GASOLINE PRICES AND THE PUBLIC INTEREST

THE CONSUMER ADVOCATE'S
REPORT ON GASOLINE PRICES
IN THE PROVINCE OF
NEWFOUNDLAND AND LABRADOR

DECEMBER 1997

STUDY ON GASOLINE PRICES
PROVINCE OF NEWFOUNDLAND AND LABRADOR

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The Honourable Ernest McLean
Minister of Government Services and Lands
Government of Newfoundland and Labrador
Confederation Building
P.O. Box 8700
St. John's, Newfoundland
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Dear Minister:

Pursuant to Cabinet directive M.C. 97-0418, I respectfully submit the Consumer Advocate's Report on Gasoline Prices in the Province of Newfoundland and Labrador entitled: **Gasoline Prices and the Public Interest**.

Dennis M. Browne, Q.C.
Consumer Advocate

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SUMMARY

The total volume of gasoline sold in Canada declined by 28% between 1980 and 1990. This trend has continued in the Province of Newfoundland and Labrador. **The total volume of gasoline sold in the Province was 580 million litres in 1996, approximately 4% less than the 604 million litres sold in 1994.**

The number of gasoline outlets operating in Canada has declined from 22,000 in 1989 to 16,500 in 1995. **The number of outlets operating in Newfoundland and Labrador has declined from 708 in 1992 to 545 outlets operating in 1997, a reduction of 23%.**

The average volume of gasoline sold per station (throughput) in Canada exceeds 2.2 million litres annually. **In 1997, the average throughput for Newfoundland and Labrador will be just over 1 million litres annually, an increase in value from previous years but still the lowest in the Country.**

The average gross retail margin earned from the sale of gasoline in areas has decreased in the last 7 years. **The gross retail margin earned from the sale of gasoline in the St. John's market has shrunk from over 10 cents per litre in the 1990 to a current 4 to 6 cents per litre**.

Market participants have responded to the lower gross retail margins by closing stations in order to increase average throughputs. In some communities, the process of rationalization may result in too few competitors in the market. Too few competitors may inhibit competition and discourage participants from passing on to customers increases in the level of efficiency.

Market participants are also changing the character of their outlets to large, multi-service convenience centres in order to increase non-gasoline revenues. The volume of gasoline sold in some smaller communities will not support the investment needed to open a multi-service convenience centre. Therefore, **some communities will not benefit from the increase in efficiencies gained by operating large convenience centres.** This will perpetuate variations in the price of gasoline between rural and urban areas of the Province.

Variations in the price of gasoline between communities in the Province are primarily attributable to normal operating costs. These operating costs include transportation costs, terminal storage costs and increased handling. However, not all of the variation in price between communities can be explained through an examination of operating costs. These secondary variations are attributable to market dynamics.

Secondary variations in the price of gasoline between communities in the Province are attributable to one or more of the following causes:

1. Gasoline outlets operating in smaller communities often experience lower throughputs. Accordingly, the dealer must increase the gross retail margin by raising the price.

2. Some smaller communities will not support a large convenience store. Therefore, the dealer will not enjoy the ancillary revenues used by the larger outlets to offset operating costs.

3. In some isolated micro-markets, station closures have resulted in too few competitors remaining in the market. Too few competitors will inhibit competition and, accordingly, decrease the likelihood that gains in efficiency will be passed on to consumers.

RECOMMENDATIONS

1. **No Price Regulation**

   If Government seeks to enhance wholesale and retail price competition in the Newfoundland and Labrador gasoline market, it should attempt to do so in the most cost effective manner possible. We believe the most cost effective public policies are those designed to utilize market forces instead of using Government's legislative powers to regulate price. Direct Government intervention in the market is generally the least desirable approach and should only be pursued as a final recourse where there is no indication that the market will behave correctly. **We have found no evidence to support price regulation.**

2. **Government Monitoring System**

With the production of crude oil from Hibernia, Newfoundland and Labrador joins a select group of provinces that sustain all segments of the oil industry. Government should view the retail of gasoline as part of the Province's increasingly strategic fully integrated oil industry. Accordingly, Government should maintain an independent and up to date source of reliable data concerning the gasoline retail industry in this Province, and those jurisdictions where oil produced from this Province is sold.

- **Government should institute an efficient and adequate monitoring system which will produce a reliable data base of price information for Government and consumers.**

- **The Department of Mines and Energy should be designated as the lead Department of Government for all issues involving the oil industry, including consumer issues pertaining to the retail sector.**

- **Government should commit sufficient resources to the Department of Mines and Energy to fulfil its role of gathering data concerning the industry.**

- **The Department of Mines and Energy should publish monthly, in newspapers having a general circulation in the Province, price data for the sale of gasoline in selected municipalities in the Province.**

- **The Department of Mines and Energy should publish once yearly, in newspapers having a general circulation in the Province, a report on the gasoline retail industry in the Province, including year by year information concerning the number of operating outlets, crude oil costs, wholesale prices at New York, Montreal and St. John's, and pump prices (weighted average) for selected municipalities in the Province.**

- **Disclosure and provision of the data required by the Department of Mines and Energy for fulfilment of its mandate should be required of industry participants under regulation.**

- **Under regulation Industry should provide to the monitor full and timely reasons following any price increase.**

3. **Encouragement of Competition**

Posted prices communicate pump prices not only to consumers but to competitors who then react quickly to a change in the marketplace. Price posting regulations increase the likelihood that gains in efficiency will be passed on to consumers.

- **The Government of Newfoundland and Labrador should re-introduce Petroleum Price Posting Regulations under the Department of Mines and Energy Act, R.S.N. 1990, c. D-17, so that all retailers are required to prominently display the pump price for gasoline products.**

4. **Terminal Storage Facility Accessible to Independents**

The presence of Independents in the retail gasoline market is beneficial for consumers. Newfoundland and Labrador has one of the lowest percentages of Independents in Canada. Independents will be encouraged to enter the marketplace through the establishment in the Province of a terminal storage facility that is accessible to Independents. Compliance with environmental regulations is the single greatest impediment to the establishment of an independent terminal.

- **It is recommended that Government develop a strategy to encourage the construction of an independently owned and operated terminal storage facility that would be accessible to Independents operating in the Province of Newfoundland and Labrador. The Whiffen Head Storage Terminal, or the existing terminal located at Long Pond, Conception Bay, could be used for this purpose.**

5. **Exit Barriers**

Under current legislation, an outlet operator must remove any underground storage tanks following the closure of the station. However, there are no regulations which require the removal of underground storage tanks of a certain age. This combination discourages the exit of participants from the market who would otherwise prefer to close. This has a detrimental impact on the efficiencies of the market.

- **It is recommended that Government introduce legislation requiring the removal of underground storage tanks of a certain age. The age at which the tanks would be required to be removed should be determined by the Department of Environment following the conduct of an audit of all underground storage tanks in the Province.**

- **Government should initiate discussions with industry participants to examine the feasibility of establishing an industry sponsored fund to be used in cases where the outlet owner is financially unable to comply with environmental regulation requiring the removal of underground storage tanks.**

6. **North Atlantic Refinery**

The owners of the refinery located at Come By Chance, Newfoundland, are subject to a restrictive covenant. The restrictive covenant prohibits the sale of product refined at Come By Chance to any part of the Canadian market outside of Newfoundland. This covenant impedes the ability of the Come By Chance refinery to compete. This has an adverse impact on this Province's retail market.

- **It is recommended that Government request the Director of Investigations for the Federal Competition Bureau to review this issue and determine whether the presence of the restrictive covenant is unduly lessening competition in the Newfoundland and Labrador marketplace.**

7. **Measurement Canada**

Studies indicate that upwards of 20% of gasoline pumps in use in Atlantic Canada are inaccurate. Evidence also indicates that Measurement Canada is not checking the accuracy of gasoline pumps on a regular basis.

- **It is recommended that Government actively pursue this issue with Industry Canada to ensure that the number of inspections and level of monitoring of gasoline outlets in the Province is completed on a regular basis.**

8. **Self-Serve Gasoline Pumps**

The pump price for self-serve gasoline is typically two cents per litre lower than full serve gasoline of the same grade. Consumers living in some communities in the province, including Happy Valley-Goose Bay, Labrador, do not have access to self-serve gasoline. Industry should be encouraged to review their practice in this regard.

- **It is recommended that Government conduct discussions with industry participants to amend current marketing practices so that self-serve gasoline is available in every community in Newfoundland and Labrador which warrants the same.**

ACKNOWLEDGMENTS

This report is in response to events which began during the Fall of 1996, when several individuals drew attention to variances in gasoline prices within the province. Jim Courtney, Rex Barnes, Dan Hiscock, and others, formed a consumer group, "Newfoundlanders Against Gas Gouging", or NAGG. The issue was brought to the attention of MHA Anna Thistle, who approached Cabinet, pointing out the need for an investigation. In July 1997, Government responded by commissioning this study.

Hundreds of telephone calls, faxes, letters, and e-mail have gone into the compilation of this report. Evidence was also collected from written and oral submissions. A considerable volume of information was gathered from meetings with Government, industry and consumers. In addition there was extensive research and consultation with stakeholders.

Thanks and appreciation are due to many. I acknowledge the support and dedication of my colleagues, Mark Kennedy and Robert Dornan, who contributed greatly to this report.

I also wish to acknowledge the efforts of the major oil companies, not only the official company representatives but the local agents, dealers and employees who cooperated with our work. All these individuals voluntarily assisted with the fulfilment of our mandate.

Finally, I wish to thank the consumers of this Province, particularly those who came forward with submissions. This is their report.

Dennis M. Browne, Q.C.

TERMS OF REFERENCE
FOR A STUDY ON GASOLINE PRICES

Pursuant to Cabinet directive M.C. 97-0418, the Provincial Government authorized a Gasoline Price Study. The Terms of Reference for the Study were as follows:

Dennis M. Browne, Q.C. will serve as a consumer advocate to investigate and report on gasoline prices in the Province. In carrying out this study, Mr. Browne will:

1. examine the reasons for differences in the price of gasoline in various parts of the Province;

2. whether regulation of gasoline prices would be in the public interest, and, if so;

3. what the options are, given the experience in other jurisdictions.

Mr. Browne will meet with interested consumers and sellers throughout the province. He will report to the Minister of Government Services and Lands by the end of 1997.

CHAPTER ONE

Foreword

Consumers have long been troubled by the variations in pricing for a litre of gasoline throughout the Province. In 1993, the Town Council of Channel-Port Aux Basques requested explanations from the oil companies as to why gasoline prices were so high in their area as compared to neighbouring communities. In reply, Irving Oil Limited stated:

> Over the last six months, we have experienced an actual increase in crude costs and an increase in gasoline tax of 2 cents per litre. Presently the Newfoundland market is very price unstable so pump prices for our company are monitored daily and reviewed weekly so that we offer the Town of Channel-Port Aux Basques our high octane gasoline at competitive prices.[1]

Imperial Oil Limited offered:

> In the case of Port Aux Basques, as well, our two Esso retailers are "dealers"; that is, independent business persons who buy from us at a wholesale price and set their own retail prices. In other words, Imperial Oil does not determine pump prices at any outlet in this particular market.[2]

Ultramar provided:

> First and foremost, the ongoing price war in Corner Brook has depressed gasoline prices to the point where they are the lowest in Newfoundland. Oil companies, like ourselves, have had to significantly subsidize the wholesale prices to our dealers so that they could remain competitive and financially viable. As such, this had a considerable detrimental impact on our financial operating results in this particular market. Based on the foregoing, we can legitimately say that the prices in Channel-Port Aux Basques are not unusually high . . . but the prices in markets like Corner Brook are unusually low. In fact, retail prices in the Corner Brook area have dropped more than 10 cents per litre over the past 6 months.
>
> Secondly, our higher operating costs, including the added delivery expense from Corner Brook has a direct bearing on the retail prices in this area.

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1 Correspondence, May 17, 1993.

2 Correspondence, May 3, 1993.

> Thirdly, it is important to note that the stations in this area set their own gasoline prices by adding their mark-up to our wholesale prices. I would tend to agree with you that dealer margins in this area are relatively high as compared to the Corner Brook area.[3]

In 1997, when gasoline prices rose significantly in Central and Eastern Canada, The Evening Telegram published a story, part of which offered as follows:

> "The summer's higher prices were blamed on shortages caused by breakdowns at refineries supplying Central and Eastern Canada plus demand for gas that was 15% higher than expected. That was because of the booming economy and higher fuel consumption rates of many automobiles, especially sport utilities.", said Imperial Oil spokesman, Richard O. Farrell.[4]

The industry has provided a multitude of reasons to explain why there are variations in the price of gasoline throughout this Province and elsewhere. Consumers however, remain unconvinced. Predictably, this has led to consumer frustration with the oil industry.

When this Study was commissioned on July 16, 1997, Premier Brian Tobin, Minister of Government Services and Lands, Ernest McLean, and Grand Falls-Buchans MHA, Anna Thistle, held a news conference in Grand Falls-Windsor. At that time Minister McLean explained:

> "One reason for our gasoline prices is the level of taxation that is needed to pay for things like hospitals and such. Beyond that, there can be significant differences in what consumers pay for gasoline in different parts of the province. The consumer advocate will look into concerns that have been raised about prices and determine why they can be so different depending on where you live. This will assist consumers and government to understand the issue better, and what should be done about it." [5]

This statement best reflects our objective in the preparation of this report.

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3 Correspondence, July 26, 1993.

4 The Evening Telegram, September 22, 1997.

5 Press Release, July 16, 1997.

Methodology

This study was not commissioned pursuant to the *Public Inquiries Act*. Accordingly, there was no power to summon witnesses to give evidence or to order the production of documents. However, this did not prove to be an impediment. To the contrary, the informal process employed to gather evidence about the industry encouraged stakeholders to participate in the study and disclose confidential information concerning their operations in the Province. It is doubtful whether the same level of participation would have been readily provided under a formal public inquiry.

In an effort to seek input from consumers, a call for submissions was published in newspapers circulated throughout the Province. In response, consumers, gasoline retailers and municipalities called, wrote, faxed or e-mailed their comments.

A research and investigation program was established to identify the factors contributing to the price of, and price variation in gasoline sold in the Province. The results of previous inquiries were examined, including the recent inquiries conducted in British Columbia, New Brunswick and Quebec. In addition, the latest case studies issued by the Federal Competition Bureau were reviewed, as were studies conducted by Industry Canada.

Companies directly involved in the gasoline retail business in the province were presented with an extensive questionnaire (See Appendix "A") which sought detailed confidential information concerning the company's operations in the Province. Confidentiality agreements were entered into with oil companies in order to facilitate their voluntary compliance with the request for information. These agreements disallowed the use of any confidential information in a manner which would identify the source. In addition, it was agreed that this confidential information would be returned to the source at the conclusion of the study; this has been done. Meetings were held with representatives of each oil company to discuss the information provided in their responses to the questionnaire and to obtain clarification where appropriate.

Many municipalities throughout the Province made submissions. A formal presentation was made by the Town of Grand Falls-Windsor and the Town of Happy Valley-Goose Bay. A submission was also made by the Combined Councils of Labrador.

There were consultations with representatives from the Provincial Department of Mines and Energy, Government Services and Lands and Works, Services and Transportation. In addition, meetings were held with the Energy Sector of Natural Resources Canada, the Federal Competition Bureau, representatives of Measurement Canada, and the Independent Retail Gasoline Markets Association ("IRGMA"), as well as the Canadian Petroleum Products Institute ("CPPI").

Members of the House of Assembly participated in the study. A meeting, chaired by the Leader of the Opposition, was convened during which the views of the Official Opposition caucus were obtained. There was a comparable meeting chaired by the member for Grand Falls-Buchans with a caucus committee of Government members of the House of Assembly.

Consumer Concerns

In order to fulfil the mandate of the Study it was imperative that the consumers of the province be consulted and given an opportunity to present their views. The consultation process was beneficial in the preparation of this report. The following is a synopsis of the issues consumers have raised:

Dominant Position in Small Markets

Many residents of Newfoundland and Labrador are concerned over the closure of retail outlets in their communities and the resultant possibility that one or two companies may dominate the local market.

Price Fixing

Many consumers observe the identical nature of gas pricing. This has led to speculation that the industry engages in price fixing.

Price Maintenance

Similar to the complaints of price fixing, consumers, and some retailers, made submissions that there was unwarranted control of retail prices by certain suppliers.

Price Difference Between Sydney, Nova Scotia and Channel-Port Aux Basques, Newfoundland

Many consumers drew our attention to the variation in the price of gasoline between Sydney, Nova Scotia and Channel-Port Aux Basques, Newfoundland. This difference has caused many to believe the oil companies are taking advantage of consumers in Newfoundland and Labrador. The following are some of the comments received:

> "I am directly involved in the tourism trade and on a daily basis this is the major complaint people have about coming to Newfoundland."
>
> "I go to the mainland twice a year and I am always amazed that the prices of regular gas are always at least ten cents a litre cheaper in North Sydney than in Corner Brook."
>
> "From time to time I also travel to Halifax. I know the gas price is a lot cheaper about ten miles from the ferry in North Sydney. I arrange to fill up there both to and from Halifax."

Price Variations Within the Province

Submissions from consumers in rural Newfoundland and Labrador detailed the variation in prices between rural and urban markets. Mayor Lloyd Rossiter, writing on behalf of the Town of Ramea, presented a typical complaint in detailing the issue as follows:

- Ramea is an island ten (10) miles from Burgeo and is serviced regularly by a vehicle ferry. Burgeo is two hundred and sixteen kilometres from Corner Brook.
- The average price of gasoline in Corner Brook is 68.9¢ a litre.
- The average price of gasoline in Burgeo is 79.9¢ a litre.
- The average price of gasoline in Ramea is 81.9¢ a litre.

