

ACCC INQUIRY INTO THE PRICE OF UNLEADED PETROL

Public hearing – Ballarat, 21 September 2007

Time: 11am

Address: Mid City Motel
19 Doveton Street
North Ballarat

Time	Witness	Submission
11am	APCO Service Stations Pty Ltd Mr Ron Anderson, Managing Director. Mr Peter Anderson, Director. Mr Robert Anderson, Director.	26
	Victorian Automobile Chamber of Commerce Mr David Purchase. Mr Garry Treloar.	-

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TRANSCRIPT OF PROCEEDINGS

O/N 64532

AUSTRALIAN COMPETITION AND CONSUMER COMMISSION

**MR GRAEME SAMUEL, Chairman
MR JOHN MARTIN, Commissioner
DR STEPHEN KING, Commissioner**

PETROL PRICE INQUIRY HEARING

CONDUCTED AT: MID CITY HOTEL, BALLARAT

DATE: 11.06 AM, FRIDAY, 21 SEPTEMBER 2007

THE CHAIRMAN: Good morning ladies and gentlemen. My name is Graeme Samuel. I'm the Chairman of the Australian Competition and Consumer Commission and Chair of this public inquiry into the price of unleaded petrol. I'm joined by Commissioner John Martin on my right and Commissioner Stephen King
5 on my left. As Chair, I welcome you all and declare this hearing open. The hearing is convened under part 7A of the Trade Practices Act pursuant to the Federal Treasurers approval for the ACCC to hold an inquiry into the price of unleaded petrol. While the original anticipated reporting date for this inquiry was 15 October, I have been advised by the Federal Treasurer that he has approved an application that
10 I made to him a few weeks ago for an extension of time in order to enable us to provide a more rigorous and thorough investigation of the emerging issues.

There have been some issues that have arisen through both the submissions we've received and some of the public hearings and private hearings that we have been
15 conducting to date that we want to examine in some more detail, and so therefore an extension to complete the inquiry has been approved by the Treasurer through to 15 December 2007. The terms of reference for this inquiry had been published on the ACCCs website together with an issues paper and all public submissions that have been received. We've also published notes for witnesses of this inquiry which
20 outline the procedures followed by the ACCC at public hearings. The names of the witnesses appearing today have also been published on our website.

Witnesses appearing today will be questioned by lawyers for the ACCC. Appearing today is Justin Oliver from the ACCCs legal branch. Some witnesses may also be
25 represented by their own lawyers. Could I just note that the conduct of the inquiry is within the discretion of the inquiry Chair. Anyone using insulting language or otherwise disrupting the hearing may be excluded. The ACCC may wish to question witnesses about information that has been provided on a confidential basis. We can take evidence in private if a witness objects to giving evidence of a confidential
30 nature in public and we consider it appropriate to do so. If this occurs, it may be necessary for all other persons to leave the room for parts of the hearing.

We do intend to hold our hearings in public as far as possible but do want to be able to ask witnesses about matters that are commercially sensitive. This means we may
35 need to close the hearings at certain points. A transcript of this hearing will be taken and made available on the ACCCs website as soon as possible after the hearing. However, evidence given in private will be recorded and transcribed but will not be made available on the website. With those matters dealt with I propose to begin by asking witnesses from APCO Service Stations Pty Ltd to please come forward and
40 could I ask you each in turn to state your name and position with APCO for the record.

MR PETER ANDERSON: Peter Anderson. Peter Joseph Anderson. Director.

45 MR RON ANDERSON: Ronald William Anderson. Managing Director of APCO. Founder of the company.

THE CHAIRMAN: Thank you.

MR ROBERT ANDERSON: Robert Anderson. Also a director of the company. My role play is franchising and marketing the sales in the convenient store retail sales business.

5 THE CHAIRMAN: Thank you. You don't have legal representatives here with you today?

MR RON ANDERSON: Not directly.

10 THE CHAIRMAN: I know that you tried to have a lawyer - - -

MR RON ANDERSON: No. We have no legal representation but we do have our own solicitor here who has come and he has come more out of interest than anything else.

15 THE CHAIRMAN: All right. Thank you very much. Could I just inform you about some of the rules regarding giving evidence at this inquiry. Firstly, it's an offence to refuse to answer a question that you're required to answer by the inquiry Chair. Secondly, it's an offence to give evidence that you know is false or
20 misleading or omits any matter or thing without which it is misleading. Now, you can give the evidence under oath or under affirmation if you believe an oath would not be binding or for religious reasons you're prevented from swearing an oath on the Bible. First of all if I could ask each of you in turn whether you wish to swear under
25 oath or affirm the evidence you give at the inquiry and then to either swear the oath or give the affirmation as the case may be.

MR PETER ANDERSON: Under oath.

30 THE CHAIRMAN: Oath. Right. Okay. Well, if perhaps just in turn I'll say Mr Anderson, Mr Anderson and Mr Anderson. So that'll be interesting for Mr Oliver. But perhaps, Mr Anderson, if you could take the Bible in your right hand and the oath is there on the plastic card.

35 <PETER ANDERSON, SWORN [11.11 am]

<RON ANDERSON, SWORN

40 <ROBERT ANDERSON, SWORN

45 <EXAMINATION BY MR OLIVER

THE CHAIRMAN: Thank you. Mr Oliver, I leave it to you to sort out how you're going to address the respective Mr Andersons.

MR OLIVER: Thank you, Mr Chairman. Gentleman, I will address most of my questions to you. I apologise for being overfamiliar but I'll address them to you initially, Ron.

5 MR RON ANDERSON: Yes. Thank you.

MR OLIVER: One, because you're Managing Director, and secondly, because otherwise questions generally addressed to Mr Anderson are going to be fairly confusing. I should mention address as well if it gets a bit warm please feel free to
10 take jackets off. You will notice Commissioners doing so and we may well at some point as well. So, there's no problem there with that. We have received a submission from APCO which is on our website and we thank you for that. I have a series of questions which for the most part fall out of matters that are raised in that submission. But before I, sort of, start on those are there any comments you would
15 like to add or make by way of - sort of, opening remarks or supplementing that submission?

MR RON ANDERSON: Well, just perhaps – I'd like to make one correction to it in that - you know, that we are here. And that's in relation to the manner in which we
20 buy our product and I've said in here basically that we buy it from the terminal gate price from both Mobil and Shell. In fact, in the case of Mobil - and it's my error there and it wasn't picked up – we buy off the Mobil reference price. We buy it terminal gate price from Shell less a minor discount.

25 MR OLIVER: Sure.

MR RON ANDERSON: The other addition that I would put is I've made a number of recommendations that I thought might be helpful and to be discussed. Now, there's one there that unfortunately I put to the Senate inquiry some time back and
30 that's in relation to the manner in which the product is priced and I think it is just not of any assistance in this industry but we find what we get is daily price changes and rises. And I would have suggested that a weekly price – sorry, a weekly price from the terminal gate or a monthly price as is the case with LPG and it works very well. You get your price, you know exactly where you stand for the next month and you
35 can pay whereas basically at the moment, you know, we can be – have a price today and as you well know the price can move up two cents, 1.6 cents tomorrow or it could come down and it's affecting it right throughout the whole week and I just think it's something that could be considered.

40 MR OLIVER: Okay.

MR RON ANDERSON: But if they could add that - thoughts into the recommendation.

45 MR OLIVER: Sure. Okay. A number of the questions that I'm going to ask will very likely seek information which I imagine will be commercially sensitive or confidential. If I do that – if there's a question that you'd rather answer in private because it's confidential please don't hesitate to say so. We'll then seek to deal with

that with the Chairman as either by closing the hearing at the end of your appearance and we'll deal with those issues then or possibly in writing afterwards but we can handle information on a confidential basis. We've done that with a number of witnesses, so please do so. If there are matters that I raise that you would rather
5 discuss in private – I suspect there will be.

MR RON ANDERSON: Yes. Well, as I've said I believe that I will answer most of the questions but it may be required that I will bring Peter or Robert in to – to add to that because I'm not quite as hands on as I was and I think that would be – certainly
10 far more able to answer certain questions depending on what they are.

MR OLIVER: And that's fine too. If anyone feels that it's qualified please do feel free to jump in and answer that. Okay. Just some general questions in relation to APCO. You say in your submission that APCO has 19 sites with two more on the
15 way.

MR RON ANDERSON: That's correct.

MR OLIVER: And most of those are in country Victoria.
20

MR RON ANDERSON: The majority.

MR OLIVER: Does that mean there are some metropolitan sites?

MR RON ANDERSON: Yes. We do have metropolitan sites. Hastings, Epping, Cranbourne, Hoppers Crossing. But that's - - -
25

MR OLIVER: Outer metropolitan is a fair characterisation of those, is that - - -

MR RON ANDERSON: Yes. That would be correct. We have one in Warrnambool, one in Albury.
30

MR OLIVER: Geelong?

MR RON ANDERSON: Geelong. Seven in Geelong. Two in Bendigo. Two in Ballarat and one that hopefully will be under construction in Bairnsdale and one possibly in Ballarat. There's two. Two permits underway at the moment.
35

MR OLIVER: Okay.
40

MR RON ANDERSON: I'm sure – I don't know whether that's the 19. It would be pretty close I think.

MR OLIVER: Okay. The APCO sites, are they all company owned and controlled.
45 Are they franchises – is there a mix – could you possibly described how that's broken up.

- MR RON ANDERSON: No. They are all company owned. We build all of these sites ourselves and spend the money on them. We've built - bought an old site and rebuilt it. I think 18 - about 19 sites I think are run - no, 17 of our sites are run as franchisee sites under the Franchisee Act and two sites are under company operation.
- 5 The one in Geelong is run as a company operation which is considered to be a training site and we are currently running a new site that we built 12 months ago in Albury because it's a new venture up there. It's a different - what would we say it's a different situation. It's an IGA in addition to service station and so forth and so it's different and we're looking at and having a note of capacity as to how we can
- 10 franchise it because there are differences in running an IGA as against a normal convenience store because the profit margins change dramatically and we're always concerned with how our franchisees are going to survive and whether they can make money that's, you know, in fair contrast to what they invest.
- 15 MR OLIVER: Sure. We'll come back to this in greater detail but I guess an earlier question is who sets the board prices of those sites that are operated as franchises, is it the franchisee at the site that determines the board price or do you determine that for them?
- 20 MR RON ANDERSON: Sometimes - this will vary. It's a - basically it would be a verbal agreement I would think that if whoever is in controlling of the pricing of the company the final say is always ours as to what price is posted. They're commission agents and that's the way they operate as commission agents and they then pay a royalty on the convenience store operation. On the other hand, we do tend to give
- 25 some of them freedom to match prices. I mean, that's just an understanding that they have that if somebody down the road drops that they will drop. But if gets to a situation where it's perhaps at the very low end of the market, they may have to get permission because the prices have changed. Would that be correct, Peter?
- 30 MR PETER ANDERSON: Yes. And they also have to report. They make a price move but they must report that price movement beforehand and if they can't get hold of myself or somebody in the office to report it they must leave a message on my mobile phone to say that the price has gone down to such and such and who they're matching.
- 35 MR OLIVER: Sure. Okay. In your submission you say that APCO sells around 170 million litres per annum. Is that unleaded petrol, is it all fuels?
- 40 MR RON ANDERSON: No. No, that's not all unleaded. That's total product including LPG.
- MR OLIVER: Roughly how much of that would be unleaded petrol do you know?
- 45 MR RON ANDERSON: 70 per cent probably I would think would be - perhaps, you know, 70, 75 per cent. That would be approximate. We haven't done a figure but that should be pretty close.

MR OLIVER: Okay. If I can then, I'd like to turn to some of your wholesale arrangements. You say in your submission that you're supplied by Shell and Mobil, is that correct?

5 MR RON ANDERSON: Yes. That's correct.

MR OLIVER: Is one of those your predominant supplier?

MR RON ANDERSON: Mobil is the predominant supplier.

10

MR OLIVER: Right. How long have you been supplied by those two companies?

MR RON ANDERSON: Mobil has supplied us virtually for I would say six months after the Ampol Caltex merger back in about '94. '94 is around about right and probably we've spent about the last three years taking some of a minor amount of supply from Shell.

15

MR OLIVER: Sure.

