

Competition - Portugal

New market entrants the key to lower motorway fuel prices

Contributed by **Morais Leitão, Galvão Teles, Soares da Silva & Associados**

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Introduction

In 2009 Portugal introduced electronic panels on motorways to display fuel prices at neighbouring service stations, typically comparing the prices of three different operators. The measure, which followed the Competition Authority's Recommendation 3/2004, was aimed at promoting price competition in the sale of roadside fuel on motorways by providing improved customer information on the prices at service stations.

In a detailed report, published on June 24 2012, the authority has examined the impact of the measure on motorway fuel prices and has provided new recommendations for this specific market. The assessment conducted by the authority relates to the two main road fuels sold in Portugal - lead-free 95 octane gasoline and regular diesel - and takes into account all 128 service stations on the 22 motorways in continental Portugal between January 2008 and August 2011.

Main findings

Regarding market structure, the report states that there is no evidence that the introduction of the electronic panels has had a significant impact on fuel prices. According to the authority, the markets for the retail sale of fuel on motorways are characterised by important constraints on entry and expansion which influence the market structure and the behaviour of economic agents.

In terms of fuel prices, the authority claims that the introduction of the electronic panels led to an average increase in the retail price of fuel in motorway service stations: €0.011 a litre for gasoline and €0.008 a litre for diesel. The authority highlights that in the first semester of 2010 the prices of diesel and unleaded 95 gasoline were, on average, €0.032 and €0.045 a litre higher on motorways than elsewhere.

The authority considers that the business model of service stations is identical and that prices in two or three neighbouring service stations - as shown on the same electronic panel on any given day - tend to be similar, if not identical, because:

- the product is homogenous;
- all of the agents (consumers and economic agents) know the price of the competitors' fuel, as the information is publicly available; and
- the economic agents tend to signal to their regular customers that they should continue to refuel in their usual service station, as they will not be penalised in terms of price by not using the nearby service stations.

Thus, under the current factual and legal framework, the authority considers that there cannot be greater price diversity and competition between motorway service stations without the adoption of structural or regulatory measures aimed at establishing a new balance between service stations.

Proposed measures

In terms of structural measures, the authority recommends:

- establishing two additional service stations on the Lisbon to Oporto, Lisbon to Cascais and Lisbon North to Setúbal motorways, increasing competition between service stations along these three traffic-intensive motorways; and
- awarding the tenders for the above service stations to economic agents which do not already own service stations on motorways, and which operate on a different business model – for example, independent operators with innovative products (eg, biofuels) and supermarket chains with innovative business models (eg, a low-cost model).

In relation to regulatory measures, and as a way to ensure additional diversity among the economic operators in the sector, the authority considers that specific legislation should be adopted to ensure that:

- the award of service areas that are either already in operation or to be built on national motorways should take place through a public tender and not by means of a direct invitation or other similar mechanism, which may impair competition;
- public tenders should cover each individual service area, not pairs or packages of service areas, as a way of ensuring

the existence of different operators on opposite sides of the motorway (as this situation is relevant in practice to consumers on motorways with a high commuting frequency or on shorter motorways);

- In public tenders the use of certain criteria, such as the number of service areas for which the company is submitting a proposal and the possibility of submitting proposals for packages of service stations, should be discontinued;
- on motorways with a high volume of traffic, allowing for the establishment of a service station with a supermarket in each traffic direction should be considered a positive factor in awarding a contract;
- the sub-concession period in existing service stations should be reconsidered and limited to a period of up to five years;
- for service stations that are already in operation, the level of detailed information to be disclosed in future tender procedures should be significantly increased in order to reduce the information asymmetry between the established operator and potential new entrants - including information such as the level of traffic, sales by business segment and a detailed inventory with information on the capacity of the installed equipment; and
- sub-concession agreements should include a reversion mechanism for the equipment installed at the service station in favour of the motorway concessionaire or the state,⁽¹⁾ excluding the insignia of the brand, in order to reduce the costs of switching between operators.

Comment

The authority's comprehensive report and the resulting recommendations are aimed at creating a fairer market for the retail sale of fuel on Portugal's motorways, as well as identifying and advocating specific mechanisms that could enhance and foster competition in the market, notably in terms of price competition. The report also confirms, with sound technical evidence, the opinion of consumers that fuel prices are generally higher in service stations located on motorways.

For further information on this topic please contact Carlos Botelho Moniz or Eduardo Maia Cadete at Morais Leitão Galvão Teles Soares da Silva & Associados by telephone (+351 21 381 74 57), fax (+351 21 381 7411) or email (cmoniz@mlgts.pt or maiacadete@mlgts.pt).

Endnotes

⁽¹⁾ Where the motorway is not operated on a concession basis.

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Authors

Carlos Botelho Moniz



Eduardo Maia Cadete



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