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NZ Automobile Association submission on:
Fuel Industry Bill



SUBMISSION TO: Finance and Expenditure Committee

REGARDING: Fuel Industry Bill

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Executive Summary

The New Zealand Automobile Association (NZAA) welcomes the opportunity to provide comment on the Fuel Industry Bill.

The NZAA supports the intent of this Bill which reflects the key recommendations of the 2019 Commerce Commission market study into the retail fuel sector ('the market study'), which were accepted by the Government and which the NZAA endorses. The framework it provides will improve competition in the wholesale and retail fuel markets, much of which is subject to supporting regulations which the NZAA has already input to and will be interested in providing more detailed feedback on.

In particular, the focus of our submission is on subpart 3 of the Bill, which relates to the consumer information requirements.

1. Subpart 3 – Consumer information requirements

Whilst much of the Bill focuses on reform in the wholesale fuel market, these changes will be less visible to the consumers of retail fuel – motorists. Indeed, whilst these changes should result in more price competition, these may not be easily noticed by motorists insofar as commodity price fluctuations and tax increases may offset any reductions due to a lower wholesale price. Witness for example, that at the time of writing, retail prices are the lowest they have been in three years, not due to any regulatory change, but rather a substantial drop in global commodity prices, mostly due to the drop in worldwide demand resulting from Covid-19. While the outlook for fuel prices is difficult to predict, as it is, commodity prices began gradually rising as countries came out of enforced lockdown.

But the NZAA does know that there is one aspect of market reform enabled by this Bill, which a section of the motoring public will notice and should benefit from – the mandatory display of the price of premium grade petrol on roadside price boards.

This is a particular issue the NZAA has advocated for many years – it was one of our ten election calls in 2017 – and we are pleased the market study adopted this and made it a recommendation which has subsequently been accepted by the Government. Requiring service stations to display the price of premium grade petrol was something that was supported by 81.3% of NZAA members in a 2016 survey – and 76.6% of members said they kept an eye on the roadside boards.

The NZAA's view is that the absence of the price of premium grade petrol on the very visible roadside display boards has restricted price transparency and thus competition in the premium petrol market, which in our view has enabled the growth in the price differential between 91 octane and the two main premium grades (95 and 98 octane) over the past decade. In 2010, the price of 95 octane was commonly observed to be 7-8 cents per litre (cpl) more than 91 octane across all retailers. Now, prices differences ranging from 14-30cpl are common (depending on brand), and anecdotally over 30cpl has been observed on occasion (even more for 98 octane).

This price differential has never been justified by a significant difference in the actual commodity price, according to global market data (which presently has the landed cost of 95 octane priced at

just 4cpl more than 91 octane). We believe that the requirement for service stations to display the price of premium petrol (indeed all retail fuels) will provide price transparency, increase competition amongst retailers on premium petrol (as happens with 91 octane), enable motorists to shop around, and most of all, actually result in a reduction in the price differential between regular and premium grades, thus saving a significant number of motorists whose cars require premium petrol a meaningful amount of money. (Note that for many motorists, buying premium petrol is not a choice, but a requirement specified by the vehicle manufacturer, and not to comply risks significant engine damage – motorists should not be punished for this obligation.)

Approximately 20% of all petrol sold is premium grade (95, 98 or 100 octane), which suggests about 1 in 5 petrol vehicle owners buy premium grade. Based on 2018 Ministry of Transport data, there are approximately 3.5m light petrol vehicles in the fleet (including motorcycles), which means around 700,000 of all light petrol vehicles run on premium grade – a significant number of motorists who will benefit from increased price competition.

As a result of the lack of price transparency for premium grade petrol, the market has failed in this regard, and the NZAA wholly endorses proposals to ‘level the playing field’ by enabling through the Bill, regulations prescribing requirements relating to the display of information at retail fuel sites.

The NZAA has recommended to the Ministry of Business, Innovation & Employment, that such regulations should specify that all service stations (regardless of turnover) be required to display the price of all fuels retailed (dispensed at a bowser) on the roadside price boards. The NZAA wants these regulations to be future-proofed so that new fuels or blends (e.g. ethanol blends, hydrogen) coming onto the market in future must also have the price displayed on the price boards. In addition, we recommended that the regulations should also specify that the octane rating must be displayed (where applicable) in addition to the price.

In this regard, the NZAA thinks there is scope to provide this clarity in the Bill, and thus we suggest an alteration to clause 21 (2) of the Bill, by including an additional item the regulations may prescribe:

(f) the octane rating of the engine fuel (where applicable)

Displaying the octane rating will reduce confusion for motorists, and also reduce costs for some motorists irrespective of any increased competition from displaying the price. This is because some service stations retail 98 octane instead of 95 octane (specifically Gull, many BP sites nationwide, and some Mobil sites in the North Island only¹). These fuels are not readily identified by their octane rating on the roadside price board, but rather a unique brand name, which makes it difficult for motorists to determine which grade of petrol is available. The NZAA has received regular feedback from members over many years complaining that they inadvertently purchased 98 octane when they only intended to buy 95 octane – and ended up paying an even higher price. This is attributable to the twin failures of not displaying the price – so motorists could choose to buy elsewhere – and not displaying the octane rating. Regardless of the fairness of price, it is not unreasonable to assume that 98 octane would cost more than 95, in the same way that 95 octane costs more than 91. If

¹ NPD retails 100 octane in the South Island

motorists could easily identify on the price board that the service station sold 95 or 98 (or 100) octane, this will give them the choice of filling up there or going to another brand that retails the grade they intend to buy. The action of displaying the octane rating alone will avoid motorists inadvertently paying for a higher grade fuel than they require (generally speaking, only high-performance cars require 98 octane). In addition, as noted above, the NZAA also expects increased price competition for all the premium grade fuels – in other words, the very high price differentials relative to 91 octane should reduce.

