SENATE BILL REPORT

SB 5350

AS REPORTED BY COMMITTEE ON LAW & JUSTICE, FEBRUARY 3, 1994

Brief Description: Regulating motor fuel price fixing.

SPONSORS: Senators A. Smith, Erwin, Skratek, Loveland, Owen, L. Smith, Drew, Amondson, Snyder, Barr, Winsley and M. Rasmussen

SENATE COMMITTEE ON LAW & JUSTICE

Majority Report: That Second Substitute Senate Bill No. 5350 be substituted therefor, and the second substitute bill do pass.
Signed by Senators A. Smith, Chairman; Ludwig, Vice Chairman; Niemi, Quigley and Spanel.

Staff: Martin Lovinger (786-7443)

Hearing Dates: February 3, 1993; February 16, 1993; January 18, 1994; February 3, 1994

BACKGROUND:

Washington's motor fuel industry consists of refiners, distributors, and retail dealers. During the 1980s, vertical integration among market participants increased. Currently, four major refiners have distribution and retail networks, and some other distributors are also affiliated with retail dealers.

Since 1985, more than 600 Washington gas stations have gone out of business. A number of factors have contributed to this decline. For example, federal environmental laws and the growing popularity of convenience stores have forced existing dealers to make substantial capital expenditures.

Independent distributors and dealers argue that unfair refiner pricing policies are responsible for many station closures. They claim that some refiners are selling gasoline at "company-operated" stations for a retail price that is less than the wholesale price simultaneously offered to the independent distributors and service stations.

SUMMARY:

The original bill was not considered.

EFFECT OF PROPOSED SECOND SUBSTITUTE:

Price ceilings are set for wholesale gasoline sales from distributors to independent resellers.

Distributors are prohibited from taking certain actions to circumvent wholesale price ceilings. Distributors are also prohibited from setting or attempting to set the retail gasoline prices or profit margins for independent service stations.

It is specified that violations constitute unfair competition under Washington's Consumer Protection Act.

Appropriation: none

Revenue: none

Fiscal Note: available

TESTIMONY FOR:

The pricing practices of oil companies take advantage of loopholes in the law. Price zones result in higher prices for consumers outside high competition areas. The goal of this bill is a level playing field so that the market can operate efficiently. The price of gasoline to consumers should be controlled by competition among hundreds of independent service stations, not by four major oil companies. This bill does not increase costs or create a new governmental agency to regulate the industry.

TESTIMONY AGAINST:

The gasoline industry is very competitive with no barriers to new competitors. This bill will lead to an increase in prices for consumers. Zone prices are good for consumers because they allow suppliers to respond to competition. The only way oil companies could comply with this law is through selling their company-operated stations, which has led to increased prices in other states. This bill will result in expensive and complex litigation.

TESTIFIED: Mike Sciacca, WA Oil Marketers Assn. (pro); Dr. Keith Leffler, UW (pro); Tim Hamilton, AUTO (pro); Dr. Lowell Bassett, UW (con); J. B. Riley, Chevron (con); John Price, Texaco (con); Vernon Lindskog, Western States Petroleum Assn. (con); George Wyrsch, independent service station owner (pro)