

Fuel Wholesale Margin Analysis

March 2025



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This report presents the Commerce Commission’s initial analysis of the gross margins in domestic wholesale fuel markets.

1. Executive Summary

- 1.1. A key purpose of the Fuel Industry Act 2020 (**FIA**) is to promote competition in engine fuel markets,¹ and the information disclosure (**ID**) regime established under the FIA gives the Commerce Commission (the **Commission**) a market monitoring function² to assess whether this purpose is being met.³ The Commission also has an express summary and analysis power in relation to this monitoring function.⁴
- 1.2. The wholesale margin analysis outlined in this report is intended to assist the Commission in our role of monitoring the competitive performance of fuel markets. We outline the main trends in indicative average wholesale margins derived by importers of fuel into New Zealand since the implementation of the FIA.
- 1.3. We are interested in indicators of domestic competition and therefore focus on trends over time rather than short term fluctuations.⁵ This is important as individual quarterly wholesale margin estimates can be volatile. These short-term fluctuations may arise for several reasons, including the volatility in global oil markets and exchange rates.
- 1.4. It is crucial to note we do not have the data necessary to estimate wholesale margins prior to June 2022. Consequently, this report does not determine the magnitude of any impact of regulation under the FIA and Fuel Industry Regulations 2021 (**FIR**) on wholesale margins and whether there has been a subsequent change in any trends since the Commission’s market study into retail fuel in 2019.⁶ Rather, this analysis is the first in our ongoing monitoring of wholesale margins. Now that we have this benchmark, we intend to assess wholesale margins in more detail in future reports.

Our findings: Wholesale margins by fuel type

- 1.5. We find that, in real (inflation-adjusted) terms, the overall trends in wholesale margins for the main three fuel types (Regular 91, Premium 95 and diesel) have been relatively stable since we began receiving ID data from fuel importers in June 2022.
- 1.6. By fuel type, wholesale margins on diesel are the lowest. Diesel accounts for the largest volume of fuel traded in the wholesale market, making up more than 60% of total wholesale market. Wholesale margins on Regular 91 are the next lowest, with Regular 91 accounting for almost 30% of wholesale volumes. Premium 95, which accounts for just under 10% of wholesale volumes, has higher wholesale margins than diesel and Regular 91.

¹ Parts 1 to 3 of the FIA.

² Subpart 4 (Disclosure of information) of Part 2 of the FIA establishes an information disclosure regime.

³ Refer section 15 – Purposes of this subpart (disclosure of information).

⁴ Section 28 of the FIA establishes that Commission may analyse and summarise any information disclosed to it under the information disclosure regime and publish any resulting analysis or summary.

⁵ Similarly, the Australian Consumer and Competition Commission (ACCC) reports on “broad indicators” of margins from quarter to quarter as Australian fuel market monitor.

⁶ The findings of the market study led to implementation of FIA

- 1.7. In contrast to relatively stable wholesale margins for the three main fuel types, wholesale margins for Premium 98 have been steadily increasing over the same period. This upwards trend coincides with a reduction in the number of retail fuel stations selling Premium 98, and thus, may be due to a decrease in competition amongst suppliers of this fuel type. Premium 98 accounts for only 1% of the wholesale market.

Our findings: Wholesale margins by customer type

- 1.8. Our analysis indicates that wholesale customer groups, such as distributors,⁷ who purchase relatively large volumes of fuel products face lower margins on a cents per litre (cpl) basis than smaller customers, such as dealers.⁸

2. Background

- 2.1. As part of our monitoring role under FIA, the Commission has the power to analyse the competitive performance of domestic fuel markets. Under the FIR importers and distributors must disclose certain information to us to facilitate our monitoring role.⁹
- 2.2. Much of our monitoring work, including our quarterly monitoring reports, uses pricing information to inform our assessments of the state of competition in fuel markets, at both wholesale and retail levels. However, pricing information alone is not sufficient to assess whether competition is working well overall.
- 2.3. Margin information is often more useful than pricing information for assessing the degree of competition in a market. Gross wholesale margins are a measure of the difference between the direct costs of supplying fuel and the price that a wholesale customer is charged for it.¹⁰ We are particularly interested in wholesale margins,¹¹ and the trends therein, as an indicator of the degree of competition in wholesale fuel markets. This is consistent with the primary goals of many of the regulatory interventions introduced by the FIA, which were focused on removing barriers to competition at the wholesale level.
- 2.4. Increased competition at the wholesale level can in turn facilitate improved competition at the downstream retail level. This competition is expected to benefit the end users of fuel, by keeping downward pressure on prices, amongst other things.

⁷ A distributor is defined in s4 of the FIA as a reseller that isn't a dealer.

⁸ A dealer is defined in s4 of the FIA as a reseller that sells fuel through its own retail site.

⁹ Information disclosure (ID) is a regulatory tool to ensure that sufficient information is readily available to assess if the purpose of the Act is being met.

¹⁰ Gross margins should not be mistaken for a measure of profitability of the company supplying the fuel, as other factors (eg, fixed costs) are also relevant to overall profitability.

¹¹ In this analysis we calculate wholesale margins as the difference between the volume-weighted average sale price (excluding tax and ETS) and the cost of the shipped and stored product at the terminal.

- 2.5. In a workably competitive market, high margins should encourage new entrants into the market and increase competition, resulting in margins reducing to more competitive levels.¹² Therefore, sustained high and/or increasing gross margins can indicate insufficient or reduced competition in a market. While gross margins alone do not determine the competitive levels within a market, they can be a useful indicator of likely profitability, market power and, therefore, the degree of competition in a given market.¹³

Global fuel markets

- 2.6. There are a number of factors relating to global fuel markets that are not within the control of importers of fuel¹⁴ into New Zealand.
- 2.7. Global markets continue to be complex and volatile, with global and regional supply and demand dynamics. Regionally New Zealand is part of the Asian market, and our regional benchmark is the Singapore price.¹⁵
- 2.8. All fuel imported into New Zealand undergoes a blending process at its source to meet New Zealand's fuel quality standards. Because we are a small and distant market in a global context, this adds significant cost and further price volatility to our fuel.
- 2.9. Additionally, oil and petroleum are traded in USD, so the strength of the NZD against the USD has an impact on the fuel and shipping costs incurred by local importers.

