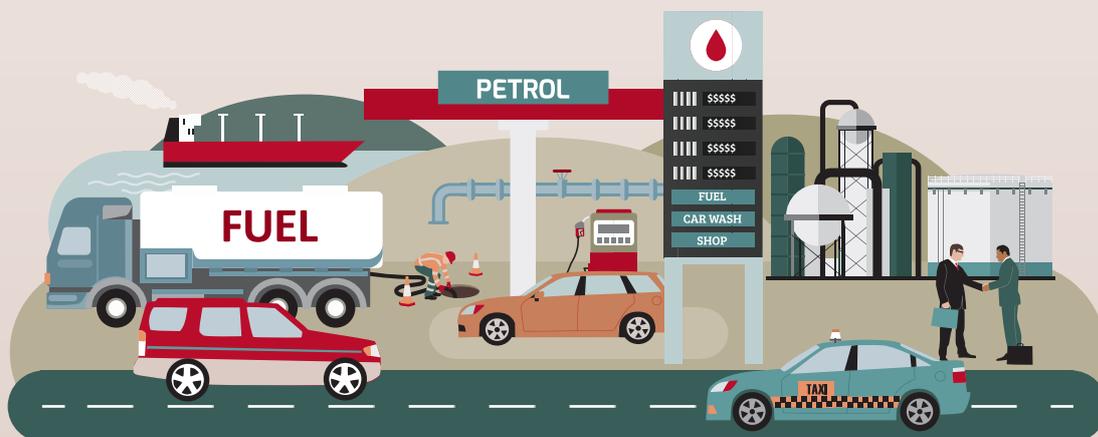


Retail fuel price variation report



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Retail fuel price variation: Weaker competition in some local markets appears to be contributing to variation in retail petrol prices

- We expect differences in retail petrol prices where costs vary. Different staffing levels, the presence of convenience stores and other services, and location can all drive differences in costs. In competitive markets prices at the pump should reflect the cost of supplying fuel at different retail stations over time.
- Based on the information provided to us by importers, we consider that fuel terminal costs, trucking costs, and retail station costs explain some of the price variation both between and within cities across New Zealand. But not all.
- We consider that differences in competition across local markets explain the remaining variation in retail prices. In particular, weaker competition appears to be driving higher retail prices in some local markets.
- The Commission will continue to draw attention to local markets where it appears that competition is not working as well as it should.

Why we are doing this work

This paper supplements our analysis of quarterly Information Disclosure data and focuses on the relatively high differences in retail prices we have observed both within and across different cities.

In our [March 2023 quarterly fuel monitoring report](#) we observed large variations in retail prices from importers.^{1,2}

- Within Auckland the average daily difference between the lowest and highest prices for Regular 91 was 52 cents per litre (cpl).³
- In Whangārei and Hamilton the difference between average prices for Regular 91 for these locations was 32 cpl.⁴

These differences did not appear to be explained by differences in costs.⁵

We wrote to importers seeking to understand the reasons for the variations in retail fuel prices. We highlighted that retail prices for fuel did not appear to be explained by cost-related factors, such as international shipping costs, local transport costs, or land costs.

We sought additional information on the factors that may have influenced this variation in prices, including, but not limited to, the costs of different types of retail stations, eg, unstaffed versus staffed, as well as potential differences in other overhead costs.

The variation in prices reduced in the September 2023 quarter. In particular:

- Within Auckland the variation in prices for Regular 91 fell to 33 cpl;⁶
- The difference in average prices for Regular 91 between Whangārei and Hamilton fell to 17 cpl.

The variation in prices again fluctuated in the December 2023 quarter.

- Within Auckland price variation for Regular 91 increased to 43 cpl;
- The difference in average prices for Regular 91 between Whangārei and Hamilton decreased substantially, and was down to 4 cpl.

Lower price variation that more closely reflects differences in costs in some areas is encouraging. However, elsewhere high variation that is not fully explained by cost differences remains. We consider that it is important to understand and highlight these unexplained differences.

