

**A Study on the Mechanism of Dirty-Floating Oil Price Adjustment  
and the Question of Concerted Oil-pricing Action**

Chen, Wen-Sheng

Chen, Feng-Cnin

Chen, Chia-Yon

Abstract

The purpose of this essay is to discuss the problems occurred in the mechanism of dirty-floating oil price adjustment and the concerted actions apprehension in the domestic oligopoly oil market. By reviewing the historical records, we will analyze how Chinese Petroleum Corporation (CPC) and Formosa Petrochemical Corporation (FPC) react under the rule of dirty-floating oil-price-adjusting. After simulated with dummy variables to test the domestic oil price adjusting situation, we find that the 6th amendment of the mechanism of dirty-floating oil price adjustment is still debatable regarding some questions about the oil price adjustment. The unfair price adjusting margin, which benefits CPC and FPC themselves but at the cost of the oil consumers, as well as the price-adjust frequency, that brought the cross subsidization among oil products, are the usual occurrence. We propose to review and amend the oil price-adjusting mechanism with following alternatives, such as the cost ratio of the target oil price, the calculating formula for oil-pricing, setting up a criterion for price-adjusting that will lower the derivative social cost, decrease the price-adjust frequency and reduce the cross subsidization.

It is quite obvious that once one undertaking makes a strategy and the others react immediately and adopt the same one in the oligopoly market. The same compartments of different undertakings are so-called conscious parallel conducts or concerted actions. Both the conscious parallel conducts and concerted actions are identical in extrinsic acts, but different in the meeting of minds. The difference is that there is no communication among

undertakings (or say “the meeting of minds”) to do conscious parallel conducts, while undertakings must communicate mutually to coordinate their behavior in the concerted actions. In domestic oligopoly oil market, the same oil-pricing-and-adjusting strategy between CPC and FPC puzzled the oil consumers seriously for long. Clearly, it is difficult for consumers to identify the concerted action or the conscious parallel conduct between CPC and FPC. According to the Article 7 of the Fair Trade Law, we check the essential component of the theory of concerted action based on direct and indirect evidence to prove the subjective condition of cartelization (concerted action) and find it out that there is no communication between CPC and FPC. Now, it lacks of the meeting of minds in the case of dirty-floating oil price adjusting model, but we may not ascertain the case of synchronous oil-pricing-and-adjusting with the same price margin between CPC and FPC is a concerted action or a conscious parallel conduct. It is challenge for Taiwan Fair Trade Commission to judge that case with more circumstantial evidence.

Keywords: Price Adjusting Margin, Price Adjusting Frequency, Price Leadership, Concerted Action, Conscious Parallel Conduct.