

Position Paper: Vertical Integration in the Petroleum Sector

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Background

1. Many products are made available to final consumers using a distribution chain comprising multiple distinct but related production and distribution stages. In the case of the petroleum industry, the distribution chain includes exploring (oilfields), refining, marketing and distributing (wholesale and retail) petroleum products.
2. Vertical Integration is a business transaction which results in an entity operating at different stages of the production and/or distribution chain in the same industry.
3. Since entities involved in a vertical integration transaction do not compete with each other, the transaction, in and of itself, would not lead to any reduction in competition. In addition, vertical transactions may generate efficiencies to the benefit of consumers ('motorists').

Assessing Competitive Effects of Vertical Integration

4. Notwithstanding the above, vertical integration has the potential to cause anticompetitive horizontal effects. In particular, an integrated entity that competes in both an upstream market and a downstream market has the incentive and opportunity to (1) discriminate against particular rivals in the upstream and/or downstream markets (e.g. foreclosing rivals from input or customers); and (2) raising rivals costs in either upstream or downstream market.
5. The structure of the Petroleum sector in Jamaica is such that there are three main stages in the distribution chain: (i) Bulk supply; (ii) Transportation; and (iii) Retail supply (filling stations). At the Bulk supply stage, marketing companies may source

petroleum products in bulk quantities from Petrojam or numerous other refined petroleum companies located overseas. Similarly, at the Transportation stage, marketing companies may deliver their products to retail (filling stations) locations using numerous petroleum haulage contractors. Also, at the Retail supply stage, there are many locations at which petroleum products sourced by marketing companies are made available to motorists.

6. The structure of the petroleum sector plays an important role in the assessment of the probable effect of vertical integration on competition in the sector. The greatest opportunity for anticompetitive effects would arise in a situation where the vertically integrated entity has significant control of any stage of the distribution chain.
7. The fact that there are numerous suppliers at each stage of the distribution chain, however, significantly lessens the incentives for a vertically integrated entity to engage in anticompetitive conduct by discriminating against rivals or raising rivals' costs at any level of the distribution chain.

Conclusion

8. Due to the structural characteristics of Jamaica's petroleum sector, vertical integration is unlikely to have adverse competitive effects.