

St. Martin Conference 2013

Petrol and motor fuel markets

Brno

13 November 2013



Bundeskartellamt

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8th Decision Division

Issues in Fuel Markets

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- Sector Inquiries:
 - Sector Inquiry Fuel Markets (final report 2011)
 - Sector Inquiry Refineries and Oil Wholesale (ongoing)
- Market Transparency Unit for Fuels
- Merger Cases:
 - Total/OMV
 - Shell/Honsel
 - Shell/Edeka

Topics of the Sector Inquiry Fuel Markets

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Market definition

Collective
dominance

Merger Cases

Analysis of pricing
patterns

Brand
partnering

Motorway Stations

Margin squeeze

Loyalty
programs /
service cards

Other sector
specific topics

Collective dominance

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... on regional petrol station markets in Germany

- Five major operators of petrol stations



- Two defining features
 - **Nationwide network** of petrol stations and
 - **Vertical integration** (refining capacity)

Collective dominance

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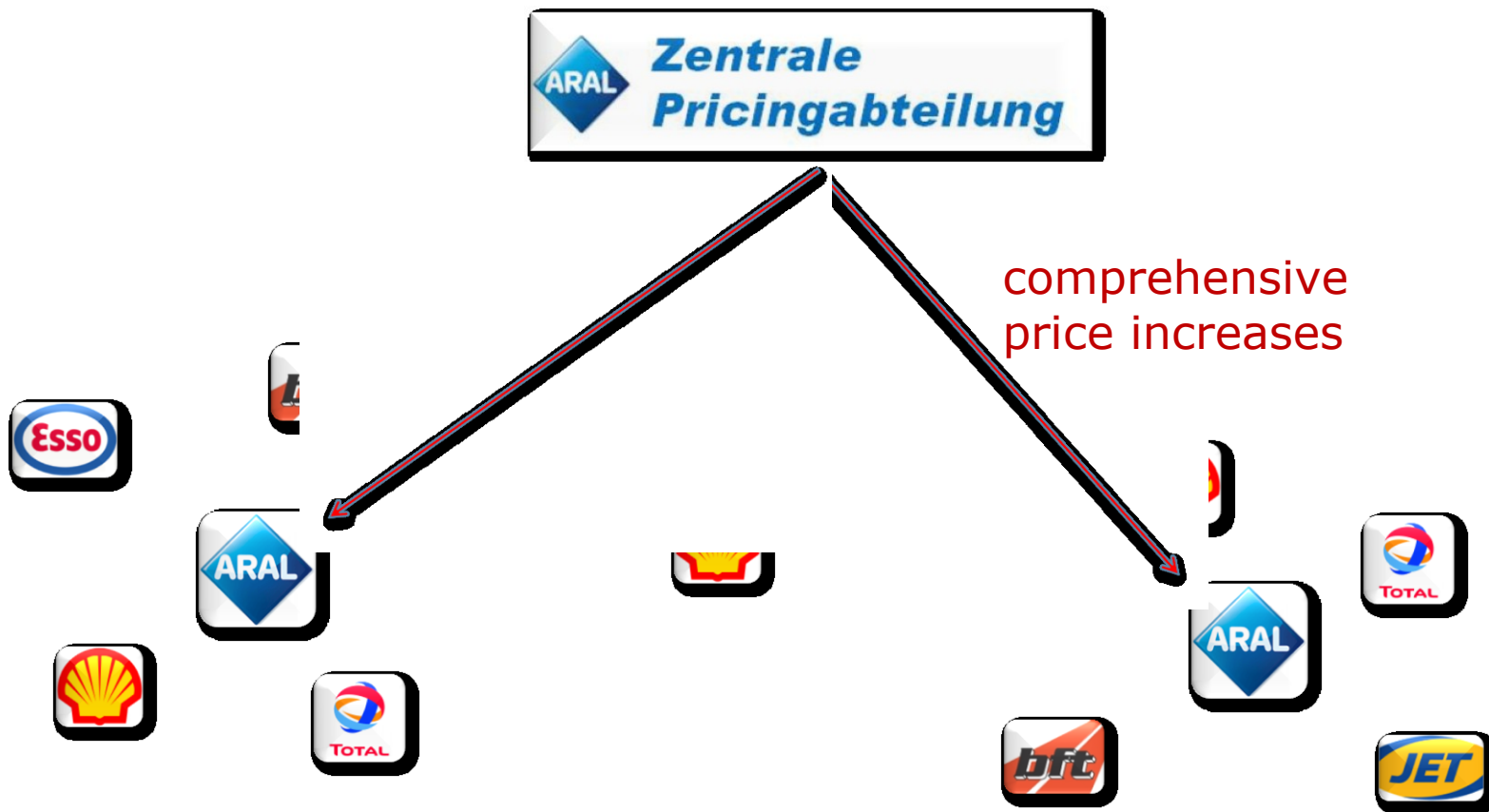
- Qualitative analysis of core market features:
 - High concentration, high barriers to entry
 - Homogenous products, low importance of product innovations
 - Frequent interaction on many local markets
 - High market transparency – systematic mutual price observation
 - Retaliation mechanisms (local price wars, mutual interdependence due to structural links)
 - No substantial competition from fringe players, in particular because of dependency on inputs from major players
- No countervailing buyer power