1. Importers are BP, Gull, Mobil, TOSL and Z. Importers import refined fuel from overseas into New Zealand.
2. This paper only covers fuel importers, not distributors. Distributors do not import fuel into New Zealand. Instead, distributors buy wholesale quantities of fuel from importers and sell the fuel through their retail network. Distributors include Allied, NPD and Waitomo.
3. Commerce Commission, [Quarterly fuel monitoring report for March 2023 quarter](#), p 14. Note: Prices in Waiheke Island are excluded from this analysis – see Focus reports [here](#)
4. *Ibid*, p 13
5. *Ibid*, pp 13, 25-27
6. Commerce Commission, [Quarterly fuel monitoring report for March 2023 quarter](#), p 16

Importers' responses

The response from major fuel importers to this issue was that the price differences arise because of cost differences and competition, and reflect a normal competitive market.⁷

While we agree that pricing differences are likely to occur where costs vary, in a competitive market we would expect the prices at the pump to align with the cost of supplying fuel at the pump over time.

Understanding the importance of costs versus competition

As well as engaging with importers to better understand the reasons behind these price variations, we have also sought to understand the extent to which the variations in retail prices arise from variations in costs and/or differences in the degree of competition in different local markets.

To this end we contracted Envisory (formerly Hale & Twomey) to provide us with terminal and trucking cost modelling. This allows us to estimate the cost differences between terminals and trucking costs across New Zealand.

Analytical approach for assessing the costs of supplying fuel

The costs of supplying fuel at the pump are comprised of:

- **Landed costs of importing fuel:** these are costs incurred by fuel importers bringing fuel into NZ.⁸ These include:
 - international refined product price;
 - shipping costs;
 - insurance; and
 - port-related fees.
- **Terminal costs:** the costs of maintaining and operating fuel storage facilities, typically located at or near ports (with the exception of Wiri);⁹
- **Trucking costs:** the costs of distributing fuel from terminals to retail stations;
- **Retail station costs:** the costs of investing in and operating retail stations.

7. See: <https://www.rnz.co.nz/national/programmes/checkpoint/audio/2018905801/fuel-companies-asked-to-explain-price-variations-between-towns-and-cities>.

8. Sometimes referred to as "importer costs".

9. The Wiri terminal is located 30kms from the Auckland Port. Fuel is typically shipped to Whangārei and is distributed via pipeline from Whangārei to Wiri.

Landed costs of importing fuel

International refined product prices and insurance costs have not been included in this analysis because these costs do not change across the various ports in New Zealand that fuel is shipped in to.

From importers' responses we note that landed costs before trucking are apportioned across large volumes of fuel, and thus are relatively minor on a per litre basis. For example, the cost difference for an importer between shipping to the cheapest port, Whangārei, and one of the most expensive ports, Nelson, was reported as 1.2 cpl.

Therefore, we consider that landed costs before trucking are not a major contributor to pricing differences between cities and cannot explain any of the price differences within cities.

Terminal costs

Terminal costs will not explain differences in retail prices within a city, as retail stations across a city will typically be served from the same terminal, although differences in terminal costs could potentially explain some of the price variation between cities.

However, the terminal cost modelling work we have carried out does not indicate that this is the case, as terminal cost differences appear to be minor. In particular, when comparing fuel sold in Whangārei to fuel sold in Hamilton, the difference in terminal costs appears to be less than 1 cpl.

Trucking costs

The costs of trucking fuel from terminals to retail stations can explain some of the price differences observed between cities.

This is because in some cases, fuel is not trucked from the closest fuel terminal. For example, Gull trucks Premium 98 from Tauranga to Whangārei (355km), instead of lifting it from Marsden Point (36km).

Therefore, we consider that trucking costs can explain some of the differences seen between cities. We consider these cost difference to be at most 7 cpl. These costs may also explain some portion the differences within cities if some importers truck fuel from more distant locations while others truck it from the nearest terminal.