- The difference in the price of a litre of gasoline from Corner Brook to Burgeo is 11¢, between Burgeo and Ramea 2¢, and between Corner Brook and Ramea 13¢.
- The gasoline company is making a difference of $5,200.00 on 40,000 litres (Tanker) of gasoline from Corner Brook to Ramea and a difference of $800.00 on 40,000 litres from Burgeo to Ramea.
- Assuming that the transport company is charging:

(1)	$1.20 km from Corner Brook to Burgeo (206 X 2 X $1.20)	= **$494.20**
(2)	$216.00 ferry rate (return)	= **$216.00**
(3)	$120.00 salary	= **$120.00**
	Total Cost	**$830.20**

- The company is making a profit of **$4,369.80** over and above the margin that is being made at the gasoline pumps in Corner Brook.[6]

Pump Price Not Justified by Cost Differences

Consumers believe that the pump price is not a reflection of the cost and margins of the product. Often, these consumers track cost factors such as the price of crude oil and believe that the explanations put forward by the industry at any given moment are not accurate. For example the Town of Lewisporte states that they "can not understand why prices can be different outside Lewisporte when the actual gasoline is stored in our tank farms. The price per litre unit is cheaper in Gander and Grand Falls/Windsor than in Lewisporte. It's an extra cost for different oil companies to transport gasoline to these areas."[7]

Competition Bureau

Consumers, particularly those who have had dealings with the Competition Bureau, have expressed concern over the ability of the Bureau to properly act as a watchdog of the industry. A consumer group has pointed to the low number of prosecutions as indicative of the inability, or reluctance, of the Bureau to effectively monitor the industry.

6 Correspondence, August 18, 1997.

7 Correspondence, October 20, 1997.

Oil Companies Respond Inadequately

The consumer group NAGG has publicly expressed its concern about the "shroud of secrecy" surrounding the gasoline and oil industry, as well as the frustration at the lack of an adequate response to consumer concerns. A founding member of the NAGG organization stated, "I'm not meaning to point fingers at oil companies specifically, but they would have gotten a lot further with me if I had a sense that I was getting a little bit of co-operation from them. But it is impossible to get a straight answer out of anyone employed with these companies to explain the reason for the discrepancies in gas prices across the province."[8]

8 The Advertiser, August 4, 1997.

CHAPTER TWO

Definitions

1. **Agency** - a mode of operation for a gasoline retail outlet where the outlet operator acts as agent for the company that supplies the branded product.

2. **Ancillary service -** services provided by a retail gasoline outlet in addition to the sale of petroleum products, such as convenience stores, car washes, vacuums, and fast food outlets.

3. **Bulk Plant** - a storage facility used in the wholesale segment of the industry, comprised of a gathering of small to medium capacity tanks.

4. **Dealer** - a generic term referring to a retail outlet operator. There are several different modes of operation used, including company owned, commission retailer, lessee operator, independent branded and independent non-branded.

5. **Downstream** - the segment of the oil industry involved in the refining and/or marketing of petroleum products.

6. **Ex-tax Pump Price** - the retail price of gasoline excluding all taxes.

7. **Independent** - a retail petroleum operator who is not involved in the refining of petroleum products, and therefore must purchase its supply of petroleum product from a third party.

8. **Isolated micro-markets** - small, geographically defined retail gasoline markets

9. **Integrated Oil Company** - a fully integrated oil company is involved in the upstream (ie. exploration and production) and downstream (ie. refining, marketing, distribution and retailing) segments of the industry. A partially integrated oil company is involved in the downstream segment only.

10. **Pump Price** - unless qualified, the self-serve pump price for regular unleaded gasoline (RUL).

11. **Outlet** - generic term referring to a retail gasoline station.

12. **Participant** - a company operating in the retail gasoline business in the Province.

13. **Retail Margin (Gross)** - the difference between the cost to acquire product at wholesale and the selling price of the product at retail, exclusive of taxes. Usually expressed on a per-unit basis, for example, in cents per litre.

14. **Rack** - refers to the wholesale of gasoline products. Unqualified, the term refers to the wholesale of gasoline products from a bulk plant or terminal location. Qualified as "at the gate rack", the term refers to wholesale purchase of gasoline products at the refinery.

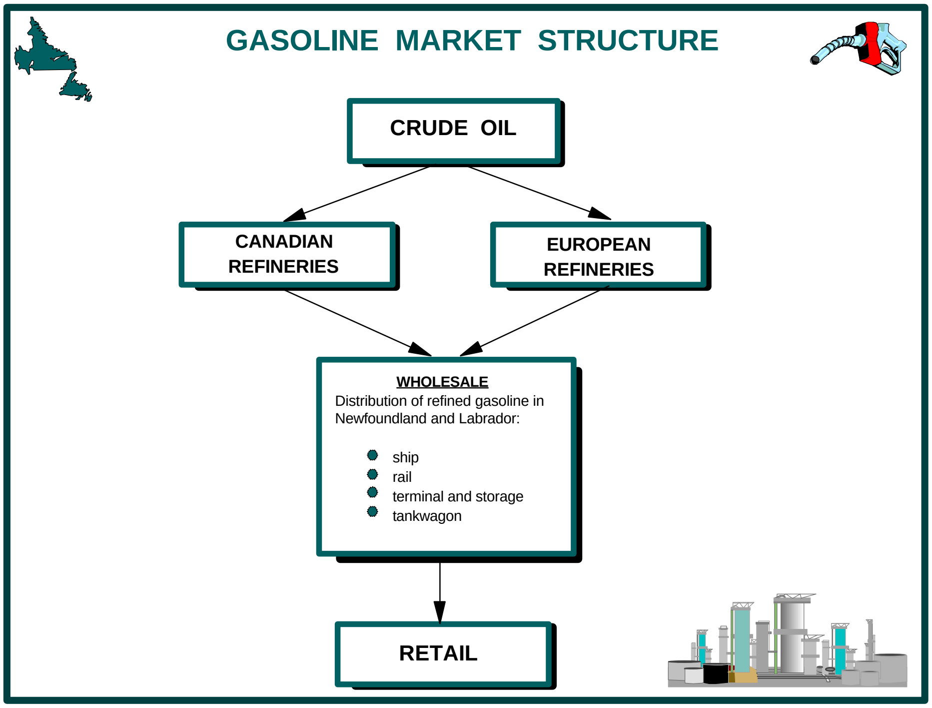
15. **Tankwagon** - tractor trailer used for short haul delivery from a bulk plant or terminal to a retail outlet.

16. **Terminal** - storage facility used in the wholesale segment of the industry, usually comprised of a gathering of large capacity tanks.

17. **Throughput** - the volume of petroleum sold at a retail outlet in a given period, usually expressed in litres per month or per year.

18. **Upstream** - the segment of the oil industry involved in the exploration and/or production of crude oil, the raw material from which petroleum products are manufactured.

Description of the Industry



The Newfoundland and Labrador market for gasoline is a relatively small one in comparison to the rest of Canada. In 1996, sales of gasoline for this Province totalled just over 580 million litres.[9] By comparison, the Canadian market consumed over 35 billion litres of gasoline in 1996. Newfoundland and Labrador represents less than 2% of the national market.

The Industry is divided into two sectors - upstream and downstream. The upstream sector involves the exploration and recovery of oil and ends at the point of delivery of the crude product to the refinery. The downstream sector begins at the refinery and ends when the consumer purchases the final product at the retail outlet. The downstream sector employs over 100,000 Canadians.[10]

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9 Petroleum Products Sales in Newfoundland, 1996. Department of Mines and Energy and Department of Finance.

10 Canadian Petroleum Products Institute, Presentation on Marketplace Dynamics, September 27, 1997 .

Crude Oil Supply And Refining

Crude oil is the term used to describe oil in its natural state as it is pumped from sea or land based wells and is traded in barrel quantities. One US barrel equals 159 litres. The majority of Canadian crude oil production or upstream activity occurs in Western Canada. It is hoped that this may change with the expectation that the Hibernia and Terra Nova fields will produce a combined 235,000 barrels of oil per day.[11]

The gasoline retail market is one part of a multi-faceted industry. With the recent production of crude oil from Hibernia, Newfoundland and Labrador has joined a select group of provinces that sustain all aspects of both the upstream and downstream segments of the industry. Government will earn substantial revenue from the industry, directly from royalties and taxes and indirectly from revenue earned on corporate and personal income taxes. Accordingly, Government should continue to develop policies that take into account all aspects of the industry, including the crude oil market, as well as the wholesale and retail petroleum markets at the local, national and international level. The Province should maintain a sound understanding of the retail market dynamics so that the benefits enjoyed by the presence of the industry will be maximized for the Province.

In 1996, approximately 118 million barrels of crude oil were imported into Atlantic Canada. Atlantic Canada is a net exporter of refined petroleum product[12].

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11 Government of Newfoundland, Department of Mines and Energy.

12 Purvin & Gertz Inc., Competitiveness and Viability Impact on Canadian Refining Industry of Reducing Sulphur in Canadian Gasoline and Diesel, May, 1997 (hereafter the "Refinery Report).

CRUDE OIL IMPORTS

Atlantic Canada 1996

(Unit: Barrels)

COUNTRY OF ORIGIN	ATLANTIC RECEIPTS		PERCENT	
OPEC		61,067,599		51.8
Iran	13,911,073		11.8	
Nigeria	11,091,073		9.4	
Venezuela	9,191,770		7.8	
Saudi Arabia	26,873,740		22.8	
NORWAY		37,904,677		32.2
UNITED KINGDOM		12,001,085		10.2
OTHERS		6,901,448		5.8
TOTAL		**117,874,809**		**100.0**

Barrels per day 322,945

Source: Nfld. and Lab., Government of Mines and Energy, after Statistics Canada

Most gasoline sold in this province comes from crude oil produced in either the United States, the North Sea or the Middle East. The price of crude oil is determined by the world market. Refineries not associated with a fully integrated oil company will contract with oil producers for long term supply arrangements at fixed prices or purchase on the spot market and take immediate deliveries.

Similar to the rationalization taking place in the retail segment of the industry, which is discussed later in the report, the number of refineries operating in Canada has dropped from 40 in the early 1980s to 21 in 1995.[13]

The only refinery in the province is located in Come By Chance. It is owned by North Atlantic Refinery, a provincially incorporated company that is, in turn, owned by the international commodity broker and

13 Natural Resources Canada.

shipper Vitol Refining S.A. Inc. The refinery has a capacity of 99,750 barrels per day.[14] The current owners of the refinery have conducted an aggressive capital improvement program, involving the expenditure of over $150 million dollars in the last four years.

Petro Canada held title to the refinery in the early eighties, when, as a crown corporation of the Federal Government, it purchased the refinery and bore the cost of mothballing the facility.

When Petro Canada eventually sold the refinery it attached a restrictive covenant to the facility which prevented the new owner from selling product refined at the facility to the Canadian market, excepting Newfoundland and Labrador. This restrictive covenant runs with the facility and, as such, binds all subsequent owners, including the current owners. The restriction impedes the ability of the Come By Chance refinery to compete directly with the other integrated oil companies. For example, North Atlantic Petroleum, the retail arm of North Atlantic Refinery, cannot bid on tenders issued by Nova Scotia Power for the bulk purchase of petroleum products.

In response, the refinery has configured its operations in order to produce reformulated gasoline (RFG). RFG produces fewer pollutants when it is burned and is legislatively required in parts of the United States market. Accordingly, the vast majority of the gasoline refined at Come By Chance is sold to the US market. The portion of gasoline refined at Come by Chance that is sold in the Province is distributed under the North Atlantic Petroleum brand, a relatively new entrant to the market.

If North Atlantic Petroleum was free to sell product refined at Come By Chance to the Canadian market without restrictions, it is conceivable that the total volume of gasoline sold would increase significantly. Particularly where the sale is made in bulk, as would be the case for Nova Scotia Power, increased sales could potentially result in an increase in efficiencies by lowering the marginal cost. If these potential gains in efficiency were passed on to consumers, North Atlantic Petroleum may be in a position to retail in this Province at a lower price than at present. In effect, the consumers of this Province are adversely impacted by the presence of a restrictive covenant which limits the competitiveness of the North Atlantic Refinery.

The remaining gasoline sold in this Province generally comes from either the Irving Oil refinery at Saint John, New Brunswick, or the Imperial Oil refinery at Dartmouth, Nova Scotia or from imports of European

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14 Natural Resources Canada.

product.

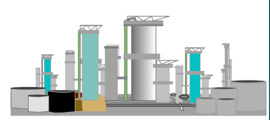
The Atlantic Canada refineries are capable of producing a combined 419,450 barrels of refined product per day.

In Newfoundland and Labrador, Canadian Tire and Co-op Atlantic are usually supplied with gasoline from either Imperial or Ultramar, or both. At the present time, one of the major oil companies receives the

PETROLEUM REFINERIES
ATLANTIC CANADA 1995
(Unit: barrels per day)

REFINERY	CRUDE CAPACITY	LOCATION
IRVING OIL	237,500	ST. JOHN, NB
NORTH ATLANTIC REFINERY	99,750	COME BY CHANCE, NF
IMPERIAL OIL	82,200	DARTMOUTH, NS
TOTAL	419,450	ATLANTIC CANADA

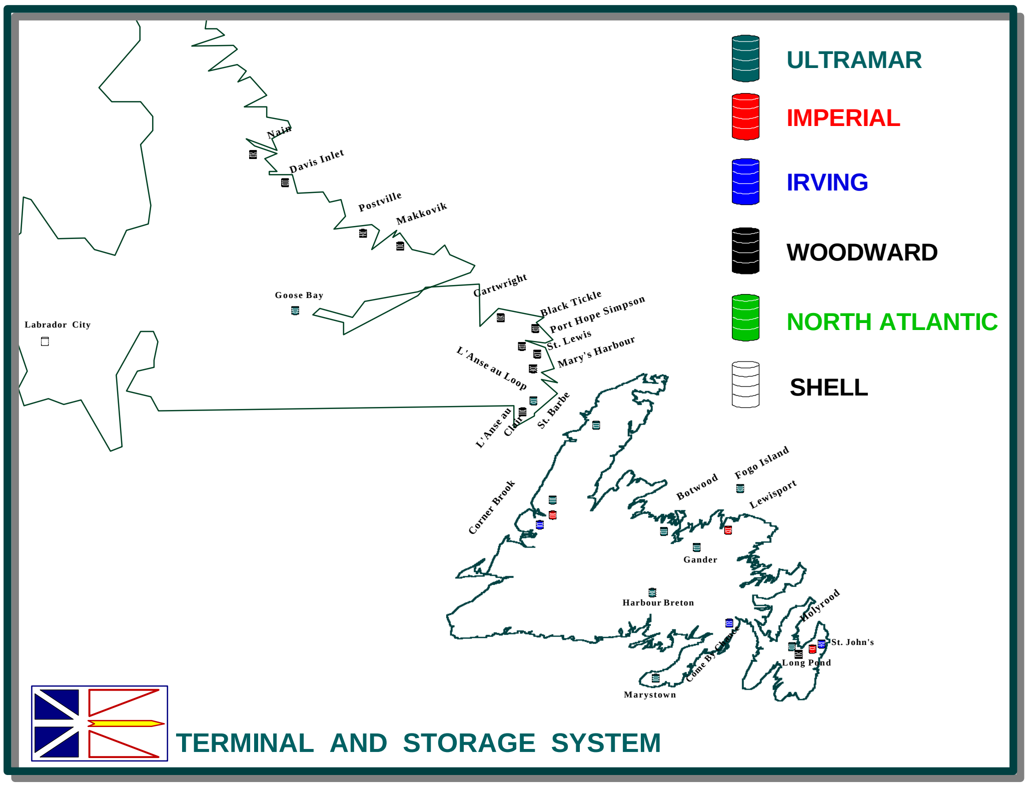
Source: Natural Resources Canada



majority of its supply from European refineries. The Irving refinery in Saint John, New Brunswick, services Irving outlets. The majority of the other outlets in the Province, regardless of brand, are supplied from either Imperial Oil or Ultramar.

With the exception of the product sold by North Atlantic Petroleum branded outlets, gasoline sold in this Province is shipped to Newfoundland and Labrador in bulk carriers and stored at terminals or bulk plants located throughout the Province. All terminals are serviced by marine tanker, except for Labrador West which is serviced by rail. Tankwagons then transport the gasoline from the terminals to the retail facilities where the fuel is stored in underground storage tanks.

Crude Oil Price v. Pump Price



Crude oil and gasoline prices do not always follow similar patterns. In the long term there is a direct correlation between the price for crude oil and the pump price for gasoline, but in the short term these prices can become unconnected, sometimes moving in opposite directions.[15] This is consistent with the general proposition that the industry is market driven in the short run, but cost driven in the long run. By example, in early 1997 the price of crude fell to 0.8 cents per litre below the recorded average for 1990. However, the ex-tax pump price for regular unleaded gasoline was down 8.8 cents per litre in the Montreal

15 Natural Resources Canada, Motor Gasoline Pricing Dynamics, August 28, 1996.

market and down 4.5 cents per litre in St. John's[16].

Studies have shown that in almost every Canadian city 100% of an anticipated change in the cost of crude is eventually passed through to retail prices.[17]

Imperial Oil reported in 1996:

> To assume that the price of crude has a short term impact on the pump price of gasoline is similar to assuming that a change in the price of steel will have an immediate impact on the price of an automobile. As with crude and retail gasoline prices, in the longer term the price of steel must be reflected in the price of the car. However, temporary fluctuations are less relevant.[18]

Wholesale Market

Since gasoline is bought and sold internationally, and moves easily across international borders, the wholesale price in Newfoundland and Labrador, no matter where the product is actually produced, reflects international commodity market prices.

There are several ways in which gasoline is sold at the wholesale level. The largest quantities sold, usually delivered by cargo ships or pipelines, are priced with reference to a spot or one-time price at a particular location. Spot prices are publicly available for many international locations and are published in periodicals such as Bloomberg Oil Buyer's Guide.

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16 Newfoundland and Labrador, Department of Mines and Energy, Crude Oil and Gasoline Price Monitoring Report, July, 1997.