New Zealand wholesale fuel markets

- 2.10. Five fuel companies import bulk fuel into New Zealand via ten different coastal ports and one inland facility in Auckland (via pipeline). Not all importers have fuel terminals (bulk storage facilities) at each port, therefore importers need to purchase fuel from other importers at certain locations. The majority of the ID requirements apply to importers. Wholesale margins derived by importers is the focus of this analysis.
- 2.11. Distributors, dealers, and commercial end users are the primary wholesale customers.¹⁶ Distributors also make wholesale sales to dealers, but the current legislation does not require distributors to disclose data concerning these transactions to us. As a result, any wholesale margins imposed by distributors when making wholesale sales are not included in this analysis. We can assume that another wholesale margin will be applied by that distributor when on selling the fuel to a dealer. This additional layer of margin is not included in this analysis, and this may impact any inference drawn from this segment of the market.

¹² Commerce Commission "Market study into the retail fuel sector" (December 2019) para. X32.

¹³ Commerce Commission "Market study into the retail fuel sector" (December 2019) pgs. 360-362.

¹⁴ Section 3 of the FIR defines a fuel importer as a fuel industry participant that imports fuel into New Zealand.

¹⁵ The market price of crude oil is the main driver of international prices for petroleum products – and this price can be heavily influenced by global demand for petroleum products (e.g. petrol and diesel). Additionally, regional market dynamics can impact the global market. Major world events can affect these market dynamics rapidly and we have seen this in recent years during the COVID-19 pandemic and Russia's invasion of Ukraine.

¹⁶ In this analysis we have not included where importers are wholesale customers of other importers.

- 2.12. This report does not analyse margins at the retail level but considers the varying supply chain pathways from import terminal to pump. Wholesale margins within these different supply chains are likely to influence the ultimate retail price paid at pump.

3. Data

- 3.1. ID requirements under the FIR require importers to provide the Commission with wholesale transaction data on a quarterly basis, including volumes, prices, locations, and customer names.¹⁷ For this analysis we have used the nine quarters of data disclosed by importers since June 2022. We source other (cost) data from third-party providers.

Benchmark pricing and import costs

- 3.2. There are two providers of oil price data in the Asia-Pacific region, Argus and Platts. The Commission sources oil price data on the Asia-Pacific market from Argus. We use this data as our benchmark cost for each petroleum product. In contrast, we note that New Zealand's importers obtain their benchmark costs from Platts. It is the Commission's view that, while price differentials between Argus and Platts data may arise over short time periods, Argus price data is suitable for our analysis. This is because our analysis focuses on medium- to long-term periods, over which any differences in Argus and Platts data are likely to be minimal.¹⁸
- 3.3. In addition to the cost of fuel, importers face costs related to the blending requirements outlined above (the Quality Premium), the costs of shipping the fuel (Shipping Costs) and the costs of operating a fuel terminal (Terminal Costs). In this analysis we add our estimates of these costs to the benchmark price for each fuel product to estimate an indicative cost of the fuel to the importer supplying it at the terminal gate. The estimates are derived from information disclosed by importers and from models developed for the Commission by Envisory.¹⁹

4. Analysis

- 4.1. Given the price volatility and complexities in the oil market, many of which are not driven by the domestic behaviour of New Zealand's fuel importers, we consider gaining a more robust view of the domestic wholesale market requires considering trends in wholesale margins over medium- to long-term time periods. Consequently, we have emphasised these trends in the charts below. We present the trends in bold, with the underlying quarterly estimates in dotted lines.

¹⁷ Refer r17K of the FIR.

¹⁸ Argus is used for oil price data by the ACCC in its ongoing fuel margin monitoring. Argus is also used as the data source for the Australian Institute of Petroleum. The Commission's preference for Argus over Platts is solely for cost reasons.

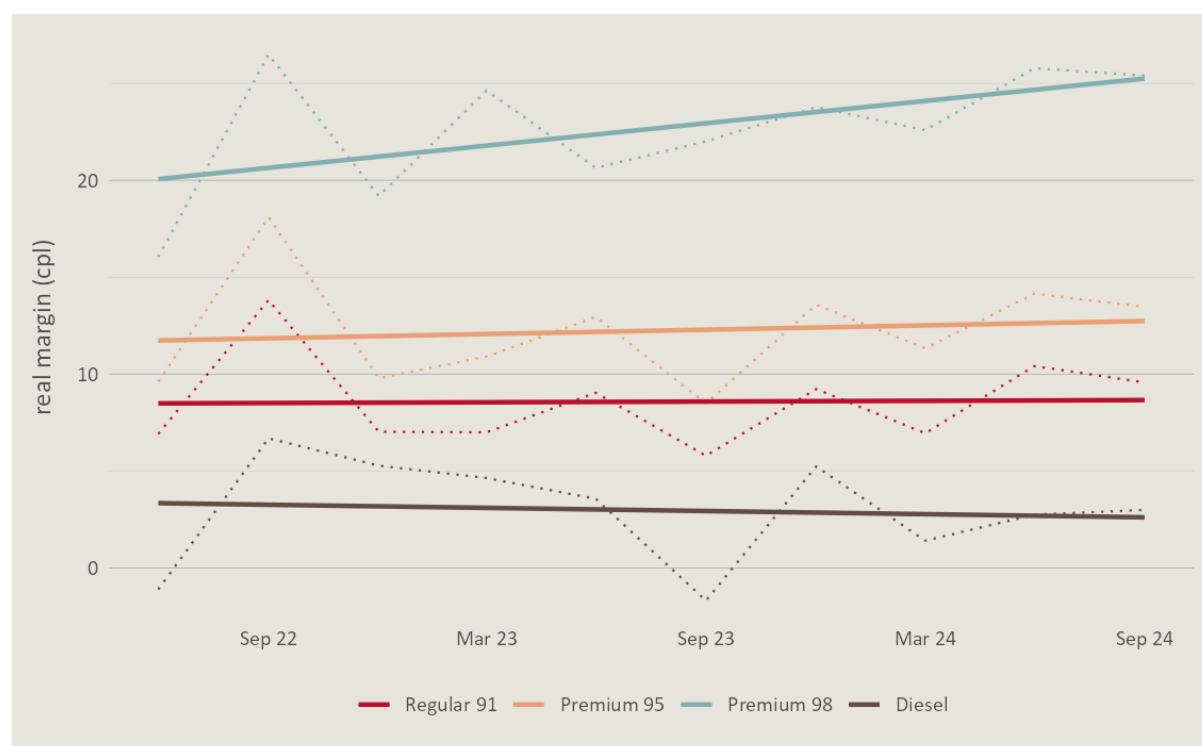
¹⁹ Envisory is a Wellington-based energy consultancy www.envisory.co.nz