Retail station costs

Importers provided us with estimates of the differences in costs between operating staffed and unstaffed retail stations.¹⁰ These estimates ranged from 1 cpl to 15 cpl. We used the highest estimate of 15 cpl in our analysis, but we note that the actual cost difference in retail station costs may be substantially lower in many cases.

Even using upper estimates, retail station cost differences explained less than a third of the variation observed within Auckland during the March 2023 quarter.

We also considered the degree to which differences in real estate costs could impact the variation in retail prices. Our analysis, as well as feedback from importers, suggests that any differences in real estate costs are unlikely to be material.

10. Staffed stations refers to crewed fuel stations, many of which have a wide convenience offering (shop, café, car wash). Unstaffed stations are fully automated stations utilising pay-at-pump technology, with no staff on the premises.

Analysis of cost and price differences

Breakdown 1: Cost and price differences within Auckland for March 2023 quarter

Table 1 below includes a breakdown of the possible factors that explain the price differences observed within Auckland during the March 2023 quarter.

Table 1: Price differences factors, Auckland, Regular 91, March 2023 Quarter

Cost type	Cents per litre
Landed costs of imports	0
Terminal costs	0
Trucking	7
Retail station costs	15
Maximum cost difference	22
Unexplained variation	30
Total price difference	52

At least 60% of the price difference observed within Auckland during the March 2023 quarter does not appear to be explained by cost differences.

Breakdown 2: Cost and price differences within Auckland for September 2023 quarter

Table 2 below includes a breakdown of the possible factors that explain the price differences observed within Auckland during the September 2023 quarter.

Table 2: Price differences factors, Auckland, Regular 91, September 2023 Quarter

Cost type	Cents per litre
Landed costs of imports	0
Terminal costs	0
Trucking	7
Retail station costs	15
Maximum cost difference	22
Unexplained variation	11
Total price difference	33

At least one third of the price difference observed within Auckland during the September 2023 quarter does not appear to be explained by cost differences.

Breakdown 3: Cost and price differences between Whangārei and Hamilton for March 2023 quarter

Table 3 below includes a breakdown of the possible factors that explain the price difference observed between Whangārei and Hamilton during the March 2023 quarter.

Cost type	Cents per litre
Landed costs of imports	0
Terminal costs	0.03
Trucking	7
Retail station costs	15
Maximum cost difference	22.03
Unexplained variation	9.97
Total price difference	32

At least 30% of the price difference observed between Whangārei and Hamilton during the March 2023 quarter does not appear to be explained by cost differences.

Breakdown 4: Cost and price differences between Whangārei and Hamilton for September 2023 quarter

Table 4 below includes a breakdown of the possible factors that explain the price difference observed between Whangārei and Hamilton during the September 2023 quarter.

Table 4: Price difference factors, Whangārei and Hamilton, Regular 91, September 2023 Quarter