20 MR RON ANDERSON: Somewhere around about the 20 to 50 million from Shell.

MR OLIVER: Sure. What's the reason for having that second supply there in Shell, is it about shortfalls in supply or is it just to give you that flexibility? Could you explain that.

25

MR RON ANDERSON: Well, it does give us flexibility. It's obviously – it's much cheaper for us to pull supply out of Shell. You know, it's closer, you cut your transport costs. The flexibility as sometimes supply can get cut from terminals as you know for a short period. I think having a second supplier is something we always wanted to have and – but it's always been difficult to achieve. Although over the years we have had that going back into the past when we dealt with Ampol. We took, you know, a certain amount of supply – we dealt with Amaco, I beg your pardon, that's going back a long time. But we did take some supply from Ampol and when we were with Ampol we tended to do the same if we could get it.

30

35

But it's not easy to achieve but it's flexibility as much as anything and it can be of assistance in relation to costs as you can understand. Obviously to pick up from Shell and drop in Geelong or even to go to Warrnambool is a lot cheaper than to go down to Altona and pick up from Mobil and then cart it through. But at all times you've got to have a look at what your base price is.

40

MR OLIVER: So, sorry – you're picking from Shell in Geelong and from Mobil at the Altona Refinery, is that correct?

45 MR RON ANDERSON: That's correct.

MR OLIVER: Okay. Those are fairly stable relationships. You're not in the market for anyone else at the moment, is that - - -

MR RON ANDERSON: Yes. Well, we've been with Mobil I think since, you know, the mid-nineties. We did leave them for a period of years because I had some differences. That's when we became independent back in the seventies but Mobil became our main supplier after the amalgamation between Ampol and Caltex.

5

MR OLIVER: Okay. And you have supply contracts in place with each company?

MR RON ANDERSON: Yes, we do. The company negotiate - - -

10 MR OLIVER: Are they regularly renegotiated and - or subject to price review?

MR RON ANDERSON: One of them is being renegotiated with Mobil. Shell is an ongoing one. It's not really a contract. It's a - basically a day to day arrangement.

15 MR OLIVER: Sure.

MR PETER ANDERSON: We have a handshake arrangement with Shell.

MR OLIVER: Okay.

20

MR PETER ANDERSON: To take a certain amount of volume and we are fulfilling that and we are talking at the moment also with Shell about further supply and maybe even an increase in product because of the new sites that we're going to bring on we might be able to take a bit more but we're looking at that. And as Dad said, we're renegotiating with Mobil.

25

MR OLIVER: Sure. I would like to discuss the prices that you pay to those two companies. Is it fair to say that's a subject that you'd rather discuss in a private setting?

30

MR RON ANDERSON: I'd rather discuss that in private.

MR OLIVER: Fair enough. Okay. We'll come back to that then if we can. Okay. In your submission you - no, I take - I'll withdraw that. You say in your submission that - on pages 5 and 6 I think that independents like APCO used to be able to negotiate discounts off TGP. Putting aside any minor discounts that may or may not exist, that's obviously no longer the case. It tends to be more a case that the price is put to you by the supplier and that's the end of the discussion or is there still any room for negotiation around TGP?

40

MR RON ANDERSON: My experience in the last certainly five years is that, that would be quite correct. Your ability to negotiate and relation to a price has definitely been shortened. There's no - there's not much in it at all.

45 MR OLIVER: Sure.

MR RON ANDERSON: It's a difficult one to work out, sort of, why that has happened.

MR OLIVER: That was going to be my next question actually.

MR RON ANDERSON: But I think it's a matter that – it's availability of supply. It really gets right back down to that.

5

MR OLIVER: Around five years ago - - -

MR RON ANDERSON: Five years is when I would say it really started to tighten up.

10

MR OLIVER: Yes.

MR RON ANDERSON: Yes.

15 MR OLIVER: You've never been given a reason - any explanation or you've never observed anything other than the supply is just not there. Is that - - -

MR RON ANDERSON: No. We had very strong negotiations with Mobil five years ago and there was quite a significant – appeared to be – going to be a significant walk back in our price because of the structure and the manner in which that pricing was done. While I'm not up with the technicalities of it and the different – they have a number of different prices associated in there and what you buy is quite different. Mobil, as we see it, don't really have a true terminal gate price.

25 MR OLIVER: Yes. Is the key benefit then of having supply agreements – not so much price or discounts off price but security of supply, is that a fair comment?

MR RON ANDERSON: Yes. Now, I - look, as an independent - and I've sort of noted a lot of the answers that people have given – but as an independent, security is something that's always there in the back of your mind. You know, what happens if you can't get supply. Well, virtually, you know, if you can't get supply your business is finished. It's as simple as that. So, it's important to us to have a good relationship with the people that supply us and I think, you know, basically it's our story. You know, you can't bite the hand that feeds you.

35

MR OLIVER: Okay.

MR PETER ANDERSON: Can I just add something to the previous question as well because Dad has been on holidays and he hasn't been privy to some discussions that I've had with Mobil. I'd just like to say that the five years ago when were having – the renegotiation with our contract, it was a pretty torrid time we went through and the lack – supply was our biggest worry. The arrangements we're coming to with Mobil in our new contract at the moment gives me a little bit more confidence and they are doing a little bit more for us in what they previously did. But what - whether some attitudes have changed in Mobil we just – for other reasons I don't know. But I can certainly say that I – when we go and meet with Mobil in coming weeks I feel a lot more confident about our future and our supply with Mobil at the moment. But there is still a worry there, of course, with supply.

45

MR ROBERT ANDERSON: If I could. I mean, in all those years of concern that – in our position that if Mobil were to say that, ‘Well, we no longer have a supply for you’, it would put us in a very awkward position as to where we could go for supply. There would not be an immediate solution it would be fair to say for us as
5 independent to get guaranteed supply for our full volume. So, hence, the reason for us to want to pursue long term contract arrangements for the security of our whole network and a life line of our franchisees.

MR OLIVER: Okay. You mentioned in your submission that other – apart from
10 Mobil and Shell majors, there’s a reluctance on the part of majors to supply an independent chain like APCO. Is it fair to say that there’s only two left you’re referring from earlier, to, BP and to Caltex?

MR RON ANDERSON: Yeah, that’s correct. I mean, we’ve had conversations
15 with them, but basically, you know, I’ve got to be open and honest and say that they don’t want to supply.

MR OLIVER: You say that in your submission that you have first-hand knowledge of this reluctance?
20

MR RON ANDERSON: Yes, because - - -

MR OLIVER: Are you able to elaborate on that in an open session?

MR RON ANDERSON: Look, I don’t think it’s unreasonable. You can ask more
25 questions, perhaps, if you wish, but as I see it, we have had discussions with both those companies, and they basically have indicated that, you know, we don’t have a place within their structure, and we’ve certainly sought, and I went to Sydney some two to three years ago, to have discussions with Traffic Euro, which was quite
30 interesting, but they clearly indicated to me that they couldn’t supply a price that would be adequate, which is obviously a reason for their demise in Australia.

MR OLIVER: So, the issue with Traffic Euro was more price competitive, so were
35 the other ones able to supply but - - -

MR RON ANDERSON: Yes, they told me straight out they couldn’t match a price that we were currently getting and - which rather surprised me, in view of the fact that there are people importing.

MR OLIVER: Would that have been from their Hastings terminal?
40

MR RON ANDERSON: Yes, I would have had to take supply from Hastings, yes, and there’s always been spot loads available from Hastings, through a jobber, I guess, that they had down there, and - but his price is never competitive either.
45 Going back a few years ago, in the early 2000s, we were taking a significant supply from Liberty, you know, perhaps somewhere around about a million a month or something like that, but again, the concern that you have, as an impendent such as us, was - a significant requirement is that what happens is that - you know, independents

are always vulnerable, and that's a very great concern. You know, we were proved to be right with Liberty, inasmuch as, you know, whilst they were in the retail market, in a significant manner, you knew that they would have significant supply, but it always concerned me, what would happen, if they vacated it, and for that
5 reason, you didn't commit large volumes to anybody, because of your concern about the long-term supply.

MR OLIVER: Sure, okay. On that subject, and that Traffic Euro importing was going to be the next thing I was going to mention, is that the only consideration
10 you've ever given to getting fuel from an importer?

MR RON ANDERSON: It's not anything that we've ever really gone into in a serious matter. I think we discuss it from time to time. My experience over the years is, that those people that did bring in loads, going back, right even back to the days of
15 Solo, without being specific, I can recall Solo bringing in a load, and basically, the market, I think, descended to a price that was below the price of a load they brought in, so draw your own conclusions, and I think the load sat there for awhile, but I mean, if there was a serious importer there, well - you know, was a long term, and justified situation that they stay there, it's something we would have to give
20 consideration to, taking some of our supplies. But, clearly, the refiners of a company should be able to do it, you know, at a competitive price to all of us, and I guess that's one of the suggestions that we make, is the price that we get is not as competitive as in fact, it should be.

MR OLIVER: You say in your submission, in fact, you think that a lack of storage capacity, and the current Australian fuel standards are standing in the way of
25 imports?

MR RON ANDERSON: Well, I think it does, how adequate Hastings is, I don't
30 know all of the technical details, of volumes, and so forth, but Hastings certainly could handle some imports, it's - we've given thought to it, I understand that facility is currently under offer from someone, I don't know who, you may already know that, but it's certainly better for the market - - -

MR OLIVER: So, someone's offered to buy from Traffic Euro, is your
35 understanding?

MR RON ANDERSON: Yes, Traffic Euro, yes, it is on the market. But I just think it's a matter of time until Traffic Euro is completely out of Australia, and as I said, I
40 think that reason was that they seem to have come into this market really, only interested in supply a sort of a jobber, spot type market, that kept people going, right? From out point of view, you know, we want something better than that, but, I mean - and reasonably so, and there's no reason, I might add, here, that people shouldn't supply us, you know? One could say, you know, well, it's a credit risk, or
45 there's something else, but in our particular case, I mean, we pay cash to Shell, and in our case with Mobil, they're 100 per cent insured, probably 150 per cent insured, actually, and they're covered with that security.

MR OLIVER: So the issue - - -

MR RON ANDERSON: So it's not an issue of risk in supplying us, it's an issue of whether they want to give you the product, or they don't.

5

MR OLIVER: But the issue, from your perspective, is an importer who is stable and going secure - - -

MR RON ANDERSON: It would have to be.

10

MR OLIVER: - - - spots jobbers - - -

MR RON ANDERSON: Yes, at this stage, you can rely on Mobil, you can rely on Shell, we've never had a product problem at all in the past, but I guess it's something that always hangs around in the back of your mind. You see that as a risk, and if somebody like Mobil decided to exit the Australian market, we, as I would see it, at the moment, would be fully reliant on Shell.

15

MR OLIVER: Sure.

20

MR RON ANDERSON: That's the only option I would see, and whether Shell could have the product or not, I don't know.

MR OLIVER: Sure. What about the fuel standards issue, is that, to your knowledge, still a problem? Is it changing, getting better, worse?

25

MR RON ANDERSON: I think it is changing. Initially, it was a real problem, I think. I think there are a few importers around that bring in the odd load, some of them just bring in diesel. I read in the submissions that United are bringing in a load, but of course, United are basically Australia wide, I don't know how they're going to offset that. You know, there's obviously a lot of - there's a high cost of transfer of product around them, the country, that's - that would be fair enough to say. Look, it's obviously becoming more available. I mean, I can only really go on here, on what I sort of, read in the press and so forth. I don't have any intimate knowledge of it personally, but from what I can see, I believe there are a number of refineries now, throughout the world, that are lifting their standards, and I think that's been - come from pressure from America as well.

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35

MR OLIVER: Okay. Are there any other problems you can point to, in terms of - or standing in the way of imports?

40

MR RON ANDERSON: Well, I think also, it's a financial problem. Obviously, you know, if you're going to bring in an import, there's number one of the availability of product, two, is the availability of the storage, which is there, and the economies of scale that can be achieved, are they worth it? And I think, you know, that's very, very much the question, and not having imported, I don't have any first-hand knowledge of that. And the only importer that we've ever gone to, and asked for a price, haven't been competitive.

45

MR OLIVER: You say in your submission that you question whether there are sufficient volumes among independents that's justified, that kind of long-term supply that you're talking about. What sort of volumes, do you think, would be required, because what are we talking about? Hundreds - three-quarters, say, of 170 million
5 litres a year, it's not a small amount, that's not big enough, in your view?

