

Mobil Oil New Zealand Limited

Submission to the Commerce Commission New Zealand in
response to the Statement of Preliminary Issues for the Market
Study into the Retail Fuel Sector

February 2019

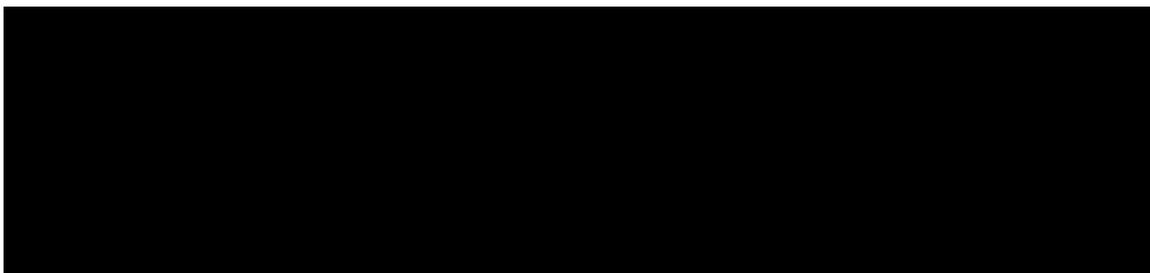
Introduction

1. Mobil Oil New Zealand Limited ("**Mobil**") welcomes the opportunity to respond to the Commerce Commission's ("**Commission**") Statement of Preliminary Issues ("**SOPI**") for the Retail Fuel Market Study (Study).
2. Mobil anticipates that the additional information and analysis that emerges through the Commission's Study will demonstrate that competition in the retail fuel market is effective and is delivering outcomes that benefit New Zealand consumers.
3. The specific points that Mobil wishes to address at this point in the Commission's process are:
 - a. Mobil does not set retail prices by reference to Return on Average Capital Employed (ROACE), but rather by assessing and actively responding to competition in local market areas.
 - b. Mobil's experience is that New Zealand continues to have a very competitive fuel sector, with access available to a large, and growing, number of both retail and wholesale participants, and those competitors operating a number of different business models.

A. Mobil does not set retail prices by reference to ROACE

4. Mobil does not set retail prices by reference to ROACE, does not monitor ROACE on an ongoing basis, and does not use it for any purposes beyond initial assessment of capital investment or for purely informational purposes.

5.



6. In addition, comparison of ROACE across companies is challenging, given the different structures and businesses within each company competing at different levels in the fuel market. Therefore, utilising ROACE as a means to assess profitability has the potential to create inconsistencies due to different business models.

B. The retail and midstream components of the fuel sector support workable competition

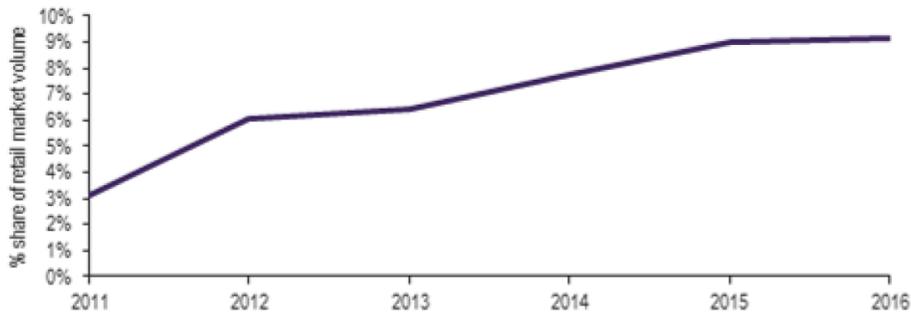
7. Mobil considers that the midstream aspects of New Zealand's fuel supply chain continue to support workable competition in the downstream retail markets. Current shared national inventory arrangements enable market participants who own supply infrastructure to enhance efficiencies across the supply chain by avoiding unnecessary duplication of infrastructure in a relatively low volume and geographically dispersed market, and to compete in regions where they do not have their own infrastructure.

8. The option to invest in additional infrastructure is available to any party looking to enter the New Zealand Market who are willing to make the capital investment. This is evident in the entry of multiple parties into the midstream supply chain, including Gull New Zealand Limited and Timaru Oil Services Limited.
9. The Commission's SOPI recognises there has been significant entry and expansion in fuel retailing in New Zealand in recent years. This further demonstrates that entry into all levels of the market is not only feasible, but is occurring.
10. Specifically, MBIE's analysis shows the share of smaller "independent" fuel retailers has grown from 3% in 2011 to 9% in 2016 – see Figure 1 below.¹

Figure 1 Market share of independents from MBIE 2017 New Zealand Financial Performance Study final report

Figure 25 Market share of the independents (petrol and diesel)

Retail market share of non-majors excluding Gull (2011-16)



Source: MBIE.

11. The existing market evidence demonstrates that there continues to be access to entry or expansion opportunities at the retail level, indicating workable competition in New Zealand's retail fuel sector.
12. The growing number of competitors with midstream assets with the capability to supply at the wholesale level in New Zealand also means that independent retailers have an increasing number of alternative suppliers.
13. Independent retailers are free to change wholesale supplier upon contract expiry and Mobil competes to be the wholesale supplier to these businesses.
14. As a supplier to many independent retailers, Mobil is proud of the contribution it is making to support the diversification of the retail fuel market across New Zealand, noting that Mobil's independent retail customers freely and independently set their own retail prices.

¹ https://nzier.org.nz/static/media/filer_public/98/d0/98d0aec6-875f-49ab-95ce-b5a9b6ecd6c7/new_zealand_fuel_market_financial_performance_study_final_report.pdf

Conclusion

15. Mobil maintains a long-term view of fuel retailing throughout the whole of New Zealand. We have adopted a strategy that reflects this, making significant long-term capital investments throughout the country, in terminal and pipeline infrastructure over many decades, as well as substantial investments to develop our retail network, differentiate our fuel products, support our customers New Zealand wide and enhance our customer offer at a retail level.
16. In Mobil's view, these investments are required to ensure safe, reliable, resilient and cost-efficient fuel logistics in New Zealand. We continue to make these investments having invested \$150m across our New Zealand operations since 2012.
17. In our experience, New Zealand continues to be a very tough, competitive, dynamic petroleum market. Consumers continue to see the benefits of a workably competitive and continually evolving market, with increasing participants and a growing diversification of service offerings increasing consumer choice.