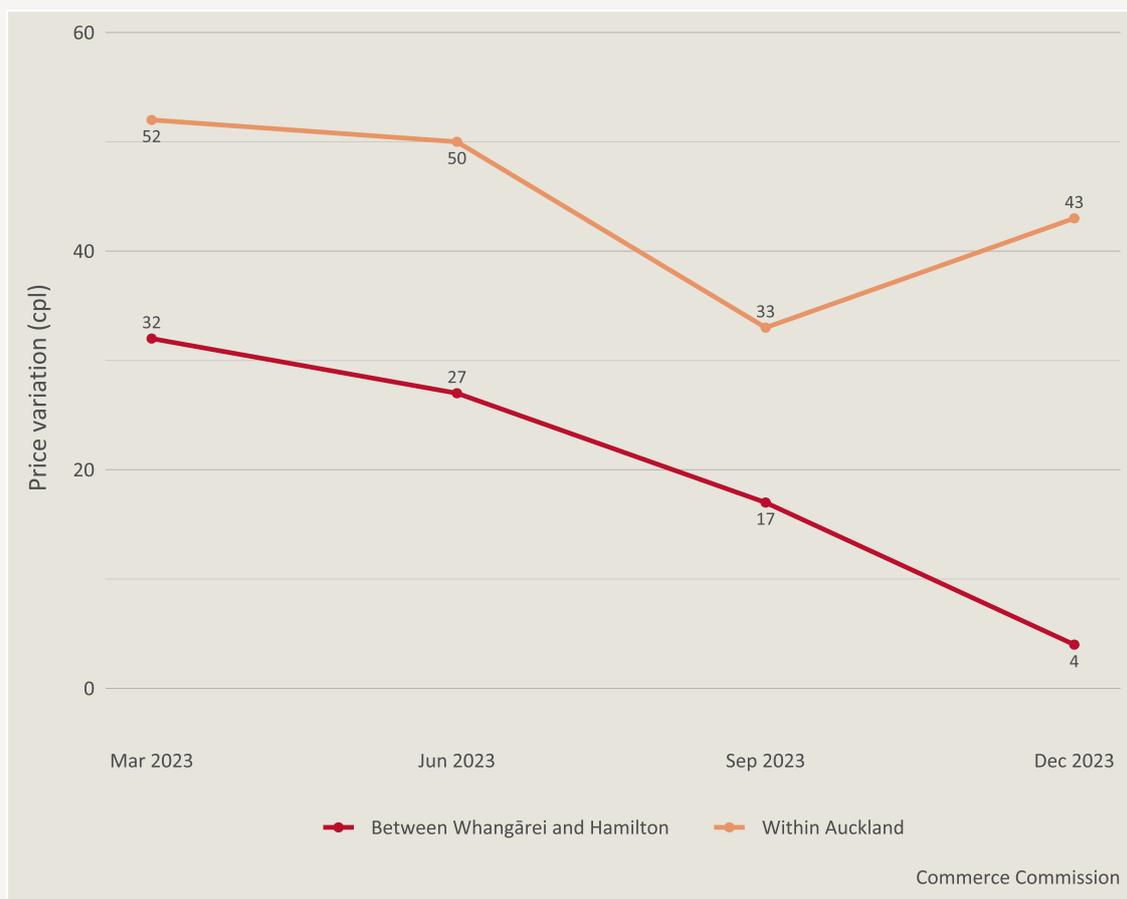
Cost type	Cents per litre
Landed costs of imports	0
Terminal costs	0.03
Trucking	7
Retail station costs	15
Maximum cost difference	22.03
Unexplained variation	0.97
Total price difference	23

Differences in costs appear likely to explain much, if not almost all, of the price difference observed between Whangārei and Hamilton during the September 2023 quarter.

Price differences over time

Figure 1 below illustrates the price differences observed both within Auckland and between Whangārei and Hamilton over the four quarters of 2023.

Figure 1: Price differences within and between selected cities, 2023 (cpl)



Of note is the substantial fall in the difference in retail prices between Whangārei and Hamilton during 2023. Given that the most recent price data for the December 2023 quarter indicates that the difference between has fallen to 4 cpl, it seems unlikely that cost differences alone could warrant the 32 cpl difference observed in the March 2023 quarter.¹¹ The small magnitude of this most recent price difference also suggests that some of the actual cost differences are more likely to be smaller than the upper estimates that we have used in our analysis.

Further relevant to this reduced price variation was the new unstaffed retail petrol station in Whangārei in December 2023. The observed reduction in price variation is consistent with an increase in competition arising from new entry of this nature.

11. This entry involved Allied adding self-service petrol pumps to an existing truck stop. See: <https://www.rnz.co.nz/news/national/504571/whangarei-petrol-prices-drop-as-companies-forced-to-match-competition>.

