Ignacio Contín-Pilart, Aad F. Correljé and M. Blanca Palacios

COMPETITION, REGULATION, AND PRICING BEHAVIOR IN THE SPANISH RETAIL GASOLINE MARKET

I. Contín-Pilart: Dpto. Gestión de Empresas, Universidad Pública de Navarra
Campus de Arrosadia, 31006 Pamplona, Spain, E-mail: contin@unavarra.es
A. F. Correljé: Section Economics of Infrastructures, Faculty Technology, Policy and Management
Delft University of Technology, and Clingendael International Energy Programme
P.O Box 5015, 2600 GA Delft, The Netherlands. E-mail: a.correlje@tbm.tudelft.nl
M. Blanca Palacios: Dpto. de Economía Aplicada III (Estadística y Econometría)
Universidad del País Vasco, Facultad de Ciencias Económicas y Empresariales
Avda. Lehendakari Aguirre, 83 E-48015 Bilbao, Spain, E-mail: etppanab@bs.ehu.es

Overview

The restructuring of the Spanish oil industry produced a highly concentrated oligopoly in the retail gasoline market. In June 1990 the Spanish government introduced a system of ceiling price regulation in order to ensure that "liberalization" was accompanied by adequate consumer protection. This paper examines the pricing behavior of the retail gasoline market using multivariate error correction models over the period January 1993 (abolishment of the state monopoly)-December 2004. The results suggest that gasoline retail prices respond symmetrically to increases and decreases in the spot price of gasoline. However, one the ceiling price regulation was abolished, the "collaboration" between the government and the major operators, Repsol-YPF and Cepsa-Elf in order to control the inflation rate results in a slower rate of increase (decrease) of gasoline retail prices when gasoline spot prices went up (went down) than elsewhere in the European Union. Finally, retail margins were by the end of our timing period of analysis, as in the first years after the abolishment of the state monopoly, well above the European ones.

Methods

An Error Correction Mechanism is used in analyzing weekly data that provides a dynamic specification, capturing the effect to current retail price adjustment of current and lagged changes in gasoline spot prices and of previous retail price movements, together with an error correction term. Furthermore, it differs between gasoline spot price increases and decreases and lagged gasoline retail price increases and decreases, allowing for asymmetric short-run responses.

Results

In this paper we have analyzed pricing behavior in the Spanish gasoline market. In doing so, we have distinguished two separated periods: the first involving price regulation, and the second, as a "free market". With respect to the first period, ceiling price regulation "forced" the convergence of the Spanish gasoline retail price, that was well above that in Europe by the beginning of the period, towards an European average price, which was considered by the Spanish government as the "competitive benchmark". Also, the Spanish retail margin converged toward the European one. Moreover, retail prices reacted symmetrically to increases and decreases of the spot price of gasoline.

Once the price regulation was abolished, major operator's pricing behavior became driven by a close collaboration with the government in name of the "general interest" to control the inflation rate. The rest of operators followed. As a result, prices and retail margins followed a pattern very different from that in European markets. However, gasoline spot prices changes were fully passed on in the long run to retail prices, both in Spain and in Europe. Spanish retail gasoline prices, thus, appear to have responded symmetrically to increases and decreases in the spot price of gasoline, although here the evidence is less clear than in the previous period. The cumulative adjustment functions show that the adjustment process toward the long-run equilibrium price was much faster in the period of regulation that in the second period. This suggests that Spanish oil operators adjusted retail prices more slowly in the situation of international price increases and high volatility over the second period, than in the situation of international price stability and low volatility over the first period.

The highly concentrated oligopoly in the Spanish retail market and the role of Repsol-YPF, as the “national champion”, explain why traditional practices and commitments between the major operators and the government prevailed after the liberalization. Correljé (1994) and Etchemendy (2002) point out that the first step towards liberalisation of the Spanish oil sector entailed the transformation of CAMPSA, as a State monopoly controlled by the Ministry of Hacienda (Finance) and the banks, to a monopoly owned by the public and private oil companies. As stated, this monopoly was allowed function until 1993. This provided a crucial advantage for the empowerment of the several firms, to prepare for the future competition in an open market. Balbe and Padros (2001) even state that “Mediterranean liberalization” (including Spain, France, Italy and Portugal), although formally impressive, has only slightly transformed the “national firms”, sometimes simply converting them from public to private monopolies.

The liberalization of the Spanish gasoline market shows the difficulties in achieveing competition, when liberalization processes promote the creation of national champions in strategic sectors; in particular in countries with traditionally strong links between the national industry and the state. Indeed, in March 2004, when the socialist party (PSOE) had won the general elections, this resulted in the replacement of the conservative president of Repsol-YPF, Alfonso Cortina, by Antoni Brufau, a member of La Caixa’ board. . The bank La Caixa is among Respol’s main shareholders and Spain’s largest savings bank. By October 2005 the Spanish government called again upon oil the operators, to control the inflation rate. It asked oil operators to translate any reductions in oil and gasoline spot into retail prices more rapidly than increases (Expansión, 26/09/2005).

Conclusions

We agree with Balbe and Prados (2001) that a more active approach is needed to create competitive markets in many formally liberalized markets in Mediterranean countries. An active role of the competition authorities in detecting and correcting the anticompetitive impact of deregulation will be advantageous. Moreover, structural elements like the high degree of horizontal and vertical concentration in the Spanish downstream oil industry need attention. As the IEA (2005) observed, the Spanish margins for retailers are high compared to some other countries in Europe, possibly because of the relatively low density of filling stations. The Spanish government could promote competition further by encouraging new entrants, such as hypermarkets, and by removing planning obstacles. However, the Spanish government has an extensive power to control its competition authorities. The traditional strong links between the national champions and the Spanish government and the dependence of the competition authorities on the government facilitate industry capture of regulation and market supervision. The powers of the regulatory body for the energy sectors, *La Comisión Nacional de la Energía (CNE*), are limited to consultation and inspection.