⇒ **High risk of tacit collusion**

Analysis of pricing patterns

Pricing mechanism: Price increases

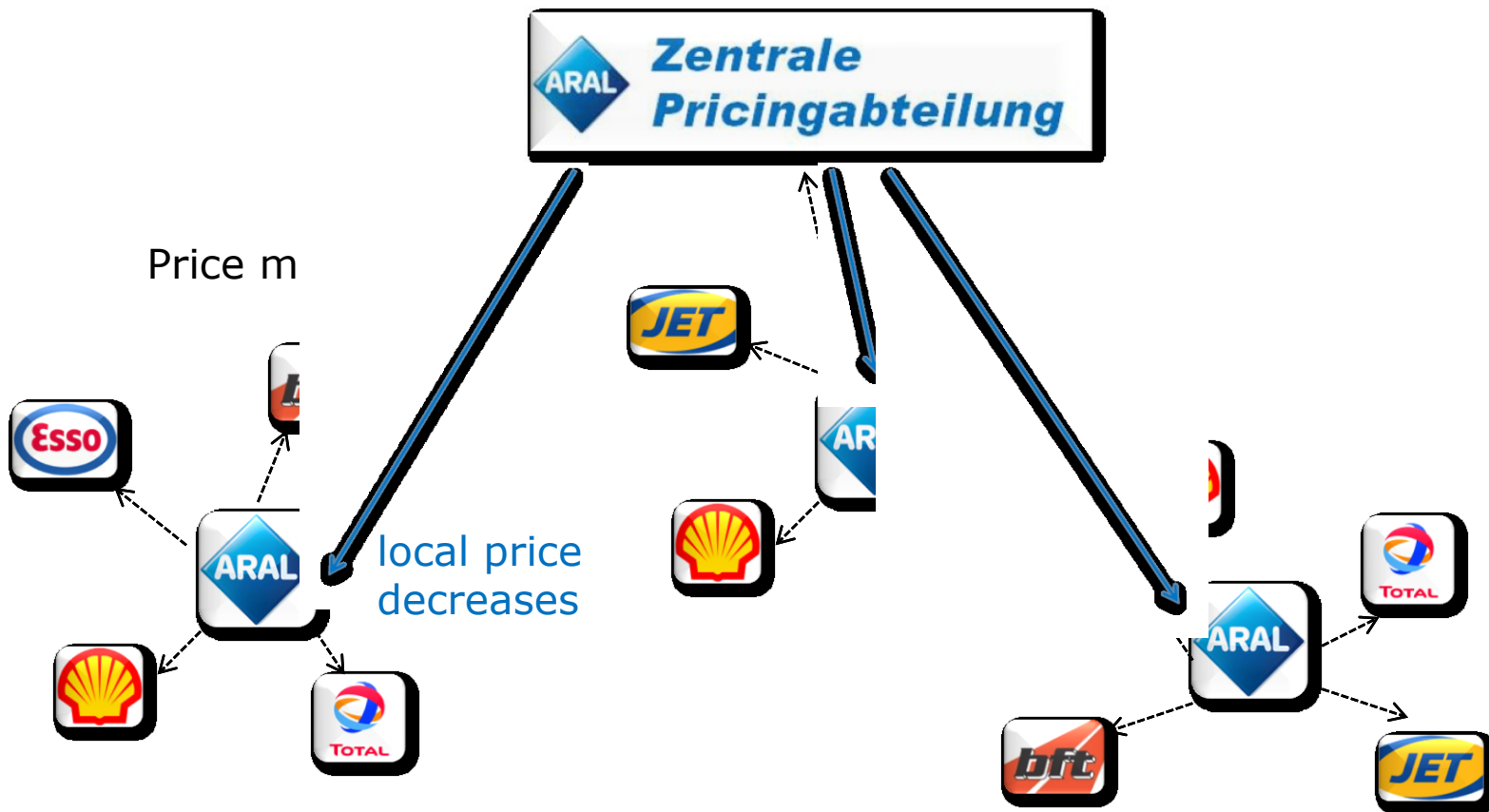
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Analysis of pricing patterns

