

Competition in the Gasoline Market – the Merger Effect

By

Verlis Morris
FAIR TRADING COMMISSION

March 2020



FAIR TRADING COMMISSION

Unit 42A, New Kingston Business Centre

30 Dominica Drive, Kingston 5

Jamaica

Telephone: 876.960.0122-4

Fax: 876.960.0763

<http://www.jftc.gov.jm>

ftc@cwjamaica.com

It is without a doubt that the COVID-19 pandemic has impacted Jamaica's economy in several respects, and the reality is that we have yet to experience the full brunt. Over the past month, world oil prices, specifically the West Texas Intermediate (WTI), have been trending downwards steadily, reducing by approximately 55%. It is left to be seen whether or not this will lead to reduced gas prices in Jamaica. History has told us that the effect will not be felt immediately, but we do expect that given the change in oil prices, there is likely to be a trickle-down effect to Jamaican consumers over time.

In 2019, the pre-Covid19 world, Total Jamaica Ltd. acquired Epping Oil Company and Epping Retail Ltd. Total, a member of the multinational French-based energy company Total Group, is a key player in the world's petrochemicals market. Other players in the Jamaican market include the multinationals Texaco and Rubis; and Jamaican-owned marketing companies Cool Oasis, Fesco, Jampet, Johnson's Petroleum, Petcom, and Unipet.

Total sells a full range of petroleum products, including automotive and aviation fuel, automotive lubricants, and oil-based products for industrial equipment and agricultural care to retail, commercial, and industrial markets. At the time of the merger, Total had an exclusive network of 57 dealer locations across thirteen parishes in Jamaica; only Texaco has a larger network of dealer locations. Total also operated convenience stores within its service stations, which sold grocery items, including snacks, beverages, and car care products.

Epping Oil Company and Epping Retail Ltd. are Jamaican companies. Epping also sold petroleum products, including automotive fuel and lubricants. Epping maintained an exclusive network of 17 service stations across eight parishes and also operated convenience stores that sell grocery items, including snacks, beverages, and car care products.

Service stations compete against their closest neighbors; all other things held constant. Based on the location of the network of service stations across Jamaica, the Fair Trading Commission (FTC) determined that the acquisition could raise competition concerns in the regions in which only 7 of the 17 Epping stations were located. These Epping stations were located in Half-Way-Tree, Maxfield (Little Kew Road), National Heroes Circle, Old Hope Road, White River, Black River, and Port Antonio.

The FTC considered several market conditions in assessing the likely competitive effects of the acquisition. One such condition is the extent to which the merger increased the concentration levels in the relevant geographic markets identified. Concentration levels typically indicate the likelihood of market power and the potential to abuse such power. Market power refers to a merchant's ability to profitably raise price above competitive levels and typically increases in markets with higher concentration levels. Acquisitions that significantly increased market concentration levels raise concern for the competition effects going forward. The FTC's

investigation revealed that the acquisition significantly increased market concentration levels in all seven relevant geographic markets. In four of the seven geographic markets, the acquisition changed moderately concentrated markets to highly concentrated markets. The FTC, therefore, examined whether and the extent to which the acquisition removed significant competition in the seven geographic markets.

To evaluate the extent of competition removed by the acquisition, the FTC assessed whether there was direct head-to-head competition between the service stations branded by Total and Epping. This assessment used monthly data on prices in 23 geographic markets in which Total service stations were located covering the period of January 2016 through June 2018. The analysis compared the competitiveness of Total in markets where Epping was located to the competitiveness of Total in markets where Epping was not present.

Total competed with Epping in 4 of the 23 markets assessed. These regions are Half-Way-Tree, Maxfield (Little Kew Road), National Heroes Circle, and Old Hope Road. The National Heroes Circle market was the most competitive region where price differentials across participants fell in a very tight band. The maximum difference between the highest price and the lowest price observed was \$1.00 per litre. All five participants in that market offered the same price at least once out of every five instances. Petcom always offered the lowest price; Unipet matched the lowest price in approximately seven out of every ten instances; Epping matched the lowest price six out of every ten instances; while Total matched the lowest price in four out of every ten instances.

In the other three markets, Total never, at any instance, charged the lowest price in these markets. For example, Epping charged the lowest price approximately nine out of ten instances in the Half Way Tree market; however, the next best price typically comes from rivals other than Total. Furthermore, the maximum difference between the highest price and the lowest price observed was \$29.00. Thus Epping and Total were unlikely engaged in a head-head competition. Similar pricing behavior was observed in the Maxfield and Old Hope Road regions.

The main takeaway was that Total was not more competitive in markets where Epping was present compared to markets in which Epping was absent. On the contrary, the data revealed that Total competed more intensely against the multinational marketing companies than it did against Jamaican-owned companies. In particular, in markets where Total competed with only multinationals, in 9 out of every 20 instances, it charged the lowest price. In markets where a Jamaican-owned marketing company was present, however, Total charged the lowest price in only 1 out of every 20 instances.

A plausible explanation for this is that motorists perceive the products and services sold by multinationals to be differentiated from that sold by the Jamaican-owned marketing companies. This differentiation could be

occasioned by the fact that multinationals advertise to the public that they include petroleum additives in their gasoline. Thus Total would have to compete stronger against rivals who use fuel additives than they do against rivals who do not use additives.

These results indicate that Total did not face direct head-to-head competition from Epping. This as Total was rarely the low price leader in markets with an Epping close by, compared to markets without an Epping. In general, multinational petroleum marketing companies exert greater competitive constraint on Total than do Jamaican-owned marketing companies. Accordingly, the FTC concluded that Total's acquisition of Epping is unlikely to lessen competition substantially; and consumers are comforted that competition remains vibrant, at the very least, in the seven geographic regions identified above.