

Spotlight on Fuel

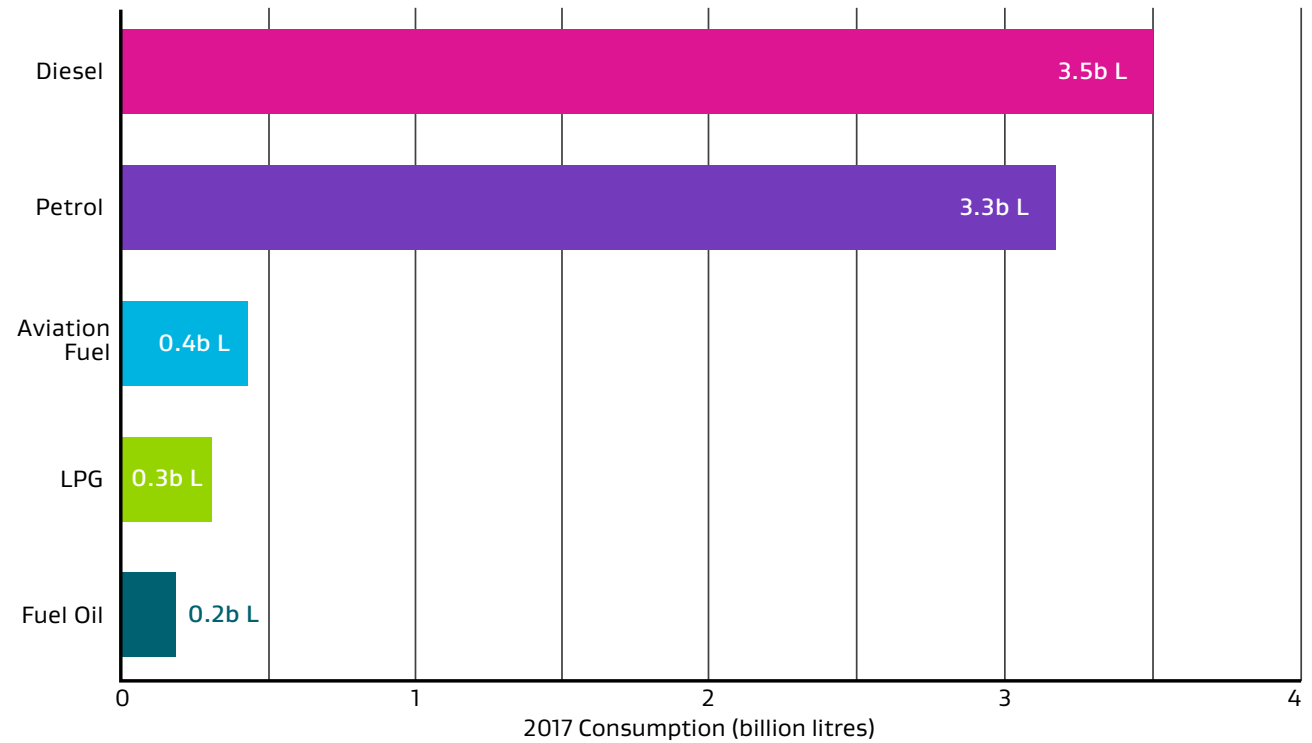
In this spotlight, we describe New Zealand's fuel sector and the role MBIE plays to monitor prices



The New Zealand fuel sector

The New Zealand fuel sector is made up of a range of different types of fuel, from jet fuel, to the LPG we use in our barbecues and the petrol or diesel that we put in our vehicles. Each year we consume about 3.3 billion litres of petrol, or the equivalent of 1,300 Olympic-sized swimming pools.

