



Comments on Pricing Strategies Proposed by Petrojam

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We have reviewed the captioned proposals and comment as follows:

The Issue

This opinion is being provided as per letter dated November 12, 2013 from Winston Watson, General Manager of Petrojam Ltd. to David Miller, Executive Director of the Fair Trading Commission (FTC). Petrojam is a member of the Petroleum Corporation of Jamaica (PCJ) Group of Companies. Petrojam requests the FTC's opinion on whether its execution of the following proposed pricing strategies would contravene the Fair Competition Act:

1. Offering discount to its customers based on volume purchasing targets and/or long term contracts; and
2. Offering preferential discount in the Jet Fuel Market to Jamaica Aircraft Refueling Services (JARS) which is also a member of the PCJ Group of Companies.

FTC's Position

- *The pricing strategy described in item 1 above is unlikely to adversely affect competition so long as only absolute targets are used and Petrojam offers the discount to each of its customers. (see footnotes 2 and 3)*
- *The pricing strategy described in item 2 above is unlikely to adversely affect competition if there are no significant impediments to entering either the wholesale or retail level of the jet fuel market.*

Discussion

Petrojam indicates that the strategy described in item 1 above is proposed for four markets in the petroleum industry: (i) Jet fuel; (ii) Liquefied Petroleum Gas (LPG); (iii) Gasoline/ Diesel; and (iv) Marine Bunker Fuel. Petrojam is present at the wholesale segment of each market but has a presence at the retail level of only the Jet Fuel market.

The pricing strategy is being reviewed to determine whether and the extent to which it could adversely affect competition in the market. We note that Petrojam operates the sole refinery of petroleum products in Jamaica but that Petrojam sometimes import finished products to meet domestic demand. To the extent that there are no legal, regulatory or other significant impediments for Petrojam's customers to import the product directly from overseas markets, then pricing strategy # 1 is unlikely to adversely affect competition.¹ Further, even if there were significant impediments for Petrojam's customers to access overseas markets directly, the pricing strategy as described is unlikely to adversely affect competition if (a) the targets were based on absolute rather than relative volumes purchased from Petrojam;² and (b) Petrojam offered the discount to every customer who meets the stipulated requirements.³

Petrojam indicates that the strategy described in item 2 above is proposed for the jet fuel market in which Petrojam is present at the wholesale and retail levels of the market.

The pricing strategy is being reviewed to determine whether and the extent to which it could adversely affect competition in the market. We note that Petrojam operates the sole refinery of petroleum products in Jamaica and that Petrojam sometimes import finished products to meet domestic demand. It is also noted that multinational marketing companies such as Total and GB Group/ Chevron may import jet fuel directly from overseas suppliers. To the extent that there are no legal, regulatory or other significant impediments for Petrojam's customers to import the product directly from overseas markets, pricing strategy # 2 is unlikely to adversely affect competition.

Please contact the FTC regarding any clarification of the above or proposed further reviews of the proposed pricing strategies.

¹ Petrojam's letter to the FTC indicated that there are no legal or regulatory barriers to enter the wholesale or retail level of any of the four markets.

² An example of an absolute target is "Customers will get a 5% discount if they purchase at least 1 million litres of Gasoline during any calendar month" while an example of a relative target is "Customers will get a 5% discount if they purchase at least 90% of their Gasoline needs from Petrojam during any calendar month."

³ Note that it is sufficient only to offer the discount to every customer. Not every customer may be in a position to move the volume needed to secure the discount.