17 Ken Hendrick, Analysis and Opinion on Retail Gas Inquiry, 1996.

18 Imperial Oil Limited, Presentation to the New Brunswick Select Committee on Gasoline Pricing, July 19, 1996.

Wholesale gasoline can also be purchased either directly from the refineries ("at the gate rack") or from the terminals or bulk plants operated by the major oil companies ("rack"). Many Canadian oil companies publish "rack" prices for gasoline picked up at the refinery gate or the terminal. Each market has a wholesale price which may influence local pump prices. The wholesale price will reflect the commodity price (eg. New York Harbour), local transportation costs and terminal storage charges, and other extraneous factors.[19]

Ultramar is the only company that publishes a rack price for Newfoundland and Labrador. Rack prices are used as a proxy for the ex-tax refinery price even though little gasoline is actually sold at the rack in Canada.[20] Discounts off rack are provided for some high volume customers, with the amount of the discount determined by the volume purchased. Typically, the wholesaler will provide a 1 to 1.5 cents per litre discount. In some instances a wholesaler will charge a premium over the posted rack, usually when the volume of the purchase is low.

For Eastern Canada, the key market is New York Harbour. Over time the wholesale price of gasoline in St. John's correlates with the price in New York Harbour. The wholesale price of gasoline in St. John's also correlates to the wholesale price of gasoline in Montreal, which is to be expected given the influence of New York Harbour on both.

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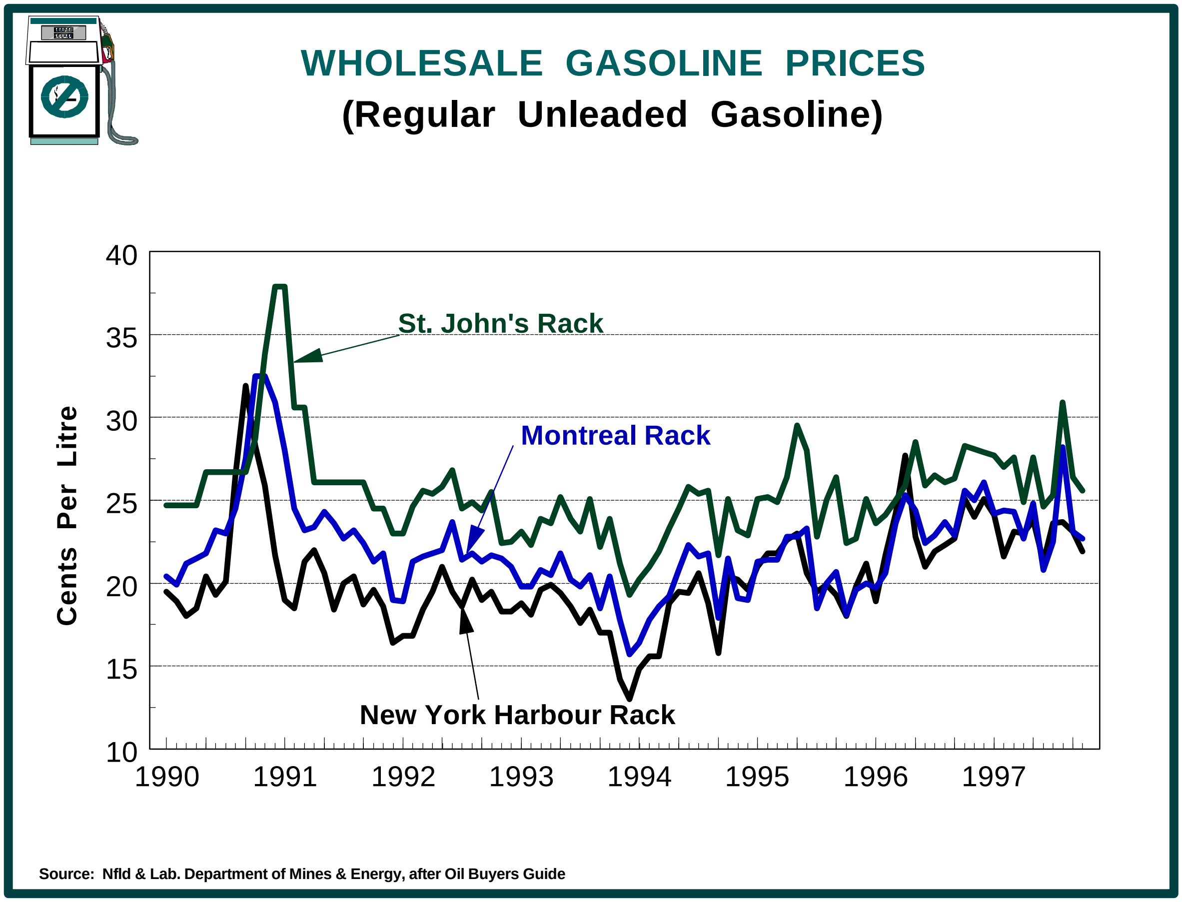
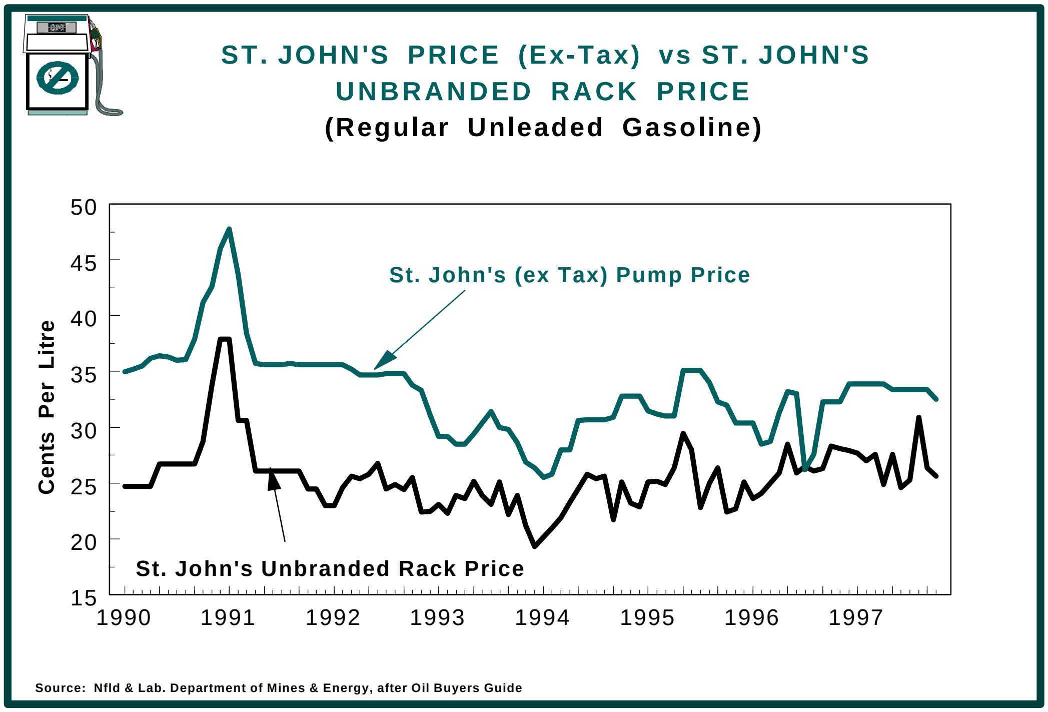
19 Canadian Petroleum Products Institute, August 28, 1996.

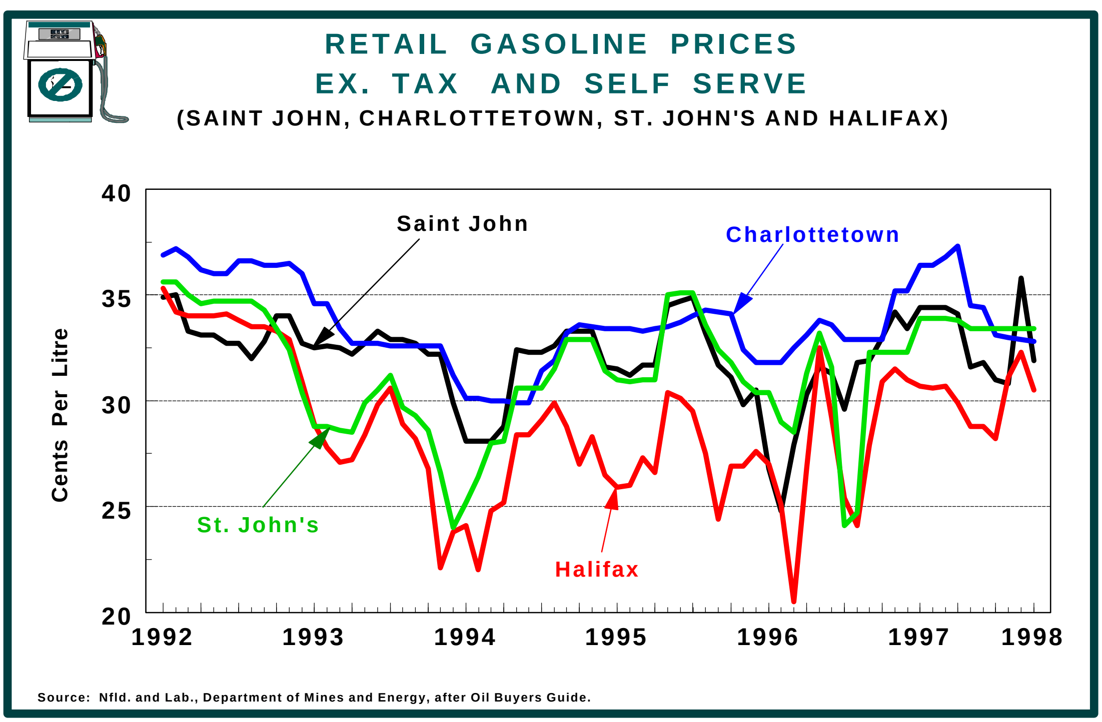
20 George Lerner, Economic Report In The Matter of the Competition Act and Mr. Gas Limited and Several Other Ottawa Area Gasoline Retailers (Sunys Petroleum Inc. and Seaway Gas & Fuel Ltd.), April 18, 1995 (hereafter the "Lerner Economic Report").



Similarly, the pump price for gasoline in St. John's generally follows the St. John's rack price. The following graph confirms the shrinking gross retail margin experienced by outlets over the last seven years.

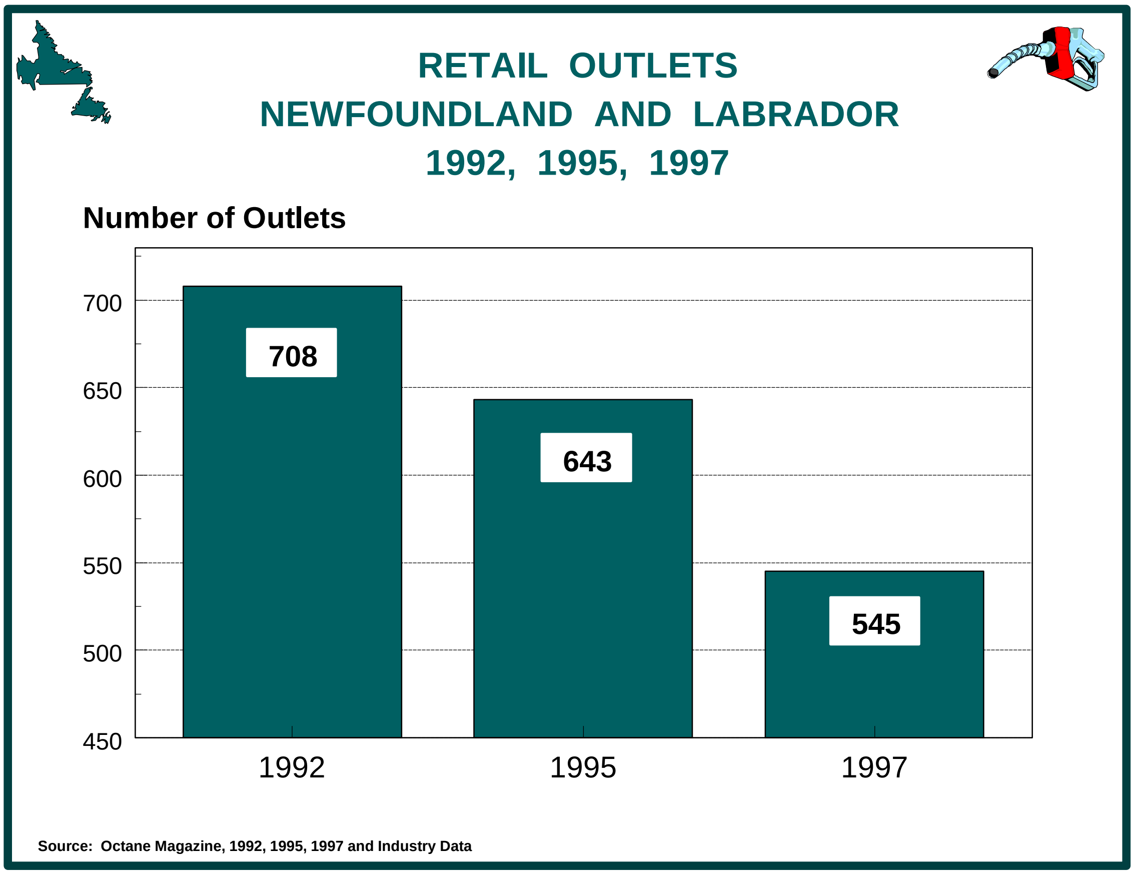


The St. John's pump price (ex-tax) compares favourably with the pump prices (ex-tax) for each of the other Atlantic Canada capital cities.



Retail

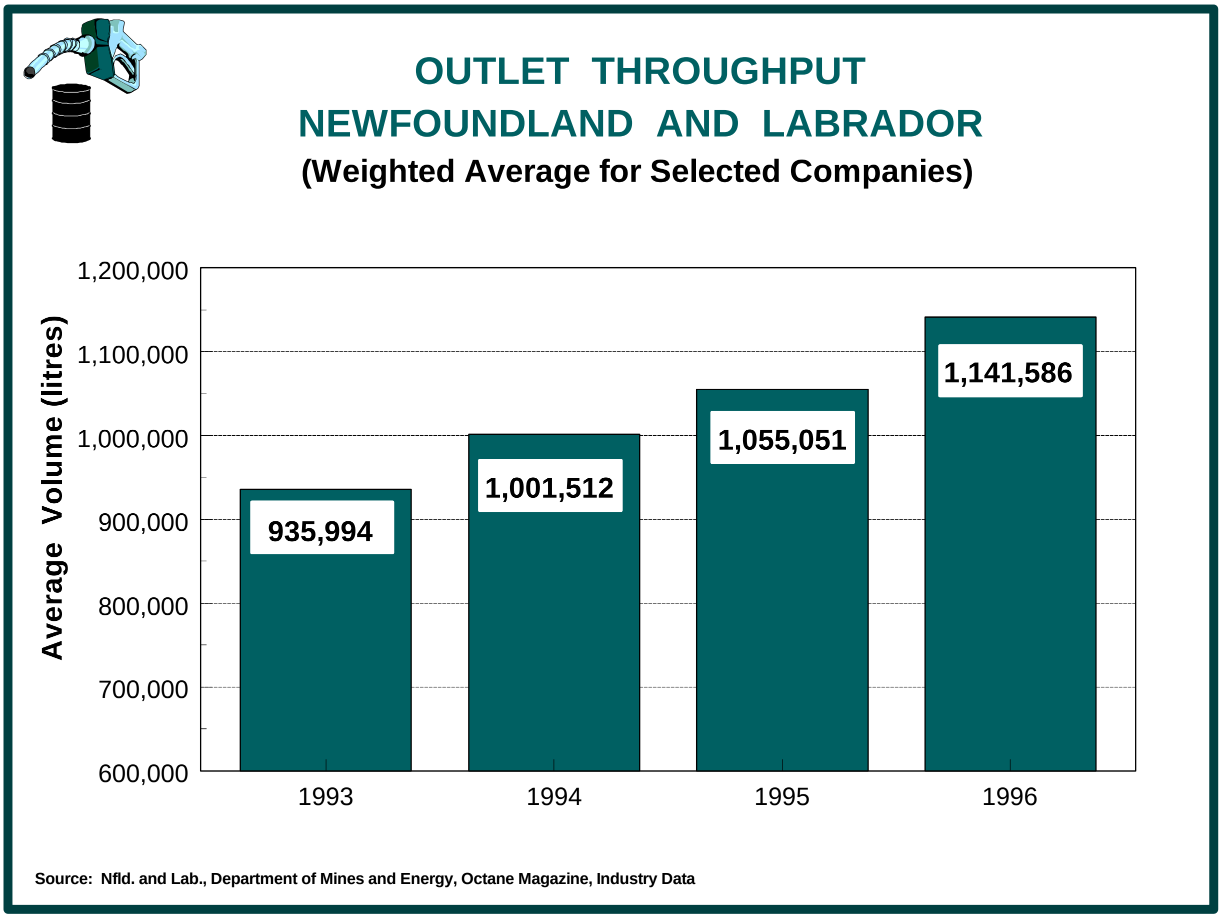
The province has approximately 545 gasoline retail outlets currently in operation. Just two years ago the number of gasoline outlets in operation was estimated at 643[21]. This represents a 15% decrease in outlets during the period.



A key measure of efficiency used in the gasoline retail trade is the number of litres sold by an individual outlet. The calculated average volume, or "throughput", for all outlets in this Province during 1997 is

21 Retail Outlets, 1995, Octane Magazine, Fall 1995.

approximately 1.0 million litres annually. This compares with a throughput of approximately 900,000 litres annually in 1995. The average throughput for the Province has been steadily increasing during the past four years. A sampling of industry provided data demonstrates the trend.