Pricing mechanism: Price decreases

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Analysis of pricing patterns

Data set

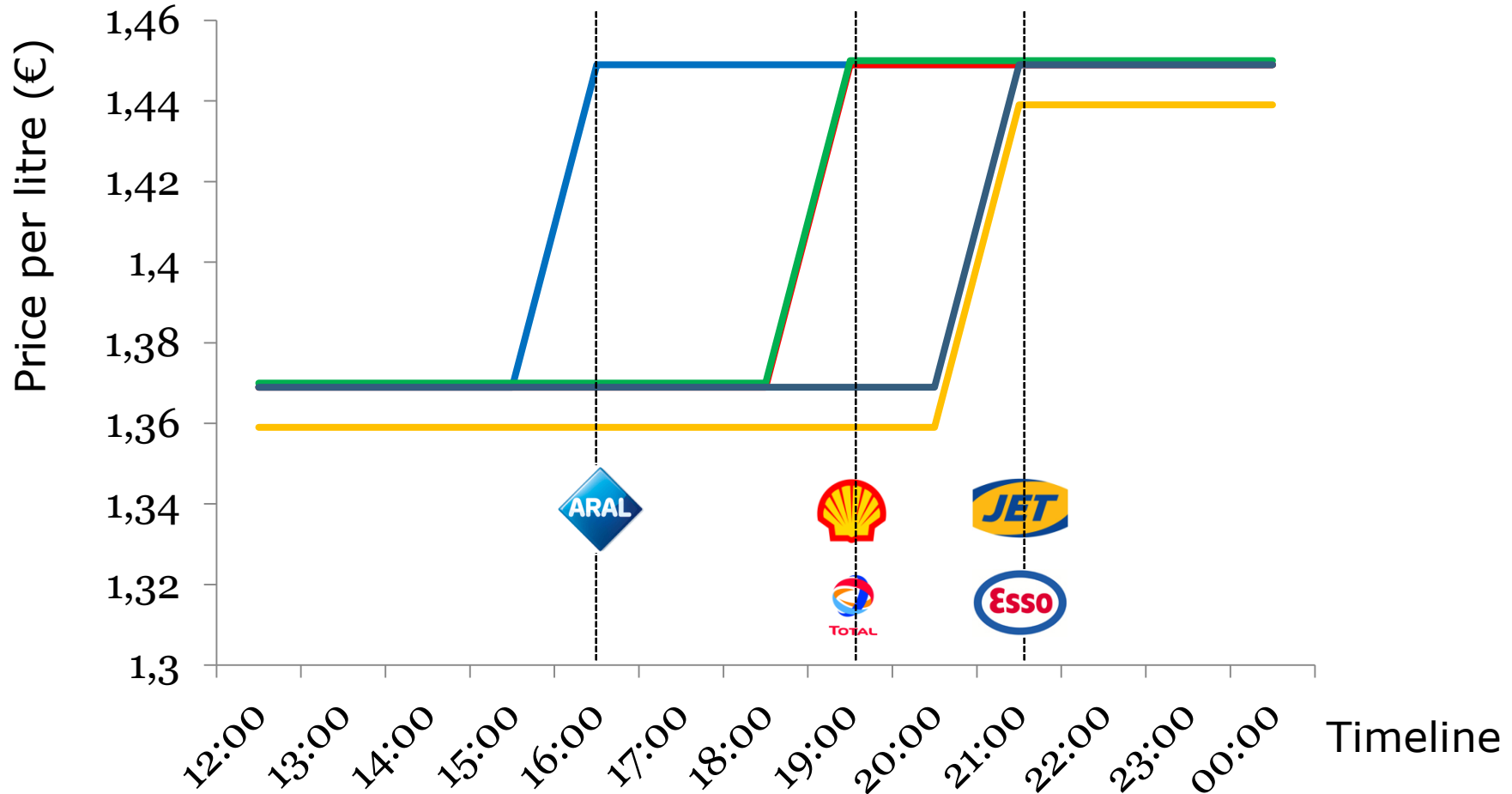
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- Four metropolitan areas from 1/2007 to 6/2010
- 407 stations operated by 19 different companies
- Detailed data on retail price changes (timing, size), sales volumes
 - Cologne 190.135 (G) / 193.038 (D)
 - Hamburg 242.494 (G) / 246.616 (D)
 - Munich 215.800 (G) / 217.553 (D)
 - Leipzig 98.602 (G) / 99.435 (D)