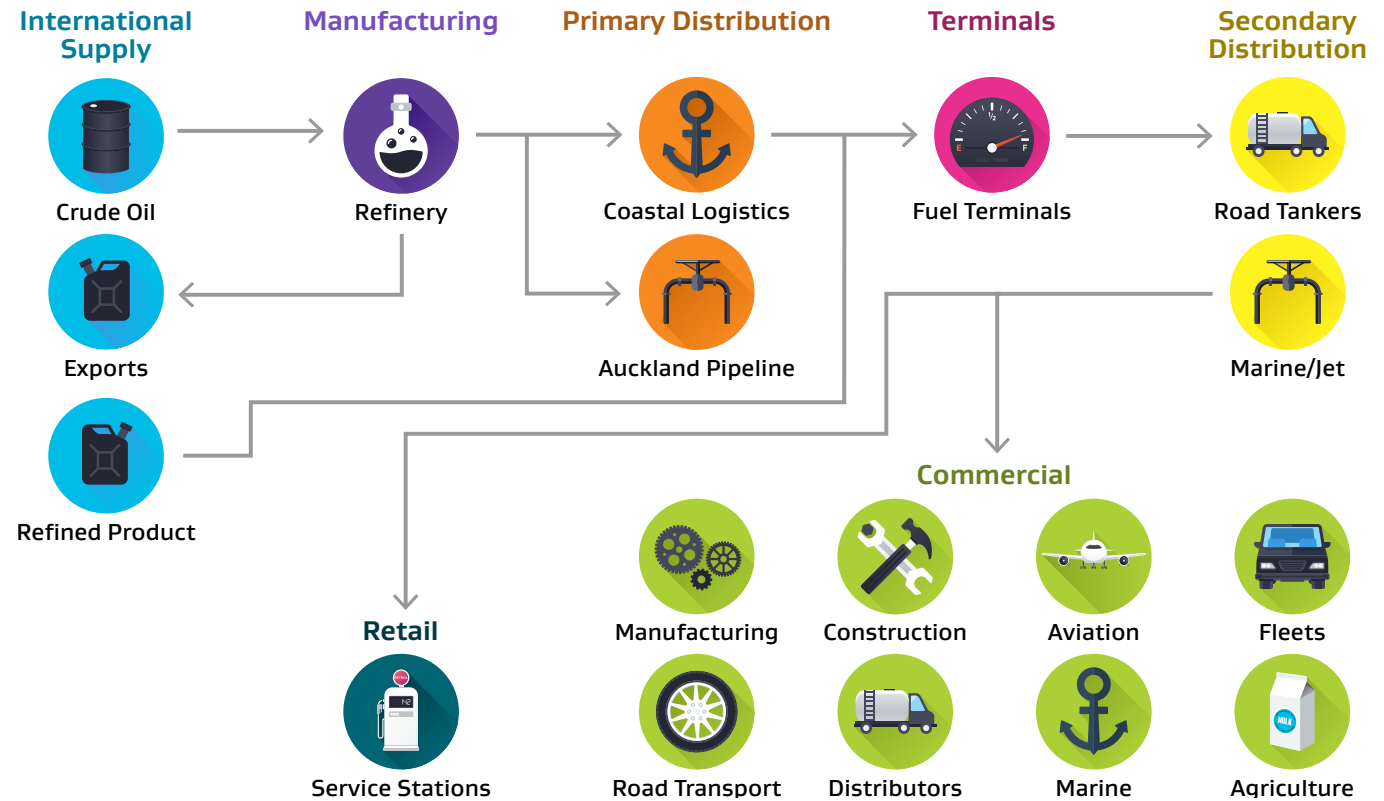
Comparison of New Zealander's consumption of fuel (by type) in 2017



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New Zealand's fuel market structure

In terms of motor fuels (petrol and diesel), there are currently 21 retail brands in New Zealand. While all of the oil that is produced in New Zealand is exported, all of the petrol and diesel used in New Zealand is made from imported oil, some of which is crude oil. The imported crude oil is refined at the Marsden Point refinery in Northland, and the rest is imported as already refined product.



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What does MBIE do?

The Ministry of Business, Innovation and Employment (MBIE) monitors weekly retail prices and margins for fuel. Although MBIE monitors pricing, the fuel sector is not subject to any industry-specific economic regulation. Prices and quantities sold are determined by the market. MBIE also sets direct levies (such as the Engine Fuel Monitoring Levy) on motor fuel use in New Zealand, and engine fuel quality standards.