However, Newfoundland and Labrador's average throughput is still below the national average and in fact is the lowest in Canada. By comparison, the average throughput in New Brunswick is over 1.3 million litres annually.[22]

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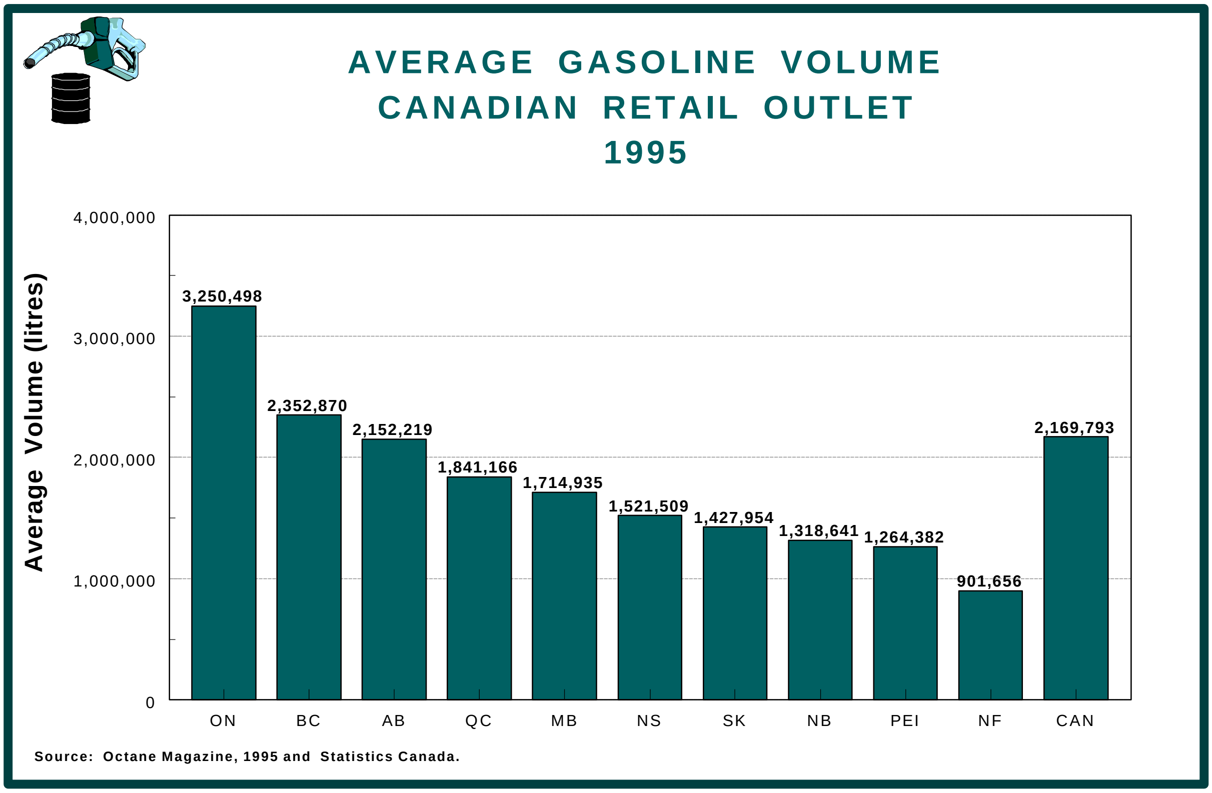
22 Final Report of the New Brunswick Select Committee on Gasoline Pricing, March 26, 1996 (hereafter the "NB Report").

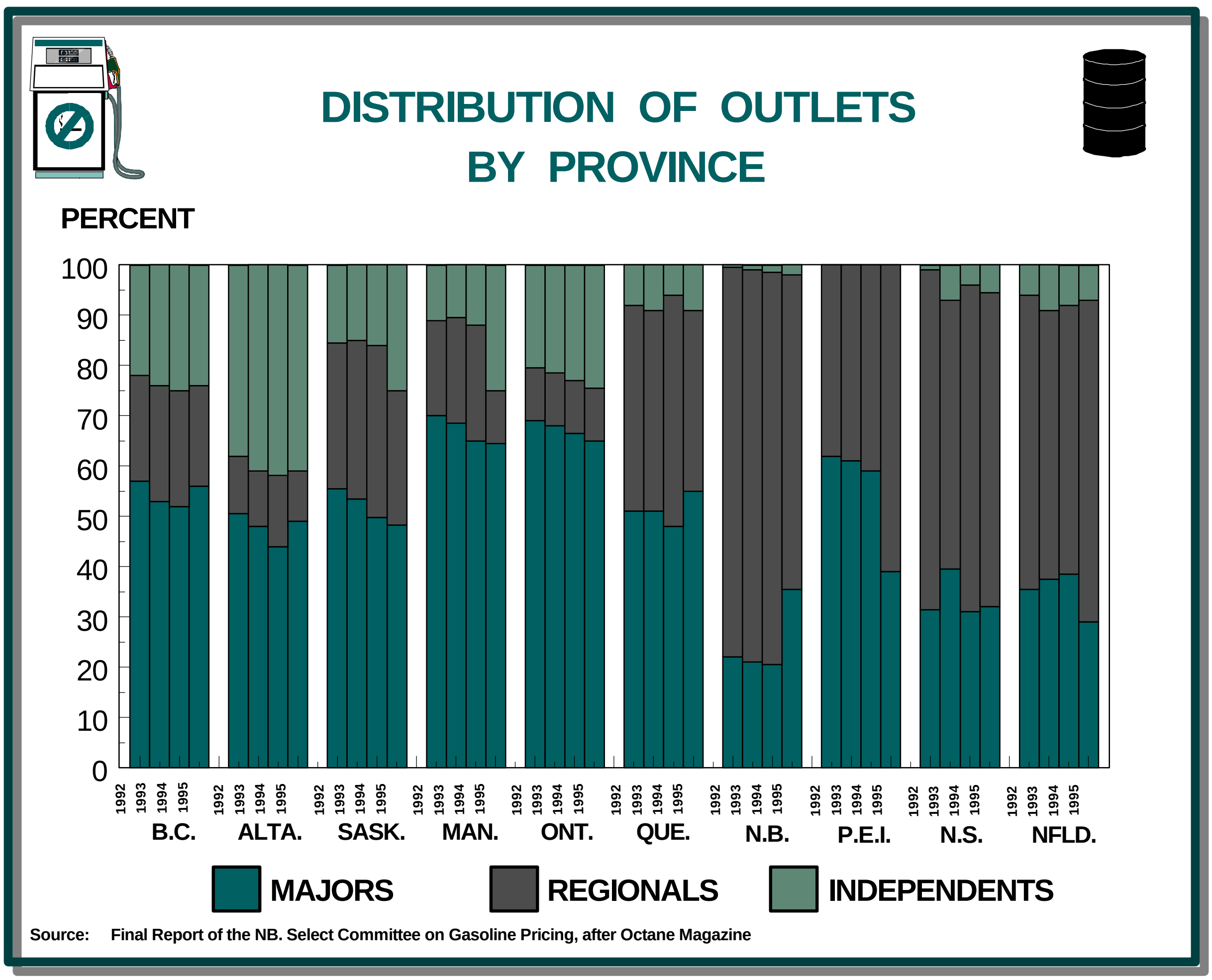


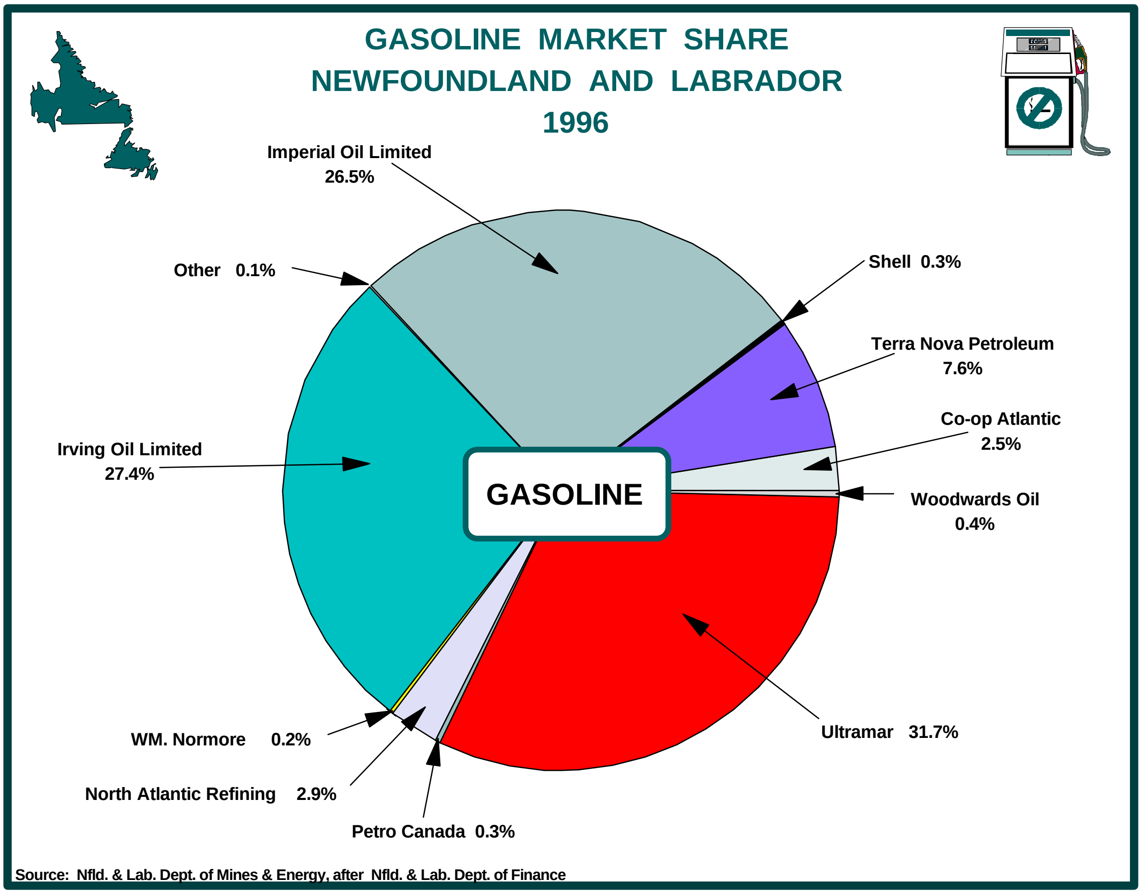
Per capita, there are twice as many service stations in Canada than in the United States. Accordingly, the average throughput is almost twice as high in the US (10,000 litres per day) as compared to the Canadian average (6,000 litres per day).[23] Curiously, over 75% of gasoline sales in the United States are self-serve, compared to 25% for Canada.

Over 70% of the outlets operating in Newfoundland and Labrador are branded dealers of either Irving, Ultramar or Imperial. Independents account for approximately 8.6% of the Newfoundland and Labrador market. Newfoundland and Labrador has fewer Independents operating in the market as compared to most other provinces.

23 *Supra*, note 17.

Irving, Ultramar and Imperial have a combined 85.6% share of the gasoline market in Newfoundland and Labrador.





The retail industry consists of integrated oil companies (Irving ,Imperial, North Atlantic, Petro Canada and Ultramar) and Independent marketers. These integrated companies are either national or regional in scope and usually provide gasoline to their own network. In some provinces, as is the case for Newfoundland and Labrador, an integrated company may not have access to its own product. These companies enter into exchange agreements with other companies that have terminals. Still other companies sell imported product rather than accessing local wholesale markets. Independents must buy wholesale at a local level or import.

There are different modes of operation employed in the running of outlets. The particular mode of operation chosen, together with the nature of the contractual agreement entered into between the dealer and the supplier will determine who has the authority to set pump prices.

Taxes

While the ex-tax price of gasoline in St. John's compares favourably with the ex-tax price in the capital cities of the other Atlantic provinces, the after tax price is higher.[24] Combined, provincial and federal taxes account for over 51% of the pump price in St. John's.

Nationally, while the price of gasoline, in inflation adjusted dollars, has fallen 25% since 1957, taxes, during the same period, have increased by 60%[25]. Still, Canada's average tax rate on gasoline is one of the lowest of the industrialized nations.

RETAIL TAXES
1994
(cents per litre)

COUNTRY	BASE PRICE	TAXES	TOTAL PRICE
Italy	39	112	151
France	29	116	145
Germany	34	103	137
UK	35	88	123
Spain	39	79	118
Canada	29	26	55
USA	29	14	43

Source: Petroleum Communication Foundation

24 Newfoundland and Labrador, Department of Finance.

25 Statistics Canada.

Anatomy of a Price War

Over one half of all outlets in Canada operate as lessees or independent dealers, in which case the responsibility for deciding upon the final retail pump price resides at the local dealer level.[26] Because retail petroleum markets are considered local in scope and determination, the implication is that the competitive dynamic pertaining to these retail markets can, and do, vary considerably from one population centre to another.

One of the more visible pricing events in the gasoline retail trade is a price war. A price war can be defined as a short term lowering of prices to substantially below the normal market price. Price wars are normally confined to a distinct geographic area and are triggered when one outlet lowers their price to below normal levels. Competitors in the area invariably match the lower price. The outlet which initiated the drop in prices will often lower the price a second time and the pattern continues until a floor is set, below which none will venture.

A price war often gives rise to consumer suspicion that the oil companies are enjoying robust margins, "as how could they otherwise afford to sell their product at 10, 15 or even 20 cents a litre cheaper than yesterday"[27]. This issue is best addressed by examining the pricing structure of retail pump prices. There are four distinct cost components that comprise a final pump price for gasoline: crude costs, taxes, retail margins, and refining and distribution costs.

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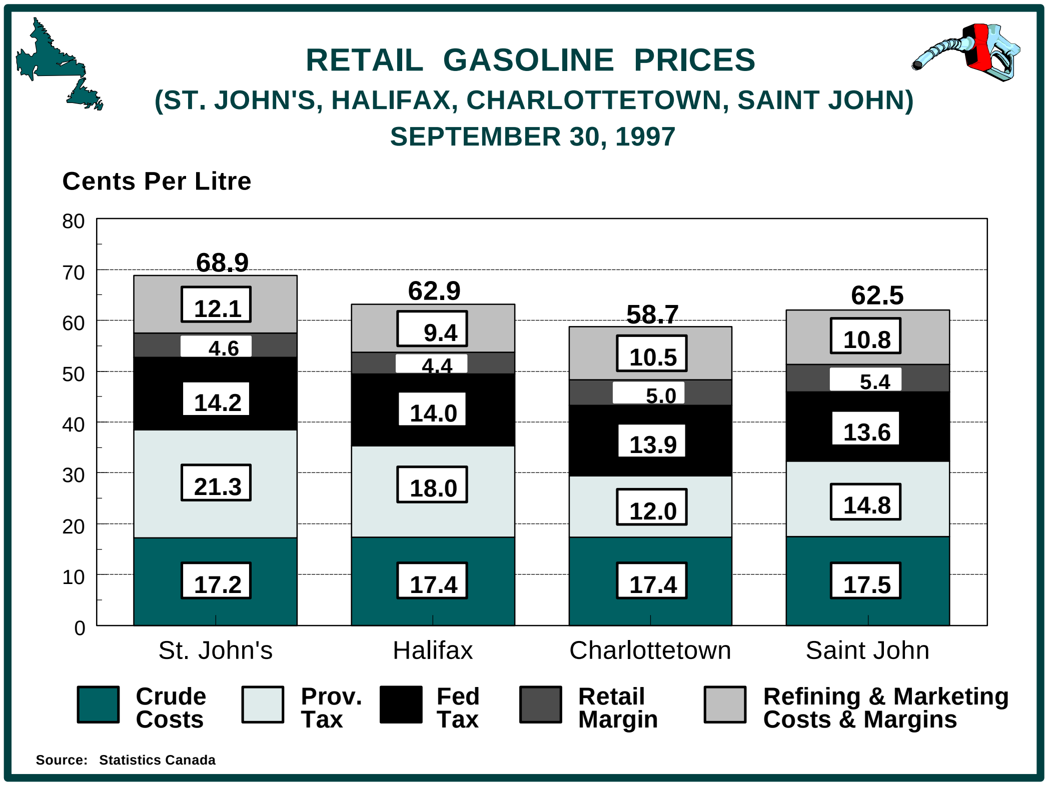
26 M. J. Ervin, & Associates, Canadian Retail Petroleum Market Study (hereafter the "Ervin Report") p. IX ; NB: Octane Magazine places this figure at 44%.

27 Consumer submission.



Generally, for urban centres in Atlantic Canada, the gross retail margin fluctuates between 3.5 and 5.5 cents per litre. From this gross retail margin, the dealer must deduct the costs of operating the service station, including costs associated with rent, utilities, maintenance and labour, and provide for a return on the investment.

During a price war, a dealer may be forced to sell product below cost. In most instances, the major oil company under which the outlet operates will provide pricing support to a dealer during a price war. This helps the dealer sustain the price war, as otherwise the dealer could be forced to exit the market. Pricing support is not provided for the dealer who started the price war.

Although consumers enjoy the immediate benefit of lower gas prices, a price war can have a detrimental impact on the market. This issue is canvassed in greater detail later in the report.

Price Variation Between Provinces

Consumers have noted the sharp variation between pump prices in Sydney, Nova Scotia, and Channel-Port Aux Basques, Newfoundland. The difference in price between these two regions cannot be fully explained by examining the cost structure of the retail sector. Similarly, taxes, although higher in this Province, do not support a 10 to 15 cents per litre difference in price.

As is the case in price wars, outlets, in certain circumstances, will sell below cost. Evidence indicates that a dealer located in the Sydney area consistently sells below cost. This particular dealer uses discounted prices to attract customers on to the lot in the hope that these same customers will purchase other products that the dealer sells. In effect, the dealer uses gasoline as a loss leader. Similar to the market dynamics in a price war, competitors are forced to sell at this same below cost price in order to maintain market share.[28]

This explains why the price for gasoline in the area of Sydney, Nova Scotia, is significantly lower than in Channel-Port Aux Basques, Newfoundland.

