Retail Fuel Market Study

FINAL REPORT

5 December 2019

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Chair
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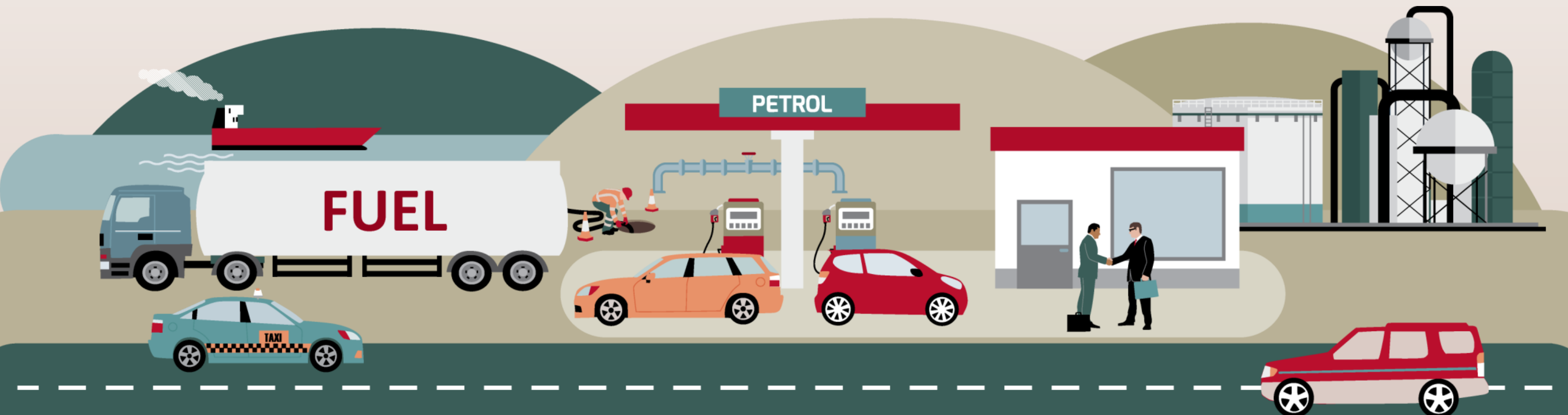

Context

- This has been a year long study into retail fuel markets
- The study looked at:
  - Whether competition is working well
  - How competition could be improved
- Our final report takes into account submissions and the consultation conference held following our draft report
- It is now for Government to respond to our final report

Supply chain

- The major fuel companies (Z Energy, BP and Mobil) share a joint infrastructure network, including:
  - Marsden Point refinery
  - Coastal shipping operations
  - Storage terminals at regional ports
- They use this network to supply 90% of the nation's fuel through their own branded retail sites or via other distributors or resellers via exclusive long-term wholesale supply contracts
- The only other fuel importer is Gull, with a terminal in Mt Maunganui

Prices at the pump (2018)

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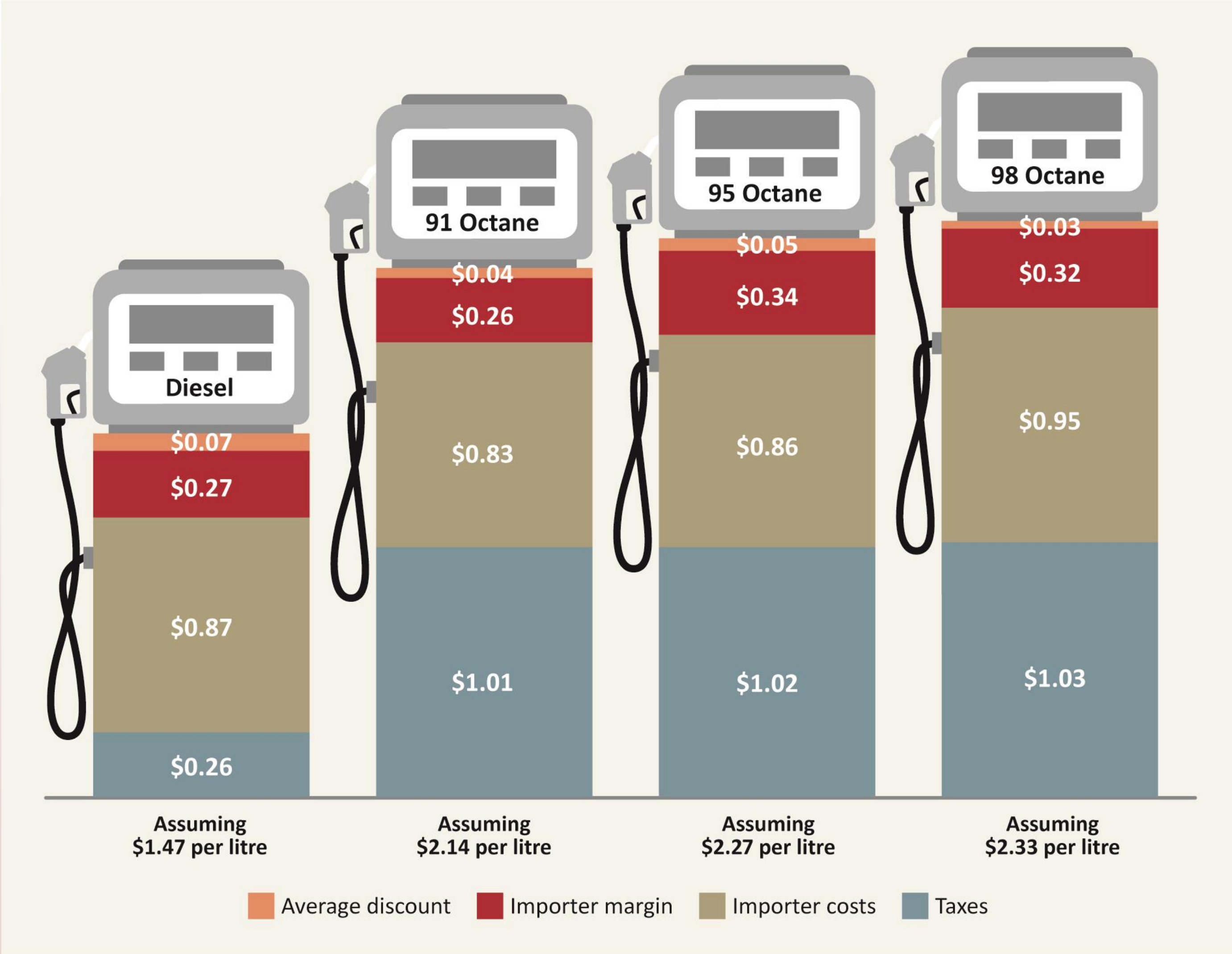
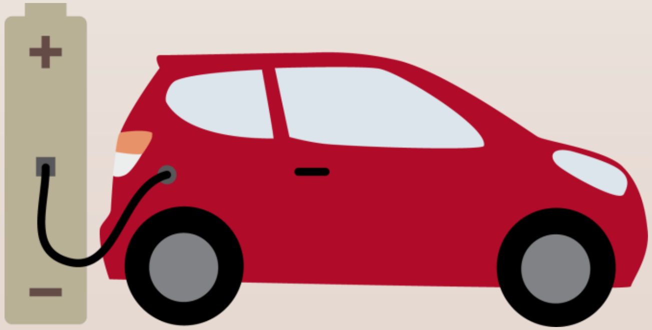