Analysis of pricing patterns

A first example

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Analysis of pricing patterns

Stable allocation of price leadership and follower roles

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Patterns in coordinated increases for gasoline in Cologne 2007-2010

| Leader | Followers | | | |
|-------------------|------------------|------------|-------------|--------------|
| Aral | Shell | Jet | Esso | Total |
| 270 | 265 | 259 | 260 | 263 |
| <i>% followed</i> | 98,1% | 95,9% | 96,3% | 97,4% |

| Leader | Followers | | | |
|-------------------|------------------|------------|-------------|--------------|
| Shell | Aral | Jet | Esso | Total |
| 305 | 277 (+20*) | 287 | 285 | 302 |
| <i>% followed</i> | 97,4% | 94,1% | 93,4% | 99,0% |

* In 20 cases Aral and Shell increased prices simultaneously. These are all included in the figure for Shell.

Analysis of pricing patterns

Temporal patterns in following behaviour

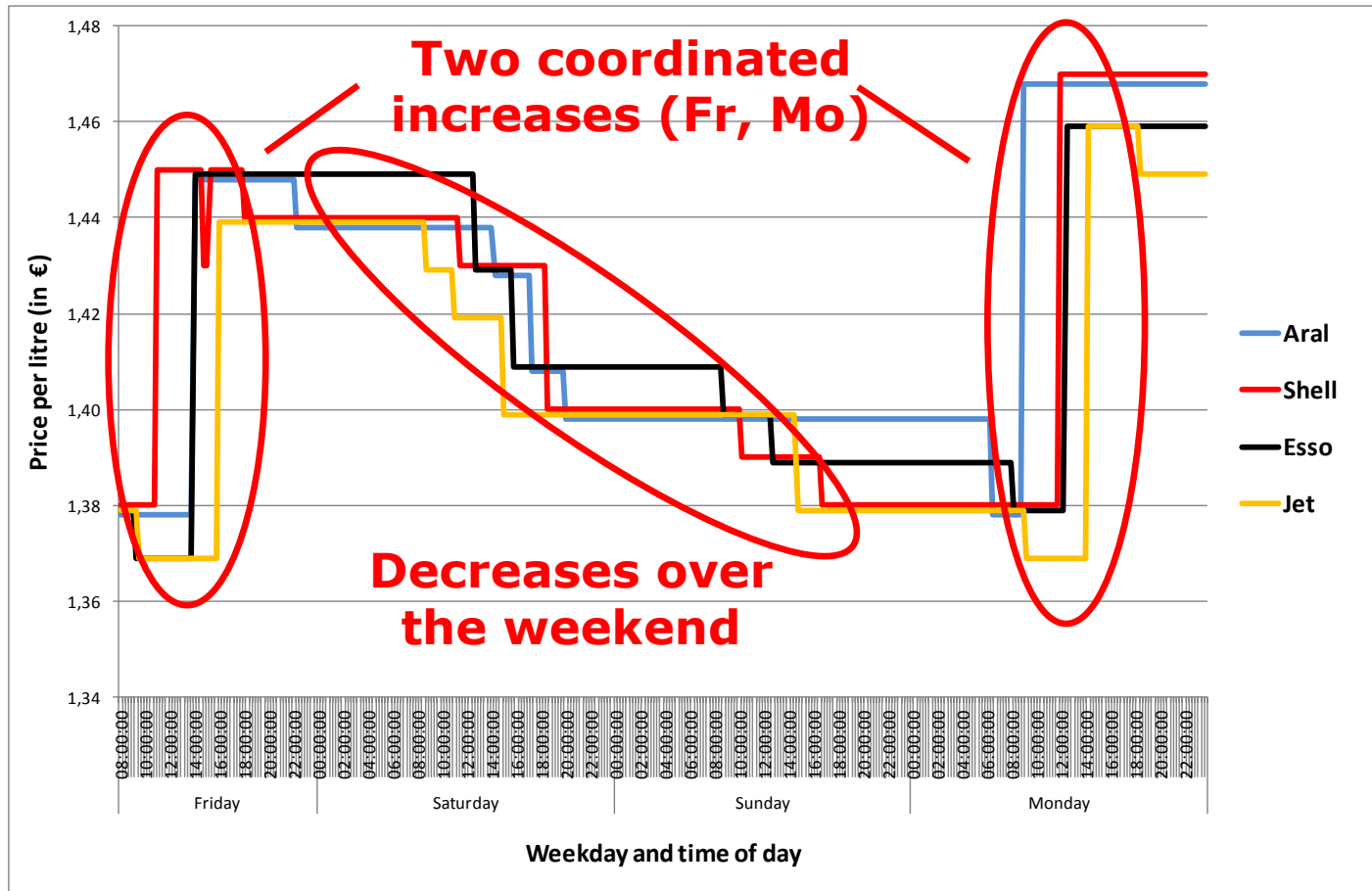
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| Leader Aral | Followers | | | |
|-------------------------------------|------------------|--------------|--------------|--------------|
| Time elapsed until following | Shell | Jet | Esso | Total |
| after 2 hours | 1,1% | | 4,2% | 1,9% |
| after 3 hours | 91,3% | 0,4% | 11,5% | 47,1% |
| after 3½ hours | 2,3% | | 5,4% | 44,1% |
| after 4 hours | 0,8% | 5,8% | 8,1% | 3,0% |
| after 5 hours | 0,4% | 68,0% | 10,0% | |
| after 5½ hours | | 2,7% | 10,8% | |
| after 6 hours | | 6,2% | 5,8% | |
| after 11 hours | | | 26,9% | |
| after 12¾ hours | | 6,6% | | |
| <i>total</i> | 95,9% | 89,7% | 82,7% | 96,1% |

Analysis of pricing patterns

A second example

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(Prices of 4 stations in Cologne, gasoline, June 25th to 28th 2010)

Analysis of pricing patterns

Findings and Conclusions

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- **Stable patterns in actual pricing:**
