

Mobil Oil New Zealand Limited

Submission to the Commerce Commission New Zealand in
response to the Market Study into the Retail Fuel Sector Working
paper – Focus areas

7 May 2019

Introduction

1. Mobil Oil New Zealand Limited ("**Mobil**") welcomes the opportunity to provide comment regarding the Commerce Commission's ("**Commission**") working paper outlining focus areas for the Retail Fuel Market Study (Study).
2. As previously stated, 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 raise with regard to the focus areas outlined in the working paper primarily relate to the factors affecting competition to be investigated, in particular:
 - a. Structural conditions for entry and expansion (refer to points 36-38 in the working paper)
 - b. Infrastructure sharing arrangements (refer to points 39-41)
 - c. Coordinated behaviour among firms (refer to points 51-52)

A. Structural conditions for entry and expansion

4. 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. We have also made substantial investments to develop our retail network, differentiate our fuel products, support our customers and enhance our customer offer throughout New Zealand.
5. In Mobil's view, these investments are required to ensure safe, reliable and cost-efficient fuel logistics in New Zealand. We continue to make these investments having invested \$150m across our New Zealand operations since 2012.
6. Mobil's ongoing ability to secure funding to maintain and grow our fuel supply capability in New Zealand is contingent on being able to make returns on such investments.
7. When measuring barriers to entry for new entrants, due recognition should be given to the previous or current investment being made by incumbent industry participants in the fuel supply chain.
8. A barrier to entry is a cost to a potential entrant that is not incurred by an incumbent participant. The high cost of building new facilities and infrastructure is, in itself, not a barrier to entry, if it costs a new entrant the same to build new infrastructure as it would cost an incumbent participant.
9. The option to invest in fuel supply 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 new parties into the midstream supply chain, including Gull New Zealand Limited and Timaru Oil Services Limited.

10. 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.
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. Careful consideration should be given to any recommendations regarding potential market intervention which results in diminishing the value of current or future investments. Such interventions could have unintended consequences, for example, a reduction in the level of investment in the New Zealand supply chain and/or in the number of market participants. These unintended consequences and potential effects on competition in the retail market, should be carefully examined.

B. Infrastructure sharing arrangements

13. Mobil considers that the midstream aspects of New Zealand's fuel supply chain continue to support workable competition in the downstream retail markets.
14. Operation of the shared national inventory arrangements is completed strictly in line with competition law requirements. To state that participants in the system may be incentivised to coordinate behaviour rather than compete strongly is incorrect.
15. 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.
16. By providing participants access to product in locations where they may not own their own infrastructure, the shared national inventory system supports competition by allowing more participants to compete in more areas.

C. Coordinated behaviour among firms

17. Mobil takes exception to the statement at 51.2 that "the retail fuel that firms sell is largely the same and that there is differentiation in the service offering but in some locations the degree of differentiation is low".
18. It is Mobil's view that there is substantial service offering differentiation in the market in most areas, which supports competition by providing consumers with ever-increasing choice.
19. Mobil prides itself on providing Mobil Synergy fuels through our network of Mobil-branded service stations. Our Synergy fuels deliver benefits such as better fuel economy and performance to our customers. In addition, we have made significant investments in enhancing our service station offerings to create a pleasant fuelling experience for our customers, while also meeting their needs for other convenience products.
20. These product, experience and service offerings attract costs that are not borne by companies who operate a strategy of lesser service offerings, such as a focus on unmanned sites.

21. At 51.3 the commission also notes that “Board prices are transparent and readily observable to rival firms”. Mobil is of the view that price transparency supports competition rather than being conducive to coordinated behaviour.

Conclusion

22. In Mobil’s experience, New Zealand continues to be a very tough, competitive, dynamic petroleum market.
23. Consumers continue to see the benefits of a competitive and continually evolving market, with increasing participants and a growing diversification of product and service offerings increasing consumer choice.
24. We look forward to continued engagement with the Commerce Commission as they complete their study into the Retail Fuel Market.