MR RON ANDERSON: Probably not, because I think - look, you know, basically, an importer's going to make their money out of, you know, a volume take-off, because obviously, if they're going to be competitive here, they're going to have to
10 get a pretty tight price. Again, it's no different to a service station. You can be far more competitive on a service station that sells a million and a half litres, than you can on a service station that sells 400,000 litres. I mean, it all becomes relative, and my experience certainly, in the Victorian market, is there's been a very significant
15 exit of the independents in Victoria.

I don't think that's difficult to, you know, to clearly see who's gone, and where they've gone and I really don't see that, you know, there's really a real impediment for people today to come into the market, and you know, the first one is access to the product, and the price, the next is the very high cost of actually entering the market,
20 now, you know, and even an average - reasonably average site, you know, you've got to pay a million dollars for the land, if you're lucky, and by the time you put your investment in, you're looking at something around a 3 to 4 million, for a reasonably good type of service station, today, that's going to stand up.

MR OLIVER: Have you ever considered partnering with another independent chain to make importing more cost-effective, to build some volumes, or is that something that you think might ever be feasible?

MR RON ANDERSON: We've floated the idea a couple of times, but again, you know, it's that insecurity of another independent, you know, like - we're looking at independents, you know, you might do that with somebody, and the next minute, he's gone again. I mean, there's always concern, because of that lack of knowledge, and again, it simply comes back to the reliability of supply and importing carries a lot of risks with it as well.
35

MR OLIVER: You've never considered investing in your own, sort of, terminal facilities or anything like that, or in partnership with someone else?

MR RON ANDERSON: No, we really haven't.
40

MR OLIVER: Yes.

MR RON ANDERSON: We've had some discussions with one particular body, that are looking at a small refinery, we've had some discussions there, but whether that
45 will come to fruition, or not, I don't know. I think that Southern Cross are talking about every refinery in South Australia.

MR OLIVER: Sure, okay. Apart from the APCO sites that you supply, do you have any other wholesale customers, any other independents, who source fuel from you?

5 MR RON ANDERSON: No, we don't, we've been quite positive about that, we moved out of the wholesale side of the market. It placed too many pressures on your own business. You were basically forced to support them in, you know, in times and our price didn't allow us to do that. It was also really, you know - we're not volume oriented, from that point of view, but I think that's something that this industry, from time to time, has had - becomes - it can, or it used to become, going back a lot of
10 years ago, quite volume oriented and you know, the capacity to buy better was always there. But it's no longer, it's become very much more a profit oriented business, a lot of the oil companies became that way, over recent years, there's no question about that.

15 MR OLIVER: You say you moved out to area, you used to - so you used to have wholesale - - -

MR RON ANDERSON: Yes, we deliberately moved away from the wholesale side. We sold off the wholesale side of our business, which was Anderson Petroleum, so I
20 sold that all off to Caltex.

MR OLIVER: And when did that happen, sorry?

25 MR PETER ANDERSON: End of '95.

MR RON ANDERSON: End of '95. Yes, '95, '96, we moved out of that. We get requests, from time to time, but basically, Peter refuses them. Our own tankards are fully occupied, and you know, it really - we don't see that, we think that that role can be filled by somebody else, and we could just refer them. I think Liberty does a -
30 fills that role, I think, in Victoria, fairly well, wholesaling. There's a - you know, United fills that role, they operate that way, but we've concentrated mainly on our own end of our business, our convenience stores, our car washes, and generally the development of our sites.

35 MR OLIVER: Okay, so, obviously, you don't have to publish a TGP or any sort of wholesale list price or anything like that, is that correct?

MR RON ANDERSON: No, we don't, no.

40 MR PETER ANDERSON: And one of the other reasons too, for myself personally, is that with everything else doing - running our business the way it is today, there's enough to do, and I honestly don't believe in its being true, that the people that we'd be looking to supply long-term, aren't going to be viable, that's the problem in the industry, they're not viable, and then, next minute, we're going to be owed money,
45 and with the small margins you're going to get out of wholesaling, no thanks, not interested. Hate to be fairly blunt, but that's really the way it is.

MR OLIVER: Sure, okay. One of the comments you make in your submission is that you think another major could exit the Australian market, because of its unprofitable nature and inability to compete with shopper docket. Were you referring to anyone in particular?

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MR RON ANDERSON: Look, you've only - you can only go on the rumours that you hear, and there's been a lot of rumours in the industry that circulated about Mobil, after the takeover from Exxon. I'm getting a little bit more confidence about that now, in relation to what Peter mentioned earlier, because they seem to be looking at more long-term agreements. But, I think I clearly indicated in my submission that I think Mobil will be one of the companies that is struggling. I think, from a retail point of view, I think their volumes have been depleted excessively. You've only got to drive past their sites to realise that they're down. Most of their distributors rely very significantly on the Mobil card, and in fact, if you know, I mean, if you wanted to raise it, there's a couple of issues I'd raise there, because I'd rather not mention people personally, but I think there are effects in the marketplace as a result of that, that are obvious. Mobil, certainly, quit most of the country markets where they can, which is fair indication that they're retreating back, basically, to the metropolitan areas. So, yeah, no, I - I might go further into it in private.

20

MR OLIVER: Over what period have you observed Mobil's - what you call the retreat from country areas?

MR RON ANDERSON: Certainly, since the advent of the Coles docket, I think, particularly. I don't think the original docket problem was - Safeway was really a problem. They had a limited number of sites, they were in car parks, they were in various things. It was only two sets a litre, it was a fairly insignificant thing, but of course, its growth - they had moved to the 4 cents when Coles had come in, and of course, then Coles moved in with 584 sites, and I guess you've only really got to look at a Shell site today, and notice that they queue that sit on a Shell site, and then you drive past the competitive sites, and there might be one car in the drive, so, you know, they do queue back, I've seen them out on the road, so - in some places, waiting. I'm sort of astounded at the public, why they do it, but they do.

35

MR OLIVER: Okay. I'd like to move, I guess, then, to the retail side, if I could, touching on that. Actually, no, before I do that, you did touch on this earlier. Distribution, so, all of your sites are supplied by APCO trucks, you basically pick up at the refinery, go deliver to each of your sites, you don't - - -

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MR RON ANDERSON: I couldn't give you the percentage; Peter could. We do probably 70 per cent, but we do use private cartage, yes.

MR OLIVER: Sure. Is that more of a needs thing, or is it a distance thing, say, if it's out to Bairnsdale, or somewhere further away?

45

MR RON ANDERSON: It is a distance thing, because the contractor works out of Melbourne, so it's closer for him to go to Albury, as it's extra two hours, if we were

to do it from Geelong, and we don't quite have enough work for another truck, or another B double at this stage, and to keep that truck occupied. We have a B double, half a million dollar investment. You don't want it sitting around, that truck's worked 24/7, so we utilise our fleet fairly well - very well.

5

MR OLIVER: Okay, well, in turning, then, to retail, and again, this was something you touched on, determination of board prices of APCO sites, if I could just go into that a bit more, the ultimate control rests with the company, with APCO?

10 MR RON ANDERSON: With the company, yes.

MR OLIVER: Okay. So, is that done on a daily basis, would you be contacting sites, and telling them what their price is to be, on any given day, or a number of times a day?

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MR RON ANDERSON: There's constant contact, between the franchisee and our office, in relation to price. You know that I said earlier, there's a variation as to how that is, sometimes you delegate that price off, but it is a constant price information situation. I'd say, there'd be very few franchisees that didn't contact our office, or call the phone at least once a day, probably sometimes two, three, four times a day. And they get permission to either put the price down, or alternatively, get information in relation to prices moving up, although we tend to observe them as much ourselves, and we then set our price accordingly.

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25 MR OLIVER: I was going to ask that. How are prices set? Is it a formula, is it about reacting to the market, what's in the market, or a combination of both?

MR RON ANDERSON: Reacting to the market, so it's got to stay with - - -

30 MR OLIVER: So, it's not about high price plus margins or costs or anything like that?

MR RON ANDERSON: You'll have to stay with the market. There's no question about that, you know, I think over the years, you know, we've often considered, you know, do we want to get in this business, can we go to a price that - and I think, once or twice, we tried it, but the second the - if you don't follow the price hike up, the next thing that will happen is, within two or three hours is, that it'll go completely back to where it was. So, you virtually have to go up, and then gradually, or fairly quickly reduce, and then make it more gradual. In the cases where sometimes, we felt that we were happy with a certain margin, this is a margin that we can operate on, and do an effective business, and give a good income to our franchisees, because that's the other end of this, is that you know, we've got a responsibility to maintain franchisees that go into our business, to ensure that they're profitable.

40
45 I mean, we're not interested in having a franchisee go down, we've never ever had one happen to it, and we basically guarantee for all our suppliers, anyway, that you know, we'll see that they're right. So, our concern is, one, with the franchisee. So, if we wanted to go to the middle of the market, and a couple of times, we tried that, if

there was a price cycle, you only brought them after crashing down again, at that unsustainable level. We do, in fact, set our prices in a number of country venues, in the middle of the market, what we call the middle of the market, against the high in, say, Melbourne, and the low in Melbourne, and we try to set that, and quite frankly,
5 we do that in Wangaratta, we do that in Warrnambool, and we can do that.

MR OLIVER: So, you'll set prices in those country areas by reference to - - -

10 MR RON ANDERSON: Those towns, middle of the range, yes.

MR OLIVER: - - - Melbourne prices?

15 MR RON ANDERSON: Yes, yes. We don't run a cycle in Warrnambool, although I notice somebody says there was a cycle there, but it's a very minor one. But, you will see, sometimes, the price will get led up in Warrnambool, but we tend to go to the middle of the range, and stay there. It's better, from our point of view, it's less - there's less, you know, problems from a financial point of view, and all of the problems that, you know, some people who shut their books twice, three times a day, that's the case there, you don't have to alter your books around about too much, and
20 we think what we do is set what we think is a fair return to our company, and we stay with that.

25 MR OLIVER: Do you have target returns that you seek to achieve either across the company or with each particular site or over, say, a period, month, year?

30 MR RON ANDERSON: No, we don't, really. We have a budget, of course, that we endeavour to achieve and we endeavour to achieve a certain average margin if we can do that over our sites. We have those available here today and we're quite happy to produce those behind our doors if you're interested in having a look at them.

MR OLIVER: Thank you. That would be good. On the subject then, you mentioned price cycles. They're obviously - are they - they're not evidence in all of the sites in which APCO operates I assume. Just some of the markets, is that right?

35 MR RON ANDERSON: Yes. Just some of the markets.

MR OLIVER: Where are they most evident, can you tell off the top of your head?

40 MR RON ANDERSON: Geelong is most evident. Melbourne. Geelong and Melbourne, they're most evident. I would say the others - there's strong competition in Albury at the present moment. It may be of interest to know that that competition has been - we've got a new site and the competition unfortunately is between two independents. It's United and APCO. That's creating the problem in Albury at the present moment. It's not the supermarkets.

45 MR OLIVER: You say competition, do you think that is the factor that explains why there are price cycles in some markets and not others - that it is a response to a rise in intense competition?

MR RON ANDERSON: I'm sure that that is the case. I mean you only have to go into some of the country towns where there is no independents and you won't see a price cycle. In fact, that's where you'll see \$1.30s and your \$1.34s, your \$1.35s. I mean you – that's – it's very apparent there. There are supermarkets in these towns
5 but they don't reduce it so they get four cents off their docket and that's where they are. But they accept the higher price in that town. It would be my observation that the supermarkets aren't – would, if they had a way, of staying out of it. They wouldn't necessarily want a price cycle because it must be an administrative nightmare to them as well.

10 MR ROBERT ANDERSON: I was just going to say, well, there's two types of retailers, we look at it. There's a margin retailer and a discount retailer and we would put ourselves in the discounted retailer category and I suppose where you do see aggressive price cycles in some markets is where you've got a couple of discount
15 retailers and clearly United, for instance, have probably the same policy - APCO policy - as we want to be seen as the cheapest fuel in town if we can. We always are looking for price advantage. Albeit maybe 0.2 per cent or half a cent or 1 cent, whatever it is. If we can get that advantage on our competition then that's how we build the loyalty of our customer base.