 - Timing of increases
 - Allocation of leader and follower roles among the players
 - Common knowledge in the industry
 - Facilitation of mutual monitoring and, thus, coordination
 - Effects on average price level and gross margins
- **Conclusions:**
 - No evidence for price-fixing agreements
 - But: precise price-setting patterns
 - Restricted competition

Market Transparency Unit for Fuels

Legal Bases

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- **Act on the Establishment of a Market Transparency Unit for Electricity and Gas Wholesale Trading** added a special provision on the fuel sector to the **Act against Restraints of Competition** (December 2012)
- **Ordinance on the Market Transparency Unit for Fuels** includes more detailed provisions (March 2013)
- Real-time consumer information on petrol prices
- Improving possibilities to intervene in the case of abusive behaviour

Market Transparency Unit for Fuels

Concept

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- Obligation to report real-time price data for petrol (E5 and E10) and diesel fuel
- Reporting either by petrol station operator or oil company
- Exemption from the reporting requirement is possible (minimum threshold or hardship clause)
- MTU passes on information at minute intervals to consumer information service providers
- Consumer information service providers inform consumers on their webpages or smartphone apps
- Process are fully automated
- Cooperation with the Federal Highway Research Institute

Market Transparency Unit for Fuels

Facts and Figures

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- Obligation to report real-time price data: in effect since 31 August 2013
- Trial period with consumers: since 12 September 2013
- Normal operation: from 1 December 2013

- Number of registered companies: more than 1600
- Number of petrol stations reporting price data: 14000
- Number of consumer information service providers: 19

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