- 4.2. We have estimated wholesale margins by subtracting the estimated costs outlined above, from the tax-exclusive, Emissions Trading Scheme (ETS)-exclusive, undelivered wholesale price charged at the terminal for each wholesale transaction undertaken by importers.
- 4.3. In addition to overall wholesale margins derived by importers for each fuel type, we have also broken-down wholesale margins by:
- customer type for each fuel type; and
 - fuel type for each customer type.
- 4.4. We again note that the absence of detailed data prior to June 2022 limits our ability to undertake a like-for-like comparison of wholesale margins prior to the implementation of the FIA and the disclosure requirements contained in the FIR.

Wholesale margins

- 4.5. In real terms we find that the trends in average national wholesale margins for different fuel types are largely flat over the nine quarters since June 2022, as indicated in Figure 1. The exception is Premium 98, which constitutes only 1% of wholesale volumes. Overall, wholesale margins for diesel are lower than those for petrol products.

Figure 1: Wholesale margins (real) by fuel type



Customer groups

- 4.6. The domestic retail fuel market is supplied via several different distribution channels. For instance, fuel sold at the pump may have been supplied directly by an importer, or through a distributor. Retail fuel sites may be owned by an importer, a distributor, or by an independent retailer (ie, dealer). Large users of fuel may purchase directly from an importer or from a distributor rather than at a retail fuel station.
- 4.7. We observe differences in wholesale margins that are correlated with the volume of fuel typically purchased by different types of wholesale customers. On average, distributors purchase the greatest volume of wholesale fuel. The annual average purchases of dealers and commercial end users are similar, ie, approximately 3 million litres across all fuel types. However, the range of annual volumes purchased by individual commercial end users is much wider, with some purchasing as much as an average distributor, but some purchasing much smaller volumes. See Table 1 below.
- 4.8. Most wholesale customers have a contract with their supplier, but fuel can also be purchased without a fixed contract as part of the Terminal Gate Price (TGP) regime.²⁰ The TGP can be considered the 'spot' price for fuel at the terminal. Mandatory TGPs are a feature of the FIA and are intended to ensure that any party can access a moderate volume of fuel on a wholesale basis for reselling. We have included posted TGPs in our breakdown of wholesale margins by customer type. In most cases this reflects notional TGP margins given that few transactions are made at posted TGP prices.

Table 1: Wholesale volumes by customer type

Customer type	Average annual purchase volume (ML), Apr 22 – Sep 24	Range of annual purchase volume (ML)
Dealer	2.9	0.1 – 22.7
End user	3.1	< 0.1 – 246.6
Distributor	201.5	<0.1 – 507.7

Fuel types

- 4.9. At the wholesale level, diesel represents the highest proportion of sales by volume, see Table 2 below. Diesel is the primary liquid fuel used in industrial, commercial, and primary sector applications. Therefore, at the wholesale level there is a much higher proportion of sales of diesel than at the retail level.

²⁰ Refer s9 of the FIA.

Table 2: Wholesale volumes by fuel type

Fuel type	Average annualised wholesale volumes (ML), Apr 22 – Sep 24	Proportion of annual wholesale volumes sold by importers
Regular 91	1,209	29%
Premium 95	323	8%
Premium 98	30	1%
Diesel	2,581	62%

Wholesale margins by customer type

4.10. We would expect that larger customers (by volumes purchased) would typically tend to face lower gross margins on a cpl basis. We would also expect that any potential TGP sales would likely have higher margins given that these prices reflect ‘ad hoc’ or non-contracted supply.²¹ As shown in Figures 2 – 4, this inverse volume-margin relationship is apparent across the main customer groups across the three main fuel types.

Regular 91

4.11. Wholesale margins for Regular 91 show stable trends for all customer groups, except for commercial end users. These customers appear to have faced increased wholesale margins, which have converged to levels similar to those faced by the dealer group. Over the analysis period, commercial end users have purchased diminishing volumes of Regular 91. This may reflect a change in the customer base and/or a change in customers’ fleets, eg, if some petrol vehicles have been replaced by electric vehicles.²²

²¹ We note that there have been few wholesale transactions at TGP in the nine quarters we have been monitoring these.

²² Petrol fleets tend to be better suited to electrification than diesel fleets.

