



Office of the State Comptroller  
Annual Report 71A | 2020

Ministry of Energy

# **The Supervision of Gas Stations and The Handling of Illegal Gas Stations and Internal Gas Stations Follow-up Audit**

Abstract



# Part A – The Supervision of Gas Stations

## Abstract

### Background

At the end of 2019, there were about 3.65 million vehicles on the roads in Israel and 1,209 public gas stations providing fuel and related services. About 77% of the stations – 927 of them – are owned by the four major fuel companies. In 2011, in order to promote competition on the prices of gasoline and diesel fuel, the government decided to promote competition in the sector. The Office of the State Comptroller examined the implementation of this decision and government supervision over services provided by gas stations.

### Key figures

**14 Agorot<sup>1</sup>**

average difference in the amount of the discount from the controlled price of gasoline between the major companies' gas stations and the small companies' gas stations

**65%**

the ratio of the tax component of the gasoline price in January 2020. The State's tax revenues from fuel for transportation in 2018 was about ILS 24 billion.

**3.6 billion**

liters of fuel are sold per annum

**56 Agorot**

per liter is the sales margin (in January 2020) – that portion of the fuel cost on which a discount can be given to consumers

**42%**

At 500 gas stations (42% of all stations in Israel) a the accuracy of the gasoline pumps had not been inspected for more than a year (the required time frame is up to one year)

**3**

times a year the quality of the fuel is inspected at each station

**77%**


the ratio of the gas stations owned by the four major fuel companies, out of the total of 1,209 stations in December 2019

<sup>1</sup> 1 US dollar = 350 agorot or 3.5 ILS

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## Audit actions

 Part A of the report “The Supervision of Gas Stations”: from November 2019 to February 2020, the Office of the State Comptroller audited the actions taken by the Ministry of Energy, the Competition Authority and the Israel Lands Authority to promote competition on fuel prices at public gas stations, and the supervisory actions: of the Ministry of Energy relating to fuel quality; of the Ministry of Economy relating to the volume of fuel supplied to customers; and relating to particular services that gas stations provide, including making them accessible to people with disabilities. The audit was conducted in the Ministry of Energy, in the Israel Lands Authority, in the Competition Authority, in the Fuel Administration in the Ministry of Energy and in the Weights and Measures unit in the Ministry of Economy. Supplementary information was gathered from the National Road Company, the Planning Administration in the Ministry of Finance, the Municipality of Bat Yam, the Municipality of Rishon LeZion, and the Commission for Equal Rights for People with Disabilities in the Ministry of Justice.

Part B of this report is a follow -up audit on the State Comptroller’s report of 2013 - “Dealing with Illegal Gas Stations and Internal Gas Stations<sup>2</sup>.”

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## Key findings

-  **Location of gas stations in an area of concentrated competition** – an examination conducted by the Competition Authority in 2015 found that, out of 715 municipal gas stations, 360 stations were selling gasoline in an area where the competition was characterized as “lacking competition”, of these 309 stations were in an area with no small competitor, and 297 stations were in an area where there was only one gas station and it was owned by one of the four major fuel companies. This examination was conducted based on definitions of “municipal station” and “area of competition” and its determination for each gas station.
-  **Differences in gasoline price discounts between gas stations** – according to the Ministry of Energy’s data for 2016, about 70% of gas stations sold 95-octane gasoline without any discount. Among the major companies, the ratio of stations that did give a discount was between 8% and 34% and the volume of the discount was between 1 and 5 agorot per liter. On the other hand, nearly all of the small companies (operating from 9 to 55 gas stations) gave a discount ranging between 14 and 25 agorot per liter.

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<sup>2</sup> Stations providing fuel to the entity in which they operate that are not supposed to carry out commercial operations. These gas stations are located in kibbutzes, moshavs, factories and companies.








- ❗ **Marketing of new lots for gas stations:** according to the government resolution of 2011, a target was set for the marketing of 40 lots for the construction of gas stations by entrepreneurs not defined as a concentrated entity (one of the four major gasoline companies in the sector). In the past nine years, the actions needed to achieve this target pursuant to the resolution were not completed.
- ❗ **Fuel Sector Law:** nine years have passed since the government resolution about increasing the competition in the fuel sector. However, a draft amendment to the Fuel Sector Law (Promoting Competition), 5754 – 1994 has yet to be completed. The amendment, which the Minister of Finance had been required to draft in collaboration with the Ministry of Energy, the Ministry of Economy, the Competition Authority and the Ministry of Justice aimed to eliminate barriers to competition in the fuel market. Some of the actions taken by these authorities have not promoted competition between gas stations.
- ❗ **Fuel pump quality:** the supervisor of the Weights and Measures Unit in the Ministry of Economy directed that the accuracy of fuel pumps at all gas stations must be inspected annually. According to the data of the Weights and Measures Unit at year-end 2019, the unit had inspected only about 58% of the pumps within a year since the previous inspection. The rest of the stations (about 42%) were inspected after more than one year.
- ❗ **Supervision of quantities of liquefied petroleum gas (LPG):** the Weights and Measures Regulations do not define LPG as a fuel substance and therefore, the supervisor does not have authority to approve a model for LPG dispensers (fuel pumps) to verify their initial accuracy at the time of installation or for performing a periodic inspection of their accuracy. Therefore, it is not possible to guarantee that owners of LPG-powered vehicles are receiving the quantity of LPG they purchase.
- ❗ **Fuel quality inspection:** from 2017 to 2019, 2,764 random inspections of diesel fuel and gasoline were performed at gas stations, and 64 deviations from the fuel standards were found and two from LPG standards. In 16 out of the 64 cases of deviations in fuel quality, more than 10 days elapsed until an announcement of the deviations was published on the Ministry of Energy's website.
- ❗ **Inspecting tire inflating equipment:** it was found that there is no regulation requiring periodic inspections to determine the accuracy of tire inflation equipment in gas stations. Therefore, there is no assurance that tires are inflated in accordance with vehicle manufacturers' recommendations.
- ❗ **Making gas stations accessible to the disabled:** complaints by people with disabilities to the Office of the State Comptroller show that an adequate response to their needs is not being provided at gas stations. Furthermore, the work plan of the Commission for Equal Rights for People with Disabilities did not include accessibility inspections at gas stations from 2017 to 2019. The Commission was unable to produce for the audit team inspections or investigations in this regard from previous years.



