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Written comment on Market Study into the retail fuel sector – Draft Report

Introduction

The New Zealand Automobile Association (NZAA) welcomes the opportunity to provide comment on the draft report on the market study into the retail fuel sector. Our comments are primarily focussed on Chapter 8, options for recommendations.

The NZAA is an incorporated society with over 1.7 million Members. It represents the interests of road users who collectively pay over \$3 billion in taxes each year through fuel excise, road user charges, registration fees, ACC levies, and GST. The NZAA's advocacy and policy work mainly focuses on protecting the freedom of choice and rights of motorists, keeping the cost of motoring fair and reasonable – which this report pertains to – and enhancing the safety of all road users.

No part of this submission is confidential.

Paragraph 2.13: The price of fuel at the pump

We query the figures in Figure 2.2 on page 24, specifically the tax figures stated, and also the importer costs for the 95 and 98 octane petrol, both of which we think are underestimated.

Paragraph 2.18.1 lists the taxes included in the 'tax' component, including the Emissions Trading Scheme (ETS) levy, but does not break down the individual amounts. It's unclear what ETS figure the Commerce Commission has used, but we wonder whether this figure has been underestimated. For example, the AA has calculated that, for the period 1 July – 31 December 2018, the average ETS price was 5.49cpl for 91 octane, 5.62cpl for 95 octane, and 6.36cpl for diesel. We estimated these from the spot price of a NZ Unit¹ (NZU), which were very stable during that period. We are happy to supply this methodology to the Commerce Commission.

Therefore, at the stated price of \$2.20 for 91 octane in Figure 2.2, and based on the average petrol excise from 1 July – 31 December 2018 (which rose 3.5cpl on 30 September as noted) and our estimated ETS price during that period (above), we calculate that total taxes including GST are \$1.0235/litre. For 95 octane at the stated price of \$2.34/litre, we calculate total taxes at \$1.0431/litre. These calculations *exclude* the Auckland Regional Fuel Tax. Our calculations are several cents higher than the figures in Figure 2.2. We note that MBIEs weekly fuel price monitoring calculate ETS figures marginally lower than our own, albeit only by about 1cpl, so this would not explain all the difference. We do not know MBIEs methodology to calculate the ETS levy.

¹ www.comtrade.co.nz

However, for diesel at the stated price of \$1.55, we calculate total taxes (including the ETS levy) as \$0.2751, which is similar to the figure in Figure 2.2. Likewise, MBIEs ETS figures for diesel are approximately 1cpl lower than our calculations.

Therefore our analysis concludes that the components of the petrol price in Figure 2.2 underestimate the total tax amount, and thus overstate the importer margin. In the interests of accuracy, the AA suggests these figures be reviewed and clarified, and that the individual tax components be listed in the final report.

In addition, Figure 2.2 states an importer cost for both 95 and 98 octane petrol at 2cpl higher than 91 octane. According to Hale & Twomey's New Zealand Fuel Price Monitor², the cost premium for 95 octane has averaged approximately 4cpl during 2018 (based on the MOPS benchmark prices). This figure has been several cents higher in previous years. We do not have data on the cost of producing 98 octane fuel. While we do not have the Commerce Commissions data sources, we suggest the import cost component for premium grade petrol be reviewed, as the stated figures may understate the true importer cost, and thus overstate the importer margin (which the Commerce Commission acknowledges may be the case for 98 octane petrol).

Chapter 8. Options for recommendations

Improving wholesale competition

Whilst the matters raised are outside our area of expertise, we are broadly supportive of proposals to improve wholesale competition, in particular through the introduction of a Terminal Gate Pricing regime like Australia. We support investigating these options, including the potential for regulatory intervention if there is no likelihood of a voluntary industry code.

We note that this is a key conclusion from the Commerce Commission study, although the report itself notes that "there is no guarantee that a competitive wholesale market will develop rapidly if these barriers are removed" (paragraph 8.18). The report is clearly of the view that wholesale prices are higher than they would be if the market were more competitive.

Given the conclusions of the report about wholesale prices and the fuel industry being highly profitable, the implication is that with reform and greater competition in the wholesale market, that retail prices in turn could be lower.

This is of great interest to many motorists. Given the composition of fuel prices illustrated in Figure 2.2 (discussed above), the NZAA suggests it would be informative for the final report to model what the likely price (reduction) would be. That is, how much lower would the importer cost and/or importer margin be? Just how much scope is there to reduce retail prices? Would these reductions apply across the board, or are prices only likely to fall in those areas where there is currently less wholesale competition (e.g. the South Island)? Given the lower prices charged by no-frills brands like Allied, Gull, NPD, Waitomo etc. how much further could their retail prices feasibly fall? The NZAA would welcome more clarity on this point.

Options for improving information for consumers

i. Informed consumers

The NZAA thinks there is merit in investigating requiring retailers to provide real time pricing data (paragraph 8.69), as has been mandated in some Australian states and other jurisdictions. Whilst we agree there are pros and cons to publishing this data, ultimately they are perceived

² www.fuelpricemonitor.co.nz

as beneficial to consumers. In any case, to a certain extent the horse has bolted as the Gaspy app exists in New Zealand, and its data could already be being used by retailers to co-ordinate pricing. But it is only crowd-sourced data, so improving the reliability of the data would help ensure consumers are better informed. As the report also notes, discounting is likely to become more targeted in future, and this is enabled by more sophisticated data and apps. In this environment, accurate pricing data is likely to become more important for consumers to accurately compare prices and so providing real time pricing data may help facilitate this.

ii. Transparency of premium fuel prices

The NZAA fully supports requiring service stations to display the price of premium petrol on the roadside price boards. We have advocated for several years that service stations should be required to display the price of all fuels they sell (in some cases that would be three grades of petrol) on the roadside boards. This was also one of the NZAA's ten election calls in 2017.

As we have previously stated, the disproportionately higher prices for premium grades of petrol, which are in excess of their additional production costs, and as evidenced by the higher margins on premium petrol, illustrate that there is less price competition among premium fuel. If the retail fuel sector does not voluntarily choose to display premium fuel prices, then it may be necessary to mandate this, as has occurred in NSW and QLD. Therefore, we would encourage the final report to recommend that MBIE investigate drafting regulations to mandate the display of all fuel prices on the roadside price boards.

iii. Benefits of premium fuel

The NZAA agrees that some motorists may be unknowingly using a higher grade of petrol than their car requires, but it would be impossible to quantify the number. A relatively common query asked of our technical advisors is, 'what is the correct octane for my car [make and model]?' But it is worth noting that many models do require a higher octane (typically 95) and that it would not be recommended that they use 91 octane instead as that could cause long-term costly engine-damage. Therefore care needs to be taken around educating motorists about the benefits of premium petrol. We would not want motorists discouraged from using a higher grade if that is recommended by the manufacturer.

However, the NZAA agrees more could be done to inform motorists what petrol grade their car needs. This is particularly problematic for used imports where this information is absent typically due to the lack of an (English) owners' manual. We support the idea of investigating putting a sticker inside the vehicles fuel filler flap. The ideal opportunity to do this would be at the point a (new or used) vehicle is imported into New Zealand, provided the data can be reliably sourced. Doing so at the WoF could be more challenging as it requires access to accurate information. The ideal repository for this would be the Motor Vehicle Register (MVR), where the correct octane could be recorded when the vehicle enters the fleet. This would require the MVR to be updated in order that more data such as octane rating can be collected. The NZAA supports the final report recommending that further investigation be undertaken into making this information available for all cars.

Yours sincerely



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