Figure 2: Wholesale margins (real) for Regular 91 by customer type²³

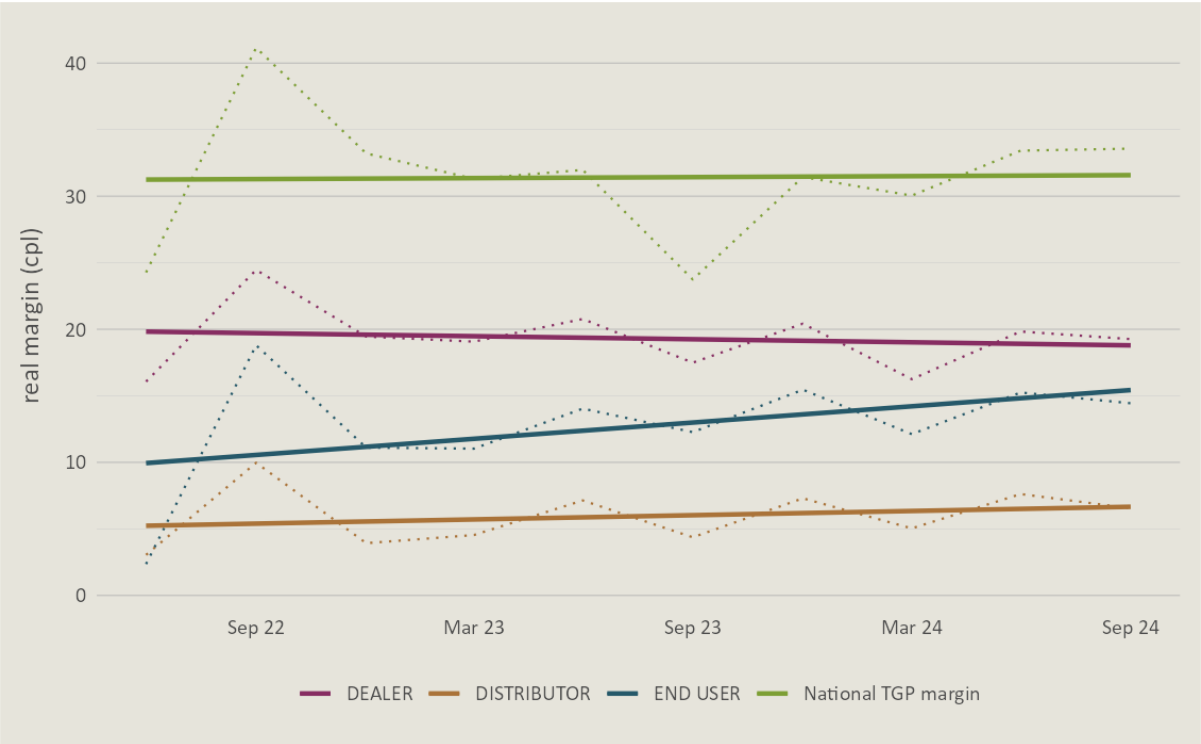
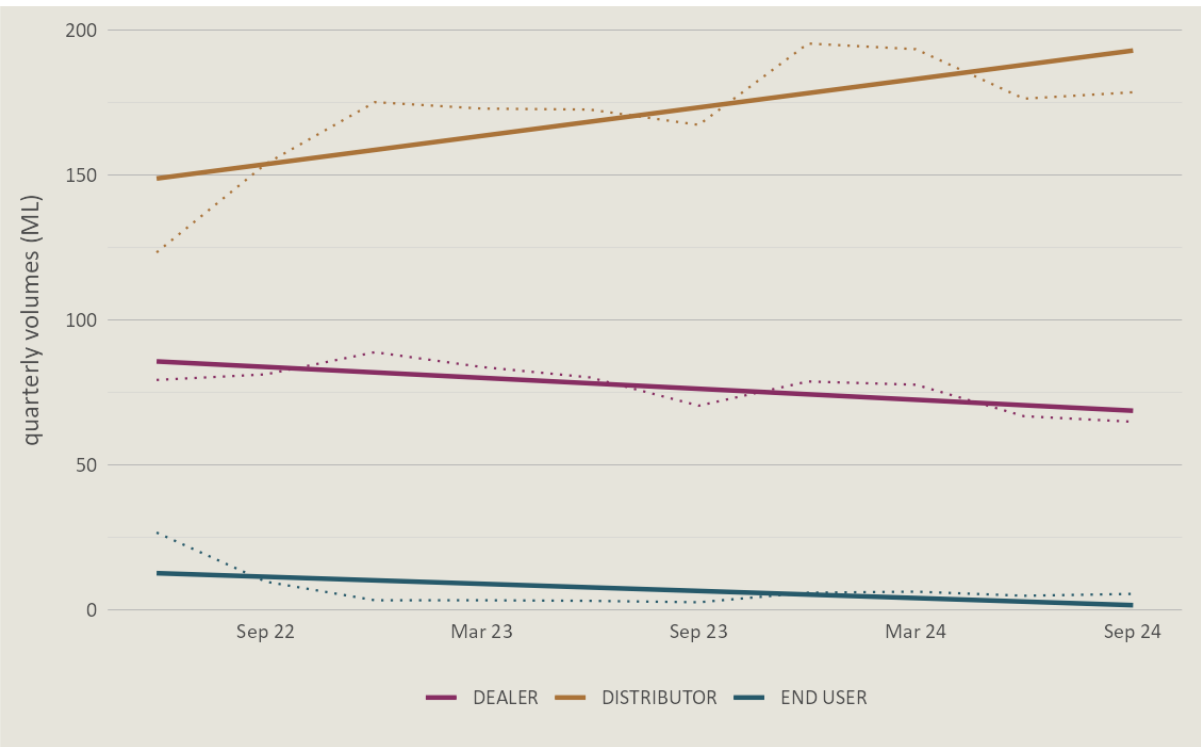


Figure 3: Quarterly volumes for Regular 91 by customer type



²³ The national TGP margin is the margin that importers would earn by selling at TGP. This national TGP margin is weighted by the terminal draw of each terminal. Terminal draw data comes from quarterly importer disclosure under Regulation 17K(1)(b) of the FIR.

Premium 95

- 4.12. Wholesale margins for Premium 95 show slightly increasing trends for distributors and potential TGP customers. Commercial end users have faced a more pronounced increase in margins, whereas dealers have faced a slight decline in margins.