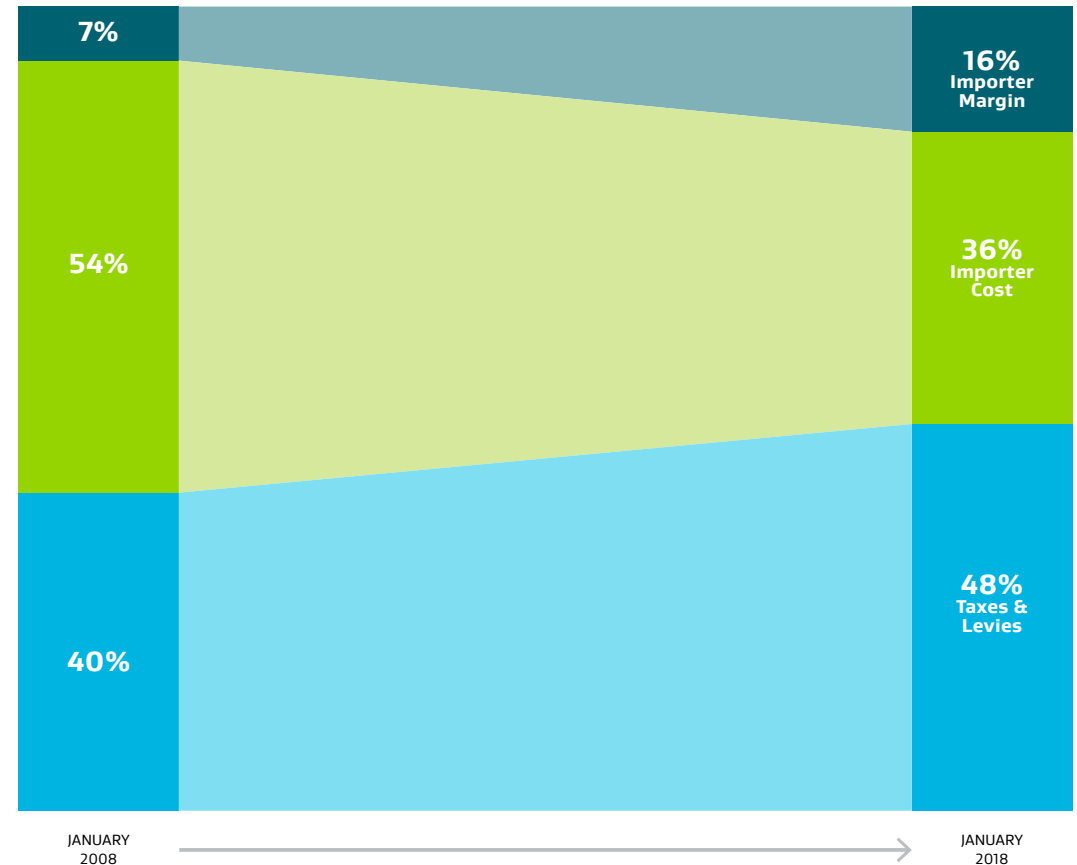
How does MBIE monitor prices?

MBIE monitors the range of factors that make up fuel prices which include things such as the international fuel price, transport costs, and importer margins. Importer margins are a broad indicator of the gross profit made on retail sales of petrol and diesel. This isn't the same as net profit because some of the money made in gross profits is also used to cover the costs of selling fuel in New Zealand like the costs of running retail sites and the costs of transporting fuel around the country.

Importer margins are a calculation of the gross profit made on retail sales of petrol and diesel. Fuel companies then spend some of this gross margin to cover the costs of selling fuel in New Zealand – for example, the cost of running retail sites and of transporting fuel around the country – so the importer margin is not the same as net profit. Trends in importer margins can be useful for indicating whether companies are making more or less money over time. Rising importer margins potentially raise questions about the competitiveness of New Zealand's retail fuel market. Importer margins in New Zealand have been trending upwards since 2008.

Overall, according to MBIE data, retail petrol margins increased by over 18 cents per litre between 2008 and 2017, equating to an additional average cost per motorist of close to \$150 per year over that period.

Comparison of fuel price composition in New Zealand



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The latest petrol price trends

The pre-tax price of fuel in New Zealand now appears expensive when compared to other countries. For example, New Zealand has gone from having one of the lowest pre-tax prices for premium petrol in the OECD in 2008, to having the second highest pre-tax price for premium petrol in 2017.

In the first three months of 2018 the retail cost of petrol rose 5.25 cents per litre and the retail cost of diesel rose by 6.70 cents per litre. More than half of the total price increase for both products is believed to have gone toward rising importer margins.