The likely role of competition in retail price differences

We consider that a major contributing factor to the relatively high price differences outlined above is likely to be the difference in competition in different local markets. We expect that different levels of competition are likely to result in differences in retail margins, and therefore price differences that are not reflective of cost differences.

We also acknowledge that fuel retailers often seek to implement a strategy of differentiation to reduce directly competing solely on price.¹² Some fuel retailers invest in higher quality and additional complementary offerings, such as better forecourts, having attendants to help with refuelling, and providing retail and café facilities to appeal to those consumers that wish to refuel at staffed stations rather than unstaffed stations.

Location of retail fuel stations is also a key differentiator, because driving further to purchase fuel can be costly to motorists in terms of time and fuel.¹³ Therefore, a staffed fuel station strategically placed on a major artery will often be more attractive to motorists than an unstaffed station that requires additional driving time to get to.¹⁴

This differentiation in retail fuel station offerings can justify differences in prices to the extent that it reflects a higher willingness to pay by some consumers for additional quality, convenience and services, combined with higher costs of supplying those services. The proportion of these higher prices that are justified by the costs associated with this differentiation, however, is a key question.

As outlined above, we assessed the likely differences in costs that this differentiation appears to drive. We also engaged with importers to better understand their pricing models, and how they set prices for individual retail stations.

We consider that the pricing approaches of importers can result in the retail stations in same area having two different price points:

- A low price point driven by unstaffed stations owned by distributors; and
- A higher price point driven by staffed stations operated by importers who only consider competition from other staffed stations when setting prices.

We understand that staffed stations operated by importers can often maintain a high price point, unless a material proportion of their volumes are threatened by a nearby unstaffed retail station/s.

Consequently, we consider that retail price variation within a city such as Auckland may arise if:

- some areas of the city contain mostly high-priced staffed importer stations that do not face significant competitive constraint from sufficiently nearby unstaffed stations; and
- other areas in the same city contain more unstaffed (distributor) stations, that generate more effective price competition, and lower retail prices.

The price difference between these two areas may therefore lead to the relatively high retail price variation observed within a city, as outlined in our quarterly reports.

The extent to which different cities have different proportions of staffed and unstaffed stations may also explain the variations observed between cities.

12. Commerce Commission, [Market study into the retail fuel sector, executive summary](#), 2019, paragraph X43.

13. Cognitus Economic Insight et al, [New Zealand fuel market financial performance study](#), 2017, page 64-65.

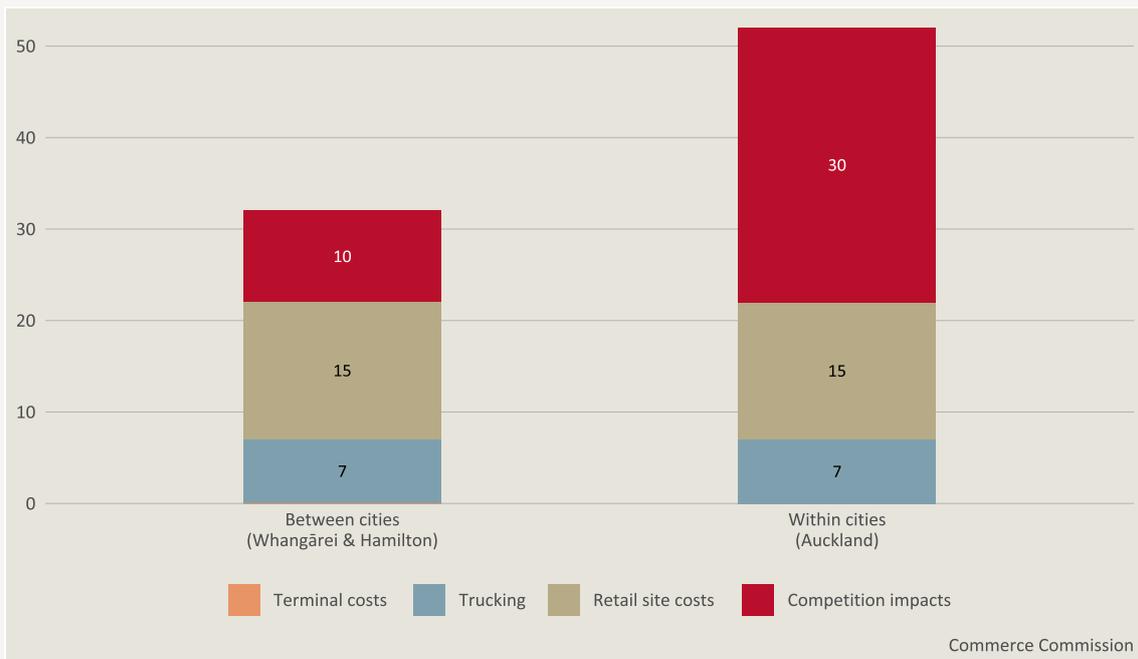
14. Commerce Commission, [Market study into the retail fuel sector, final report](#), 2019, page 271, para 7.10.

