



19 August 2015

The Commerce Commission
44 The Terrace
Wellington 6140

registrar@comcom.govt.nz

Dear Sir or Madam

Z Energy Limited: Application for clearance to acquire Chevron New Zealand

MTA welcomes the opportunity to provide comment on the Commerce Commission's preliminary issues assessment of the application by Z Energy to acquire 100 percent of Chevron New Zealand.

Introduction

MTA is the peak body for the New Zealand motor industry with a diverse membership covering dealers, repairers and service stations. MTA represents over 80 percent of the retail fuel industry with around 900 members that include all Z, 150 Caltex and 64 Challenge sites. MTA also has Z Energy and Chevron New Zealand as members along with all the other major fuel suppliers and some distributors.

With this broad membership MTA has to balance being the voice of the collective industry group with supporting individual members in their businesses.

In this context, MTA will not comment on the detailed market and competition considerations outlined in the Commission's preliminary issues paper dated 6 August 2015. We would like to contribute by putting the proposed transaction into a strategic industry context and provide some general feedback based on our members' views on it.

These comments relate purely to what is termed the "output" markets in the preliminary issues paper as this is the MTA's area of interest.

Complexity

The detailed analyses of the retail fuel market provided in the Z clearance application to the Commission give a broad understanding of the complexity that determines how, where and why consumers buy fuel from service stations.

Although price is clearly very important and a strong driver of consumer choices, convenience and location, the range of offers, services and facilities available and additional benefits such as loyalty and discount schemes all add to the complex market in which service stations compete.

MTA considers that this array of factors should be kept in mind when assessing competition in the market.

Diversity

As an extension of the complexity of the industry, there is currently huge diversity in the operating models used across different fuel networks and further variation within some networks. This is again outlined in the Z clearance application. The Z "direct control" model of operating its service stations is particularly unique compared to the rest of the industry.

The current Chevron independent retailer model is based on “risk and reward”. This provides retailers with relatively strong margins in return for extensive retailer independence and flexibility, responsibility for operating costs and liability for environmental risks and infrastructure issues.

In addition many retailers have invested in rebuilding or upgrading their Caltex sites in recent years. These decisions were taken and financed based on their existing contractual arrangements, including margins, with Chevron. As a result, if the Chevron operating model were to be substantially changed the ongoing sustainability of these independent retailers may be at risk.

MTA considers the current range of diverse independent service station operating models is important for both these retailers’ ongoing sustainability and to provide consumer choice and thus competition. MTA commends Z’s stated commitment to maintaining this aspect of the Chevron model.

Closing remarks

It has been known for many years that several oil companies have had their retail networks “on the market” and have been looking to exit from the New Zealand downstream fuel industry. One such move resulted in the very formation of Z Energy and many in the industry consider that this has proven to be a positive development for the industry as a whole.

Overall, industry feedback to MTA indicates that the proposed transaction would be a good move for “NZ Inc.” with the opportunity for local ownership of the Chevron network.

MTA would be pleased to engage with the Commission further to contribute to this process or provide any assistance required.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Warwick Quinn', is positioned above the typed name.

Warwick Quinn
Chief Executive Officer