Market outcomes

- The fuel industry is highly profitable
- Regional differences in retail fuel prices reflect variations in local competition
- Discounting is a poor substitute for price competition
- Extra margins for premium petrol do not reflect actual cost differences
- Competition largely occurs in retail markets and is less intense than could be expected

Fuel industry developments

- Developments include:
  - Fuel company innovations benefit consumers
  - Establishment of TOSL's new import terminal in Timaru
  - Expansion by retailers like Gull, Waitomo and NPD
  - Electrification of vehicles



Core problem is the wholesale market

- An active wholesale market for fuel does not exist in New Zealand
- There is a reduced ability for importers to compete for wholesale customers
- It is difficult for distributors and dealers to obtain competitive wholesale supply
- Wholesale prices appear higher than we would expect and this flows through to retail pricing
- Consumers are paying higher prices than they would in a workably competitive market

Terminal Gate Pricing Regime

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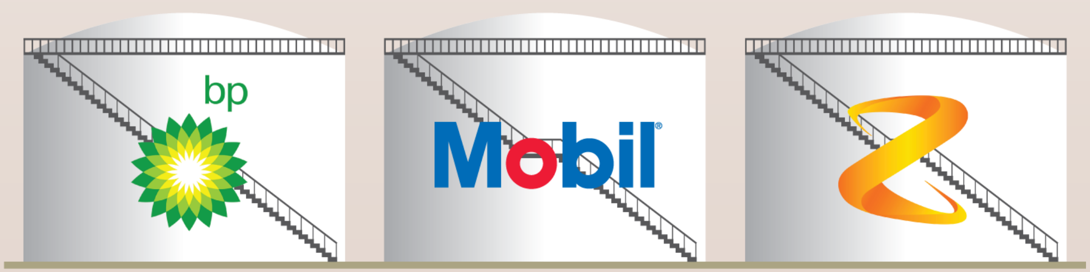
- Importers supply fuel to wholesale customers at terminals at posted terminal gate prices
- Improves competition by:
    - Creating the potential for a liquid wholesale spot market to develop
    - Lowering barriers to entry and expansion for rivals
    - Providing greater price transparency for distributors
    - Providing competitive benchmark information for industry and Government, including for wholesale customers negotiating price



Less restrictive wholesale contracts

- Wholesale contracts should:
  - Be written in clear and concise language with a transparent cost-based price clause
  - Permit a distributor to take a prescribed minimum percentage of fuel from other suppliers
  - Limit maximum duration of contracts without rights of termination
  - Limit the use of other restrictive contract provisions
- Introduce an enforceable industry code, with penalties for breaches to underpin wholesale supply contract requirements and Terminal Gate Pricing regime

Improved information for consumers

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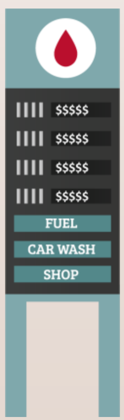
- Require retail sites to display premium petrol prices
- Introduce fuel cap stickers specifying fuel grade for vehicles
- Monitor the display of discount pricing on price boards



Other recommendations

- Parties to the coastal shipping joint venture and borrow and loan arrangements:
  - Publish the criteria and process for participation in the arrangements
  - Review aspects of the arrangements that may act to disincentivise investment in shared storage
- Review information sharing about joint infrastructure arrangements that may enhance potential for coordination
- Improve information and record keeping about the fuel industry for future market analysis

Questions