

The curious case of Auckland fuel prices

Costing Auckland \$45m-
\$140m a year?

Report to NPD
27 June 2020



SENSE PARTNERS
DATA LOGIC ACTION

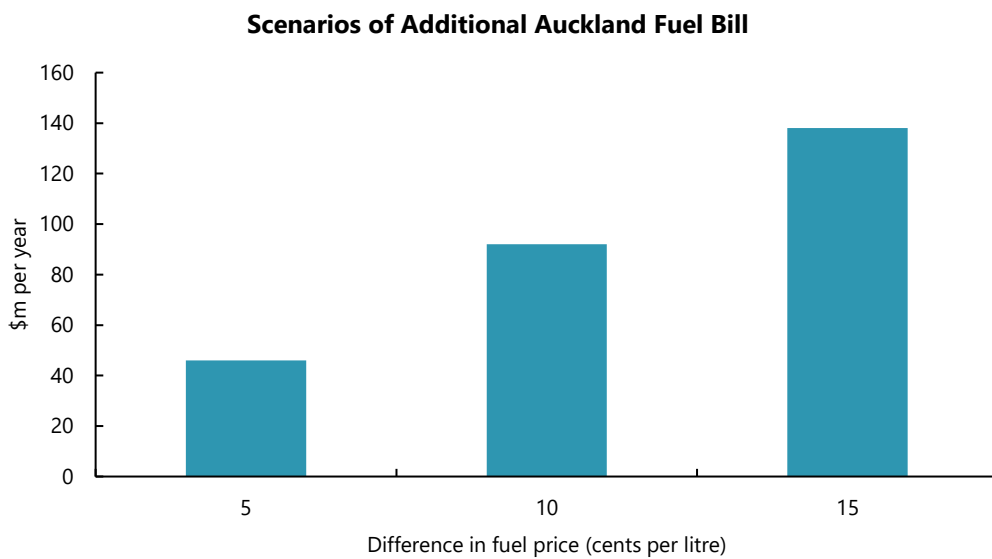


\$45m-\$140m bill?

Auckland fuel prices have not fallen as much as the national average, or many parts of the South Island. Over the past year fuel board prices have fallen by 29 cents across the country, but only 24 cents in Auckland and a huge 40 cents in Canterbury.

Unless there has been a marked change in the cost of delivering fuel and cost of doing business, it could indicate Aucklanders are paying 5-15 cents too much for their fuel (excluding the 10-cents regional fuel tax). We estimate such a price difference would add \$45m-\$140m to Aucklanders' annual fuel bill across retail and business users.

FIGURE 1: 5-15 CPL DEARER FUEL WOULD COST AUCKLANDERS \$45-\$140M PER YEAR



Source: Sense Partners analysis of MBIE & Statistics NZ fuel expenditure data

Fuel prices vary across the country

Fuel prices vary across the country. But they tend to be more expensive in places with smaller markets and greater cost of delivery. These and competitive forces should determine regional differences. Unless something changes dramatically, we would expect the regional price differences to be largely stable over time.

WE ANALYSED ADVERTISED RETAIL PETROL PRICE DATA BY STATION. THIS DOESN'T INCLUDE LOYALTY DISCOUNTS. THIS TIME LAST YEAR, NORTH ISLAND FUEL PRICES WERE USUALLY 5% LOWER THAN IN THE SOUTH ISLAND (

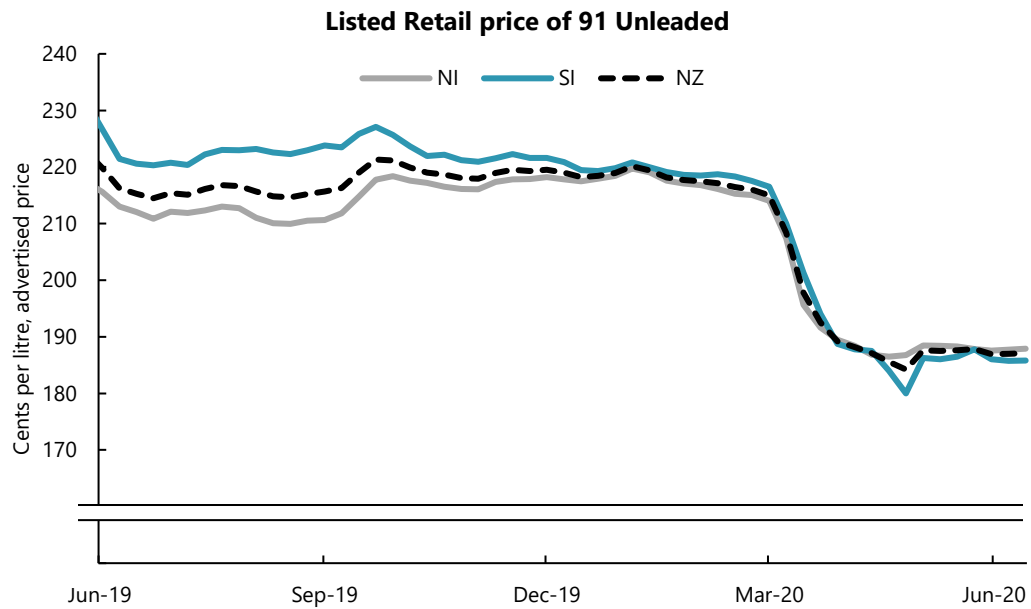


Figure 2).