Figure 4: Wholesale margins (real) for Premium 95 by customer type

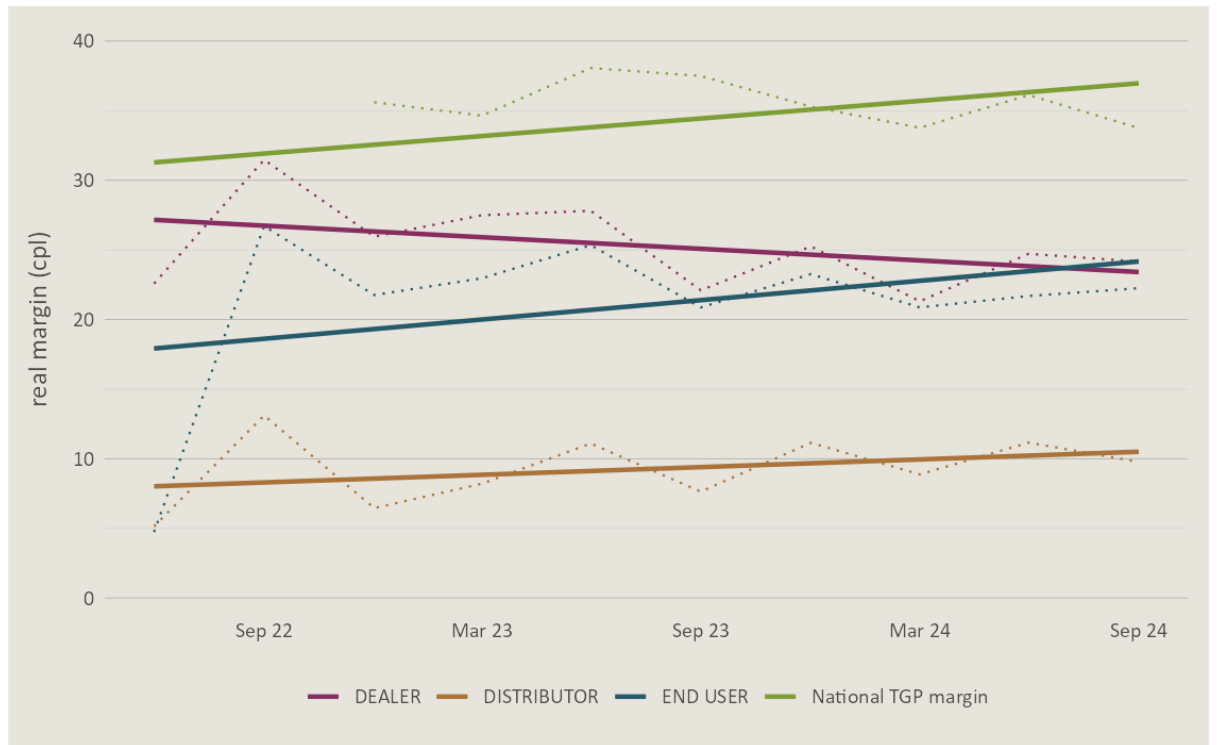
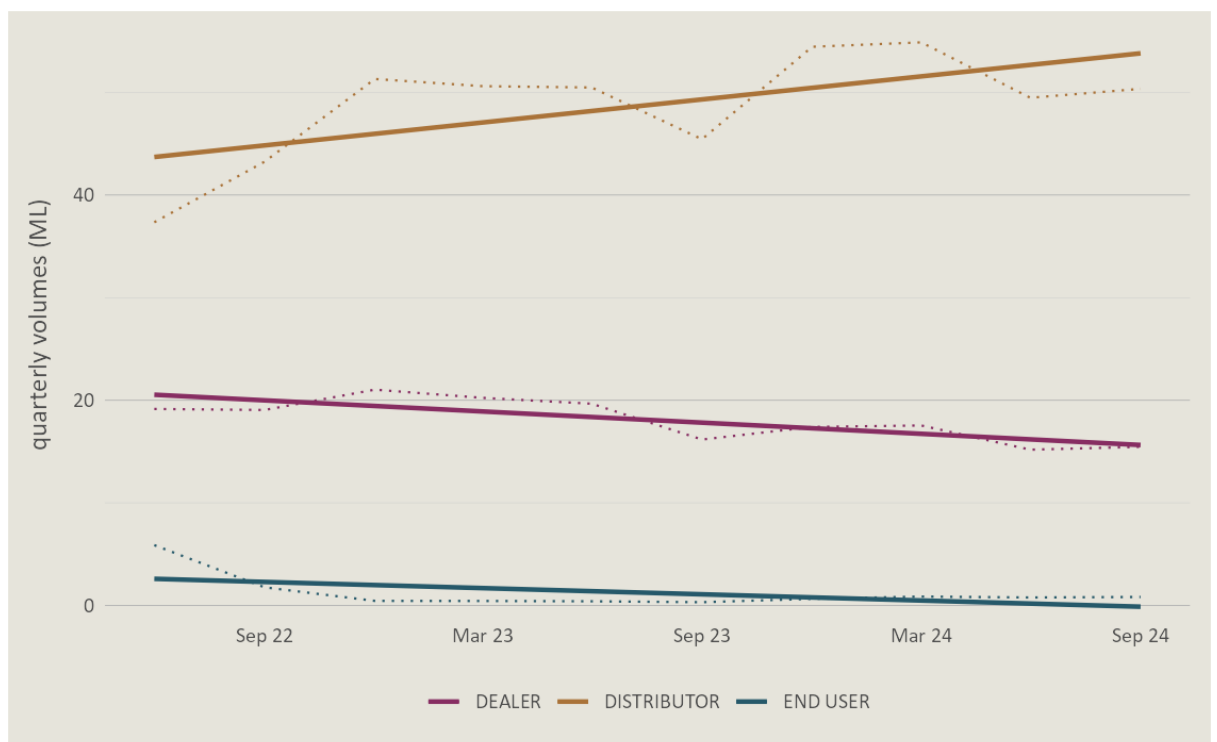


Figure 5: Quarterly volumes for Premium 95 by customer type



Diesel

- 4.13. Wholesale margins applied to diesel sales appear to be reducing on average for lower volume customers (dealers and potential TGP customers), slightly increasing for commercial end users, and stable for distributors. These trends do not appear to be strongly correlated with volumes, although the relatively close estimated level of wholesale margins faced by distributors and commercial end users is consistent with some customers within these two groups often purchasing similar volumes.