28. Information obtained from industry consultations (hereafter “Industry”).

CHAPTER THREE

Trend - Rationalization

According to Ervin, the number of gasoline retail stations in Canada has declined from 22,000 outlets in 1989 to approximately 16,500 in 1995.[29] Octane Magazine estimates that there were 14,513 stations operating in 1995.[30]

The reason for the fairly significant divergence in the number of outlets operating in Canada was never fully explained. As surprising as it may seem, this basic piece of information concerning the industry is one of the most elusive to obtain. The difficulty encountered in obtaining this data is experienced by all monitoring agencies, including Natural Resources Canada and the Province's Department of Mines and Energy.

While the market participants provided detailed information concerning their retail operations in the province, collectively, their replies did not provide a complete picture of this aspect of the industry.

It was determined however, that the number of retail stations operating in the province could be approximated from an independent source of information.[31] The information received through this source confirms that the rationalization taking place in Canada is also being experienced in Newfoundland and Labrador. In 1992, there were approximately 708 stations operating in Newfoundland and Labrador. By 1995 this number had declined to 643 operating stations, a drop of 9.2%. The number of stations which actually closed during this period would have been greater than this net decline of 65 outlets, if new stations

29 Ervin Report, p. 23.

30 *Infra*.

31 Every three years the Government of Newfoundland issues a tender call for the supply of gasoline under a credit card system used in its fleet of vehicles. The individual bids received from each retail operator (Irving, Esso, Ultramar, and Petro Canada) contains a schedule listing of the name and location of all retail stations operated by the individual bidder at the time of submitting the bid.

had not opened at selected sites in the same time frame.[32] The number of operating stations shrunk to 545 by September of 1997, a full 23% decline from 1992.

The retail gasoline trade is considered to be a mature industry. In the rare instance that a market in Newfoundland and Labrador is being under-serviced, it is usually attributable to a geographic shift in the population base, such as when a new subdivision is built in an urban area, and not as a result of a growth in total sales.

There has been little growth in the retail market for gasoline.[33] The average consumption of gasoline in Canada declined 28% from 1980 to 1990. Nationally, total volumes have remained virtually unchanged from five years ago.[34] This is predictable given the introduction of more fuel efficient vehicles into the population, together with the retirement of older vehicles. The national forecast is for an anemic 0.6% annual growth rate to 2005.[35]

In Newfoundland and Labrador, the decline in the 1980s has continued into the 1990s. The total volume of gasoline sold in the Province has dropped from 604 million litres in 1993 to 581 million litres in 1996[36], a decrease of 3.8%.

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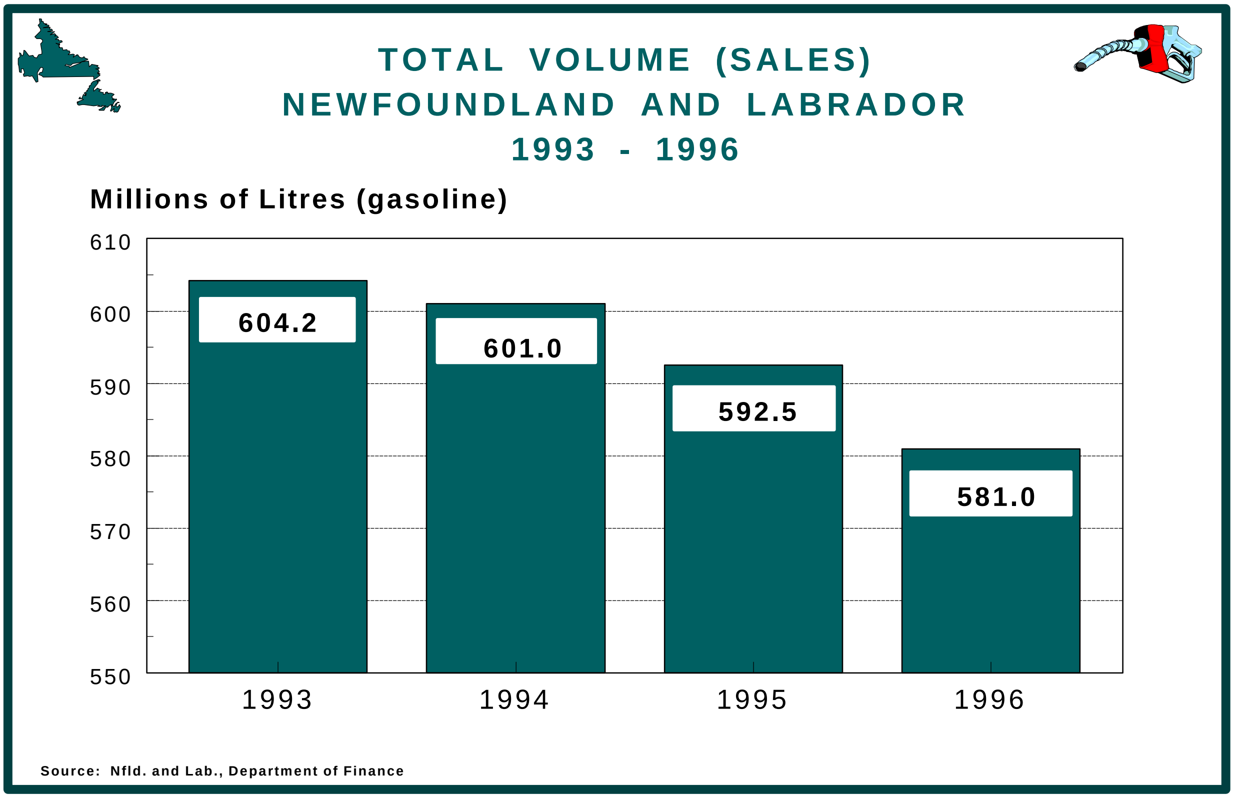
32 Industry.

33 Ervin Report, Refinery Report.

34 Refinery Report.

35 National Energy Board per Lerner; see also Refinery Report.

36 Government of Newfoundland and Labrador, Department of Finance Data.



This decline in total sales is predictable given that the Province's population base has remained stagnant and the fact that people consume, on average, less gasoline than in the past. Generally, the gasoline retail industry in Canada is over-supplied.[37] As retail margins shrink[38] and the total market volume decreases, operators are driven to increase efficiencies.

It has been suggested that at the present levels of obtainable retail margins, a station operator must sell a minimum of 1.5 million litres of gasoline yearly.[39] An Independent interviewed during the study indicated

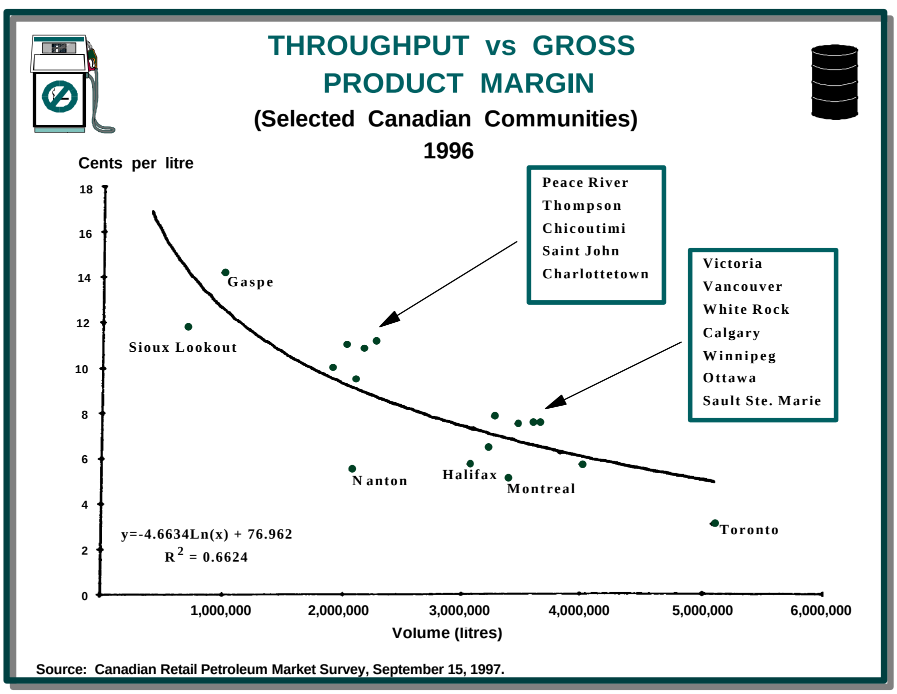
37 Ervin Report.

38 Ervin Report, Lerner Economic Report.

39 I.R.G.M.A. Newsletter, July 1997.

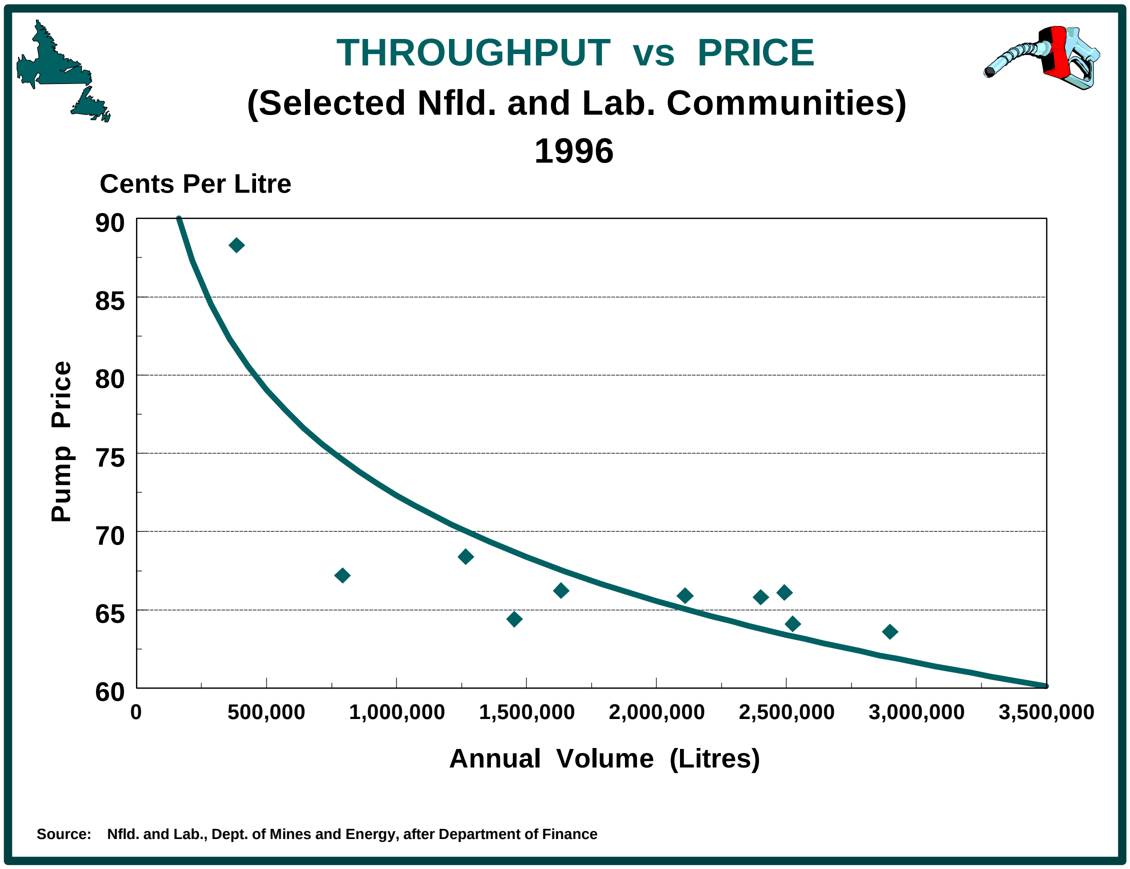
that the minimum throughput required to warrant construction of a new outlet was in the order of 3.5 million litres. Given that a number of stations in the Province sell significantly higher volumes than the average throughput of 1 million litres (some in excess of three million litres of gasoline yearly[40]) , it necessarily follows that there are a number of stations in operation whose total volume of sales may not exceed any more than 200,000 litres annually.

At a gross retail margin of five cents per litre, a 500,000 litre per year outlet would gross $25,000 annually. In order to survive, this station must either realize a greater retail margin than the industry norm of five or six cents a litre, significantly increase the station's throughput or raise additional revenue through ancillary services. In areas where a significant increase in throughput is unattainable, the response has been to raise the price in order to increase the retail margin. This explains in part why the price of gasoline is higher in some markets than in others. This inverse relationship between the volume of gasoline sold and the price charged for gasoline in a given centre has been well documented in the Ervin Report.



40 Industry.

This trend is also evident in the Newfoundland and Labrador market.



In Cartwright, Labrador the price of gasoline, at the commencement of this Study, was 94.9 cents a litre.[41] With a total population of 660, the expected total volume of gasoline sold in the community would not exceed 700,000 litres yearly.[42] The actual total usage is approximately 480,000 litres.[43] If each of the two stations operating in Cartwright shared equally between them the total volume, each would have a throughput of no more than 240,000 litres yearly.

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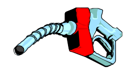
41 After discussion with Industry the price dropped in November, 1997, to 89.9 cents a litre in Cartwright, Black Tickle and Port Hope-Simpson.

42 On average Newfoundlanders use close to the Canadian average of the total volume of gasoline per person of approximately 1,100 litres yearly. Source: Statistics Canada.

43 Industry.

Given that the gasoline sold in Cartwright must be shipped to the Town and stockpiled for the winter, the operator would need to recover a gross retail margin higher than in St. John's.



COST OF GASOLINE
CARTWRIGHT
NOVEMBER 12, 1997

ITEM	COST IN CENTS PER LITRE
	CENTS PER LITRE
PURCHASE PRICE (FOB LONG POND)	29.30
FREIGHT	6.50
MARGIN (WHOLESALE)	9.06
MARGIN (RETAIL)	11.16
TAX	38.88
PRICE	94.90

Source: Woodwards Oil Limited

In other regions of the Province, station owners have increased efficiencies both by increasing volumes and finding alternative sources of revenue. An increase in volume can be achieved in two ways, by decreasing the number of stations operating and by attracting more customers to the station. The latter approach, that of increasing station visits, has been achieved by evolving from the traditional gasoline outlet to a modern multi-service, multi-pump retail convenience centre.

In the past, market participants owned and operated stations with one or two pumps, a service bay and in some cases a small retail store focused on automobile related goods, such as tires, batteries and wiper blades. In more recent times, market participants have embarked on an aggressive marketing program borne from a change in philosophy from seeing themselves as operators of gasoline stations to owners of "retail convenience real estate"[44]. In effect, the market participants, wherever possible, have upgraded existing stations to multi-island gasoline outlets which contain convenience stores, fast food kiosks, coffee corners, and car washes.

At a cost to build of in excess of $2,000,000,[45] a new or refurbished retail outlet must derive a significant portion of its income from the sale of non-gasoline related products in order to survive. In effect, the operator of the outlet banks on a customer spending $20.00 for gas, from which the outlet may realize a gross retail margin of $1.80,[46] and this same customer spending a further $20.00 on juice, bananas, coffee, or fast food from which the outlet may obtain a gross retail margin in the vicinity of $5.00.[47] Referred to as ancillary revenues, these additional sources of income have become crucial to the individual outlet operator remaining viable, as it is otherwise very difficult for the operator of a new station to recover its operating costs, let alone make a profit.

In a recent decision of the Public Utilities Board, Newfoundland Light and Power was awarded a 10.5% rate of return on its total investment, the Commissioners having determined that this was a fair and reasonable rate of return for the power company, recognizing the level of risk to which an investor would be exposed[48].

Arguably, the retail of gasoline presents a significantly greater risk to the investor than would Newfoundland Power. However, a review of the 1995 and 1996 annual reports of the publicly traded integrated oil companies reveal that the refining and marketing operations had returns on capital employed in the range of 6.0% to 8.0%.

44 Industry.

45 Industry.

46 $20.00 purchase equal to approximately 30 litres - estimated retail margin of six cents per litre.

47 Estimated gross retail margins of general merchandise - 25%.

48 P.U. 7 (1996-97).

In order to earn a rate of return equal to Newfoundland Power, a modern multi-service, multi-pump gasoline outlet may need to sell in excess of 3.75 million litres of gasoline annually.[49] While achievable for some locations, it is reasonable to conclude that not every site warrants a $2,000,000 investment. Accordingly, some isolated micro-markets in the province will not benefit from the efficiencies achieved through this process . One result will be a perpetuation of the variation in price between urban and rural areas of the Province.

Based upon discussions with market participants, and the experience gained in other jurisdictions, it is expected that the rationalization process will continue into the immediate future. A further decline of 10-15% in the number of outlets operating in the Province would not be unexpected.[50]

Effect of Rationalization on Level of Competition

The process of rationalization in the retail gasoline industry raises concern with the level of competition in the remaining market. Fewer stations generally means less competition.

The expressed objective of the rationalization is to improve the throughputs of the remaining stations. In theory, these remaining stations will be able to survive on a smaller gross retail margin and will pass these increased efficiencies on to customers.

If a station selling regular unleaded gasoline at the current price of 67.9¢ per litre[51] is minimally viable at a throughput of 1.5 million litres yearly, a low volume station (500,000 litres annually), with an equal amount of capital employed in the outlet and generally the same operating costs, would need to sell that same litre of regular unleaded gasoline at approximately 82¢ a litre[52] in order to earn the same return.

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49 Based on six cents per litre gross retail margin and $2,000,000 of total investment in capital items. Assumin g $50,000 in gross retail margin from ancillary services offsets all operating costs.

50 Industry.

51 Note that during the Study the price of regular unleaded, self-serve gasoline in St. John's declined one cent per litre to its current 67.9¢ a litre.

