



CEMSE Position: NPA's Price Floor undermines market efficiency, kills competition and hurts consumers

In April 2024, Ghana's National Petroleum Authority (NPA) introduced a price floor for petroleum products, setting a minimum retail price that oil marketing companies (OMCs) and liquefied petroleum gas (LPG) marketers could not undercut. While the policy aims to curb “unhealthy competition” and ensure market stability, a closer examination reveals that price floors often do more harm than good to the industry. Rather than protecting consumers and ensuring sustainability, such interventions distort market dynamics, stifle competition, and ultimately harm the industry they claim to safeguard.

The Myth of Predatory Pricing

One of the key justifications for the price floor is the need to prevent predatory pricing, a practice where larger companies temporarily slash prices to drive out competitors before raising them again. However, this argument holds little water in Ghana's petroleum downstream sector. The market is highly homogeneous, with products being largely undifferentiated, and barriers to entry are low for those who meet the regulatory requirements. In such an environment, sustained predatory pricing is economically unreasonable. Lower prices are more likely to reflect efficiency gains, competitive strategies, or economies of scale rather than a deliberate attempt to monopolize.

As noted by Gonz (2022), brands often use competitive pricing to attract customers and gain market share, particularly in areas with limited access to central business districts. In Ghana, brands like Star Oil, Zen Petroleum, Allied and Benab which are mostly located at periphery of the central Business Districts use competitive pricing to attract petroleum consumers from CBDs to the periphery. These brands play a crucial role in keeping overall market prices in check, not only through their pricing but also by pressuring premium brands to lower theirs. Introducing a price floor removes this pressure, allowing inefficient retailers to survive without improving their operations while punishing efficient ones for their competitiveness.

Price Floors Stifle Competition and Innovation

Competition is the lifeblood of a vibrant market. This drives efficiency, innovation, and customer-centric practices. In Kenya, Catherine (2012) found that price regulations reduced competitive intensity, as efficient retailers were forced to keep their prices closer to those of inefficient ones. This creates a market where performance is not rewarded and complacency is encouraged.

In Ghana, the price floor effectively homogenizes pricing across brands, regardless of their operational efficiency, location, or business model. This disincentivizes OMCs from investing in cost-reducing technologies, improving supply chain management, or innovating customer service. Why strive for efficiency if you cannot pass the savings on to the consumer. Over time, this leads to an industry-wide decline in productivity and dynamism.

Moreover, price floors can create endogenous entry barriers. As highlighted by Carranza et al. (2015), such regulations tend to crowd out low-cost retailers and discourage new entrants who might otherwise compete on prices. In Ghana, low-cost brands like EV Oil and Trugreen Petroleum with less than 0.10% market share of Gasoline and Gasoil have some of the least prices in the market selling Gasoline at Ghc9.99/L and Ghc9.87/L respectively. Being price competitive sustains them in business, and for that creating a price gap using a floor price will likely reduce the diversity of market players and limits consumer choices. This creates a barrier for new entrants in the oil retail market, thereby creating oligopoly market which becomes less responsive to changes in demand, supply, and external economic shocks in the long run.

Undermining Consumer Welfare

The NPA claims that consumers benefit from price floors due to “predictability and balanced pricing.” However, predictability should not come at the cost of artificially high prices for the products. In a competitive market, prices fluctuate based on real-time factors such as international crude oil prices, exchange rates, discounts, costs and local demand. A price floor interrupts this natural adjustment mechanism, often keeping prices higher than they would be in a free market, especially during periods of falling global oil prices.

This issue disproportionately affects consumers, particularly those in low-income brackets. They lose access to cheaper fuel options and are forced to subsidize inefficient retail outlets. This runs counter to the principles of equity and affordability that should guide public policy in the energy sector.

Competition ensures market sustainability

A sustainable petroleum retail market is not one frozen by price controls but one energized by fair competition. Competitive pricing encourages operators to optimize costs, improve service delivery, and innovate. It also ensures that prices reflect true market conditions, which is essential for long-term investment planning and sectoral resilience in the energy sector.

Rather than imposing a one-size-fits-all price floor, regulators should focus on enhancing transparency, ensuring fair access to distribution networks, and enforcement of regulation against OMCs using illegal means to undercut price. Using Price Floor does not stop illegality in the sector because public perception acknowledges under delivery at fuel retail outlets across the country. The goal of a regulator should be to create a level playing field in which efficient companies thrive, consumers benefit from lower prices, and the sector remains adaptable and robust.

Conclusion

Ghana's experiment with a petroleum price floor was well intentioned but misguided. By mistaking competitive pricing for predatory behavior, the policy risks eroding the foundations of a healthy market: competition, efficiency, and consumer choice. Evidence from Africa and beyond shows that price floors often protect the inefficient at the expense of the innovative and the costly at the expense of the consumer. For the long-term sustainability of Ghana's downstream petroleum sector, the focus should be on fostering competition, not constraining it. Only then can the market achieve true stability, resilience, and fairness for all stakeholders.

Recommendations

1. Suspend the price floor mechanism immediately and initiate a transparent, independent, and time-bound review. This review should be tasked with determining whether evidence of systemic predatory pricing and not just aggressive competition exists to justify such a major market intervention.

2. Redirect regulatory resources from setting minimum prices to robustly policing *genuine* anti-competitive behaviour including under delivery, adulteration and evidence based predatory pricing. Strengthen the NPA's mandate and capacity to monitor and sanction anti-competitive practices, not competitive pricing.

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