Within this, Auckland and Christchurch illustrate this tale best. In June 2019, Auckland prices were 10c – 15c lower than Christchurch. In the two weeks to 14 June, prices were 4 cents higher excluding the regional fuel tax (Figure 3). Prices over the past year have fallen by 27c in Auckland, 50c in Christchurch and 29c nationally (Figure 4). These differences can cost a lot.

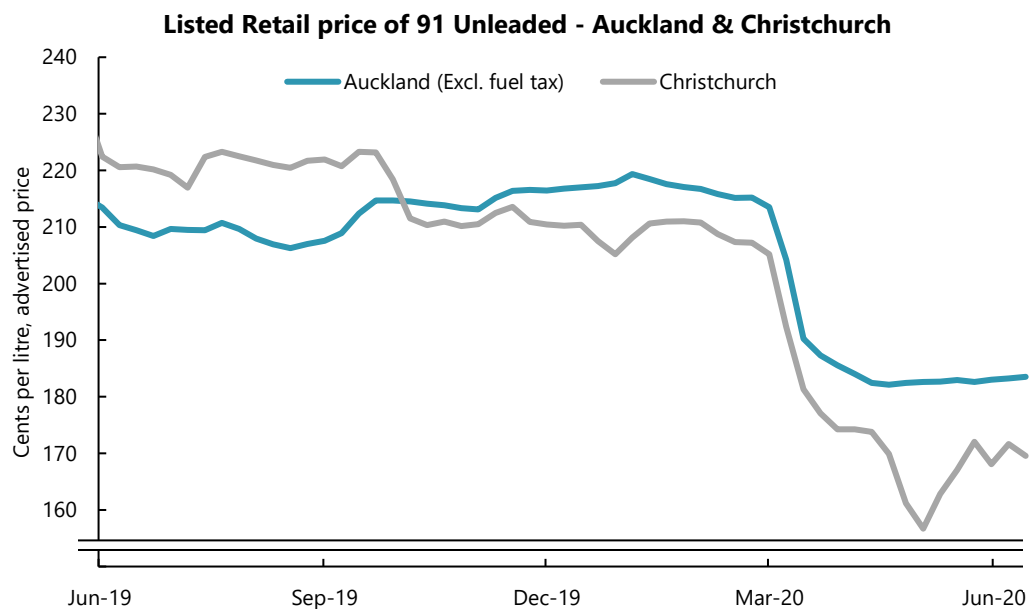


FIGURE 2: NORTH ISLAND FUEL PRICES USED TO BE CHEAPER, BUT ARE NOW MORE EXPENSIVE



Source: Sense Partners analysis

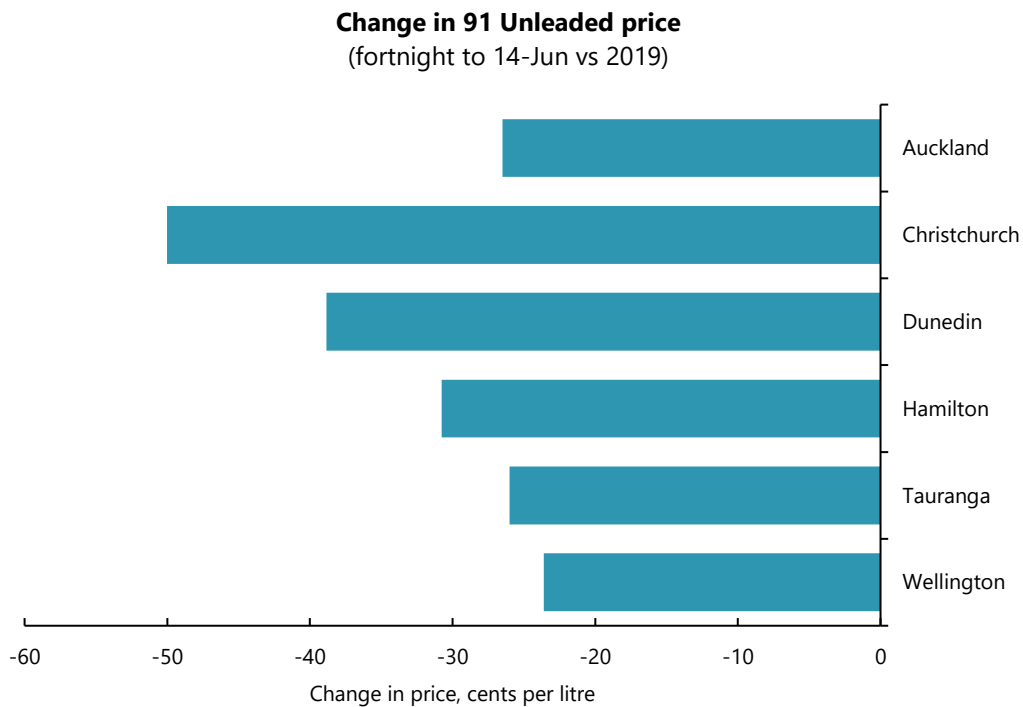
FIGURE 3: AUCKLANDERS NOW PAY MORE FOR FUEL THAN IN CHRISTCHURCH



Source: Sense Partners analysis



FIGURE 4: FUEL PRICE DECLINES ARE UNEVEN ACROSS REGIONS



Source: Sense Partners analysis

Benefits of competition

The outsized price falls in Christchurch are notable. This is of obvious benefit to Christchurch fuel buyers, who are now paying a lot less for their fuel.

The Commerce Commission’s market study into retail fuel¹ found that “an active wholesale market does not exist in New Zealand, and this is weakening price competition in the retail market.” A better wholesale market should mean more independents would compete for margins above cost of wholesale fuel.

Their analysis found that independents “were most likely to locate new retail sites close to the Majors. The results from our analysis on the impact of NTI retail fuel sites on prices and volumes of majors shows that the entry of new NPD sites appear to benefit consumers to a greater extent than new entry by other resellers and distributors.”

Independents are competing aggressively in Christchurch and Dunedin. The majority of new fuel stations to open over the past year (95% in Christchurch and 100% in Dunedin) were independents (