Figure 6: Wholesale margins (real) for Diesel by customer type

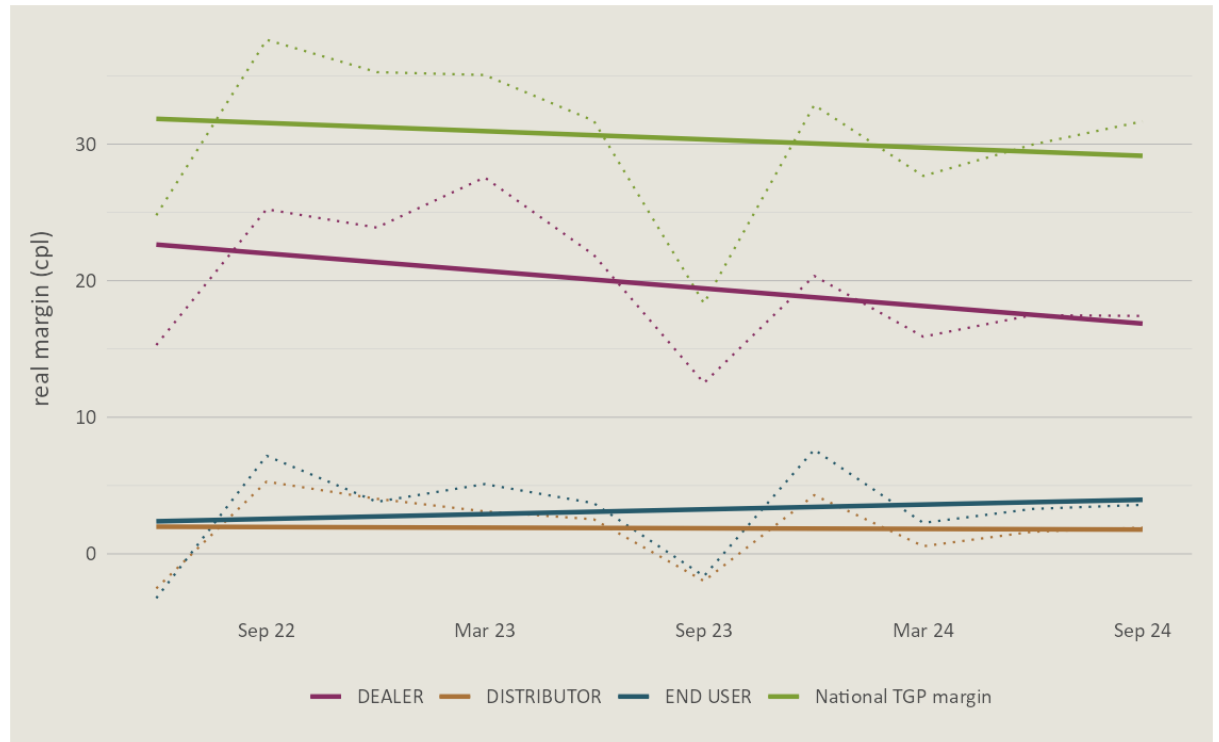
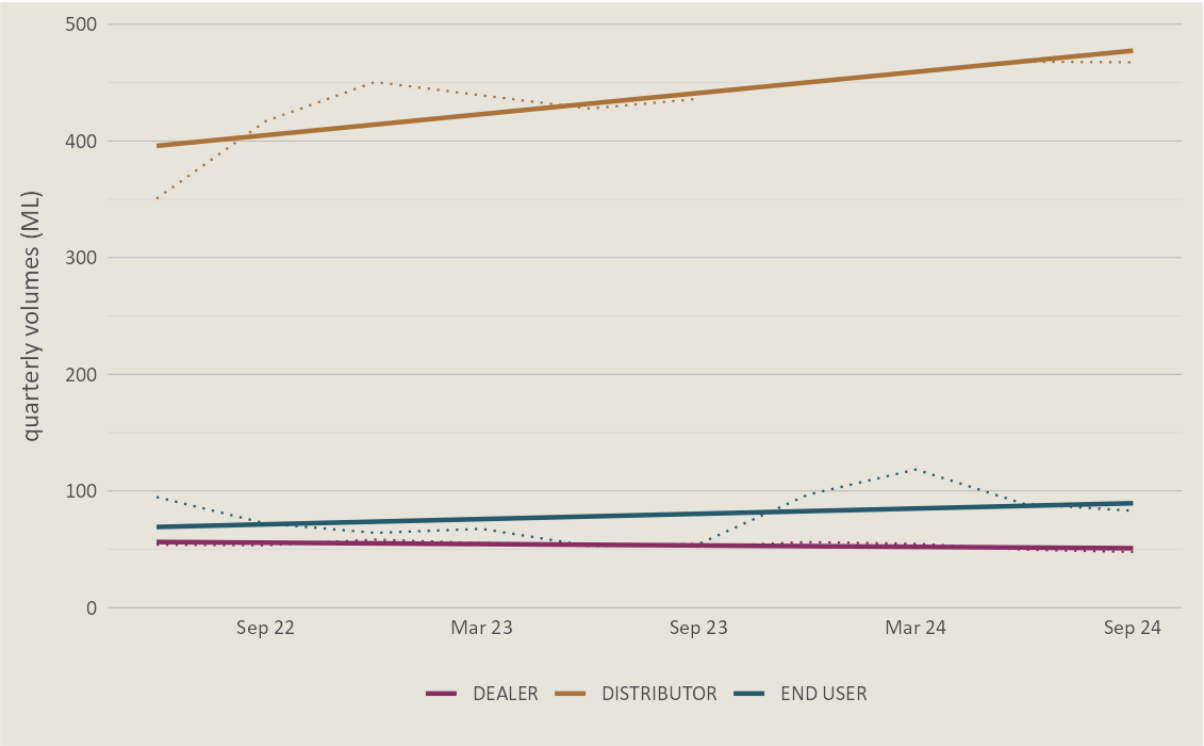


