

PENNSYLVANIA MOTOR FUELS MARKET

Report Highlights

The price of gasoline and the competitiveness of PA's motor fuels market depend on many factors:

- **OPEC.** OPEC's recent success in raising oil prices is the result, in part, of increased world demand for oil, a change in Venezuela's policy toward OPEC, and United Nations' restrictions on Iraqi oil exports.
- **Oil company mergers.** Four large oil company mergers have occurred since 1997. Of these, the Exxon/Mobil merger was the most significant in PA, with the merged company being required to divest itself of all Mobil service stations in PA.
- **Environmental restrictions.** Drilling restrictions and clean air requirements also affect gasoline prices. Due to concerns over groundwater pollution, the EPA intends to ban the low-cost oxygenate MTBE, now used in much of PA. Switching to ethanol is expected to raise gasoline prices by 2.4 to 3.9 cents per gallon.
- **Zone pricing.** Zone pricing is a refiner's practice of charging different wholesale prices to service stations depending on the competitiveness of the local market. The Federal Trade Commission has cited zone pricing as a significant barrier to entry for new retail gasoline stations.
- **The distribution network.** PA has about 5,500 retail service stations, with at least 12 companies being represented by over 100 stations. However, in 7 counties only one company accounted for over 20% of the stations in that county. Because some of these stations may be high-volume outlets, the percent of stations may significantly understate the market share these companies have in these counties. (PA does not collect information on gallons sold at individual stations.) Nevertheless, gasoline prices in PA are lower than in any of the six surrounding states.

Our review of laws in Pennsylvania and other states to promote competition found:

- **Antitrust statutes.** PA may be the only state that does not have a state antitrust statute. Although the Attorney General can proceed under federal statutes, these statutes do not provide investigative subpoena power. The AG Office is therefore hampered in its ability to obtain the information necessary to determine whether to pursue an antitrust action.
- **Unfair Sales Act.** PA enacted an Unfair Sales Act in 1941. For several reasons, however, the Attorney General Office has not prosecuted an allegation of below-cost sales under this act.
- **Laws in other states.** States have enacted antitrust, sales below cost (both general and gasoline-specific), and divorcement laws to promote a competitive marketplace. Studies indicate, however, that SBC and divorcement laws can lead to higher gasoline prices.

Steps for consideration:

- Re-establish an energy office or authorize another state agency to monitor motor fuels and other petroleum products and develop long-term strategies
- Enact a state antitrust statute
- Monitor the impact of zone pricing and sales below cost on PA's motor fuels market.

