DIVESTITURE OF REFINER OPERATED GASOLINE
STATIONS WOULD LESSEN COMPETITION, STUDY FINDS

Legislation prohibiting refiners from directly operating gasoline service stations would tend to lessen competition and increase consumer cost of gasoline, according to a study released today by the Petroleum Industry Research Foundation, Inc. (PIRINC).

The study examines the economic impact of state laws requiring oil refining companies to divest themselves of directly operated retail gasoline stations. Such legislation was passed in Maryland in early 1974 against the background of the Arab oil embargo and went into effect, after a series of court challenges, in the fall of 1978. Several other states have passed similar legislation while still others are considering it. Altogether, about 13% of the nation's 176,000 gasoline service stations are operated by refiners directly with their own personnel. The rest are operated by independent franchised or non-franchised dealers or by independent jobber-distributors.

According to the study, the principal beneficiaries of the Maryland and similar type legislation are the independent
dealers who operate brand name gasoline service stations, mostly on a franchised basis. The principal adversely affected business segment is the U.S. refining industry, particularly independent and small refiners since they dispose of a much larger share of their gasoline through directly operated retail outlets than do the Majors (25.5% vs 7.4%). The Majors market their brand name gasoline mainly through independent franchised dealers.

The primary concern of the independent retail gasoline dealers is that after expanding throughout the 1950's and 1960's, the number of their stations has declined by about 22%, or 50,000 units, between 1972 and 1978 and their share of U.S. gasoline sales has dropped from 47% to 36%. The study finds this is due to increased sales by major and independent refiners to company-operated retail outlets and to independent jobbers. Sales to company-operated units rose from 8% to nearly 13% of total U.S. gasoline sales, while sales to jobbers rose from 35% to 46% between 1972 and 1978.

Thus, while there has been a significant shift from independent dealers to independent refiners and jobbers in the U.S. gasoline retail market in the last 5-6 years, the total independent segment of the market has more or less maintained its share throughout this period. The study also finds that the major refiners have lost market share to non-major refiners as suppliers of gasoline.

These findings are at variance with predictions made by the Maryland legislators at the time of the passage of the retail
station divestiture bill, namely that without the bill competition in the retail gasoline market would rapidly decline.

According to the study, competition has remained vigorous as evidenced by marketers' efforts to improve efficiency through a number of means, including distribution network consolidations, and conversions of traditional full-service outlets to low-margin/high-volume gasoline service and self-service facilities. These developments, which have been the prime cause for the reduction in the number of dealer-operated full-service stations, have greatly improved consumer choices between various types and costs of gasoline retail services.

Further evidence of continued market competition is seen in the fact that since 1974 the average U.S. gasoline retail price has trailed the Consumer Price Index and has also been below the ceiling allowed under federal gasoline price controls.

The study concludes that "the Maryland Act and similar types of legislation could be expected to increase the volume of gasoline sold through stations operated by independent branded dealers at the higher prices dictated by their higher operating cost, and would restrain competing marketing strategies which currently tend to limit the increase in those prices. It is reasonable to assume that if retail divestiture laws had been in existence on a wide scale at the beginning of the 1970's the trend to low-price, high-volume gasoline outlets would have moved at a considerably slower pace than it did." Consequently, the average gasoline price would be higher, the study notes.