Regional differences

There is also a growing difference between prices in the South Island and Wellington, on the one hand, and the rest of the North Island, on the other. There are slightly higher costs involved in serving southern regions, including the cost of transporting fuel to a more widely dispersed population compared to the North Island. However, prior to 2014 fuel prices in the two regions were still roughly similar, but by 2017 the average gross margin in the South Island and Wellington had grown to almost ten cents higher per litre than the average gross margin in the rest of the North Island. The slightly higher operating costs in southern regions cannot fully account for a margin difference of almost ten cents per litre, and would not explain why the margin difference continues to grow.

What is MBIE doing about it?

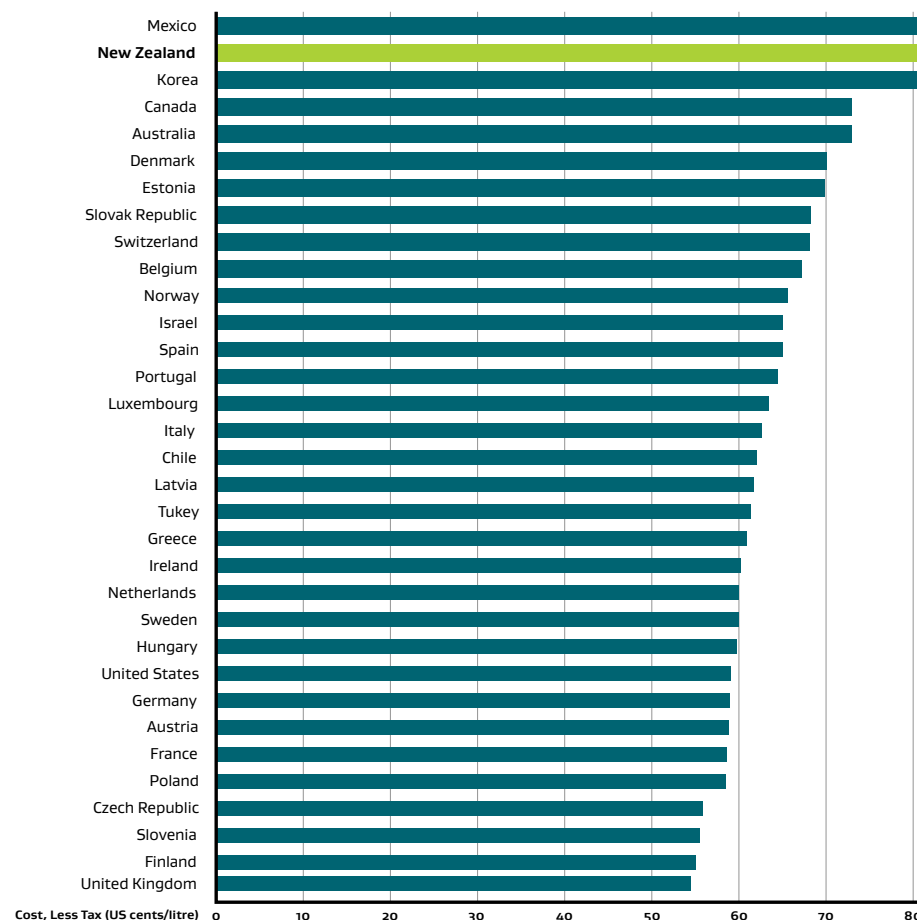
In 2017 MBIE commissioned a study into fuel prices. The report highlighted concerns about the price Kiwi's are paying for fuel at the pump. This was based on the rising levels of importer margins since 2008, and the growing difference in retail prices in Wellington and the South Island, compared to the rest of the country.

A Bill is currently going through Parliament to introduce a market studies power to enable the Commerce Commission to carry out studies of particular markets. If the Bill becomes law, this will give the Commerce Commission improved powers to conduct studies that will look at the performance of markets, such as New Zealand's fuel market, which has been identified by Ministers as a priority area for further investigation, and help identify causes of poor performance. The Government is hoping that the market studies power will come into force in 2019, if the Bill becomes law.

Further study of New Zealand's fuel market will give a better idea as to whether the fuel market is performing properly, and might help work out what could be done to fix it. In the meantime, the Minister of Energy and Resources has directed her officials at MBIE to continue to closely monitor fuel prices.

For more in depth information about fuel prices in New Zealand, visit the [New Zealand Energy Quarterly](#)

New Zealand's position in the OECD for pre-tax prices of premium petrol



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