Figure 7: Quarterly volumes for Diesel by customer type

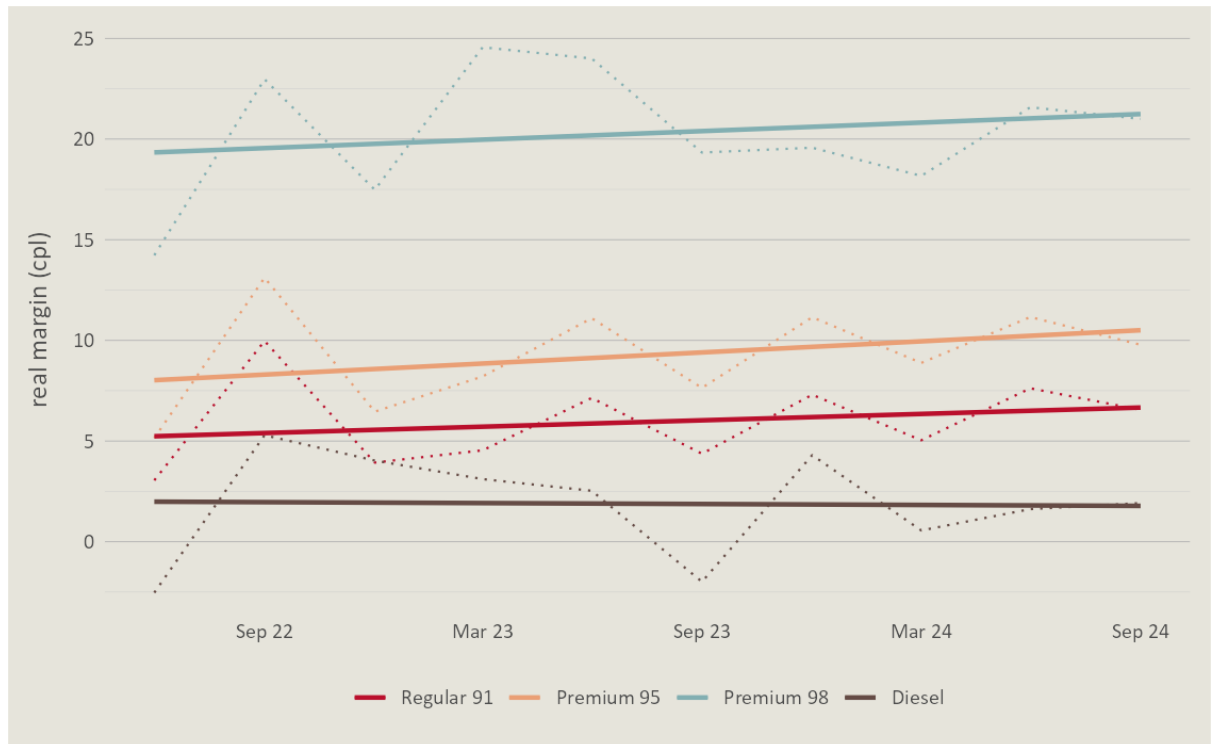


Wholesale margins by fuel type

Distributors

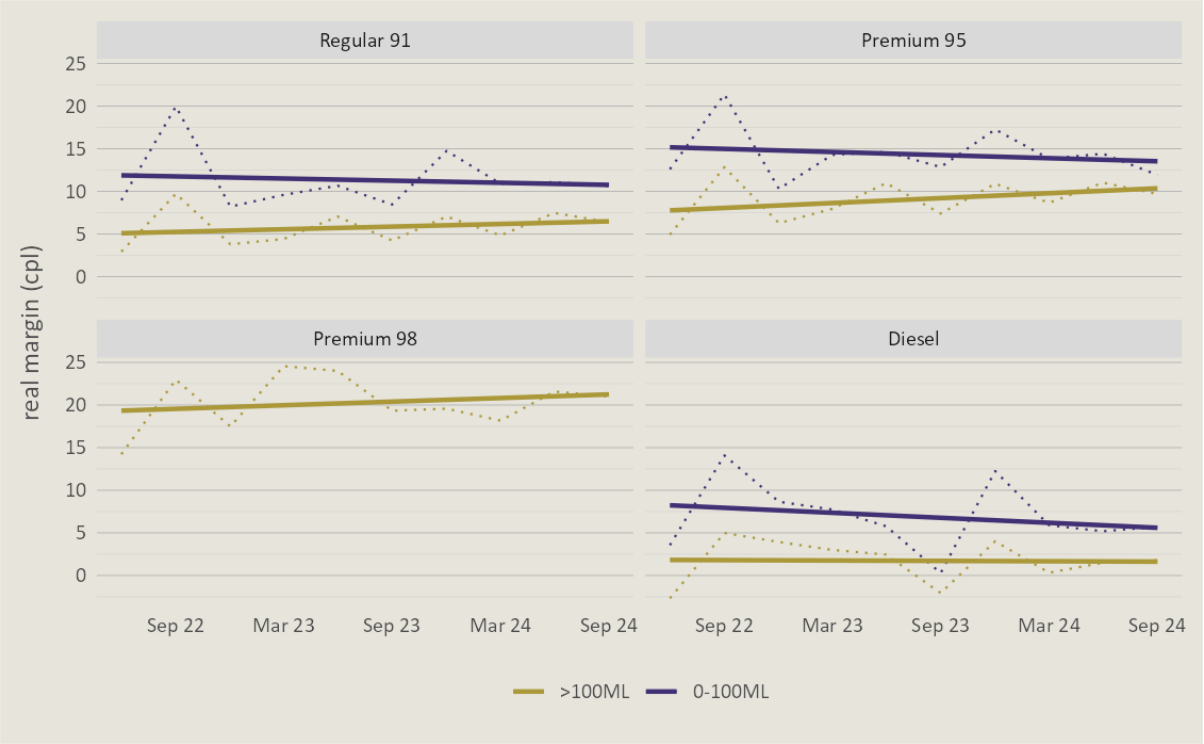
- 4.14. Across all distributors as a group, the trends in estimated wholesale margins for the different fuel types are either stable or slightly increasing.

Figure 8: Wholesale margins (real) for distributors



- 4.15. Table 1 illustrates that there is a wide range of distributors by size (by volume purchased). Figure 9 below reflects the differences in wholesale margins based on distributor size, with larger distributors facing lower wholesale margins.