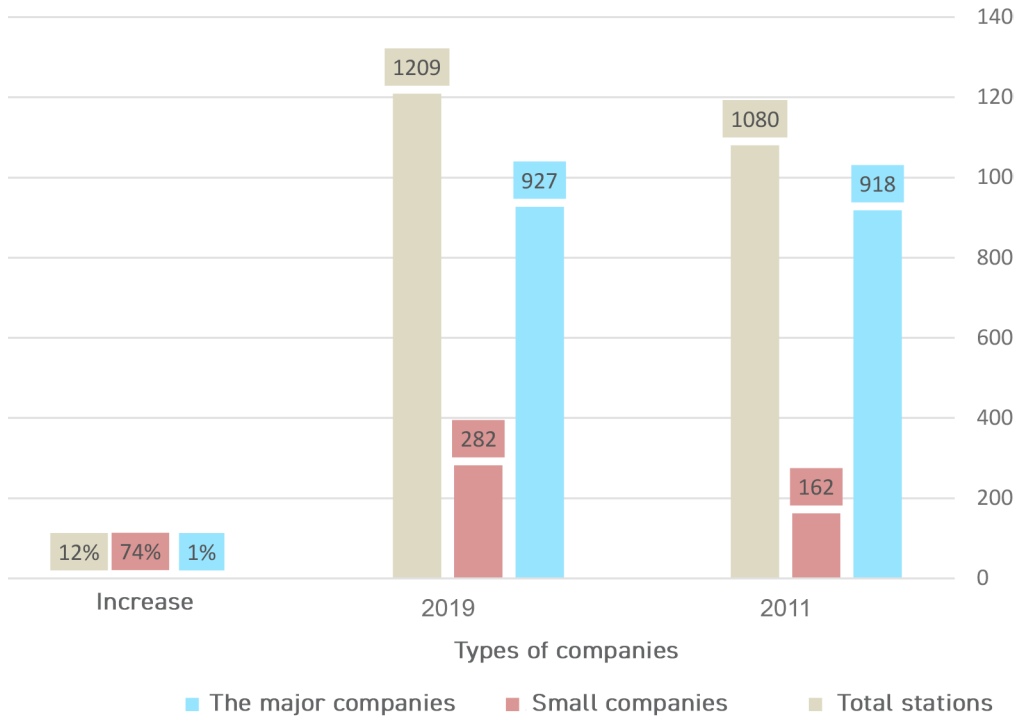
**Number of gas stations operated by small companies:** from 2011 to 2019, 120 gas stations operated by small companies were added, compared to the addition of 9 gas stations operated by the major companies.

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## Key recommendations

-  It is recommended that the Ministry of Energy and the other authorities involved in the planning and construction of gas stations should take action to increase the number of gas stations, mainly in areas with no competition, and in a manner that will also facilitate the entry of new competitors into the market. This action is necessary in light of the lower costs of gasoline and diesel fuel at gas stations owned by small companies compared to gas stations owned by the major companies.
-  It is recommended that the supervisor of the Weights and Measures Unit in the Ministry of Economy should consider setting an inspection schedule at a fixed interval or utilize risk management techniques in order to assure consumers that there is periodic supervision of fuel pump accuracy at gas stations.
-  It is recommended that the Ministry of Energy should consider defining an explicit procedure regarding the timeframe for publishing details of deviations from the fuel quality standards. It should facilitate means for notifying consumers who fueled their vehicles with inferior fuel and consider additional notification channels besides the ministry's website so that the information will be disseminated to consumers who purchased gas at these gas stations.
-  Considering the large number of LPG-powered vehicles on the road, it is recommended that the Ministry of Economy and the supervisor should consider regulating inspections to verify the accuracy of LPG pumps.
-  It is recommended that the Commission for Equal Rights to People with Disabilities should examine disabled access to the service and structures at gas stations throughout Israel.

## Growth in the number of gas stations between 2011 and 2019



According to data from the Ministry of Energy, processed by the Office of the State Comptroller

## Summary

In the coming decade, the volume of vehicles in Israel is expected to increase by more than 3% per annum. It appears that the role of gas stations will change in the future, due to the future use of compressed natural gas for fueling cars and the increase in the number of charging stations for electric cars, and as a result of the Ministry of Energy's policy regarding the discontinuation of sales of gasoline and diesel-powered vehicles by 2030. All these are expected to change the nature of the services being provided at gas stations. Those expected changes should be considered while planning new stations.

The regulatory authorities should prepare to regulate the activities of gas stations and the services that they are supposed to provide, and should take action to rectify the deficiencies raised in this report in order to continue creating the conditions for a competitive market without monopolies and concentration groups in order to reduce the cost of living.