

Commerce Commission Submission.

21/08/2015

We submit the following submission to the Commerce commission on behalf of the Challenge retailer network.

We have some concern about the commercial impact and risk to our Challenge Group members in these key areas,

- Brand, Being the Challenge Brand and License.
- MOPs (mean of Platts) Wholesale price establishment mechanism
- Loyalty and retail Promotions.
- Contract Term and arrangements.

Brand.

The Challenge brand is currently licensed to farmlands fuel until 31<sup>st</sup> March 2020 in a non-exclusive license. In our recent contract negotiations the costs associated with rebranding our 82 sites was a significant barrier to an open tender process and afforded a significant advantage to Chevron NZ in retaining the commercial supply arrangements to the group via the farmlands model.

We have a desire to own the brand, and through the process repeatedly were told that Chevron was not able to divest the Challenge brand at this time. It has been indicated that the Brand could be gifted or sold to the Challenge Group at acceptable terms during the course of the contract. [ ]

An independent brand would ensure we compete in the franchise time market for the provision of supply to independent retailers.

We would request the commerce commission to place a condition on the acquisition of Chevron NZ that the Challenge Brand be passed over to the Challenge Retailers.

[

]

## Price via Mops Methodology

In our current contact Chevron are required to engage a 3<sup>rd</sup> party and develop an acceptable price benchmark to ensure our negotiated wholesale price remains competitive in the market place.

The contractual arrangements leave us at risk of a large player having the ability to raise pricing through the general supply chain and infrastructure monopoly. We are committed to our Farmlands supply for a long term and would like to engage further in this area to ensure we can remain competitive in the market place. Essentially if our wholesale price moves in a market that the retail price does not we are effectively reducing our margins, thus affecting our competitive programmes such as commercial card and retail discounts.

We would welcome further discussion with the commerce commission in this area.

[

]

## Loyalty & Supermarket Discount Programme's.

Currently Z Energy in conjunction with Progressive Enterprises participate in redemption of discounts from coupons provided to customers of the Countdown and Woolworths supermarket Chains. In some cases the fuel is sold well below cost, and is an example of a large player exerting market power to the detriment of other operators. We would welcome further discussion on this area of the marketplace.

Contract Term.

We have entered into a long term supply agreement with Farmlands Fuel. Z Energy Ltd has submitted that merged entity would face competition from distributors, and parties with the ability to import their own fuel. We need to ensure Farmlands Fuel and the Challenge Group have some rights to go to the market on a regular basis to ensure that both the entities are able to provide competition in the marketplace.

We welcome further discussion on this issue.

Regards

Simon Bratton

Chairman

Challenge Dealer Group

Dealer Co NZ

101 Naylor Street

Hillcrest

Hamilton 3216

078567185

0272714323