20 That's hopefully as opposed to what we can't offer as a four cents off docket, we can offer the – our consumers or customers can be hopefully guaranteed that generally when they're buying at APCO, they're buying it at a very competitive price within the board prices that we're talking. So, the margin retailer which I guess we do
25 classify the major companies and the supermarket duopolies as margin retailers. Clearly there is – they're accountable to shareholders and big returns and therefore they're probably not aggressive about their discount docket - about the price cycle. And their marketing is all about a discount docket and the best advantage for them is to get the retail price as high as you possibly can so there's an incentive to use that
30 discount docket.

MR OLIVER: So, it would be the independents in those markets where there are price cycles. It's the independents looking to be discounters who are putting
35 downward pressure on prices, pulling them down by – perhaps targeting themselves a few cents below, say - some of your other margin retailers?

MR ROBERT ANDERSON: That would be our view, certainly on it.

MR RON ANDERSON: I think that would be, you know, our view mainly. If - as
40 I've seen the market over my lifetime in the industry, it's the independents that used to pull the market down. We saw a period then over many years where finally the oil companies realised they have to be in the same thing so they used to match the independent and so forth. So, we had this habitual situation that went on but as the independents lessened, it's not quite as aggressive. And I guess it's again who you
45 class as independents and I think that's another issue that I made there. We consider APCO an independent but I think that if you're branded with an oil company brand I don't think you're anywhere near independents.

You're – actually you're basically contrived. I mean, like, people like to think they're independent, they own their own sites, they run their own sites but they are controlled.

5 MR OLIVER: Is the essential condition their price support though if you were getting price support from the major and you're a branded, then they have a fair degree of influence on the price?

10 MR RON ANDERSON: Look, there is little doubt that there is handshake agreements there. You know, I can't provide any written evidence of it but, look, I've been in this industry a long time and I know what's existed, I know that we've had it although we haven't had price support now since the Ampol days. It's the last time that we actually achieved price support and so that's going back, what, to '94. But of course if you get price support it might affect your wholesale buying price as
15 well but it's an enormous controlling device. You know, it's quite obvious what can happen when you get down and they say, "Well, price support's off" and suddenly you see the signs going up. You have no alternative but to move.

20 MR OLIVER: Now, back to the price cycle then. The independents are putting downward pressure on prices but do you find towards the bottom of the cycle you're being undercut by your major brands – by the supermarkets or by the oil companies?

25 MR RON ANDERSON: Yes, we do. Basically – I think that what's happening now and this is the difference between where it was some years ago is that there's no question in my mind that the price is going higher. I mean, you know, it's just a fact. You know what I mean, we see it everyday. We know that the movement up is there. Effectively, the price is not going as low because I think that what's
30 happening at the bottom of the market is, that's what we convert a little bit and I know the boys might object to this. But we convert at the bottom of the market, it's suddenly being more margin conscious than we used to be before. And the reason is, it doesn't really matter what price we paste. The supermarket will match that price and then your four cents off.

35 So, invariably we find at the bottom of no cycles we are the low operating cost and when I talk operating costs, I'm talking about the specific costs that you can move to gasoline and that's simply your franchisee commission which varies from a 1.2 to perhaps 1.5 – there might be variations in that – plus the cost of cartage. Now, they're direct costs against your gasoline market. Now, I mean, I'm not throwing
40 any costs of investment and product and every other thing that could be there but we get below that operating cost.

MR OLIVER: Do you ever find yourself going even below your buying price?

45 MR RON ANDERSON: Well, yes. And there are times that in fact we're actually down below our actual buying price. We're down below the terminal gate price. Now, that being the case, you know, one can only conclude that the Mobils and the Shells who are four cents below us, you know, are selling way below certainly our cost buying price and effectively, you know, how far down they are I guess we don't

know unless you can have a look at their contracts and see what price they buy at and what type of price support they're involved in. And as I've indicated a lot of the branded sites, I certainly believe the bigger branded sites, do get significant price support at the bottom.

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MR OLIVER: So then what we find with the regular price cycle then is that typically there's a moving day. Maybe a Wednesday, maybe a Thursday when someone blinks, someone pushes prices up fairly high. Is that typically one particular brand or one particular type of retailer in the market in your experience who then pushes prices up?

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MR RON ANDERSON: No, look I think it tends - - -

MR OLIVER: Or is it an independent for an example. Would you do it - - -

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MR RON ANDERSON: I think it tends to vary. The - you know, look, we've seen BP move it, we've seen Shell move it, we've seen - I don't know that I've seen Safeway move it as often as that. I've seen Caltex try to move it. It's very interesting that in Victoria it would be my - it would be certainly my observations over all of the years that I've been there that Caltex have no capacity to move prices in Victoria. I've seen them go up - sit up for 24 hours and no movement in the price.

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MR OLIVER: When you say capacity - - -

MR RON ANDERSON: But if Shell or one of the refiners move such as Mobil the prices tend to move much more quickly.

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MR OLIVER: So, it's having that refinery you think that would give a company capacity to move a market that way or is it the number of signs?

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MR RON ANDERSON: Look, I couldn't express an opinion on that. It's just simply an observation that I've made over the years and I mean these are things that, you know, - habitual things that we see week in, week out. We live with them daily. If we see Caltex move the price, we'd be much less inclined to move our boards to go up and, sort of, - regardless of where we were in the market, we can have a sustainable price, we can be losing money and, you know, logically we're still in the market for the same reason as everybody else. We're there to make money. You know, you've got to get a return on your capital investment or you might as well go out of the business. And, you know, it could be very attractive to go out of the business at the present moment but we don't wish to do that. We're a family company and, you know, our long term - we see a long term future for us. We believe we can maintain it provided there are certain other things there.

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MR OLIVER: You mentioned earlier on I think just in passing that if you don't follow when the price goes up it will eventually come back down to those low levels. Is that - - -

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MR RON ANDERSON: Most certainly. I would have to say that in Geelong, for instance, if the price moved up and APCO stayed down it would be down within, you know, it would be back down within a few hours - - -

5 MR OLIVER: The majors would bring it back down.

MR RON ANDERSON: A few hours, yes. And if we only moved up, say, five or six cents, my theory is, they wouldn't come back to the five or six cents, they would actually go back to where the market was.

10

MR OLIVER: Okay.

MR RON ANDERSON: Now, that's experience, that's what I'm saying.

15 MR PETER ANDERSON: Not only Geelong, it would also have been Bendigo, Ballarat, Warrnambool, or even Albury now would be the same. If the price cycle came there, like it did last week in Albury, if we didn't move when it went back up, we would miss out. Now, we don't know how long it would take, then, for it – it might be another week, it might only be two days, we don't know until it happens
20 again, because we're not going to be the ones who are going to go out and lead it, we're going to sit back and wait, we're going to leave it to somebody else to lead, and then we're going to have to follow.

MR RON ANDERSON: We've never let the price up in my time with the company.
25 I could recall only one, maybe two occasions, I think, when we were losing three or four cents on costs where I've said to Peter, "Look, put the price up and see what happens." And it didn't make any difference, it still stayed where it was. So - - -

MR PETER ANDERSON: I turned the phone off.

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MR RON ANDERSON: So we turned our – we put our prices back at - - -

MR PETER ANDERSON: I had the franchisees on the phone every five minutes
- - -

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MR RON ANDERSON: I would say that twice in my – in the history is, you know, the only time we've ever moved our prices, to move up first.

MR OLIVER: Sure. You mentioned in your submission there are many country
40 areas where APCO sells fuel at an average price. Is that what you were referring to before? You try and pick the – a midpoint, say, compared to Melbourne prices?

MR PETER ANDERSON: I can add something to that. A few years ago, I did quite a bit of research for another matter, and I went to the RACV to try and find out where I can get something to match information to, and I went to the RACV journals,
45 and I went through about three or four years of RACV journals, and it was interesting where you see the country towns, and you're able to look at, say - well, APCO is in Warrnambool, and if you actually slotted the towns on each particular

time where APCO was, the cheapest prices were always where APCO was, and then you had the – the Milduras and all these towns that had higher prices all at the bottom end. And it consistently did it. We had four sites, I think, at that stage, in different regional towns, and consistently, those four towns would be in the – in the top four discount areas.

And then, as United started to get into the country Victoria, you started to see some of those towns suddenly – that didn't have United in them, suddenly United, and then they'd move in there as well. So you started to see where the independents were with cheaper towns. Now, look, that was an independent magazine, and something that I sort of did at the time. And I think it would be pretty true today. They still publish it in the magazine based on Shell prices that they receive, and if you were to get the prices of – ours in the last few months, you'll find, consistently, our towns are in those areas, and that was one way of sort of being able to judge, as we've said, setting out what we considered to be a fair price for us to get a return, and we've always operated like that.

MR OLIVER: Presumably, if you're going to try and keep prices at a site at an average price, as just sort of a more steady, average price, that has to be a market where the price cycles don't exist, is that correct?

MR RON ANDERSON: Yes, that's correct. Yes, there's no price cycle there at all, yes.

MR OLIVER: What would happen if you tried that in a market where there was a price cycle?

MR RON ANDERSON: Where there was? Look, that would be an interesting one. As long as somebody would subsidise us.

MR OLIVER: I take it that's not an experiment you've embarked upon.

MR RON ANDERSON: The whole point of being a discounter, obviously, is to do the best volume that you can, which attracts foot traffic into your site, and I think this is where we've been fortunate, that, going back perhaps seven or eight years ago, we decided that, obviously, there were going to be problems in the industry, it was very strong rumours that, you know, Woolworth's were going to be matched by Coles, and we started to look at our convenience stores, where they were, and we started to look at other options, and to go where we are. And we've effectively had enormous increases in our stores, the type of development.

We've redeveloped sites, and we've moved in that area, so – but if you don't match the price, you lose your foot traffic, and that's the basic problem with the as an independent today, that says, "Well, look, I'll become a retailer". You know, it's a catch-22. It says, "I'll become a margin man, I'll make my five or six cents a litre," but his foot traffic dies, and if your foot traffic dies, you know, your franchisee or your commission agent or just you, if a company operation, you just can't survive. And your foot traffic is just essential to the long part of your site. We also moved

into carwashes associated with the sites. We tried to do deals with fast food chains where we had another return on the cost of development of the site and that type of thing.

5 MR PETER ANDERSON: And just adding to that question is that if you go to the high part of the cycle, let's say – let's just call it a dollar for round figures, and we decided we're going to average, because they say that that the margin has been dropping 10 cents, right, our competitors will immediately – they go to a dollar, we don't follow. Say we go to 95 trying to get your average, our competitors would
10 immediately come back to 95, right, and then suddenly, your average is out the window. So next week, you say, "Well, I'm only going to go back to 95 again," what are your competitors going to do? They're going to come back to 95, and that's just going to continually happen. That's the risk we run by trying to, say, create the average situation. You're still going to get the discounting, somebody is still going
15 to undercut the price.

MR OLIVER: But you'll never repair that. You'll never make up that loss at the time.

20 MR PETER ANDERSON: You'll never make up that loss.

MR OLIVER: Yes.

MR PETER ANDERSON: That's why, when the prices go, us as independents
25 have to go, because you work on the average, at the end of the year.

MR OLIVER: Sure. Okay, you mentioned the convenience stores, and certainly, we'll now have to discuss that. That was a deliberate strategy in response to the introduction of Shopper docket, was it? To develop sites as convenience store sites
30 with carwashes, fast food, etcetera?

MR RON ANDERSON: Yes, look, it was in the late nineties we made the decision. We made a decision, one, we weren't big enough, because we can see falling averages on the gasoline side, and they were the moves that we decided that we had
35 to do. One, we had to become a bigger chain. Two, we had to look at alternative sources of income, and three, we had to get those convenience stores to a very, very significant level, and I'd be quite happy to give you those figures again, in-camera if you wish, because they're very significant. There's been some significant changes in what we've done.

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MR OLIVER: But in doing that, you still aimed to price to get the discount market as well, is that – that's a fair comment? You need to do both?