For instance, Hamilton contains a relatively high proportion of lower priced unstaffed stations, likely reducing the average price for the city. In contrast, other cities, such as Whangārei, have hosted a higher proportion of staffed stations, likely increasing average prices.

The ultimate result may be a relatively large difference in average prices between the two cities.

Figure 2 shows the breakdown of price differences observed in the March 2023 quarter both within and between selected cities.

Figure 2: Breakdown of price differences, March 2023 quarter



Conclusion

Differences in costs can explain some of the variation observed in retail prices, but not all. We consider another major driver is the presence of relatively weaker competition in some areas compared to others.

For many years, the major importers (BP, Mobil, and Z) have made efforts to differentiate their retail fuel offerings, which has led to competition on many factors other than just price. Three specific elements of this strategy often include: loyalty programmes, convenience services, and location.

One of the findings of the Commerce Commission's 2019 Retail Fuel Market Study was that higher discounts through loyalty programmes are associated with higher margins for fuel companies. This was confirmed by analysis in our fuel monitoring report for the quarter ending June 2023.¹⁵ Loyalty programmes can reduce direct competition on board prices by making it harder for consumers to compare post-discount prices.¹⁶

Additionally, the majors have provided more services at fuel stations (fast lanes, coffee ordering apps, improved service, better equipped convenience stores, etc).¹⁷ But as indicated by the analysis above, higher prices at some retail stations are not necessarily explained by the higher costs of operating these (staffed) stations.

Lastly, market research by fuel companies suggests that location is one of the most important, if not the single most important, factor in consumers' choice of fuel retailer.¹⁸

These elements are used by the majors to explain the difference between the price of fuel charged by staffed and unstaffed stations.

While product differentiation is generally beneficial, as it provides a greater range of choice for customers, the price differences observed in the retail fuel sector do not appear to be fully justified by the costs associated with providing this choice.

Consumers can play an important role in closing these gaps, by seeking out cheaper options for refuelling, aided by tools such as the Gaspy app. We will continue to assist consumers by drawing attention to local markets where it appears competition is not working as well as it should.

We also encourage councils to consider the benefits of competition for consumers when considering consent applications for new retail fuel stations, particularly unstaffed stations.

We have also been investigating the impact of new unstaffed fuel stations on competition. Our analysis shows that entry of a new unstaffed fuel station tends to lower the pricing of surrounding stations in local markets. For more information see our analysis on the [impact of entry of unstaffed retail stations](#).

15. Commerce Commission, [Quarterly fuel monitoring report June quarter](#), 2023.

16. Commerce Commission, [Market study into the retail fuel sector, executive summary](#), 2019, para X43.

17. *Ibid.*

18. Commerce Commission, [Market study into the retail fuel sector, Final report](#), 2019, page 271, para 7.10.

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