52 Assuming the gross retail margin gained on the sale of RUL at 67.9¢ is six cents a litre.

While the objective of rationalization, to improve efficiencies and therefore provide lower prices, is commendable, the continued trend towards fewer stations can have the opposite effect to what is intended. Ervin writes:

> In very small markets, reducing the number of outlets may also reduce the number of competitors to a small handful. Any fewer than 3-5 competitors in an isolated market could actually inhibit competition.[53]

The province is not without its share of isolated markets. As a legacy to its predominantly rural structure, Newfoundland and Labrador is dotted with what can be considered isolated micro markets. Places such as St. Brendan's, Cartwright, Burgeo, and St. Anthony are self-contained, geographically defined micro markets. Places such as Grand Falls-Windsor, while not "isolated" in the same sense as Cartwright, are, nonetheless, isolated for the purposes of the retail gasoline business. It is obvious that a consumer living in Grand Falls cannot drive to Gander to take advantage of a lower price at the pump. In many of these isolated micro markets, there are fewer than the "3-5 competitors" below which competition may actually be inhibited. As such, the market may display oligopolistic behaviour.

By example, in the Town of Grand Falls-Windsor, there are only two competitors left to service the market, Irving Oil and Ultramar, Imperial Oil having vacated the market in 1996. The Town has approximately 16,000 residents and seven outlets currently in operation, down from 13 outlets five years ago. Irving operates a convenience store in three of its four outlets. One of the three Ultramar stations is a Pipeline, offering a multi-service operation to the customer. Assuming that the residents of Grand Falls-Windsor consume, on average, a similar amount of gasoline to that of other residents in the Province, each station should have an average throughput of approximately 2.5 million litres, double what the throughput would have been five years ago. However, industry supplied figures would not seem to support these totals.[54] In any event, with half as many stations as five years ago, the remaining stations' volumes should be, on average, twice as high as their 1992 totals. At issue is whether the gross margins earned by outlets located

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53 Ervin Report (draft), p. XIII; NB: This sentence was omitted from the final report.

54 Industry responses imply that the per capita average consumptions in Grand Falls-Windsor may be well below the Newfoundland average.

in Grand Falls are comparable to other markets in the Province with similar throughputs or whether the shortage of competitors in Grand Falls-Windsor has inhibited competition.

A similar concern was addressed in the New Brunswick inquiry, which, after detailing the variation in prices within the province, concluded[55]:

> "... a substantial portion of the 4 cent per litre differential is not explainable by the cost factors. Market factors, specifically a lack of competition in the market from 1991 to 1995 are believed to account for the difference...."

An often heard complaint made by consumers is of finding the "same price everywhere". To many consumers, this "same price everywhere" phenomena only serves to confirm their suspicions that the major oil companies are cooperating with each other. Whether considered demonstrative of implicitly agreed upon fence sitting or outright collusion, the "same price everywhere" phenomena is a constant source of consumer suspicion and frustration. However, the "same price everywhere" phenomena is a product of consumer behaviour, and, in many instances, should be viewed as a sign that competitive forces are at play in the marketplace.[56]

In 1993, the Government of Newfoundland and Labrador introduced price posting regulations for the retail gasoline industry. These regulations required station owners to post prices in plain view, so that a passing motorist could instantly see what the station was charging for their product. This is known as curb-side pricing.

It was suggested that the average consumer will drive across the street if another dealer is selling gasoline 0.2¢ per litre cheaper.[57] It should be noted that this would represent savings of less than ten cents on a fifty litre fill up. While there was no empirical evidence to support this specific assertion, it is clear from anecdotal evidence that consumers generally display a high degree of sensitivity towards the price of gasoline.

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55 NB Report.

56 Lerner Economic Report.

57 Discussions with representatives of IRGMA and Sunys Petroleum Incorporated.

During 1997, certain areas of the province experienced price wars. The modelling of the dynamics or game theory in price wars is in its infancy and remains speculative[58]. As discussed earlier in this report, price wars commence as a result of one station owner dropping the price. Usually the station owner enjoys, albeit temporarily, a marked increase in market share. The competition must respond to maintain their market share. Eventually, the price drops to a floor at which neither operator is making money.[59] In the end, both station owners are forced to restore their price to a viable level.

Station owners, understandably, are reluctant to start a price war. Price wars rarely create long term shifts in market share. Lerner writes[60], "Price wars break out frequently in gasoline markets even though the conditions necessary for profiting from reducing a posted price are not satisfied." Only in instances where an operator has been forced from the market as a result of a prolonged price war, or a new station owner obtains a foothold in the market place by drawing attention to its presence through cheaper prices, is there any significant long term effect in the market share enjoyed by competitors.

Since price wars rarely have a long term impact on market share, and the price charged for gasoline is often posted for public view, market prices tend to converge. The end result is that the consumer sees the "same price everywhere".

By analogy, in the financial sector, most banks charge identical interest rates on residential mortgages. Whether the mortgage is for a six month open term or for five years the posted interest rate will likely be the same no matter which bank the customer uses. Periodic changes in the mortgage rate charged by an individual bank are quickly followed by the other chartered banks. This herd mentality is borne from the same cause that drives the "same price everywhere" phenomena in the gasoline trade, in that small variations in price between competitors can cause quick shifts in the market share enjoyed by the participants.

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58 George Lerner, Economic Analysis for the Competition Bureau: Retail Gasoline Pricing in Ontario and Alberta -The Post-Kuwait Experience, September 9, 1991.

59 George Lerner, Evaluation of the Six Residents' Allegation of Price Fixing in the Canadian Petroleum Industry , November 18, 1996.

60 *Ibid.*

Although consumers are generally frustrated with what they perceive to be overly high earnings in the banking industry, there seems to be general acceptance that the convergence of interest rates on mortgages is the result of consumer behaviour and a need by the participants to stay competitive with each other. There was no evidence brought forward which would lead to a different conclusion for the retail gasoline industry.

Another consumer complaint involves the perception that the price of gasoline gyrates and that the major oil companies use changes in the crude oil market to their advantage.[61] The speed at which the price of gasoline responds to increases in the cost of crude oil as compared to decreases, is euphemistically referred to as the "rockets and feathers" approach to pricing. Known in economic parlance as "asymmetric pricing", this issue has been the subject of numerous studies by Industry Canada[62] and most recently by a group of economists, including Assistant Professor Anastasia Lintner of Memorial University's Department of Economics.[63]

The conclusion reached by all who have studied this issue for the Canadian market, is that consumer perception does not reflect the empirical evidence. Hendricks found that the estimated response patterns are consistent with the hypothesis that the pattern is the same for increases in crude oil prices as for decreases in crude oil prices.[64]It would seem that the psychological impact of a price increase, and the ire it raises in the public, taints the consumers' perception of the timeliness of the changes.

Price volatility is, in itself, an indicator of a healthy retail market. When the price of a commodity, such as gasoline, periodically changes in price for reasons other than an increase in the price of crude oil, it can be presumed that the market is behaving as it should in that the market participants are passing through to the consumer any gains in efficiencies experienced by the participant.[65]

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61 Consumer complaints and inquiries.

62 Lerner, *supra*, n.59.

63 Anastasia Lintner *et. al.*, Testing for Asymmetric Pricing in the Canadian Retail Gasoline Market, February 1997.

64 Ken Hendricks, Analysis and Opinion on Retail Gas Inquiry, October 30, 1996.

65 It should be noted that this same theory will dictate the increase cost due to lost efficiencies (eg. new environmental regulations) will also be passed through to the consumer.

Grand Falls-Windsor, Cartwright and St. John's are three distinct isolated markets. Each of these markets display varying degrees of competitiveness.

In each market, the price for gasoline follows the "same price everywhere" trend. This indicates that competitive forces are at play. However, if tested for the second hallmark of competition, price volatility, a different result is achieved.

The St. John's market experiences more price volatility than Grand Falls-Windsor or Cartwright. However, as would be expected, St. John's displays less volatility than other major centres in the Atlantic provinces. In this sense, St. John's, the largest urban centre in the province, can be considered an isolated market. Clearly though, Grand Falls-Windsor and, even more so, Cartwright, are isolated micro markets that suffer from a lower level of competitiveness.

Low price volatility is a direct result of fewer competitors present in the market. With fewer competitors there are fewer participants driven to increase efficiencies and likewise fewer participants to pass along any savings gained as a result of those increased efficiencies. If the trend towards fewer stations in operation continues, the Province will experience an increase in these isolated micro markets being serviced by too few participants.

With fewer than 3 to 5 market participants, it is less likely that the increased efficiencies attributable to higher throughputs will be passed on to the consumer, as would seem to be the case in Grand Falls-Windsor. A micro market may not enjoy the benefits gained through a reduction in outlets. This will manifest itself by a decrease in volatility in the pump price of gasoline, the market rarely moving except when changes in the basic price of crude or the wholesale rack price dictate a change.

Recognizing that there is a legitimate objective driving the rationalization process, a purpose of the Study was to find a mechanism which would strike a balance between the drive towards increased throughputs and maintaining a sufficient level of competitiveness in the resulting market place.

CHAPTER FOUR

Industry Canada offers that, "Freely competitive forces are widely believed to result in the best allocation of society's economic resources, the lowest costs and prices, the highest quality, and the greatest incentives for product innovation and development while simultaneously preserving the democratic nature of Canada’s political and societal institutions.".[66]

The Response

At issue is whether Government has a role in ensuring that a balance is struck between maintaining a sufficient level of competition in the marketplace and the drive by market participants toward greater efficiencies.

Generally, price regulations for the industry, based on the experience of other jurisdictions would not serve the consumer well. This view is shared by industry. W. R. K. Innes, President of Esso Petroleum Canada in 1991, stated, in a letter addressed to the Provincial Department of Mines and Energy, that, "Regulated markets result in price stability at a level that permits the least efficient operator to stay in business and earn a profit.".[67]

Other Jurisdictions

Prince Edward Island is the only province in Canada which directly regulates gasoline prices. The Province of Nova Scotia regulated gasoline prices from 1930 to 1991, at which time the province moved to deregulation. British Columbia and New Brunswick have recently undertaken studies pertaining to pricing in the petroleum industry. The Province of Quebec has concluded a similar venture.

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66 Industry Canada, The Competition Act, The First One Hundred Years, 1996.

67 Correspondence, February 12, 1991.

Prince Edward Island

In Prince Edward Island, the Public Utilities Commission is empowered under the *Petroleum Products Act* to regulate the distribution and sale of petroleum products. The Act is designed to ensure at all times a just and reasonable price for heating oil and motor fuel for the Province's consumers. The Public Utilities Commission has general supervision of all wholesalers and retailers with respect to the pricing of heating fuel and motor fuel. This includes the authority to regulate the timing and frequency of price changes and the power to determine the price and the minimum and maximum mark up between the wholesale price to the retailer and the retail price to the consumer. An applicant seeking to change the price bears the onus of proving that the proposed price is just and reasonable.

Ervin recently completed a competitive analysis of nineteen markets in Canada, one of which was Charlottetown, Prince Edward Island.[68] The Study's findings are instructive:

> Charlottetown has perhaps the consistently highest ex-tax pump price of any urban market in Canada ... It is unlikely that the removal of price regulation would result in pump prices any higher than already exist in this market. Competitive disadvantages which exist in P.E.I. markets are shared with many other non-regulated markets which exhibit a pattern of lower prices. Therefore, there is likely no consumer benefit, and there may be some detriment attached to the P.E.I. regulatory structure, as evidence by its pricing history and that of Halifax.
>
> Some instances of direct Government intervention into petroleum marketing have been shown to have a possible adverse effect on competitiveness, and likely a negative impact on consumers.

Nova Scotia

Until July 1991, distribution and sale of gasoline within Nova Scotia was regulated under the provisions of the *Gasoline Fuel and Licensing Act*. Jurisdiction was vested in the Public Utilities Commission.

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68 Ervin Report.

In 1991, Nova Scotia moved to deregulation after adopting a recommendation from a study prepared for the Nova Scotia Department of Mines and Energy.[69] That study concluded as follows:

> Market deregulation of the wholesale and retail gasoline industry and petroleum product prices should be adopted in order to introduce lower costs, greater competition, and a more efficient and profitable industry for those remaining in the market. The consumer benefits from deregulation through a wider selection of services and lower prices. The major impact is that economic forces will shape the market rather than a more narrowly based and sometimes arbitrary regulatory structure. The new legislation in Nova Scotia allowed for the first time self service outlets and allowed unrestricted entry into the market of new players.

Ervin makes reference to the price history in Halifax, Nova Scotia, as follows[70]:

> For a number of years until mid-1991, retail pump prices, numbers and types of outlets and pump service (full v. self serve) were regulated by that Province's Public Utilities Board (P.U.B.). This structure was likely responsible for the historically high pump prices that existed in this market until late 1992.
>
> Since then, pump prices have generally fallen to reflect market conditions and have, on occasion, experienced price war activity, most notably in 1996, where at times, prices fell below the posted rack (wholesale) cost.

New Brunswick

There is no regulatory gasoline pricing regime in place in the Province of New Brunswick. The *Gasoline, Diesel Oil and Home Heating Oil Pricing Act* was passed by the Legislature in 1987 but has yet to be proclaimed. If proclaimed, the price of gasoline would be regulated.

On April 19, 1996, the Legislative Assembly for the Province of New Brunswick appointed a joint committee on gasoline pricing. The Select Committee on Gasoline Pricing submitted a final report to the Legislative Assembly on March 26, 1997.[71] The Committee concluded in part:

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69 Nova Scotia, Department of Mines and Energy, 1991.

70 Ervin Report.

71 NB Report.

- Cost differences do not fully explain the higher prices paid by New Brunswick gasoline consumers relative to consumers in other provinces for much of the past six years.
- The New Brunswick market has not been adequately competitive for much of the past six years, although in 1996 it was highly competitive in some regions.
- An environment that encourages the presence of independents in competition at both the wholesale and retail level would be desirable for consumers.

There is no indication that the province intends to proclaim the 1987 *Gasoline, Diesel Oil and Home Heating Oil Pricing Act*. However, the province is in the process of implementing a monitoring program of the gasoline retail industry.

Quebec

In 1996, the Quebec Government prepared legislation to protect Independents. Under the legislation specific zones would be established by the Régie de l'enérgie. It would be illegal to sell gasoline at retail for a price which is below a "calculated" wholesale price. There is a formula for establishing the cost of a retailer in a particular zone which takes into account the current market conditions, transportation costs, taxes, and operating costs. The objective of the legislation is to ensure that Independently owned service stations throughout the province are able to operate competitively with stations owned by the major oil companies. The legislation has yet to be implemented.

British Columbia

On May 16, 1996, the Province of British Columbia commissioned an inquiry to report on matters concerning gasoline pricing in that province. The report, presented to the Government on September 30, 1996, found:[72]

> In general, the Inquiry finds that the market sectors (crude oil supply, refining and distribution, retailing) which determine gasoline prices in B.C. are subject to competitive pressure. Crude oil prices are determined in the international oil market, a market in which competition has had a

72 British Columbia Inquiry Into Gasoline Pricing Final Report, September 30, 1996 (hereafter the "BC Study").

> downward pressure on real prices over the last fifteen years. The refining and distribution sector of the market is more concentrated, but its prices are generally linked to the broader North American market. The retail sector of the market also appears to be relatively competitive. These latter two downstream segments of the industry have not earned high returns in recent years.

However, the report also found a degree of price discrimination existed in the wholesale gasoline market. The report recommended the establishment of Government policies to improve throughout B.C. the potential for vigorous wholesale price competition both when markets are relatively stable and when markets are in short run disequilibrium. It was suggested that this objective could be achieved by assisting independent retailers in their search for suppliers of wholesale gasoline.

Canada

The Federal Government does not have the authority to regulate gasoline prices. That is a matter of exclusive provincial jurisdiction. However, the Federal *Competition Act* applies to gasoline pricing. The Act provides the Bureau of Competition's Director of Investigation and Research with jurisdiction to investigate allegations of anti-competitive behaviour in the market place. There are sections of the Act with which consumers should be familiar.

The Competition Bureau issued a news release to accompany the report on allegations of price fixing, anti-competitive behaviour and misleading advertising.[73] The backgrounder to that news release described relevant sections of the Act as follows:[74]

> Conspiracy
>
> Section 45 of the Act makes it an offence for anyone to agree or arrange with another person to prevent, or lessen unduly, competition in the sale or supply of a product. This could include, for example, price fixing or market allocation schemes (dividing markets or customers among competitors). Direct or inferential proof of an agreement among competitors is needed. In addition, the Crown is required to prove beyond a reasonable doubt that the parties to an agreement have unduly lessened competition. Penalties for conspiracy include a fine of as much as $10 million,

73 Lerner.

74 Competition Bureau, News Release, March 18, 1997.

or up to five years imprisonment, or both.

The existence of identical prices or the fact that competitors match each other's price movements is not, by itself, evidence of an agreement, particularly when there are plausible alternative explanations. In gasoline retail markets, the visibility of posted prices, and the predominant consumer perception that gasoline sold by different companies is essentially the same product, could logically produce similar or identical prices without an agreement. Gasoline retailers cannot realistically sell at higher prices than nearby competitors without quickly losing significant business.

Price Discrimination

Section 50(1)(a) applies to the practice of granting discounts or other price concessions to one purchaser which are not available to competing purchasers, in respect of a sale of articles of like quality and quantity. An important part of the price discrimination provisions is that differing discounts or price concessions can be given to different customers as long as these customers do not compete with each other. Furthermore, some types of transactions between affiliated companies would not be subject to this provision. For example, affiliates may transfer articles at a price reflective of their interests as a single economic entity. Such discounts or price concessions are not subject to the competitive conditions of the marketplace and would not be concessions in respect of a sale as required by the price discrimination provision.

Predatory Pricing

Section 50(1)(b) of the *Competition Act*, which concerns regional predatory pricing, prohibits businesses from engaging in the policy of selling products in any area of Canada at prices lower than those charged elsewhere in Canada, if the sale's effect, tendency or design is to substantially lessen competition or eliminate a competitor.

Section 50(1)(c) of the Act prohibits businesses from engaging in a policy of selling products at prices unreasonably low, if the sale has the effect or tendency of substantially lessening competition or eliminating a competitor, or is designed to have that effect.