MR RON ANDERSON: No. Look, my belief is, and going back, we've really lost
45 the discount market. It's gone. Look, we've had experience where we gave discount to Franklin customers, and I can give you one perfect example where it was quite extraordinary. When Franklins went out of business, I think they sold off a lot of their stores. We were giving two cents a litre, and we had a site doing, you know,

quite remarkable volumes, and I think there was about 250,000 litres attached to the Franklins discount docket. When Franklins went, we discontinued it, and the immediate impact was a loss of about 200, 250,000 litres, because those people then went elsewhere for that, but the extraordinary thing that happened to us, and it's
5 quite interesting, was, our shops jumped 15 per cent. It was quite unbelievable. So, there was the impact of having the discount shopper there, who would be – who queues up, gets into a queue, and – but of course, he doesn't buy in your shop either. You've got to remember, he's a discount buyer of petrol.

10 MR OLIVER: That was my very next question.

MR RON ANDERSON: He's not going to shop in a convenience store.

15 MR OLIVER: That was my very next question. The discount market, I assume, are the customers who are most enthusiastic about their Shopper dockets, most likely to use them.

MR RON ANDERSON: That's right.

20 MR OLIVER: But it's your experience that they tend not to spend in-store, is that – or they spend less in store?

MR ROBERT ANDERSON: Yes, absolutely. We had some data that we did in the Franklins time, if I could add, that we normally work on the basis, for every 1000
25 litres of fuel we can sell, we'd want to do about 100 to \$250, anywhere between there, in your shop. So, every 1000 litres, 150, \$250, 1000 litres. When we actually assessed and analysed the Franklins customer coming in and using only, at that time, their two cent a litre docket, they were not spending any more than \$25, 1000 litres of fuel we'd sell. So, they're clearly not a customer that is good for our convenience
30 store business, which we put a lot of investment and capital into. So, the introduction of the discount docket certainly – that's why we've not gone out competitively to match it.

We prefer to try and hold the – a customer base that is reasonably loyal to us, that we
35 meet our customers in the driveways and they say, you know, "Good on you. Okay, we understand you don't have a docket, but you're providing a fair and level price most of the week. I know that you're going to look after me generally, and I don't have to muck around with my docket." Not everyone is going to be interested in a docket, we know that. There's a lot of, we believe, customers that switch. They'll
40 have the docket one week, and they won't the next. So, I guess, by us having an aggressive, or a reasonably aggressive price cycle, we attract that customer sometimes. It's a little bit more convenient to come to our facility than it is to bother queuing up on a Coles or a Woolies driveway, so they – you know, we hope to get those swinging voters, if you like, across to us, and that's what we aim to do.

45 MR OLIVER: Is there a difference in how you would configure or set up a site as well? One proposition that's been put to me is that sites that are designed for that

discount market don't tend to be very well suited for convenience store traffic. Is that a proposition that you would agree with, or neutral?

5 MR RON ANDERSON: It's an interesting question. I wouldn't see that What I have seen on the new sites that have been built, I don't really see that. If you look at the ones that have been re-built or done, I think they are aimed at attracting people – well I think they're aimed at doing what both – you want as many pumps as you can get or as many hoses as you can get to ensure that in peak periods you can have the people on your site. But you have also got to aim at increasing the other side of your
10 business – your convenience store side or any other part that will contribute to your business.

MR OLIVER: I assume you track the profitability of fuel versus non-fuel at your various sites, is that a fair assumption?

15 MR RON ANDERSON: Yes.

MR OLIVER: Is there a trend there, is it switching from one to the other or is it fairly steady? Or are you finding that the stores are becoming more profitable, the fuel less profitable? We can – I mean, it's a subject we can discuss in confidence if you prefer.

20 MR RON ANDERSON: Yes, it's an interesting one. Compared to the – if you looked at the actual – the capital turnover of gasoline and the return you get on it, yes, that would be the case. Whereas if you look at our convenience stores and our return on what we get their, the convenience store one has had consistent growth whereas the gasoline has tended to go the other way.

MR OLIVER: Sure. Does APCO sell ethanol blended fuels?

30 MR RON ANDERSON: No, we do not.

MR OLIVER: Is that something that you have considered as a possibility?

35 MR RON ANDERSON: We think about it. Peter has made provisions on any new sites and some existing sites, that we have re-tanked for various other reasons, that we can go to that particular product if we have to.

40 MR OLIVER: Are there reasons why you wouldn't or haven't, or?

MR RON ANDERSON: No, no other reason. There's no demand for it at this stage that we can see. I have noted again in going through other transcripts that some people seem to see that it's been having a significant effect. Look, I think it's questionable at this stage. But I think once the oil companies move to it, we would
45 have no alternative but to do it. And I would rather see an oil company providing us with that blended product than just going through where we were some years ago where people were just going up and dumping a heap of ethanol in a tank and hoping it was going to blend. It didn't, and there were more problems and troubles and

in fact we got a very significant increase in our business during some of those torrid times by putting up, you know, a guarantee from us that there was no ethanol in our product.

5 We had those signs there for quite some time and we actually saw a significant increase on our sites because there were people using significant amounts of ethanol and it was simply getting dumped down in to the tanks on top. So some people went in and – you know, you have got to have the product properly blended. And I question at the moment the manner in which some of it is being done. I don't know.
10 But I can't make a judgment on it because I don't know.

MR PETER ANDERSON: And there's also a cost factor on the research that I have done with because I have searched out the ethanol product. And the problem I have got is that I have got to send a truck to a refinery, I have then got to send a truck
15 somewhere else to do it – get the ethanol. I have then got to take it to the site. I'm just – just don't have the time with our truck fleet for that down time.

MR OLIVER: Sure.

20 MR PETER ANDERSON: I have looked at blending it at our yard, bringing in and dumping it on top and that. But again, I don't have confidence in delivering a product to our customer that I can rely on. And that's what worries me most of all. I would rather not sell it than have the complaints. Your reputation's more – our reputation's more important to us than doing those sorts of things and then all of a
25 sudden – it doesn't take much for an independent to get a bad name.

MR OLIVER: Right. Can I take you back to an issue, just in relation to retail prices. Obviously you have to monitor prices, both at your own sites and in the surrounding – in the markets in which they operate. How do you do that? How do
30 you – I assume in terms of your own sites, as you say it is constant communication with your site operators, with your franchisees telling you what's happening. How do you monitor your competitors' prices just – how do you know what's going on?

MR PETER ANDERSON: Can I say we go for a drive.
35

MR OLIVER: Well, yes, that was going to be one of the propositions. Get in the car and go for a drive. Look up the

MR RON ANDERSON: Yes, look, basically our information comes from our
40 franchisees. I mean on a price movement day, you know, it wouldn't be unusual, you know, to see four or five calls from every site coming in advising us what's happening with the market. Because we expect them to do that, and that's the expectation we place on them. Because if they want us as commission agents, I mean, we are a little bit at their mercy. So, you know, so information's always
45 important to us where it is. Like for instance in Geelong, one - I mean, one of our people would actually go out and do the run - - -

MR OLIVER: Sure.

MR RON ANDERSON: - - - before we actually moved a price in our office, and that's been a - - -

5 MR OLIVER: There's a person in Bairnsdale, for example, and you don't - - -

MR RON ANDERSON: Well, we would have to rely utterly and completely on a franchisee - - -

10 MR OLIVER: That's what I mean.

MR RON ANDERSON: - - - to give us the information - - -

MR OLIVER: But they need your permission before they move, is that right?

15 MR PETER ANDERSON: Yes.

MR RON ANDERSON: They would need our permission, but, I mean if we open in Bairnsdale it's quite possible that Peter may give the person some responsibility and just to report it and only if it got to a certain level would he then monitor it.

20 MR OLIVER: Sure.

MR RON ANDERSON: You know we're expected to be competitive. We know the cycle's going to be there. You would generally trust your franchisee. And we haven't found a situation where a franchisee – there's no doubt they can manipulate a price and that is one of the problems, you know, that always existed in the market with price support. Because the person that had the price support could manipulate the price.

25 MR OLIVER: Presumably they have volumes as well. I mean, they need to keep track of the market so that they can continue to get the traffic. That's their incentive.

MR RON ANDERSON: Look, their basically interested as commission agents. All they're interested in is volume. They're not interested in margins.

35 MR OLIVER: Yes.

MR RON ANDERSON: So - but they have to also understand, and we make it clear to them, that if they want our support at the bottom of the market and they want us to keep them competitive and not sitting over the market, that they have to be honest with us and convey to us any price movements up in the market. I mean, we don't like it much but I mean, it's a fact of life, it's there and we just have to live with it. It's a – you know, if we had our choice we would much rather see a, you know, a set margin where we could say look we are going to sit here and if you knew basically that everybody was, sort of, buying at the same price, we would say “well look, we are going to sit here, 5 cents over the market and that's it”.

45

I think then you might find that somebody says, “Well, look, I can sit there at four.” APCO might say five. Well look, you know, we would have to live with that, and so fourth. But - - -

5 MR PETER ANDERSON: Can I just add, when you were talking about Bairnsdale and the pricing and what we would do. We’ve had it for a long, long time – our buying price on a spreadsheet, for example. And once you get to the bottom of that cycle, you know the pressure’s on, and as has been explained once by a major director of one of the oil companies, it’s just a pressure cooker situation. If I’m
10 losing money, he’s losing money, they’re losing money. You know somebody’s going to give and once you see that give, you’re ready to go. And you’re on your franchisee, “Look, something going to happen, sooner or later. It mightn’t be today, it might be tomorrow, it might be the next day. Keep you eye on it. Let me know”.

15 And the franchisees let you know, “Look, Shell has moved”. All right, well, you might make your decision, “Well, has Mobil?” “I don’t know, have a look.” Mobil has moved – bang. Follow would you? You let the others trickle on because you know they’re going to go anyway, because they’re in the same pressure cooker. And they know that if they don’t go, we’re going to come back down. It’s as simple as
20 that.

MR OLIVER: Sure.

MR PETER ANDERSON: We’re happy to go and wait for them again.

25

MR RON ANDERSON: We would be happy to give you this so - - -

MR PETER ANDERSON: We can give you a look at that.

30 MR RON ANDERSON: That’s our work sheet, we use it all the time and it shows a board price, the GST component, the exclusive GST price and an exclusive GST margin. And that’s there at all times and it’s available to us on each product, so we know exactly what our margins are going to be.

35 MR OLIVER: That would be very helpful, thank you. Are you familiar with companies like Informed Sources and FUELtrac who monitor fuel prices?

MR RON ANDERSON: Yes.

40 MR OLIVER: Have you ever had any or seen any benefit in subscribing to those services, to monitor prices in the market?

MR RON ANDERSON: Well, I think we have made a phone call and they indicated they weren’t interested. Outside of the - - -

45

MR OLIVER: So they indicated to you that - - -

MR RON ANDERSON: I think the cost is prohibitive for somebody like us. They don't operate in the country areas anyway, they only operate in the metropolitan area and we can get the information we require. You know, it's amazing how good information you get from your own customers, because your regulars come straight in and they say, "The bloke down the road is a cent cheaper than you." "Oh, thanks."
5 Pick up the phone, talks to Peter, the price goes down, it's done. But - - -

MR PETER ANDERSON: It may go down - - -

10 MR RON ANDERSON: - - - the information is incredible that – you know, I know it's often been pressured but they do tell you. Your regular customers tell you very quickly because they know what your policy is.

MR PETER ANDERSON: Then your driveway becomes full when the price goes up - - -
15

MR RON ANDERSON: Well, that's the other thing.

MR PETER ANDERSON: - - - from your competitors.
20

MR RON ANDERSON: Yes.

MR PETER ANDERSON: Suddenly they've got more cars and the customer is saying, "Oh, they've gone up down the road 10 cents." It's amazing how quickly the word gets around.
25

MR OLIVER: Sure.

MR PETER ANDERSON: And we find, because we do franchise our sites, we have 10 year contracts with our franchisee within the store. So we do have an element of trust within the franchisees. So we've not felt that we've had to spend a lot of money out-sourcing third parties price information because we can gain that ourselves internally and through the franchisee. And I think if you – if we're under a licensee arrangement and it's more or less a 24 hour agreement, you know, you're in one day and out the next – I think, yes, we would have a more serious concern about possible manipulation or misinformation we might get from a franchisee. But in our experience that certainly doesn't happen.
30
35

MR OLIVER: Sure. Okay. The last thing I guess I want to touch on is the city/country price issue. Because one of the issues that we're looking at – we've been asked to look at – is differentials between prices in metropolitan areas and country areas or claimed differences. Is it your experience that - first of all - that country prices are routinely on average higher than city prices in the markets in which you operate?
40
45

MR RON ANDERSON: Yes, that is.