Figure 9: Wholesale margins (real) for distributors by annual volume²⁴

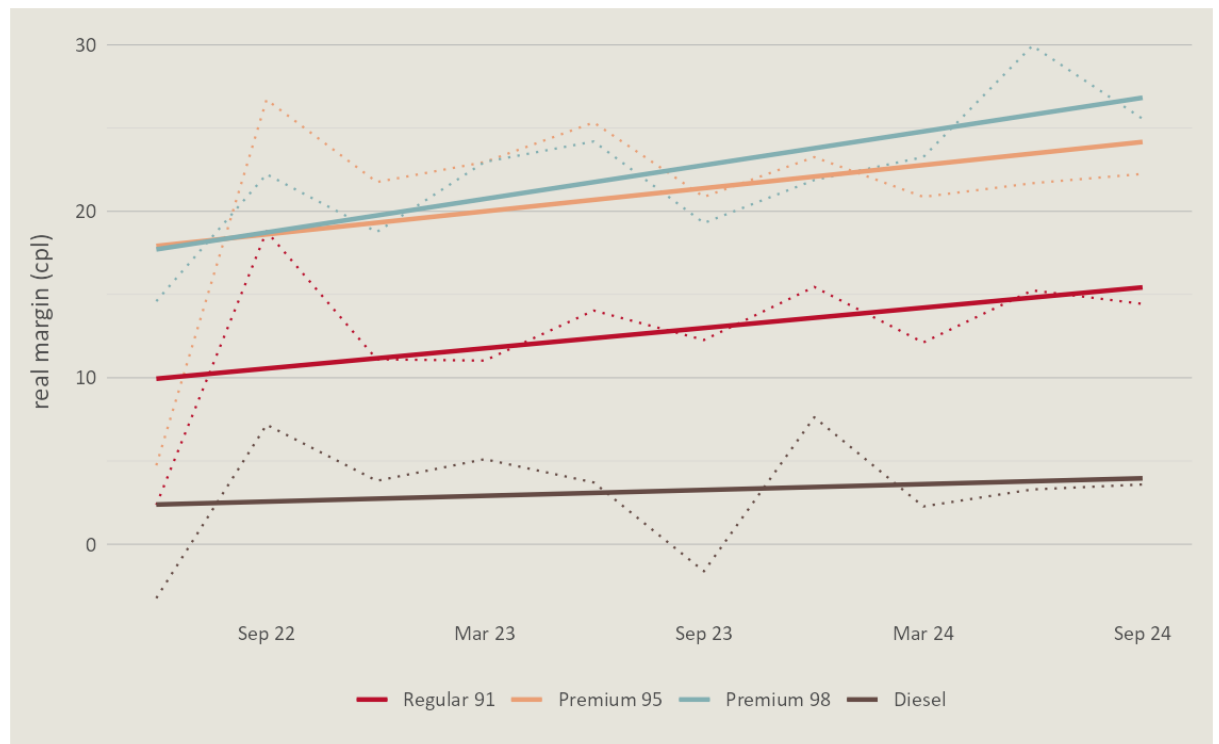


²⁴ There are no small distributor customers for Premium 98.

Commercial end users

- 4.16. As a group, commercial end users (eg, large transport companies and transport-related organisations) have faced upward trends in wholesale margins across all fuel types, although this trend is less pronounced for diesel, which is the largest fuel type purchased by commercial end users. The fixed wholesale contractual terms of the FIA do not apply to commercial end users. We are concerned to the extent that the upward trend in wholesale margins they are facing may indicate a reduction in competition for wholesale supply to large commercial fuel users.

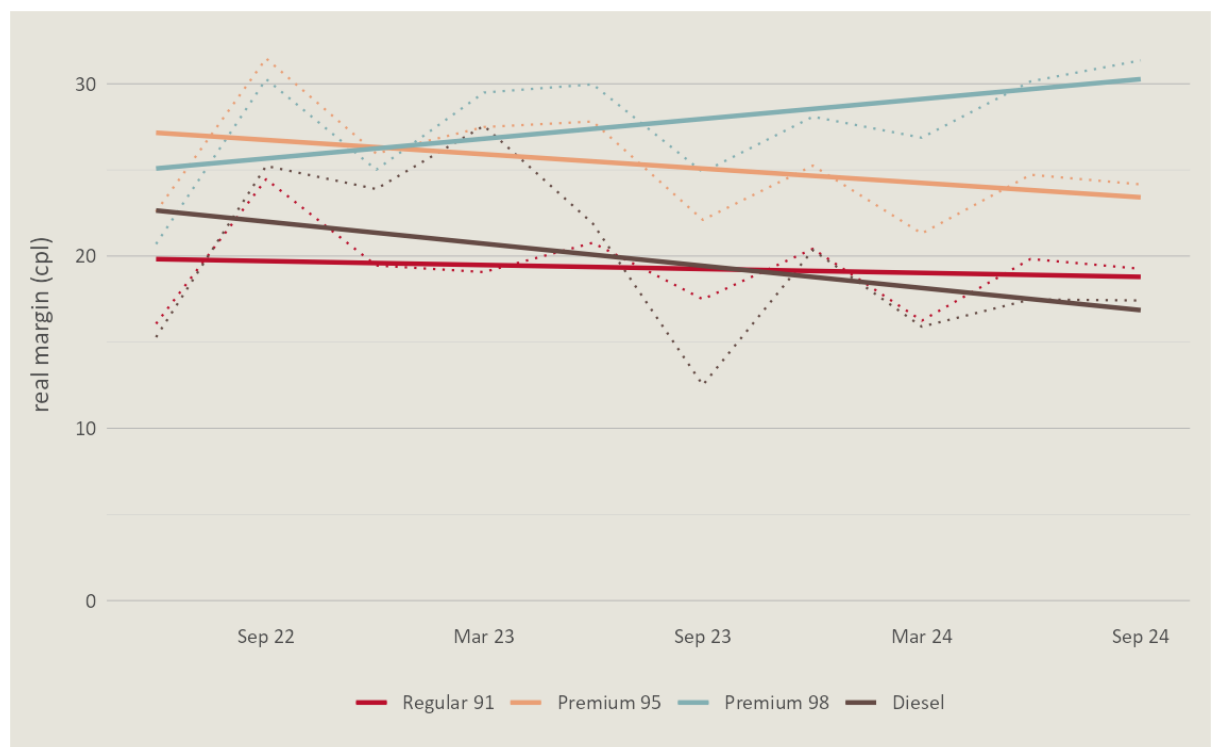
Figure 10: Wholesale margins (real) for commercial end users



Dealers

- 4.17. As a group, dealers appear to have benefitted from decreasing wholesale margins for diesel and Premium 95, stable margins for Regular 91, but faced increasing wholesale margins for Premium 98.
- 4.18. The FIA includes provisions to ensure that contracts between dealers and importers are sufficiently transparent, particularly concerning key terms such as wholesale pricing. Since the implementation of the FIA, wholesale suppliers have made amendments to a substantial proportion of their wholesale contracts with dealers to ensure compliance.

Figure 11: Wholesale margins (real) for dealers



5. Next steps

- 5.1 This initial piece of analysis does not raise any major, immediate concerns about overall competition at the wholesale level in the domestic fuel market.
- 5.2 However, we intend to continue to monitor the wholesale margins derived by the importers as well as further exploring specific aspects of wholesale markets as we continue to refine our analysis.

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