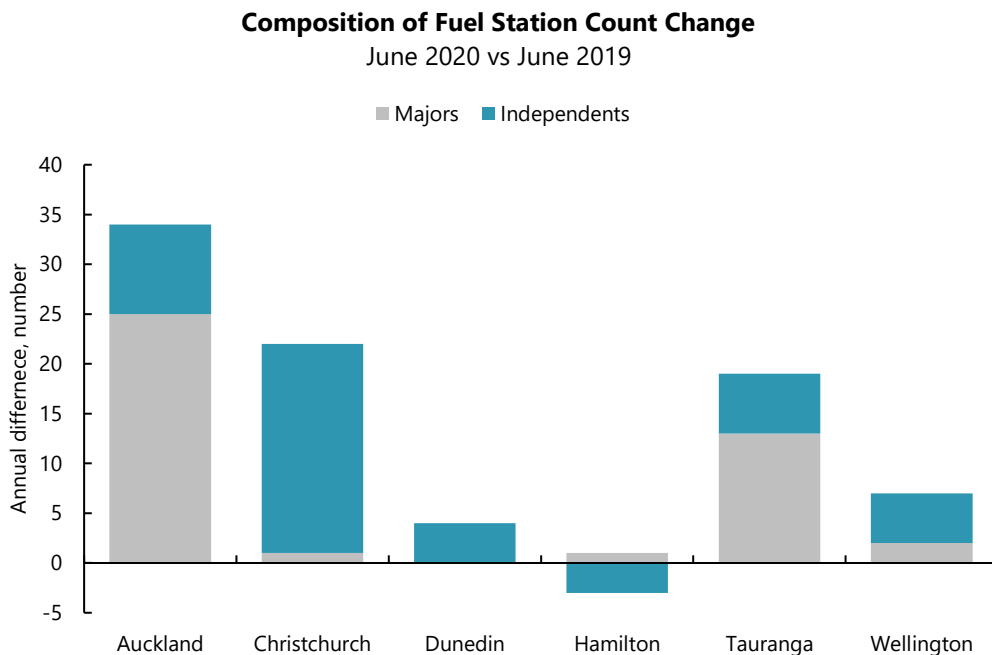
¹ <https://comcom.govt.nz/about-us/our-role/competition-studies/fuel-market-study>



Figure 5). The outsized falls in retail fuel prices over the same period confirms the Commerce Commission's analysis – competition from independents reduces prices and benefits consumers.



FIGURE 5: CHRISTCHURCH HAS SEEN A BIG INCREASE IN COMPETITION FROM INDEPENDENTS



Source: Sense Partners analysis

A significant potential cost for regions

We benchmark our analysis to MBIE’s Oil Statistics (which compiles total use across the economy), and focus on petrol and diesel use only for this analysis. We apportion the volume of spend across regions based on MBIE’s regional tourism spend data by product, Statistics New Zealand’s detailed household consumption estimates from national accounts (or GDP) data, and the 2013 Input-Output tables for industrial use.

This gives us an approximate picture of fuel spend by region, including the type of users. Armed with estimate volume of fuel use, we can then calculate the regional cost of fuel price differences.

Impact on Auckland

Over the past year Auckland City’s fuel prices have fallen by 27c, as international oil price fell. But prices fell even more across the country (by an additional 5c) and very sharply in Canterbury (50c). Other metros reported similar falls of 39c in Dunedin, 31c in Hamilton, 26c in Tauranga and 24c in Wellington.

Based on our analysis, we estimate that a price difference of 5c-15c for fuel would add \$45-\$140m a year to Auckland’s petrol and diesel fuel bill (for retail and commercial users).