MR OLIVER: And what would you attribute that to?

MR RON ANDERSON: The first thing I would attribute it to, is probably lower volumes. If you go in to many country towns you might find there's, you know, 8, 10, 12, 14, 15 sites. So basically they've got much smaller volumes, and what I get back to here is, again, it becomes a margin business rather than a, you know, a
5 discount business. From our point of view, that's the first thing that happens in a country area. You know, the sites don't just have the volumes, there's a high cartage cost. But there's no question that the prices need to be as high in country areas.

But our experience is if we go in and open up in a country area, we will effectively
10 probably close a number of sites. It's, you know, they often express concern. So we tend, if we can, if we target a country town, we would prefer to target a country town where the numbers of sites are lower. And they then also have to change their attitude as – and start to look at other means of staying alive in the business if you really want to stay in it. And effectively many of them have. You know, they start
15 to look at their own sites and say, "Well, look, you know, I can't rely on petrol any more, I was making 14 cents a litre or 15 cents a litre".

I mean, we've targeted Wagga for instance. But, I mean, despite all the talk about Wagga, you know, try to find a piece of land there. Try to find somebody to help
20 you to put it in there. They know that that's there, it just doesn't happen. We targeted Mildura at one stage. We that's the most tightly held land you would ever find in your life, and we even went political up there. We couldn't even get the politicians to talk to us about coming in to the town.

25 MR PETER ANDERSON: Didn't even want to help us try and secure the land.

MR RON ANDERSON: Didn't even want to help us. Didn't – I mean, it's amazing how negative – I mean, they'll grizzle about the price, but – and they'll, you know – you'll see a politician coming out and screaming about the price and being very
30 political, but when you go and ask them for assistance and say, "Hey, we know the government's got some land here, we're interested in that piece of land. What would you do for us?" Got nothing.

MR PETER ANDERSON: Can I just say regarding Wagga, I've spoken to probably
35 five or six real estate agents – never had a follow up call. Why? What's wrong with them? Do they want to sell some land, or not? It's frustrating. The only way you find your site, is go look yourself. You've got to find them yourself.

MR OLIVER: So even in country areas there's a serious barrier to getting in?
40

MR PETER ANDERSON: I was very fortunate in Bairnsdale that I had a mate down there and he rang me about the block of land. And he said, "Best block of land going at the moment that's available." I went down, took one look at it and I said, "Yes." And we decided to purchase the land. The one before that – Wangaratta, for
45 example, was all covered up by trees and everything where we built at Wangaratta. It was an old gas and fuel depot. I nearly fell out of the car when I found it. And I couldn't believe it, the opportunity. And, look, we've found them ourselves. Real estate agents personally – I shouldn't say it, but I find them a complete waste of time.

MR RON ANDERSON: And coming back to the country site. Again it's an observation, but it's an observation of what I've seen actually happen in the towns. If you see an independent go in to that town, you will see an immediate reduction in the price. And again – I mean, I don't want to mention specifically, but, after a
5 period of time you will find that the independent will move up slightly below and you may find that he gets a distinct margin over the existing – perhaps Mobils and BPs in the town. And you'll frequently see that.

The thing that affects the town more is when the second independent goes there.
10 And I think it's – this is what becomes so interesting about it, is that the competition doesn't seem to be created between the major and one independent. It becomes highly volatile if you get two independents there chasing that discount. And I mean this is what's happened recently in Albury where United, who are only in Wodonga – we opened up in Albury and then United moved over and they were over in Albury
15 and suddenly, you know, well - - -

MR PETER ANDERSON: The price is up.

MR RON ANDERSON: - - - to put it bluntly, you know, all hell breaks lose over
20 the price because United want their volume and they set out to make a name for themselves. They're very good at it. And they will hold prices for two, three months, and then they'll cycle up and cycle down or ultimately they're a bit like us, they might start to get their price and if the towns tend to give them a bit of a margin, they stay with it. You know, like, as I said, I think United are very clever at it and
25 they do it very well. They build very, very good sites when they build. But it's just interesting and that's – in my observation – two independents, that you'll see more trouble in the town than you will if you've got one independent. And that's the same as us in Warrnambool where we, sort of, set a price – say Melbourne's \$1.28 – say today, or this morning – we're probably what in Warrnambool?
30

MR PETER ANDERSON: Not sure.

MR RON ANDERSON: We're not sure but probably – might be \$1.22 or something like that. But we say that all the time. And we don't, you know – and it
35 gives us a very fair adequate margin. We live with the discount docket down there because, not everybody goes for the discount docket. And I think, as I said, our major problem with the discount docket is not perhaps the 4 cents. We're not all together, you know, crooked on the discount docket itself. We can survive that, that doesn't really worry us. It's when it suddenly starts climbing to 8 cents and 10 cents
40 and becomes, you know, a situation where they're selling that far below cost that it really doesn't matter.

MR OLIVER: Sure. You mentioned cartage costs. I imagine you would have a very good idea what the effects of those are if you're hauling your own fuel to
45 various sites. If you were to pick a site say near the refinery where you're collecting and compare it to a site that's more distant. Would you be able to track those cartage costs in terms of cents per litre?

MR RON ANDERSON: You would have to ask Peter that.

MR PETER ANDERSON: Yes, I could. I would have to sit down and do it before I
5 could give you our average cartage costs. I'm not up to date right at this moment
with exact the figure.

MR OLIVER: Sure. Is that something you might be able to provide to the
Commission, obviously take it on notice, and do the - - -

10 MR PETER ANDERSON: Yes, I'm happy to do that.

MR OLIVER: We can treat that data on a confidential basis, but I think that would
be very helpful in terms of trying to track the influence of what those cartage costs
.....
15

MR PETER ANDERSON: Yes, look I'll certainly do that. We would average it
over our volume. What I'll do is give you what our wages, transport costs and
everything are, but we'll an average over the leaders and that would be probably the
easiest way to do it. It's hard to track, like, how much it's going to cost to get to
20 Bendigo.

MR OLIVER: Sure.

MR PETER ANDERSON: But what I'll be able to do is tell you where the
25 volume's gone to. So I'll give you how many litres has gone in to Wangaratta, how
many litres has gone here. I'll do it over a two month period for you.

MR OLIVER: That would be very helpful.

30 MR PETER ANDERSON: That would be good?

MR OLIVER: Thank you.

MR RON ANDERSON: I was going to say in relation to costs though – the cartage
35 costs of a site really don't affect us. I mean at the end of the month, we're interested
in what the bottom line is, where we've stored it, what we've averaged on the
product. That becomes the issue with us. And you can't ignore the fact that, you
know, there is cross-subsidisation in this industry. I mean, from time to time, we get
the complaint "oh – you're this price there and why aren't you that price there".
40

You know, because, you know, people come through Geelong and they're going to
Warrnambool and they see us sitting on \$1.16 in Warrnambool but we're \$1.22 –
rather \$1.16 in Geelong, \$1.22 in Warrnambool and we do get the complaints from
time to time. But they're quite separate markets and you've got to employ cross-
45 subsidisation in your business. I mean if you try to apply – try to put the Geelong
price in to every single market I've got – and I mean this is true of the supermarkets,
it's true of most independents. And I mean when I drive around – and I've just been

up through the north and the varying prices I saw were quite significant, you know, with independents.

5 And it's a variation that's implied but it's there. And, I mean, there's an issue that -
for instance, at the present moment, which will be interest to us and it's not to do
with the enquiry so much in to ULP but it's the price of LPG. I mean, we haven't
sold LPG at a profit over cost for that long it just doesn't matter.

10 MR PETER ANDERSON: Fourteen month.

MR RON ANDERSON: Fourteen months. We just can't make any money out of
LPG. I mean, if you want a personal opinion, I think that drives up the price of ULP.
There's been movements they've tried. Some of the majors have tried to move the
price of LPG up. That has failed drastically because supermarkets don't move it.
15 It's very interesting.

MR OLIVER: Okay.

20 MR RON ANDERSON: I can't draw my conclusions.

MR OLIVER: Mr Chairman, those are the matters that I wanted to ask the
witnesses about in open session. There's some confidential material. Now, there's
two ways to handle it. I think they're mostly some figures that we'd be grateful if it
could be provided. It might be possible to provide those in writing, maybe. We can
25 handle them on a confidential basis, but – just to avoid the need to go into a closed
session.

MR PETER ANDERSON: It might take some explanation.

30 MR OLIVER: Okay. Well, perhaps then - - -

THE CHAIRMAN: I think we'll go into a closed session - - -

35 MR OLIVER: - - - we'll go in-camera.

THE CHAIRMAN: And to the extent that we can save the witnesses from having to
provide evidence orally, we'll perhaps get it in writing, but I think it might be helpful
to do that.

40 MR OLIVER: Okay.

THE CHAIRMAN: Before we do so, I think you've got a couple of questions.

45 COMMISSIONER KING: Yes, I'd just like to follow up, actually, just on the – a
couple of issues. Firstly just on the rural – regional areas, I mean, one of the things
that's sort of certainly struck me throughout this inquiry is that it seems like
anywhere in Australia that you go in a rural and regional area, you have a town, we'll
call it Town A, rather than giving it the names, and you have a price there. 50 ks,

100 ks away, you'll have another town, and the price may be five cents higher, may be 10 cents higher, and it's not like it's, you know, a once-off, it's always that way, or it's over that way for that way for a significant period of time.

5 MR RON ANDERSON: Yes.

COMMISSIONER KING: And I mean, and you, too, you'd obviously be familiar with towns like that.

10 MR RON ANDERSON: We do.

COMMISSIONER KING: How does that hold? I mean, how do you end up in that situation where it's clearly not the cost of carting petrol, you know, it's not far enough to account for that sort of distance. What is it between those towns? What
15 would you expect to see between Town A and Town B that would be explained - - -

MR RON ANDERSON: No independents.

COMMISSIONER KING: So, it would just be the independents?
20

MR RON ANDERSON: Yes.

COMMISSIONER KING: Okay.

25 MR RON ANDERSON: It's very clear when you drive about that if there's no independent in the town, you will see those higher prices.

COMMISSIONER KING: Okay.

30 MR RON ANDERSON: Whether that's to do with the distributors in the town who basically control it and, you know, and it's a local market, most of those distributors are probably controlling a number of sites, but they're very, very insignificant types of things. And the dealers, they'd require margins to continue to exist, or they go. Now, if the independent has got some money and he says, "Well, look, I'll let them
35 go and I'll go and build one big service station," it could become a discounter, but most of them choose to stay with the investment they've got, and again, this is one of the problems. It's the entry into the industry. It becomes prohibitive with the price of land, the price of the development, and it's only when you get to sort of the size of somebody like ourselves that you can afford to go out and do that. You have the
40 capacity to borrow the money or whatever, to invest in the sites. And we tend to sort of look at and target specific towns if we think there's an opportunity in those towns. And I'd say, definitely an independent.

COMMISSIONER KING: And by "independents" there, you again mean not the
45 Mobil independent or one of their franchisees?

MR RON ANDERSON: No, no, no.

COMMISSIONER KING: Okay.

MR RON ANDERSON: No, I just don't classify those sorts of people as
independents, look, and I tried to make that clear in the submission. I think so many
5 other things attribute to them. They're very, very much a controlled entity.

COMMISSIONER KING: Okay. Can I follow up just on a couple of the towns,
and tell me if I am getting to areas that you'd prefer to talk about in closed session,
but you mentioned two towns, Bairnsdale and Wangaratta. You've gone in fairly
10 recently. Are you able to say in open session why those towns? Why not
somewhere else? What was it about Bairnsdale – I have no idea if you have a Lakes
Entrance site, but – have you got one, or - - -

MR RON ANDERSON: No, we don't.
15

COMMISSIONER KING: No. Why Bairnsdale, why not Lakes Entrance? It's,
you know, another 30 ks down the road. Why one rather than the other? What is it
about Bairnsdale that attracted you?

MR RON ANDERSON: Well, the first thing is, there's one, availability of the land,
20 the cost of the land – again, cost of entering into it. The population, the volume that
exists in that particular area, or the market volume that exists in the area, and on top
of that, if you look at the number of pumps that are in the area and the type of
opposition you've got when you go in. I mean, you've got to be fairly ruthless about
25 it. It's pointless to go into a town of three or 4000 people and spend three million,
three or four million dollars building a service station. The volume doesn't exist. It
just won't return. I mean, they may get a cheaper fuel, but we can't – if you can't get
foot traffic, you can't – you know, we've really got to live, today, out of our
convenience stores.

