Questions on our approach to the study

Q1 Do you have any comments on our proposed approach to the study, including the scope and areas we intend to consider? Are there any additional areas relevant to the terms of reference that should be considered and may not be captured by our approach? If so, please explain.

The key issue in the study –access to import parity priced petrol and diesel in New Zealand ex terminal gate is key not only for retail petrol and diesel but also applicable to the key jet fuel market of Auckland Airport. The lack of access (via an open terminal) restricts the numbers of suppliers, increases prices for the airlines and therefore for their customers. Further as seen in the 2017 Refinery to Auckland Pipeline incident a limited terminal with limited supply to that terminal leaves other industries, consumers and a key gateway to New Zealand exposed. The study will confirm access to fuel terminal facilities is a major determinant in the difference in prices across New Zealand. The same findings will also apply to the jet fuel market.

Questions on trends in market structure

Q2 What could explain the fall in retail sites that carry the brands of the major fuel firms and the increase in the number of retail sites that carry their own brand (eg, Allied, NPD, Waitomo, Gull, RD Petroleum) as observed in Figure 1?

We are unsure if the data is accurate. The Gull data seems to read that Gull added 15 sites between 2012 and 2016, Between January 2012 and December 2016 by our numbers Gull added 20 outlets.

Q3 How is the market structure, including ownership arrangements throughout the supply chain, affecting competition in the retail fuel market? How are recent changes to the market structure affecting competition in the retail fuel market?

With Gull's growth in site numbers of around 70 sites over the last 12 years, Gull has encountered the use of caveats placed on the title of closed service stations by other oil companies. These caveats prevent another service station opening on the same property. Given the zoning is often inclusive of a service station, or at least the neighbourhood have had a service station at this location, planning and resource consent for another service station is significantly easier at these sites than it is at a green-fields location. This practice restricts the opportunity for other oil companies to reopen, possibly with an alternative offer at these locations. It is also a significant impediment to any new entrant looking to open in a new area. Gull has examples of 10 such caveats should the Commission wish to review.

Questions on trends in gross margins and regional pricing

Q4 What factors could be contributing to an observed rise in gross margins?

Q5 Could an observed rise in gross margins, or differences in gross margins between regions, be explained by capital expenditure or other costs?

Q6 What factors contributed to observed differences in gross margins between the South Island and Wellington on the one hand, and the rest of the North Island on the other? Is this trend continuing?

Q7 Can the various suppliers of retail fuel increase output in the short term? Are there any constraints that reduce their ability and incentive to expand output/sales in a timely manner?

Questions on trends in profits

Q8 Is an observed rise in gross margins leading to an increase in the level of profits being achieved by the fuel firms?

Q9 Is "return on average capital employed" (ROACE) a reasonable method to assess the reasonableness of prices (the approach taken by the 2017 Fuel Study)?

Questions on trends in discounts

Q10 Do you have any comments on the methodology or data utilised by MBIE to calculate a rise in retail price discounts?

We have not seen the methodology. We are unsure what the graph is meant to represent, and the graph seems at odds with our observations of the market.

The graph notes discounts in the order of 10 to 18 cents per litre in the last one to two years. It notes different discount levels for petrol and diesel.

Almost always the discount on loyalty schemes is the same for petrol and diesel thus why a difference?

Over the last two years Gull has observed the "standard" discount offered by other fuel retailers on a sale on their loyalty scheme as 6 cents per litre; in general, each retailer offers a 10 cent per litre discount on one day of a week on the loyalty schemes. Even if this is coupled that with the "standard " grocery offering of 4 to 6 cents per litre – should this also be collected by the motorist it is extremely hard to reconcile a continual discount in the order projected in the graph for a majority of consumers.

Given a significant number of people do not carry the discount card, or they do not shop with those offering the discount it is misleading to assume the gross discount is applied to all purchases.

Our observation is that our competitors discount schemes are limited to a number of litres per purchase. Thus, the discount does not apply to all litres purchased at that time only the initial X litres. Some discount schemes also require a minimum purchase to obtain the discount. Schemes also have a discount expiry protocol; thus, a discount may be earned but never actually realised. Gull understands some schemes require a customer to register to receive the full discount, thus a customer may be attracted by a highlighted discount, gain the loyalty card but not actually receive the full discount as they have not registered.

Q11 What are the likely explanations for the rise in discounting? Is there a relationship between the level of discounting and retail gross margins? If so, why?

Q12 What are the potential benefits and harms to consumers from the increased use of loyalty schemes and fuel discounts? For example, does this increase switching costs for consumers or make it easier for consumers to benefit from a lower price?

Q13 Do retail discounts differ by region? What are the main drivers of any regional differences in discounting?

Questions on other trends

Q14 Are there other trends that are likely to affect competition for retail fuel in the foreseeable future? If so, please explain how.

Questions on the supply chain: exploration and extraction of crude oil

Q15 Does the vertical integration of some fuel companies with exploration, extraction and refining functions outside of New Zealand affect how these companies compete to supply retail fuel markets in New Zealand?

Q16 The New Zealand operations of Shell and Chevron were separated from their global exploration and extraction operations, following Z's purchase. Has this affected competition for retail fuel?