Abuse of Dominant Position

The abuse provisions of the *Competition Act* are designed to remedy situations where one or more firms possess market power and engage in a practice of anti-competitive acts which have the effect of substantially lessening or preventing competition. To obtain a remedial order, the Director must establish before the Competition Tribunal that the following three elements in section 79(1) are met:

a) that one or more persons substantially or completely control, throughout Canada or any area thereof, a class or species of business (in other words, the possession of market power in a particular market).

b) that the dominant firm or firms engaged in a "practice of anti-competitive acts". An illustrative list of such acts is provided in section 78 of the legislation. The list is, however, not exhaustive.

c) that the practice of anti-competitive acts, has had, is having, or is likely to have the effect of preventing or lessening competition substantially in a market.

Price Maintenance

This is the provision that has been most frequently enforced with respect to the retail price of gasoline. The cases have involved unwarranted control of retail prices by a supplier. Under the price maintenance provision of the law, the court must find that there was an agreement, threat or promise used to influence upward or discourage the reduction of the price of another supplier (or retailer).

On October 6, 1997, a Private Members' Bill was introduced into the Parliament of Canada calling for amendments to the *Competition Act* in order to protect Independent retailers from certain market practices.

Monitoring

In the initial phase of this investagation, there was difficulty in securing basic information concerning the retail gasoline industry in this Province. There was no complete picture of the industry, either as a snapshot in time or viewed over time, available from any one Government department. This should not be the case. While it is true that the industry has been the subject of a multitude of studies, these studies are usually conducted on an ad hoc basis and given a specific mandate. While some studies are broad in nature[75], most are limited in scope, focusing on a specific concern.[76] It is doubtful whether consumers are well served by this process. Similarly, the companies themselves gain little benefit.

However, the retail gasoline industry, contributing more than $200 million dollars in direct taxation to the Province, should be monitored more closely than is the case. Government, and, accordingly the consumers of the Province, should have ready access to basic information concerning the retail gasoline industry in the Province. This information should be gathered by one department, which we recommend to be the Provincial Department of Mines and Energy. The data collected should include a listing of all retail gasoline

75 B.C. Study, Ervin Report.

76 Eg. Quebec Study, NB Report, Ontario's North-South Report, 1986.

outlets operating in the Province, including their location, branded name and type of operation. The monitor should also track weekly retail pump prices for self serve and full serve regular unleaded gasoline for municipalities in the Province. The monitor should also track the wholesale price for regular unleaded gasoline sold in the Province. Industry participants should be required by regulation to provide this market data.

If analyzed in conjunction with data available from Natural Resources Canada, Statistics Canada and industry related sources (eg. Bloomberg, Oil Week, Platt's Oil Guide), the information would provide both Government and consumers with a better understanding of the industry and the ability to monitor changes in the industry as they occur. The data collected in this process would have greater benefit than any collection of ad hoc reports.

The ability to monitor and report on the gasoline industry of the Province is crucial to ensuring that the oil companies remain accountable to the public. Consumers should have sufficient information to determine whether a station closure or change in pump price is part of a market trend. Decontextualized changes in the marketplace invariably lead to frustration and scepticism among the consuming public. If, instead, these changes are seen as part of a bigger picture, the closure of a particular outlet may allow a city or town to identify a trend and introduce policies intended to address problems before they occur. Similarly, changes in the pump price can be placed in the context of the Atlantic market to determine whether a change in the price of crude oil, or a change in the wholesale rack price is behind the increased price at the retail level.

The presence of a monitor, watchdog, or consumer advocate has an effect on the market. In various meetings with oil company representatives and retailers, it was stated that the commissioning and workings of this study influenced pricing decisions in Newfoundland and Labrador in the last half of 1997. While the rest of North America was experiencing price increases in August and September, 1997, this Province had relatively stable pricing. In Newfoundland and Labrador, the Consumer Advocate was quick to respond to any unjustified price increases by calling for a complete explanation from industry. Price stability was the result and consumers saved approximately $4,382,931 when these attempted increases failed.[77] It is for this reason, and others, that it is recommended that the industry be monitored and that full and timely

77 Estimated savings may be overstated as consumers may have purchased less gasoline following a five cent per litre increase in pump price.

justification be provided for any price increase.

Publication

ESTIMATED SAVINGS

DATE	ESTIMATED[1] SALES (Litres)	INCREASE (CPL)	SAVINGS (Dollars)
August 12-31[2]	35,756,284	5	$1,787,814.00
September	48,657,238	5	2,432,861.90
October 1-2[3]	3,245,120	5	162.256.00
TOTAL	87,658,642		$4,382,931.90

1. Based on 1996 Petroleum Products Sales.
2. Petro Canada increase of 5 cpl fails on August 12, 1997. A similar attempt by Irving fails on August 27, 1997.
3. On October 3, 1997, Ultramar decreases by 1 cpl.

It is of little use to monitor the industry and collect the data as described if the information is not made available to the public. The monitor should publish, on a weekly basis, in newspapers having a general circulation in the Province, a compilation of the data in an understandable format. Additionally, the monitor should issue a report on the state of the industry once yearly. This report, to be published in a newspaper having a general circulation in the Province, should contain statistical information concerning the industry in a concise and understandable format. This information should include year over year tracking of the average pump price of regular unleaded gasoline sold in selected cities and towns in the Province, as compared to the St. John's and Montreal wholesale rack prices, as well as to the pump price for selected cities in Atlantic Canada (eg. Halifax, St. John and Charlottetown). Information concerning the number and location of outlet closures and openings over the year, together with the total volume of gasoline sold, and market share of each participant would also be useful.

A similar recommendation was made to Government in 1991, when it was proposed that “A price reporting, monitoring and publication system with appropriate competitive safeguards would likely be supported by industry as a way to demystify their complex and often criticized industry."[78] The Consumers Association of Canada supported the proposal, noting as well that it disagreed with price regulation.[79]

A monitoring program would have the added benefit of providing Government with an independent assessment and source of data concerning the gasoline retail industry. Obtaining a sound understanding of the retail sector should lend assistance to Government when introducing policy that effects the upstream sector of the industry.

Current Level of Monitoring

At present, little of this information is readily available to the public. Although this Study obtained information directly from the participants, a significant portion of the information used in this report was gleaned from alternative sources, including Natural Resources of Canada, Industry Canada, Statistics Canada, Provincial and Federal Departments of Finance, Provincial Departments of Mines and Energy and Government Services and Lands, various Boards of Public Commissions and Departments within the Governments of Nova Scotia, Prince Edward Island and New Brunswick, as well as general discussions with individuals in the community.

Evidence indicates that Measurement Canada, the agency responsible for verifying and ratifying the accuracy of the gasoline pumps used by the outlets, rarely attends to this duty. Undoubtedly, this is because of a lack of resources. However, studies indicate that upwards of 20% of the pumps in use in Atlantic Canada are inaccurate.[80]

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78 Newfoundland and Labrador, Department of Mines and Energy.

79 Newfoundland and Labrador, Background Paper Petroleum Product Price Submission, 1991.

80 Octane Magazine, Summer 1995.

The Ervin Report and the Refinery Report were intended by Natural Resources Canada and Industry Caada to provide a comprehensive examination of, respectively, the retail and refining gasoline industries in Canada. Both reports are, allegedly, studies of a national scope. However, few references concerning the Come By Chance Refinery could be found in the Refinery Report and it would appear that the Province of Newfoundland and Labrador was omitted from the Ervin Report in order to save money.[81]
The only conclusion one can draw is that complete reliance cannot be placed upon Natural Resources Canada or Industry Canada to provide the monitoring recommended in this study. Natural Resources Canada and Industry Canada seem fixated on the mainland market and are therefore unlikely to provide meaningful assistance in gathering and tracking statistical information for the Province of Newfoundland and Labrador as recommended.

Posting Prices

Similar to the effects of increased monitoring, the public display of pump price, or "curb-side pricing" as it is referred to in the industry, has a positive effect on competition. Government had introduced regulations which required curb-side pricing[82], however these regulations have since been repealed[83]. We recommend that Government re-introduce these regulations, as not all station outlets are voluntarily posting their prices.

Public posting of prices will encourage station owners to match their price to the lowest price in the market. To prevent a permanent loss of market share, competitors must match the price. Although this leads to convergence in prices, for reasons as discussed earlier, the "same price everywhere" phenomena does not mean that there is a lack of competition in the marketplace.

81 Meetings with Natural Resources Canada.

82 Petroleum Product Price Posting Regulations, Reg. 38-93.

83 Regulatory Reform Project, 1995.

Exit and Entry Barriers

The economic barriers which discourage both the entry and exit of participants into or from the retail gasoline market can have a significant impact on the level of efficiency at which the remaining participants operate, and as such, can have an impact on the level of competition itself. This impact on the level of competition in the market will, in turn, have an impact on the price of gasoline at the pump.

New entrants to the gasoline industry bring new capacity, the desire to gain market share and often downward pressures on the price of gasoline. There are five barriers to entry into or exit from a market relevant to the gasoline retail industry. They can be summarized as follows:

Economies of Scale

Economies of scale deter entry by forcing a potential participant to either enter in on a large scale or to accept a cost disadvantage. Economies of scale can act as barriers in production, distribution, research, marketing, utilization of the sales force, and financing.

Product Loyalty

Brand identification and influence of the individual dealer creates a barrier by forcing entrants to spend heavily to overcome customer loyalty. Advertising, customer service, being first in the industry, and product differences are among the factors fostering brand identification.

Capital Requirements

The need to invest large financial resources in order to compete creates a barrier to entry. Capital is necessary not only for fixed facilities but also for customer credit, inventories and absorbing start-up costs. The significant capital needed in order to enter the gasoline retail industry places a limit on the number of potential entrants.

Cost Disadvantages Independent of Size

Entrenched companies may have cost advantages not available to potential rivals, no matter what their size and obtainable economies of scale. These advantages can stem from the effects of the learning curve, proprietary technology, access to the raw material sources, or favourable locations.

Government Legislation

Environmental compliance legislation can impose significant cost barriers to the closure of a station, or the opening of a new station.

Specific Entry Barriers

As discussed earlier in the report, the construction or complete refurbishment of an outlet into a multi-service, multi-pump retail convenience centre can exceed two million dollars. While a more traditional gasoline only outlet, or gasoline outlet with only a convenience store can be built or refurbished for less money, the niche for these types of operations grows ever smaller as customers grow more attached to the concept of the one-stop shopping convenience centre. The "same price everywhere" phenomena all but precludes an outlet from competing on price, even if the outlet could survive on smaller margins because of its lower capital costs. The days of the gasoline only outlet operating in an urban environment are numbered. Similarly, customers can expect to see fewer gasoline only outlets in rural areas as well.

Perhaps the only place where the traditional gasoline only outlet will remain is in the isolated micro-market, as it is unlikely that the total volume of gasoline sold in the entire community would warrant the investment of a large multi-service, multi-pump convenience centre. As a result, an outlet located in a micro-market may not be in a position to take advantage of the efficiencies inherent in a larger operation.

In isolated micro-markets, the level of service may decline as unviable outlets close, and no new outlets open. If the number of competitors declines with the closing of the outlets, the isolated micro-market may continue to experience higher gasoline prices than the price experienced in urban areas of the Province.

This should be a concern to many towns and communities across the Province as higher prices for gasoline will have an impact on the cost of living, making it more difficult for those communities to attract commercial development and residents. However, communities and towns are not totally without recourse, as they have direct control over the second form of entry barrier - land use planning.

Some of the participants[84] described difficulties in obtaining permits from municipal authorities for the construction of new outlets. The difficulty is usually centered on zoning regulations and by-laws which were seen to unnecessarily impede the development of new sites.[85]

People buy 70% of their gasoline within a two kilometre radius of their residence.[86] Accordingly, shifts in population densities within a community will drive the need for a change in the location of an outlet or give rise to an opportunity to expand. The participant who is best situated to take advantage of a shift in the market, whether by closing an existing outlet and replacing it with a new or refurbished one, or developing an entirely new site, will come forward to seek approval of its plans from the municipal authority.

While, understandably, there is a concern that the development of a commercial operation at the site chosen by the applicant will not complement the neighbourhood in which it is to be located, the municipal authority should remain cognizant of the economics driving the application and, wherever possible, facilitate the applicant's plans. Only by encouraging the development of more efficient outlets can the municipality ensure that its citizens will be well served by the industry and avail of the lowest possible pump price.

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84 Industry.

85 In most towns and communities in the Province the local council is responsible for approving zoning permits.

86 CPPI presentation on gasoline pricing to the standing committee on natural resources; NB. Ken Brown (Report concerning the Gasoline Inquiry) states that consumers tend to use stations within a 5 mile radius of where they live, provided that they live in a populated area.

Exit Barriers

The exit of a participant from the market can have a positive influence on the market by increasing the efficiencies of the remaining participants. In theory, these remaining participants will "pass" these efficiencies on to customers in the form of lower prices for their product. However, a participant who wishes to exit the market is faced with economic barriers.

The principle source of barriers to an exit from the market is related to environmental costs associated with decommissioning an outlet. Under our current regulations[87], a station owner must remove all underground storage tanks after the station becomes inactive. These regulations are intended to prevent the long term abandonment of underground storage tanks and thereby maintain the environmental integrity of the property. However, our regulations do not require the removal of tanks over a certain age.

The removal of underground storage tanks is an expensive proposition for a station owner.[88] In the instance where the outlet is owned, not by a major oil company, but instead, by an independent businessperson, as is the case in over 50% of the outlets in the Province, the cost associated with the removal of the underground storage tanks can be prohibitive. As such, the owner of the outlet may determine that it is cheaper to continue operating the outlet than to incur the cost of closing the station.

It is not a recommendation that Government should relax its environmental regulations. However, it is the combination of having regulations requiring the removal of tanks on closure of a station and lack of regulations requiring the removal of tanks of a certain age that can discourage environmentally sound decisions.

The closure of an unviable outlet may allow the remaining participants to increase their own throughputs and, accordingly, become more efficient operators. The actual effect felt by the closure of the outlet will depend on the dynamics of the particular market.

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87 Storage and Handling of Gasoline and Associated Products Regulation, 1982.

88 The cost of removing tanks without contamination that needs to be remediated can in itself exceed $50,000. The cost of an aggressive remediation program in the event of a spill can cost in the hundreds of thousands of dollars.

Role of the Independents

Independents account for almost 24% of gasoline sales in Canada. However, there are few Independents operating in Newfoundland and Labrador. Stuart Murray, President of Winnipeg-based Domo Gasoline oversees an Independent operation with seventy-three service stations in Western Canada. He has stated, "We have a good balance between majors and Independents in the West. You look at some of the things going on in the East and you shudder."[89]

While some participants are vertically integrated companies, owning and operating exploration divisions, oil producing properties, refineries and retail arms (eg. Imperial Oil and Petro Canada) and other participants are partly integrated, owning refineries and retail divisions but no upstream operations (eg. Irving Oil),an unbranded Independent is focused exclusively on the retail aspect of the industry. Independents can play a significant role in the market place. In Quebec, Independents have nearly a 25% share of the retail market.[90] Traditionally, Independents have competed on price in order to acquire and maintain a share of the market.

Since the consuming public displays a high sensitivity to price, Independents have been able to secure a significant share of the market by selling the same commodity as the majors at a reduced price.

However, as retail margins shrink for all participants, including the Independents, and competitors implement "no lower price" strategies, the Independents have found it increasingly difficult to maintain their price spread from the majors. Since the Independents may not be able to provide the same level of convenience shopping to the consumer as the majors, with their multi-service, multi-pump convenience centres, the Independents have seen either an erosion of their market share, or, in cases where additional stations have been added by Independents in order to maintain their market share, a lowering of the average throughputs and consequently, a lowering of efficiencies.[91]

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89 Macleans Magazine, October 7, 1996.

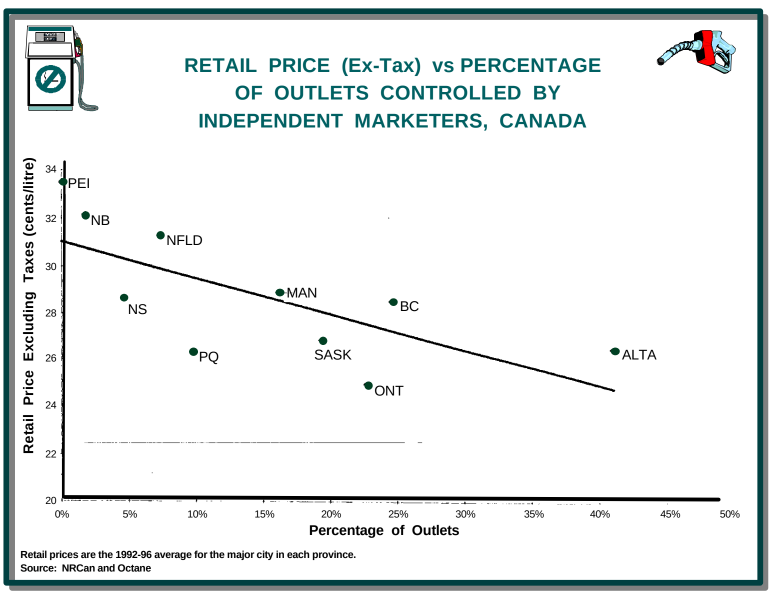
90 Repport du Comite Special D'Examen de la Situation du March de l'Essence au Quebec , October 8, 1996, Ervin.

91 Imperial Oil Presentation to the Quebec Commission, 1996.

As early as 1986 the Provincial Government had been concerned about the effect of competition in the industry and the lack of Independents in the Newfoundland and Labrador market. The Provincial Government stated[92]:

> "It (Senate Committee) might recommend action by an appropriate agency such as the Restrictive Trade Practices Commission to look into the whole question of competition within the industry at the retail end of its operations and to investigate the absence of competition in Newfoundland in particular, and any other parts of Canada where this is evident.
>
> ...
>
> Action should be considered to review the circumstances of small distributors in the Newfoundland market to see how they might expand their operations without constraint by the major supplier companies."