2. Clause 2 – Commencement

For the reasons above, the NZAA also thinks that the consumer information requirements coming into force 18 months after the Act receives royal assent (Clause 2(3)(b)) to be a long lead time to implement this change (nb. this clause refers to the *requirements* as ‘standards’). The longer the delay the longer the status quo will remain, which means less price transparency and disproportionately higher prices for premium petrol. This deadline in effect means the fuel companies will have had over two years notice from the publication of the market study to display premium fuel prices, and for all that time, the approximately 20% of petrol vehicle owners that buy premium petrol will continue to pay higher prices than under full price transparency – although we acknowledge that many companies have already begun to rollout premium price signage. Given that, the NZAA would ideally prefer a shorter timeframe of 12 months after the date of royal assent; but with the ability for MBIE to provide exemptions on a case-by-case basis. The sooner this requirement can reasonably be introduced, the sooner savings will flow through to motorists.

3. Miscellaneous

Finally, the NZAA observes that the Regulatory Impact Statement noted that there needs to be adequate resourcing by MBIE and the Commerce Commission to carry out effective monitoring of the new Terminal Gate Pricing (TGP) regime. We agree the success of these regulations will require robust monitoring. Indeed these changes will require changes to the way the fuel sector is monitored – and also to the way the public are informed about the government’s monitoring role.

For example, the introduction of TGP. TGP is not the oil price which is commonly, but somewhat misleadingly, referred to as a benchmark in NZ, let alone the more accurate indicator of the landed cost of *refined* fuel. The TGP is neither. It is a different cost indicator, comprising the landed cost plus wholesale margin and taxes, and whilst it could be expected to correlate with the refined fuel price, it may not necessarily move in close alignment with it – in terms of the speed or quantum of change. This will be important for the public to understand. Under a TGP regime, the TGP becomes the benchmark price against which the retail price will be referenced. The issue will be how the retail price compares to the TGP, and not global commodity prices (be that crude oil, or refined fuel). This is a change from what the public are used to in NZ, and one that may raise confusion which the monitoring agencies will need to explain, particularly if the TGP does not always closely align with changes in the global commodity price.

About the New Zealand Automobile Association

The NZAA is an incorporated society with over 1.7 million members, representing a large proportion of New Zealand road users. The AA was founded in 1903 as an automobile users' advocacy group, but today our work reflects the wide range of interests of our large membership, many of whom are cyclists and public transport users as well as private motorists.

Across New Zealand, the motoring public regularly come into contact with the AA through our breakdown officers, 37 AA Centres and other AA businesses. Seventeen volunteer AA District Councils around New Zealand meet each month to discuss local transport issues. Based in Wellington and Auckland our professional policy and research team regularly surveys our Members on transport issues and Members frequently contact us unsolicited to share their views. Via the AA Research Foundation, we commission original research into current issues in transport and mobility. Collectively, these networks, combined with our professional resource, help to guide our advocacy work and enable the NZAA to develop a comprehensive view on mobility issues.

Motorists pay over \$4 billion in taxes each year through fuel excise, road user charges, registration fees, ACC levies, and GST. Much of this money is reinvested by the Government in our transport system, funding road building and maintenance, public transport services, road safety work including advertising, and Police enforcement activity. On behalf of AA Members, we advocate for sound and transparent use of this money in ways that improve transport networks, enhance safety and keep costs fair and reasonable.

Our advocacy takes the form of meetings with local and central government politicians and officials, publication of research and policy papers, contributing to media on topical issues, and submissions to select committees and local government hearings.

Total Membership

1.7+ million members

Just over 1 million are personal members

0.7 million are business-based memberships

% of licenced drivers

Half of licenced drivers are AA Members

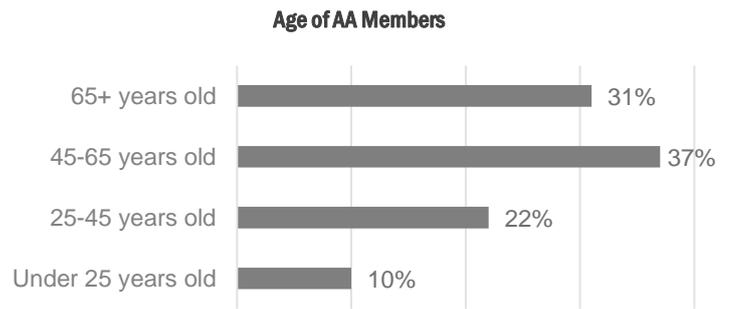
Gender split

54% Female

46% Male



Age range & Membership retention



Half of AA Members have been with us for 10 years or more.