COMMISSIONER KING: Okay, so is it the case that you look at the size of the
town, you say, "Well, how many pumps are in there at the moment? How much
volume do we expect we're going to get? Can this town take another petrol station?"
Is that what you're looking at?
30

MR RON ANDERSON: Yes, yes. Can they accept our site? We generally look at
a site and we'll do some estimates on it. We know pretty well that – what we can do
in a convenience store if we know what the market is and where it is. We can do an
estimate in the town of what the volume is in that area and what the, you know, the
40 marketing plus the transient business that goes through, and we can generally put a
volume pretty close on our site and be right. We're generally very conservative in
what we do because, you know, there's nothing worse than something coming up if
you've got to do it on the basis of a minimum return, and if that minimum return
won't pay the costs, we just don't do it. And there's so many small towns that –
45 we've had phone calls, councillors ring us up, "Will you come to our town?" But,
you know, it's just not warranted, you can't justify the investment that's required.

MR PETER ANDERSON: I actually follow up each of those phone calls, and I went to one New South Wales town not that long ago, and there was – the town was about 4000 people, had a sawmill which was going to expand and all those things. When you actually looked at the town, you couldn't – there wasn't a site available
5 that would be good enough, but you've already got two IGA – sorry, a Foodworks supermarket, an IGA supermarket there, we're going to go in against them. So, you can't compete.

I'll just go and explain our Bairnsdale development, for example, that we've got on
10 the drawing board there, that we've lodged an application for. The convenience store, we're looking to be just over 600 square metres, which is a very large convenience store. We're looking to put a doctor's surgery on there as well with four surgeries available, or four doctors could operate out of there, and we're also hopeful of attracting one of the major chemists chains as well for rental space, or
15 we're just going to rent those areas out. That's the sort of thing we're looking to try and do, trying to get extra income that we – if the site's big enough. As Dad said, we've had to pay over a million dollars for it.

COMMISSIONER KING: So, is it more like a mini-mall attached rather than vice-versa?
20

MR PETER ANDERSON: That's right, yes. Yes. If we could have got a McDonald's there, that would have been great, but McDonald's is there. Subway is already there. Red Rooster is apparently looking to go into the town. We spoke to
25 Hungary Jack's and they said, "No, not at this stage," it wasn't a market they were interested in, so we were looking at other options as well. But when we got into the planning scheme – see, a lot of these things, too, sites you could look at, you can't build a store over 240 square metres. Well, I think that restriction should go today, because we've been restricted with our stores. If you're able to provide parking and
30 the thing is bigger, why shouldn't we be able to build a store bigger? We've got to build bigger to be able to compete in the market, because the supermarkets there have become our competitors today, too. And we're looking at that, trying to get better at what we do.

MR RON ANDERSON: Yes, but could I just add a bit to that. I mean, I guess it says something that obviously, you know, would run through your minds, but you know, for a long time, you know, we've seen big percentages of the market moving to the two supermarket chains, and that includes even liquor. Now I mean, you know, attractive. Well, you know, I really can't see, in this day and age, that
40 somewhere along the line, that the market shouldn't be opened up to what is a true convenience store. I'm not talking about the little 80 square metre shop on a little thing that should be allowed, but if you've got a true convenience store, giving us the option, say, to take liquor in, would increase our turnovers. And I mean, we're faced up with this sort of thing all the time. You know, that's, you know, so much off your
45 liquor and so forth.

And I mean, to be honest, I mean, we've actually gone into the liquor business. We've bought our own liquor store in Geelong, and we've – you know, it's a bit of

the old story, you know. If you can't beat them, you join them. So, you know, we're experimenting with that. It's still open as to whether it's going to be a viable arrangement because, you know, we've got very strong competition in relation to it. But it would seem today to be, in this type of market, that eventually, I believe,

5 we've got to see – if you want to continue to have some competition in your fuel, with the margins sort of dying the way they are, that we can actually see a process that can increase it, our throughput to our convenience stores, and I think liquor is one of the areas we could go.

10 Look, it's not different. I think it's Darwin already has that. I think they sell liquor through convenience stores in Darwin. I know there's opposition, I know where the opposition will come from, but let's be honest, we're looking at the supermarkets today controlling 65 per cent of it. It's up to 65 per cent of the liquor market. Like, it's that, almost. I mean, all our surviving hotels, they've got hotel chains, they've

15 got – I think one of the largest things, I think they've got 2800 pokies. I mean, there's a huge growth in these supermarkets, and long-term – look, you know, I've been around a long time.

It probably won't happen, perhaps, you know, in my lifetime, but I can see that, you

20 know, Australia, if it's not careful, we're going to end up having monopoly problems, the same as America did. I mean, Wal-Mart has restricted, for instance, 18 per cent of the market, and when you've got a duopoly growing in the manner in which they're growing, you've got a long-term problem, and that – therein lies the problem for Australia, I think. The offers are always around for independents. I

25 know of two independents that are reasonably good chains and are on the way out. They're on the market, and that – all these little things have an effect. And they're going to go to supermarkets. I mean, that's where they'll end up. So, it's just an interesting consideration.

30 You know, I would hope, perhaps, that somebody takes a reasonably good look at it. I mean, you can go into American convenience stores, you can buy your liquor if you wish. You can do it in England, you can do it in various places throughout Europe, and I just think it's time in Australia that we sort of freed the market up to some extent. I don't think we should be stupid about it, you know, but a convenience store

35 could easily be – easily and simply defined as to what really is a true convenience store. I mean, if we run an IGA, a full IGA, why shouldn't – just because I'm a service station, why shouldn't I have liquor? Sorry, I guess we're off the subject of fuels. I'm sorry about that. But it's kind of all relative, though.

40 COMMISSIONER KING: Can I actually pull you back, we're at more just straight petrol. Again, just a clarification. You said you get phone calls from, you know, basically councillor-people in towns sort of saying, "Look, you know, come and set up here." Presumably they're doing that, what – I would have thought the obvious reason is, they feel their petrol prices are too high. I mean, is that it?

45 MR RON ANDERSON: That's it, yes.

COMMISSIONER KING: Yes, okay. I just wanted to make sure that that was clear. There are a couple of towns that you mentioned that you couldn't get appropriate land. You'd looked at Mildura and Wagga, but let's focus on Mildura. I mean, when you're looking at there, and you can't get in, I mean, does that mean
5 that, you know, I'd expect petrol prices to be, you know, higher in Mildura, would I expect the petrol stations there to be more profitable? I mean, there's got to be some reason why you guys wanted to get in there, so - - -

10 MR RON ANDERSON: Because we think that under our policy of setting what we call a good median price there, we'd do high volumes.

COMMISSIONER KING: Okay.

15 MR RON ANDERSON: And we do. I mean, if you take a town like Wangaratta, not over-pumped, we've certainly got the best site in the town, and of course, that becomes a criteria. You can't just go and build anywhere, you know. You've got to get a key site, and again, that becomes a problem. It's a massive problem, and I think we've been lucky with our sites, that they've been very carefully selected over
20 the years, and we do have a large number of key sites

COMMISSIONER KING: Okay. Just switch topics slightly to imports, and you mentioned import terminals and independent importing. And I guess one of the issues, or one of the things that's come up, and obviously you folks aren't the first ones to have mentioned independent importing as – the issues that relate to it, it strikes me that there seem to be two main problems every time this issue comes up.
25 One's the chicken-and-egg problem, which is, you know, there seems to be the case of, "Well, if only someone would have that import terminal and bring the petrol in, then we would buy it." And the second is that we've had some independents who say, "Damn, I wish that someone would operate as an independent importer, not
30 because we'd ever buy their petrol, but we'd get a better deal off the majors then," which seems to be, you know, the free option story, if I can put it that way. Have you ever looked at underwriting an independent importer? Would you ever consider underwriting an independent importer? I mean, you've got a fair volume in petrol. I guess it's, what, about 120, 130 million litres a year in unleaded petrol, but that's
35 have you looked at that in the past? If so, why have you rejected it, and if not, why haven't you looked at it?

MR RON ANDERSON: In my experience, the industry is, you know – and it's an extraordinary situation, but there's a situation out there, I think, if you went through
40 your independents and you went through everybody else, I think, you know, nobody trusts anybody. And I just think that's a fact of life. It would have to be something that was done, you know, somebody that could privately do it up, and I'm sure that there would be - a large number of independents would probably talk to them. But if they came out on the basis that they could do that, I mean, it's certainly not within
45 our capacity to sort of find that, and you know, we're pretty much too busy, as a small company, running our business, rather than getting involved in trying to set something like that up.

And I mean, I've reached the stage that I'm sort of past it. I just don't want to spend my time doing those sorts of things now, and really, the boys are too busy. I would say this, that if there was somebody that was genuinely there, we would certainly go into some, you know, discussions with people to see if it was possible, but I'd be –
5 look, it could be an option. I think somebody could do it very successfully, but it's got to be somebody, obviously, with the finance to do it, you know, because it's enormous money. I mean, if you're going to start to supply an independent market, you're going to have 40 million, maybe more in storage, with probably two boats on the water. You're starting to look at a lot of money, you're starting to look at a very,
10 very complicated arrangement with governments, with excises and everything that runs with it. We just don't think we're big enough to sort of get involved there.

COMMISSIONER KING: That's all I had.

15 COMMISSIONER MARTIN: I only had the one question relating to the – you were making mention of the challenge where there is cycling going on and almost by the hour you have got to make adjustments to the pricing. Are you familiar with the Western Australian fuel watch system and what we give them - - -

20 MR RON ANDERSON: Yes, I am.

COMMISSIONER MARTIN: - - - expertise – what do you think of it?

MR RON ANDERSON: I don't like it. I think it – it has got – it would worry me
25 personally, as an independent, that if I had to post my price and somehow or other, you know, you put your price on the board. There is your price tomorrow and suddenly, you know, you wake up and there is four sites around you that have posted a lower price. You are still contending with the docket on top of it. I think it can be debilitating to a business personally. I mean, I am still a great believer in people
30 being free to post what price that they wish. I mean, if we had our choice we would certainly not be part of the price cycle. I can tell you that right now. We would much rather see a situation where we said, look, hey.

And I think that is one of the reasons that I tried to put some recommendations here
35 in relation to terminal gate price and I note that other people have said much the same thing. That the terminal gate price is a maximum price. I mean, we can't buy the prices of the Coles or the Woolworths. We don't get price support. And that's one of the most selective predatory things you can have is price support and I can say it because I have had price support and I know what I can do with it. You can
40 manipulate the market if you know you are going to get price support.

COMMISSIONER MARTIN: But, Mr Anderson, you don't know what Coles pay.

MR RON ANDERSON: We - - -
45

MR PETER ANDERSON: We don't know exactly what they pay.

MR RON ANDERSON: We don't know exactly.

MR PETER ANDERSON: But I can tell you they have got price support.

COMMISSIONER MARTIN: You said before that if people have price support they pay more for their fuel.

5

MR RON ANDERSON: Some do. Some don't. I mean, I have been on a deal which is probably as good a deal as there has been in Australia going back in the days of Amoco, and that's a long way back of course, back into the eighties. But I had price support with that and I was probably buying better than anybody in
10 Victoria in those days off Amoco. I was probably their biggest account and with Ampol we had also exactly the same situation. You know, that - I think most of the troubles, I think, have actually come since the exit of Ampol from the market because they were a, sort of, they were, sort of, the spot people. You know, that had product. Wanted to get rid of it and they gave price support to us. You know, that
15 was quite frequent but price support by its nature it gives you an enormous advantage.

You know you are going to get it. You can take your price down knowing you are going to be supported. Not that I think it is contractual. I think you will find most of
20 the price supports are gentleman's agreements. Never in my lifetime in 45 years in the industry have I ever heard of or seen a price support in an agreement. We have never had it. Generally it has been a shake of the hand. Look, if things get tough we will look after to you. And it's a verbal agreement that sits there. I've not been privy to the Coles agreements and the Woolworths agreements - - -

25

COMMISSIONER MARTIN: The economics of it would have to be that it would have to be, sort of, TGP plus to allow for the fact that, you know, the price support comes into play.

