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## Release of MBIE study into downstream fuel industry

The study was released today and can be accessed at <http://www.mbie.govt.nz/info-services/sectors-industries/energy/liquid-fuel-market/fuel-market-financial-performance-study-2017>.

Z Energy said it was digesting the detail of the report but noted that the report clearly states that no part of the industry is likely to meet Commerce Act regulatory thresholds and that any regulation could have unintended negative consequences.

Z said despite the MBIE fuel market study noting it was hampered by incomplete data, tight timeframes and inadequate terms of reference for a long-term study, Z would cooperate with any discussions and potential policy work, including cost-benefit analysis as recommended by the study.

Z participated fully, providing the study with all materials provided to the Commerce Commission for the acquisition of the Caltex business; detailed responses to multiple information requests from the study; and an additional comprehensive submission covering competitive dynamics, returns benchmarking across domestic and global comparators; and assessment of barriers to entry.

Z Chief Executive, Mike Bennetts, said Z would cooperate with the report's singular recommendation, which is for further discussion with industry ahead of potential policy development, which would include cost-benefit analysis.

"Z removed its main port fuel prices from its website this morning. This was added to our site back in 2010 in response to requests from customers for more transparency. It is an indication of how quickly the industry has changed that the notion of a national price is now obsolete.

"Additionally, Z is open to review around the transparency of industry borrow and loan arrangements and is not particularly interested in its competitors' market shares as this information does not inform how Z sets prices. The Commerce Commission materials fully traversed competitive dynamics across the wholesale fuel markets, including terminals, and this is an area that we are happy to continue to discuss."

Mike said Z demonstrated to the study that the New Zealand fuel industry was more competitive than it has ever been in the past; that Z's returns were reasonable and in-line with domestic and international peers; and that barriers to entry were sufficiently low. Evidence for this was the growth of the independent participants which now accounted for 20 per cent of the retail market.

"The fuel industry has changed markedly over the last seven years and particularly in the last two to three. There are now 21 different brands active in the retail market with myriad price and service offers. There are four importers of refined fuel into New Zealand and now 70 per cent of all service stations are owned by independent operators rather than major oil companies.

"We are disappointed that the data being reviewed did not include the past 18 months which is the period within which much of the change in competitive intensity has taken place," he said.



“Service station numbers are growing for the first time in decades and independent operators are bringing new business models and pricing structures to all parts of New Zealand, including Wellington and the South Island – this is why there is now more choice on prices than before.”

Mike said the scale of change had been potentially confusing for customers and commentators, following decades of four major companies selling the same products at mostly the same price.

Z has offered to provide MBIE with more data to ensure higher levels of transparency, including daily pricing data to enable more accurate monitoring of pricing, discounting and margins.

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