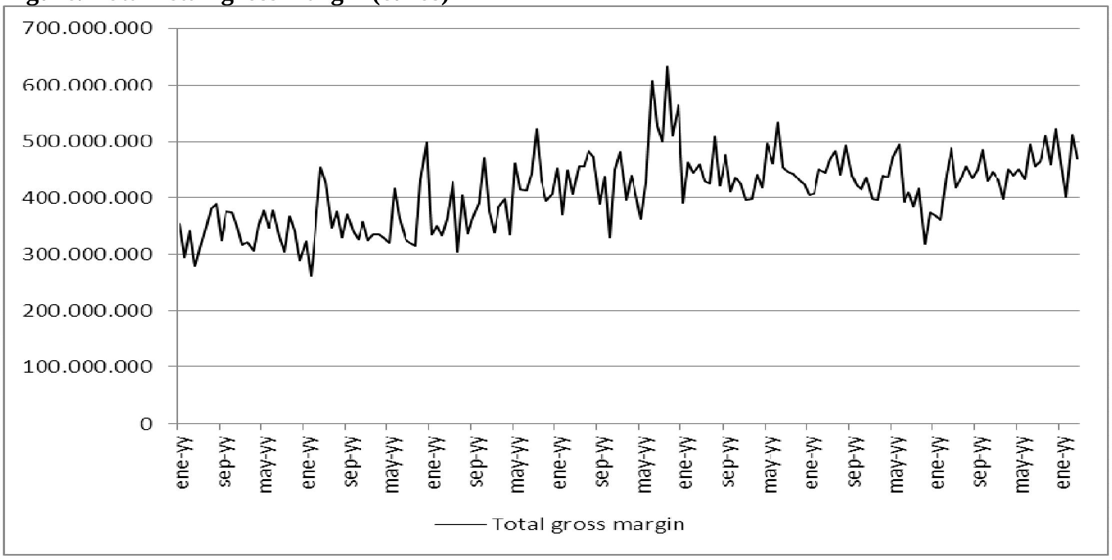
Methods

In this study, we analyze how the pre-tax retail prices of Euro 95 unleaded gasoline and of automotive diesel are formed in the Spanish retail market, by comparing them with the evolution of the average pre-tax retail prices of these oil products in Europe and with their spot prices over the period Janaury 2001-May 2015. Specifically, the European average pre-tax retail price, both for gasoline and for diesel, will be the average price in six European countries: Belgium, Germany, France, Italy, Holland and the United Kingdom. We have chosen these countries because the average pre-tax retail price of such countries, considered "the more comparable" with Spain in Europe, was the main parameter included in the formulate used by the Spanish regulator to calculate weekly gasoline and diesel ceiling prices during the period of maximum price regulation. In addition, these European average prices have always been a "competitive reference" by the Spanish regulators (Contín et at., 1999). Finally, we also compare the evolution of the gross retail margins per liter sold in Spain with that of the average gross retail margin in Europe, both for gasoline and for diesel. In order to further investigate the relationship between the Spanish pre-tax retail price and the spot price, both for gasoline and diesel, we carry out a regression analysis.

Results

Our empirical results lead us to distinguish between two different periods within our period of analysis. During the first period, from January 2001 to mid-2008, total demand for automotive fuels increased constantly and pre-tax retail prices and margins were slightly above the European average ones. During the second one, from mid-2008 to May 2015, on the contrary, pre-tax retail prices were in Spain well above those in Europe, and gross retail margins per liter sold jumped clearly above European levels whereas the consumption of automotive fuels dropped sharply. Our analyses have shown that this behavior of prices and margins is consistent with some oil companies exercising market power. More specifically, oil operators have been able to increase their margins per liter sold during the recessive period of the Spanish economy which have allowed them to "offset" the drop in consumption. As a result, the total retail gross margin has remained relatively stable from 2001 onward. In a dynamic and competitive market, a sharp decline in consumption is usually accompanied by a fall in relative prices and margins; just the opposite that has happened in the Spanish retail automotive fuels market. In addition, there has not been any supply shock, such refinery outages or pipeline ruptures, in the Spanish oil industry that may explain the disparity in prices and margins between Spain and Europe from mid-2008 onward. The gross margin increases, however, have opened the door to prices differences among service stations.

Figure. Total retail gross margin (euros)



Source: Ministry of Industry and Cores

Conclusions

The Spanish oil case clearly shows how difficult it is to achieve dynamics and competitive markets, even many years after their formal liberation, when the liberalization at aimed at creating "national champions" and at ensuring the stability of the traditional oligopolistic status quo. A very pro-competitive market approach by Sectoral Regulators and by Antitrust Authorities would be needed to create "real" competitive markets in these formally liberalized sectors. In fact, in the last year the Spanish Antitrust Authority is playing an active role in monitoring the sector, as well as in detecting and correcting anticompetitive behaviors in the oil sector, which is costly. Indeed, the CNMC has fined major oil operators for horizontal and vertical anticompetitive practices. However, this has increased litigation between major oil operators and the Spanish Antitrust Authority dramatically. In addition, the CNMC has proposed many measures to lower entry barriers and to promote competition both in the retail and in the wholesale sector; many of them have been approved and implemented by the Spanish sector. These measures are aimed at curtailing major operators' market power, thus reducing price-cost markups. For example, in the wholesale sector new obligations have been established for equal access to certain infrastructure such as transparency requirements for available capacity. In the retail sector, urban planning restrictions to open new service stations have been reduced and exclusive contracts between oil operators and stations have been limited to three years. Furthermore, market operators with a market share of over 30% in a province will not be able to open new stations and oil operators can no longer recommend the retail prices, directly or indirectly, to service stations. We will see in the future in these measures, which results may take time to materialize, are successful in enhancing competition in the Spanish automotive fuels market.