Questions on the supply chain: refining

Q17 Does the operation of the refinery as a tolling service (as opposed to a merchant refinery) adversely impact competition in the retail fuel markets?

Q18 Are there any features of the ownership, management, or supply/access arrangements relating to the refinery which may impact competition in the retail fuel markets?

Q19 Are these features restricting the ability and incentive for firms other than the major fuel firms to use the refinery?

Questions on the supply chain: primary distribution

Q20 Are there any features of the ownership, management, or supply/access arrangements relating to COLL, the RAP, and/or the Wiri terminal which may impact competition in the retail fuel markets?

Q21 What are the advantages and disadvantages of the current arrangements that govern COLL and the RAP for competition in the retail market?

Q22 Are there efficiency gains from the shared infrastructure? If so, how are these being shared with consumers?

Compared with other similar fuel industry systems the NZ fuel industry has sufficient infrastructure in the shared system to deliver product efficiently. Gull's estimate (whilst not being a part of the shared infrastructure system) is that there is additional capacity in the network to take on additional demand which in turn would improve the efficiency of the overall system.

Questions on the supply chain: terminals and the borrow and loan system

Q23 Are there any features of the ownership, management, or supply/access arrangements relating to storage terminals (including the borrow and loan system) that may impact competition in the retail fuel markets?

Gull has made comments on the ownership of terminal infrastructure and the Borrow and Loan system in meetings with the Commerce Commission and in formal submission regarding the 2017 enquiry and the Z acquisition of the Chevron business in New Zealand. Gull refers the Commission to this.

Q24 How has the level of capacity at terminals changed over time? Is it sufficient to meet current and future demand? Does the level of available terminal storage adversely impact competition, and if so, to what extent?

Gull added one tank with 10.6 million litres of storage to its terminal in 2005 and again in 2013.

As outlined above in Q22, Gull estimates that the current terminal capacity across the network is sufficient to meet the current demand, with an amount of spare capacity available the existing or new users (should access be provided in the future).

Q25 Is the cost of building new terminals or accessing existing storage facilities a significant barrier to the expansion of existing participants or entry of prospective participants?

Gull has evaluated the return on investment in a South Island terminal several times over the last 12 years and each time determined to invest capital in other areas.

Q26 Are there examples of firms seeking to gain access to terminal capacity owned by other parties? If so, please provide details.

Gull refers the Commission to earlier submissions re the 2017 Enquiry and the Z acquisition of Chevron Assets and email correspondence around July 2016.

Q27 Will the construction of the new Timaru terminal impact competition in the South Island? Why or why not?

Q28 How are retail fuel customers affected by port coordination events (rationing of fuel), particularly in areas of the South Island where these events occur relatively frequently?

Gull has not seen direct impact on port coordination on retail consumers, but Gull is not aware of when coordination's occur. In the last ten years Gull has trucked diesel to the South Island on around three occasions for commercial consumers with those customers prepared to pay the very significant additional freight as there was no available diesel for purchase.

Questions on the supply chain: secondary distribution

Q29 Are there any features of secondary distribution that may affect competition in the retail markets?

Q30 To what extent do differences in distribution costs contribute to the observed regional differences in fuel price?

Gull is happy to discuss indicative inland distribution costs with the Commission.

Questions on the supply chain: wholesale supply

Q31 Are there aspects of wholesale supply agreements to other fuel firms (eg, resellers and dealer sites) that could impact on competition in the retail fuel markets?

The tenure of wholesale supply agreements especially with regard significant volume customers is a factor in a potential market entry into new geographies. These major contracts can provide a critical mass of volume for a new entrant. Thus, the tenure of these contracts can be a key factor. Gull would welcome a discussion with the Commission in this area.

Q32 What are the key factors affecting the terms on which suppliers are willing to offer wholesale fuel to other fuel firms (eg, resellers and dealer sites)? What is the effect of these factors on competition in the retail fuel markets?

Q33 Are there differences in the way that the major fuel firms supply fuel to other fuel firms (eg, resellers and dealer sites) in different regions that may affect retail competition?

Q34 To what extent do the major fuel firms compete to win supply to other fuel firms (eg, resellers and dealer sites)?

Q35 Do other fuel firms (eg, resellers and dealer sites) have sufficient information to compare offers between the major fuel firms? Are there examples of other fuel firms (eg, resellers and dealer sites) switching between the major fuel firms, and if so, what were the main factors incentivising them to switch?

Q36 Are there any limits on the ability or incentive of other fuel firms (eg, resellers and dealer sites) to compete against the major fuel firm that supplies them?

Questions on the supply chain: the nature of retail competition

Q37 Are there features of the retail fuel markets that may inhibit the ability of consumers to obtain competitive offerings?

Q38 What are the advantages and disadvantages of the increase in service differentiation in service stations, ranging from full service to unmanned?

Gull is happy to have discussion with the Commission in this area.

Q39 Are there currently any factors limiting the ability or incentive of retail customers to compare the offers they receive at different service stations and decide which offers best meet their needs?

Questions on other issues

Q40 Are there any other issues not raised in this paper that could impact competition in the retail fuel markets?