The New Brunswick Report also studied this issue and found that Independents had an impact on pump prices. The committee examined the market in Nova Scotia and New Brunswick and concluded that counties possessing the most Independents had lower prices, and counties which had the highest degree of domination by a single outlet had the highest prices[93].



92 Newfoundland and Labrador, Submission to the Senate Standing Committee on Energy and Natural Resources, 1986.

93 NB Report.

It is questionable whether the Independents will be able to continue this pattern, as oil companies have grown increasingly intolerant of price differentials within defined markets. This has led to price wars in some markets.

Price wars are usually caused by Independents attempting to maintain a price differential.[94] At times, during a price war, participants in the market may be forced to sell below cost. The Independents submit that the integrated oil companies unfairly take advantage of their ability to absorb losses at the retail level by providing product at the wholesale level to their own affiliates at below normal wholesale prices or by subsidizing the losses sustained at the retail level. As mentioned earlier, this is allowed under the Competition Act.[95]

In response, Independents have sought changes in Provincial or Federal legislation that would prohibit the integrated companies from selling retail gasoline for a price below a calculated wholesale level. This would prevent integrated companies from using profit earned in their refinery or wholesale divisions to subsidize the retail sector.

A second component of submissions often made by Independents would force the integrated oil companies to wholesale product at a posted price.

The Competition Act already addresses this second issue by making illegal the practice of selling the same product at different prices to different purchasers where the volume being purchased by each is approximately the same.[96] Industry Canada has recommended that the prices be posted to avoid any ambiguity on this point. However, legislation designed to force wholesale at a posted price regardless of volume would run counter to the well established economic principle that high volume purchasers will often obtain a discount on the wholesale price.

94 Lerner.

95 Competition Act, s. 45.

96 Competition Act, s. 50.

Restated, the first issue raised by the Independents alleges that they are victims of a predatory pricing strategy, employed by the majors.[97] The strategy, it is said, is to force the Independents into a costly price war, one which, comparatively speaking, they cannot afford to sustain as well as the majors. As a result, the Independents are either squeezed completely from the market place or so financially bruised that they are reluctant to trigger another price war and therefore maintain the price at a level equal to the majors, thus losing their competitive advantage. The Independents also state that the majors have used their excess earnings in their refining divisions to finance the refurbishment of the large convenience centres, money that is not available to the retail only Independent.

In one jurisdiction, the response has been to attempt to protect Independents by introducing legislation which prevents any participant from selling product at below cost.[98] As discussed earlier, there are cases where, during a price war, the market participants may end up selling their product for less than the wholesale cost. Since the volume of product sold by an outlet rises dramatically during these brief price wars, consumers attempting to take advantage of the drop in price, the participants can find themselves operating at a substantial loss.[99]

However, it is questionable whether the Quebec solution is ultimately workable as it will require their equivalent to our Public Utilities Board setting what is to be considered a reasonable return at the wholesale level at which point no participant can sell below.

It may be overly optimistic to conclude that Government, or the appropriate Public Utilities Board, would set the "reasonable return" at a point equal to or below the current market rate. Government should avoid any form of price regulation unless it is clear that the market is operating dysfunctionally. There is no evidence that this is the case.

97 Discussions with Independents.

98 As of the time of writing, the Quebec commission had not yet set an acceptable benchmark for the return at th e wholesale level.

99 If, during a price war, the price per litre for regular unleaded gasoline drops twenty cents, a 1.5 million litre station selling product at 100% above normal volumes during the pri ce war would lose in over $1,200 per day plus operating costs.

However, it may be possible to resolve these issues without legislative intervention. Some Independents have suggested that their participation in the Province's marketplace could be secured if they were provided with a dependable independent source of product at the wholesale level. These Independents are of the view that they could operate in a viable manner even with the lower retail margins available to the participants, provided that they did not have to rely upon the major oil companies for their supply of product.

Industry Canada views the securing of an independently owned and operated terminal as a key factor in encouraging Independents to enter a market.

The greatest impediment to the establishment of a terminal for the storage of petroleum products is achieving compliance with environmental regulations. Government should work with private enterprise to develop a strategy that would achieve this objective. The Whiffen Head Storage Terminal, currently under construction, could be used to provide an independent supply of product to Independents operating in the Province. Alternatively, the existing terminal located in Long Pond, Conception Bay, could be used for this purpose.

Either of these sites could provide the separate gasoline supply sought by Independents.

APPENDIX "A"

STUDY ON GASOLINE PRICES

PROVINCE OF NEWFOUNDLAND AND LABRADOR

<u>QUESTIONNAIRE TO THE INDUSTRY</u>

A. <u>RETAIL SECTOR INFORMATION</u>

I. On a separate return of information for each outlet (Form No. 1 as provided), please provide the following information concerning your operations in the Province of Newfoundland:

1. The location of any outlet supplied with product by your company at any time since January 1, 1993.

2. The number of years the outlet has been in operation together with a description, where appropriate, of any major changes in the type of facility or method of operation of the outlet since January 1, 1993.

3. The type of facility (ie. self-serve, full serve) together with a description of any ancillary operations (ie. service bays, restaurant, convenience store, etc.).

4. Describe the method of operation of the outlet (ie. company operated, cross leased, independent operator, etc.).

5. A listing of the type of petroleum products sold at the outlet (ie. regular, unleaded, premium, etc.).

6. The volume of products sold for each product in each year for the calendar years 1993, 1994, 1995, and 1996.

7. The retail pump price paid for each such product on the first working day of each quarter since January 1, 1994.

8. Provide information concerning the chain of distribution that is used to supply the outlet starting at the refinery level. Also, provide any information concerning any major changes that have been made in the chain of distribution for this particular outlet during the last four years.

II. Please provide a copy of a sample contract for the establishment of the contractual relationship between your company and:

a) cross leased outlet;

b) commission/agent operated;

c) key lock and card lock customer accounts;

d) independently operated; and

e) company operated.

III. Please provide information concerning whether your company provides price support payments to any of your outlets and, if so, under what conditions such price support payments are provided.

B. <u>CRUDE OIL SUPPLY AND WHOLESALE DISTRIBUTION</u>

1. What is your source of wholesale gasoline?

2. How do you manage your inventory evaluation (ie. LIFO, FIFO, etc.)?

3. Generally what, if any, time lag is there between a change in:

   a) the cost of crude oil and your rack price (rack price is defined as the price paid at acquisition of gasoline product at the wholesale level prior to supplier transportation costs and mark ups);

   b) the rack price at acquisition and the retail pump price.

4. Do you operate any bulk storage facilities in the Province of Newfoundland?

   a) If yes,

      i) please describe where each of these facilities are located and to whom the product from these bulk facilities is sold;

      ii) describe the mode of delivery and shipper for product distribution from point of rack acquisition to your bulk facility;

      iii) the cost of transportation expressed in cents per litre for delivery of product from point of rack acquisition to your bulk facility.

   b) If not from whom do you obtain product and under what arrangements (ie. purchase exchange agreements, etc.)?

5. Describe any major changes that have been made to your bulk storage facility operation in the Province which have occurred during the last five years.

6. What is your transportation cost expressed in cents per litre per kilometre for delivery of product from each bulk facility to outlets in that bulk facility's distribution area?

7. Who among yourself and outlet operators bears the cost associated with product shrinkage during delivery from the bulk facilities?

8. What is the rationale for the difference in cost at the retail level between the pump price of regular unleaded gasoline and premium grade gasoline products?

C. GENERAL INFORMATION CONCERNING YOUR OPERATIONS

1. Is there a targeted retail margin for the individual outlets operating under your distribution system? If so, what is this target and what does your company plan to do over the next five years to reach this target if it hasn't already done so?

2. Describe the nature, use and rationale for any geographic zones or region based system for your company's:

   a) distribution operations;

   b) retail pump pricing.

3. Does your company employ geographic zones or region based distribution or pricing systems for its operations in other provinces in Canada?

4. Please provide an estimate of the total cost of investment, including land acquisition, construction and compliance with all environmental laws, expressed as a fixed capital investment in plant relating to the opening of a new gasoline retail outlet without service bays or restaurants but including a convenience store.

D. INDIVIDUAL MARKET ANALYSIS

We are studying three distinct regions in the Province in our analysis of the competitive forces in the retail gasoline industry. Accordingly, we would request your company's response to the following questions:

1. In August of 1997, a price war occurred in the Lewisporte retail gasoline market.

   a) What was your company's retail pump price for regular unleaded gasoline on July 15, 1997, for

      (i) self serve; and
      (ii) full serve.

b) Did your retail pump price for regular gasoline deviate from the July 15, 1997, benchmark, and, if so, please provide details of these deviations for the period July 15, 1997, through to September 5, 1997, as follows:

(i) date of the deviation;
(ii) amount of the deviation;
(iii) reason for the deviation.

c) Did your company provide any price support to any outlet operation in the Lewisporte area during this price war and, if so, what form of price support was provided?

2. The Town of Grand Falls has experienced a decline in both the number of retail outlets and the number of major oil companies operating these outlets. Please provide the following information concerning your operations in the Town of Grand Falls:

a) If your company no longer operates or supplies a retail outlet in, or immediately surrounding the Town of Grand Falls, please provide the following information:

(i) The reasons for your departure from the market.

(ii) Whether your departure is temporary or considered by your company to be a permanent departure from the market?

(iii) What conditions would need to be present in the Grand Falls market for your company to decide to re-enter that market?

iv) What role, if any, could consumers from the Town of Grand Falls, or the Government of the Province of Newfoundland play in encouraging your company to re-enter the Grand Falls market?

v) Upon leaving the Grand Falls market, was your company required to remove any underground storage tanks from any outlet? If so, what was the approximate cost to your company to comply with our Province's environmental laws in this regard?

b) If your company still operates or supplies an outlet in the Town of Grand Falls, but has closed, abandoned or otherwise stopped supplying product to one or more outlets, please provide the following information:

i) How many outlets have you stopped supplying since January 1, 1993?

ii) Why did you stop supplying the outlet(s)?

3. Generally, the lowest pump prices for gasoline are found in and around the City of St. John's.

   a) What, in your company's view, are the principle reasons why the pump price for gasoline in the St. John's market is generally lower than in most other areas of the Province?

   It is also noted that the pump price varies from region to region within the Province of Newfoundland.

   b) Why is the pump price of self-serve regular unleaded gasoline generally higher in Deer Lake than in Corner Brook?

   c) What efforts, if any, has your company made to its operations in the Province of Newfoundland to minimize the variances in pump prices between regions in the Province?

   d) Please provide the selling price, expressed in cents per litre net of any discounts provided to the purchaser for the ex-tax pump price of regular unleaded self serve gasoline sold to:

      i) the general public;

      ii) key lock and card lock customers (if more than one choose the lowest price provided to any such customer); and

      iii) bulk contract customers (if more than one choose the lowest price provided to any such bulk contract customer);

      for the following locations:

      i) City of St. John's/City of Mount Pearl

      ii) Goobies Junction on T.C.H.

      iii) Town of Marystown

      iv) Town of Clarenville

      v) Town of Gander

      vi) Town of Grand Falls

      vii) Town of Deer Lake/T.C.H. Junction

viii) City of Corner Brook

viv) Town of Stephenville

ix) Town of Port Aux Basques

x) Town of Lewisporte/T.C.H. Junction

xi) Town of St. Anthony

xii) Labrador City

xiii) Happy Valley-Goose Bay

for each of the following dates:

i) May 1, 1997

ii) August 1, 1997

iii) April 1, 1997

iv) March 1, 1997

v) January 1, 1997

vi) August 1, 1996

vii) January 1, 1996

viii) January 1, 1995

viv) January 1, 1994

FORM NO. 1

A. Location of outlet: ____

B. Current owner of outlet: ____

C. Number of years in distribution network: _____________________________

D. If not currently operating, date of shut down: __________________________

E. a) Type of facility

- Self Serve ☐
- Full Serve ☐
- Both ☐

b) Type of gasoline product

- Regular Unleaded ☐
- Premium Unleaded ☐
- Other ☐

F. Ancillary Operations (check each applicable):

- Service Bay(s) ☐
- Car Wash ☐
- Convenience Store ☐
- Restaurant ☐
- Fast Food Outlet ☐

G. Method of Operation:

- Company Operated ☐
- Leased ☐
- Cross Leased ☐
- Independent ☐
- Agency ☐
- Other (describe) ☐

.../2

H. Describe any major changes in either the type of facility, ancillary operations or method of operation that have occurred during the past four (4) years.

____

____

____

____

____

I. Volume of product sold (add volumes of all products sold at outlet) during each of the calendar years:

1993 - ________________
1994 - ________________
1995 - ________________
1996 - ________________

J. Describe the type(s) of pump(s) used at the outlet, the age of each and the date of last calibration?

K. Retail pump price for each product on the first working day of each quarter commencing on January 1, 1993:

January 1, 1993	__________	July 1, 1995	__________
April 1, 1993	__________	September 1, 1995	__________
July 1, 1993	__________	January 1, 1996	__________
September 1, 1993	__________	April 1, 1996	__________
January 1, 1994	__________	July 1, 1996	__________
April 1, 1994	__________	September, 1996	__________
July 1, 1994	__________	January 1, 1997	__________
September 1, 1994	__________	April 1, 1997	__________
January 1, 1995	__________	July 1, 1997	__________
April 1, 1995	__________		

L. Please described the chain of distribution for this outlet.

____

____

____

APPENDIX "B"

CONSULTATIONS

Legislation

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Consumers' Association of Canada, Newfoundland Branch

Randy Connors - Goulds

Roy Myers, P. Eng. - St. John’s

Official Opposition Caucus, Newfoundland

Government Members' Committee (Newfoundland)

Harry and Brenda Young - Gander

Winston Newbury - Corner Brook

Patrick W. Dunphy - Corner Brook

Reginald Gardiner - Sunnyside

Cletus D. Perrier - Avondale

Richard Porter and Michael Porter - Foxtrap

J. Bert Downey - Doyles

Battle Harbour Regional Development Association

David Springall - Appleton

Brendan T. Walsh - Flatrock

Lloyd Rossitor, Mayor - Ramea

Mike Keough - St. John's

Greg Dunne - St. John's

Sam Synard - Marystown

Rose Coombs - Portugal Cove

Dennis O'Keefe - St. John’s

Ernest Simms - St. John's

Jack Harris, MHA, Signal Hill-Quidi Vidi

Stephen Knee - Portland

Walter Milley - St. John's

Isabell Foster - St. John's

Byron Rumbolt, Mayor, Town of Mary’s Harbour

Peter Kent - Bell Island

Gerry Byrne, M.P., Humber St. Barbe, Bay Verte

Wally Roberts - Hermitage

Alban J. Hearn - Torbay

W. Blackmore, Mayor, Town of Grand Falls-Windsor

Melvin Keeping, Town Clerk, Town of Channel-Port aux Basques

M. Kendall, Town Clerk, Town of Hermitage-Sandyville

Darrell J. Breton, Mayor, Town of Labrador City

Lawrence O'Brien, M.P., Labrador

Marilyn Reid, Town Clerk, Town of Little Catalina

Ivy King, Town Clerk, Town of Cupids

David Kendall, Town Clerk, Town of Burgeo

Barry Carroll, Town Clerk, Town of St. Anthony

Derek White, Town Manager, Town of Lewisporte

Vida Greening, Town Clerk, Town of Port Blandford

Angus Gillingham - Little Burnt Bay

Labrador North Chamber of Commerce

Combined Councils of Labrador

Ruth George - Rose Blanche

Joe Hiscock - Burgeo

Mike Maher - St. John’s

Ray Wight - St. John's

Jim Morgan - St. John’s

Robert Jeans, Mayor, Change Islands

Rose Coombs - Portugal Cove South

Terry Sanford - Torbay

Harry Brown - Holyrood

Rod Fowler - St. John’s

Byron Rumbolt, Mayor, Mary's Harbour

Edward Evans, Chief Administration Officer, Town of Botwood

Town of Happy Valley-Goose Bay

Denyce Peddle, Town Clerk, Town of New Perlican

Town of Grand Falls-Windsor

Marie Blackmore, Town Clerk, Town of Clarenville

Blanche Bennett, Town Clerk, Town of Seldom-Little Seldom

Perry Canning, M.H.A., Menihek

Joan LeDrew, Councillor, Town of Change Islands

Leonard Sheppard, Mayor, Community of Rigolet

Trevor Bennett, Mayor, Town of Steadybrook

Andrew O'Brien, Town Clerk, Town of Cape Broyle

Jim Tessier, Town Manager, Town of Grand Bank

Andrea Norman, Town of Bay Bulls

Government Consultations

Government of Canada, Natural Resources Canada, Energy Sector

Government of Canada, Competition Bureau

Government of Canada, Industry Canada

Government of Canada, Measurement Canada

Government of Canada, Statistics Canada

Government of Newfoundland, Department of Government Services & Lands

Government of Newfoundland, Department of Mines & Energy

Government of Newfoundland, Department of Finance

Government of Newfoundland, Department of Works, Services and Transportation

Government of Nova Scotia, Nova Scotia Utility and Review Board

Government of Nova Scotia, Department of Natural Resources

Government of Prince Edward Island, Island Regulatory and Appeals Commission

Government of New Brunswick, Select Committee on Gasoline Prices

Government of Quebec, Ministry of Natural Resources

Government of British Columbia

Government of the Yukon Territories

Industry Consultations

Independent Retail Gas Marketers Association

Lewisporte Retailers

Grand Falls-Windsor Retailers

Wilson Fuels Ltd.

Irving Oil Ltd.

Ultramar Ltd.

Imperial Oil Ltd.

North Atlantic Petroleum

Co-op Atlantic

Petro Canada

Woodward Oil Ltd.

Sunys Petroleum Inc.

Western Petroleum

Various Retailers (Newfoundland and Labrador)