Referee Report on MS 1181

„Regulating the Gasoline Retail Markets: The Case of Germany“

This paper proposes the implementation of a corrective tax in order to overcome tacit collusion in retail gasoline markets by applying a complex and dynamic tax system instead of other regulatory or competition policy measures.

Comments

Although the adapted taxation system introduced by M.A. Adelmann may be an interesting tool to prevent collusion among oil exporting countries it is, in my opinion, completely unsuitable to prevent tacit collusion in retail gasoline markets. The authors ignore important institutional facts of retail gasoline markets and therefore draw wrong conclusions.

At first, such a tax would require too much information as to be implemented in local and regional retail markets. Even if only a common national market would exist the application of the tax would fail just because of the lack of information.

Cost as well as demand structures have to be known to implement an adequate tax – which is of course not known by regulatory authorities at any point in time. However, even if this information would be available it would be much easier to regulate prices directly. The application of a tax system is not only much more complicated but obviously also costly. Moreover, also the frequency and heterogeneity of price changes make an implementation of the tax impossible.

Secondly, a tax would lead not only to high cost of regulation but also to much higher gasoline prices. Supposed that an optimal tax could be derived this would result in an enormous increase in tax revenues and a likewise immense decrease in consumer surplus. Therefore redistribution would be necessary if consumers should be made better off instead of worse off.

Thirdly, the authors claim that other regulatory interventions (as implemented on Western Australia, Austria or Luxembourg) have not led to satisfactory results. This is, of course, not true as at least Luxembourg applies price regulation which always leads to satisfactory results (from the regulatory bodies' point of view) as prices are simply set to welfare maximizing levels – always provided that required information is available.

Fourthly, collusion in retail gasoline markets is not so much a problem of prosecution by competition authorities but a problem of prove. If information on cost prices and demand would be available a collusion could easily been proved and prevented.