Canadian Fuels
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canadienne des carburants

Commentary

Regulating gasoline markets is no 'easy fix'

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In some regions, 2018 fuel prices surpassed previous highs pre-dating the 2008/09 financial crisis. Political reaction has been predictable, with allegations of 'gouging' from some political leaders and musings about the introduction of price regulation to protect consumers' interests.

Simple solutions to complex issues rarely deliver the intended results. In fact, the outcome can often be the opposite of what is intended. Regulation to counteract the ebb and flow of normal market forces is seen as an easy fix to assuage the expectations of voters that government 'do something'. But this misses the mark on what actually moves prices in an open market.

Rising global crude prices, strong gasoline demand, infrastructure constraints, taxes and carbon pricing are some of the factors that have helped drive fuel prices across Canada in 2018.

Gasoline price regulation already exists in Canada – in Quebec and Atlantic Canada. The specific approach varies depending on the province and the 'problem' they are trying to control – high prices, price volatility, or protect smaller players.

In Quebec, regulations impose a price floor, below which retailers cannot sell gasoline. It's intended to prevent predatory pricing, or pricing below cost, to protect smaller independent retailers from competition from larger players, primarily the 'big box' retail outlets. The downside is that it can keep smaller, inefficient, and sometimes uncompetitive retailers in business, ultimately driving prices higher for consumers.

New Brunswick imposes a price ceiling. Its approach is rooted in the assumption that pricing is not sufficiently competitive and that consumers should be 'protected' from unreasonably high prices. Their formula takes into account a 'reasonable' margin for sellers, distribution costs and other factors. Experience has shown that prices, for the most part, remain well below the ceiling – they rarely push up against the ceiling, making the regulation ineffective. In reality, it's the market that influences prices in New Brunswick, not regulation.

Newfoundland and Labrador also has a price ceiling, similar to New Brunswick's.

Nova Scotia employs yet another approach, incorporating both a price floor and ceiling. While this helps reduce price volatility – a key frustration for consumers - volatile markets are usually indicative of intense price competition that generally means consumers are paying less for gasoline.

Prince Edward Island also employs this blended approach – with a price floor and ceiling.

Looking at the big picture, gasoline prices in regulated and unregulated markets in Canada are generally not

a whole lot different. Independent price tracking, adjusted for taxation differences and underlying regional differences in wholesale prices, demonstrates this.

More detailed analysis shows that over the long term, consumers actually pay more for gasoline under price regulation than they do without regulation. A case in point – a 2017 report by the Atlantic Institute for Market Studies (AIMS) concluded that price regulation in Atlantic Canada has cost consumers $205 million in higher gas prices since provincial governments began regulating gas prices.

Gasoline consumers' interests are best served by competitive markets. Free markets are powerful forces that drive intense price competition to the benefit of consumers. Moreover, the gasoline market is one of the most transparent markets in North America; at every level of the value chain, price components are publicly available. They are critical in understanding the value added by those involved in the refining, distribution and marketing of gasoline and other petroleum products.

Price regulation may seem like an easy fix and a convenient sound bite to exploit public angst over rising gasoline prices or to 'change the channel' on the increasing tax component of the pump price. It may even make consumers happy, but in reality it accomplishes nothing at best, and at worst actually increases gasoline costs.