MR RON ANDERSON: Yes. See, I've always argued the terminal gate price should be the minimum price that people to charge and there should be add ons. Let me put my point here about what I think. You know, I've said that in relation to oil companies, you know, look I think there is an enormous amount of political hype in the petrol business. Look, you know, you don't have a market where people like
35 Shell and Caltex exit the retail market if they are making money. It just doesn't happen. I mean, this is just not - it is not convenient. I mean, BP have been very successful. They're building magnificent sites. They're really doing the job and they're doing very well but BPs going to be a margin retailer. There's no question and they often sit two cents over the market, BP. Not unusual to see that. It happens
40 all the time. And they are going to become a margin retailer.

They are not interested in the alliance type of situation. But anybody can tell me that Shell got out because they were making money. I mean it's there and, you know, and I question whether Coles are making any money. You've only got to look at
45 their reports yesterday and I'm sure that there are people here that have looked at it. I heard some figure mentioned in one of the things that Woolworths apparently made 83 million or something out of petrol in one of their years but when you look at the billions they're selling it is very, very marginal and they - what I get annoyed at

perhaps is, as an individual, is that somebody is buying at a price below the terminal gate and they can actually then, and they are getting price support as well, I have got to buy at terminal gate.

5 I mean, when things are tough Shell is making their profit out of us and they're, you know, it's even money with the other people. I mean, I've been around a long time and I can assure you that there is price support going to the supermarkets. It may be verbal. It may be - but we certainly have that information. I have seen a docket. I have seen a Coles docket. It was a mistake. I shouldn't have got it but I know the
10 price.

COMMISSIONER MARTIN: An invoice.

15 MR PETER ANDERSON: Can I – can I just add one thing, Mr Martin. You were talking about Western Australian pricing and the formula they've got over there.

COMMISSIONER MARTIN: Yes.

20 MR PETER ANDERSON: I would be extremely concerned about it because that puts our franchisees out of the market for a day. That's foot traffic in our store that we don't have. Now, that could be to the detriment of our franchisees. We put in a price. We can't move it. How restrictive is that? I just think the Western Australia thing is completely anti competitive. It doesn't allow you really to be competitive at all. You've got to sit there for 24 hours with no foot traffic. That's really wonderful
25 for our business today and I reckon that would nearly start to make me seriously think about where I go in the industry. Seriously. That's my decision at the moment.

COMMISSIONER MARTIN: No, it's good to get a response.

30 MR PETER ANDERSON: Yes. Look, I know I don't see - - -

COMMISSIONER MARTIN: And another – other independents as being concerned.

35 MR PETER ANDERSON: I don't see it as a very good solution for our model if you know what I mean. If your company operated and everything we don't have
- - -

COMMISSIONER MARTIN: United have moved in.

40

MR PETER ANDERSON: Yes.

COMMISSIONER MARTIN: United have moved in there.

45 MR PETER ANDERSON: I know – I realise that. But they've only been there a few months at this stage. They haven't been there that – they haven't been there 12 months yet and I don't think they've been there six. So, they're only new to that market. It will be interesting to see their reaction in 12 months time but, again, can I

say they have a different model to us in the way they run their stores. They have licence agreements. Their commission, for instance, I know they pay less. They don't take royalties out of the store where we do. So, our model does not suit the Western Australian model, so we would have to re – change things. Probably the way we do it and I just see it as completely anti competitive. I really do.

5
THE CHAIRMAN: You don't think it would have the consequence that when you are about to post your price at 2.00 pm on the day before that you think to yourself, I run the risk of being out of the market for a day I better post a lower price?

10
MR PETER ANDERSON: What happens if all your competitors go up?

THE CHAIRMAN: Well, yes. Well, you post a lower price you'll get the volume. You get the volume.

15
MR PETER ANDERSON: Yes, you increase your volume. I know that. Right. But then what happens the next day?

THE CHAIRMAN: Well, that's – your competitors might turn around the next day and say, well, what's APCO going to do? They might even keep it at the same price. We better go in beneath them.

MR PETER ANDERSON: Yes.

25
THE CHAIRMAN: And you might say, well, I think the competitors are going to go in beneath me, so I better go in beneath what I think that they are going to go in.

MR PETER ANDERSON: Then I can't readjust what I do. I suppose it's a market I'm comfortable with what I'm doing today.

30
THE CHAIRMAN: Yes.

MR PETER ANDERSON: It's a change that I don't really want to contemplate I suppose.

35
MR RON ANDERSON: I just wonder whether the consumer is any better off under that system then he is under the current system that exists here which, I guess, is just that unsatisfactory to the government or to the ACCC and the problems that go with it. But I wouldn't be convinced that the consumer is going to be any better off with that. I know that the people over in Western Australia have adapted to it and after a while, I suppose, we all know, you know, that there is consistent behaviour in the industry by various competitors. We all know what competitors are basically going to do. We know who's going to go up. Who's not going to go up. Who's going to stay two cents under the market. The one that's not going to move till tomorrow morning and whether he is in effect – I mean, all – I mean, it's just there. It's just an habitual behaviour and you just get used to it in the market place and, look, I just think that people would adjust to that market I would imagine but I'm not sure the consumer would benefit from it.

THE CHAIRMAN: All right. We'll move into closed session to deal with some of those private issues that we want to deal with. Now, we won't be breaking for lunch. That is, the commissioners won't be breaking for lunch. So, Mr Purchase if you could just make yourself available, so as soon as we've finished this we'll move straight to yourself.

MR OLIVER: And will it be about, what, 15 minutes?

COMMISSIONER MARTIN: I think 15 to 20 minutes. I don't think we'll be long.

MR RON ANDERSON: I am happy for Mr Williamson to stay.

THE CHAIRMAN: Right. Good.

WHEREUPON THE PROCEEDINGS MOVED IN-CAMERA [12.50 pm]

PUBLIC HEARING RESUMED [1.19pm]

THE CHAIRMAN: Mr Purchase. Now, are you coming forward on your own, or are you - - -

MR PURCHASE: I think Mr Treloar is going to - - -

THE CHAIRMAN: All right, if Mr Treloar could join us as well? I think you were both here when we - when I did the introduction, so you're aware of the procedure. If you could each just state your name and role with VACC, just for the record?

MR PURCHASE: David Purchase, and I'm the Executive Director of VACC.

THE CHAIRMAN: Mr Treloar?

MR TRELOAR: Gary Treloar, I'm a member of the Board of Managers of the service station division of VACC. Also, of Ballarat taxis, who operate an independent service station here in Ballarat.

THE CHAIRMAN: Good, thank you. And you are also aware that you can either give evidence under oath, or under affirmation. Mr Purchase, how do you wish to do it?

MR PURCHASE: By oath.

THE CHAIRMAN: Right, if you could take the Bible in the right hand, and read the oath?

<DAVID PURCHASE, SWORN

[1.20pm]

5 THE CHAIRMAN: Thank you, Mr Treloar?

MR TRELOAR: Thank you.

10 **<GARY TRELOAR, SWORN**

[1.20 pm]

<EXAMINATION BY MR OLIVER

[1.20 pm]

15 THE CHAIRMAN: Thank you. Mr Oliver?

MR OLIVER: Thank you, Mr Chairman. Now, of course, representatives of the VACC have appeared already on 24 August in Melbourne; that was Mr Conroy and Mr Bortolotto and Mr Weatherall. And we heard evidence on that day of a more
20 general nature about issues affecting the members, and so on and so forth. I don't propose to cover that ground again, but before I start asking some questions, are there any comments you'd like to add to what was said on the 24th, or anything you'd like to say by way of that?

25 MR PURCHASE: Yes, if I could. Could I just say that - chiefly, that I don't propose to hold myself out as an expert about the ins and outs of the fuel distribution sector, and essentially, my comments are often little more than a distillation of what members put to me. Secondly, we don't really want to talk for the sake of talking
30 this afternoon. I'd have to say that a lot of what APCO put to you this morning was precisely the sort of things that we wanted to say, and as I said, there's very little point, in my view, in repeating those, because they were so well-put by the experts that they are. But, I think that there are just a couple of points, and I'm here today, because reading the transcript of a couple of hearings ago, there were apparently some questions that I might have been required to answer, so - I wasn't able to make
35 that hearing, but I certainly will do so today, and so I'm here to answer anything that you might want to put to me.

But, prior to that, there are - having said that we don't want to repeat what APCO said, and a lot of what they've said is what we wanted to say, there are a couple of
40 things that I wouldn't mind reiterating, and the first goes to the TGP, the wholesale price. I think if you put my members, who are essentially the independents. We certainly don't represent the oil companies, but the independent service stations, by and large. If you put those in a room, and ask them what their problem was, it would be precisely the issue that the Andersons referred to this morning. It is access to
45 supply; access to supply at a fair and reasonable price. That's - they have little concern about import parity pricing, they have little concern about all sorts of other complexities in the industry.

Their main concern is to access supply at a fair, competitive price, if they can't, then they don't have product to sell, at a competitive price, and they go out of business. That's their major concern, a fair and reasonable wholesale price. We thought we had that, when the terminal gate price was introduced some years ago, but what has
5 happened, as you know, is that that TGP, that wholesale price, is discounted, and as soon as discounts were allowed, then there are two prices, three prices, four prices, and we simply - we are not extended those discounts, because we're said to be not "large volume purchasers", and therefore, we can't buy at the same sort of price as the supermarkets can, and therefore, don't have a competitive product to sell.

10 So that was of major concern to us, the moment that the TGP was able to be discounted. It's then put to us, that well, you can't have - you cannot buy at the same price, as the Coles and Woolies and the supermarkets, and the large volume purchasers, because you simply don't buy in bulk, you don't buy in volume. And, if
15 you go into a butcher shop, if you want to purchase a couple of chops, you pay one price, if you want a thousand of those chops, I'm sure the butcher will sell them to you cheaper. But, that begs the question, what's volume, what is bulk? What's volume in this industry? It's true that Fury Bortolotto, who is sitting in the back of the hall, is one of my members, who sells 4 million litres a year, but his site gets a
20 delivery about every three days.

Now, his site cannot take any more than one tank a load at a time, but neither can most Coles stocks. They're only getting one tank a load at a time. Now, Coles
25 might order, in any one year, hundreds of millions, or thousands of millions of litres of fuel for the whole year, for all of their sites, but they're only delivered that on a per tank a basis, in exactly the same way as my independent members receive their fuel. So, what's volume, what's bulk? How do you define it in this industry? And we can certainly tell our suppliers how much we need at the start of the year, it will be delivered on a regular basis, but it's regarded not as volume or bulk, and
30 therefore, we're not able to purchase it at the same price.

MR OLIVER: Can I put something to you in relation to that? You'd be aware, and I guess it's fairly self-evident, that in any negotiation, it's not just a question of the
35 cost of supply, but also bargaining power, and purchasing power, and one of the other reasons that someone like Coles, for example, hypothetically might get a cheaper price, is because they're buying more fuel, whether it costs more to deliver per litre, or not. Are you familiar with the amendments to the Trade Practices Act to encourage or facilitate collective bargaining by small businesses with larger
40 suppliers, and do you think that might provide a way for non-aligned independents, perhaps, to try and increase their bargaining power by negotiating collectively with some of the oil majors, and maybe they're never going to rival the discounts offered to supermarkets, but we've also heard various other independent chains throughout the country, can't say who, necessarily, but various other independent chains, who've also been able to negotiate discounts off TGP, to various degrees. Is that something
45 that could potentially, at least, put, in non-aligned independents, a lot of your members, in a comparable negotiation position, do you think? And perhaps either of you might want to comment on whether you think there's any utility in something like that?

MR PURCHASE: Well, I'd certainly like Mr Treloar to comment, but before he does, could I just make a few remarks? I think that's an excellent question, and I am familiar with the amendments to the Trade Practices Act, that might allow that sort of - that negotiation to take place. And the answer will be, yes, we do intend to do
5 precisely that. Many years ago, my organisation VACC tried to do it, with a company called Southern Cross Petroleum. We actually started to import fuel into this country, and on the first, or the first delivery of that fuel, well before I joined VACC, so I don't have the intimate detail, but when the first delivery took place, the price of petrol in the area that this fuel was going to be distributed just nosedived,
10 and the reason is obvious.

The second tank a load that we sought to bring into the country, we lost on the high seas, and it's never been found since. So, importing fuel into this country is not easy, and we, as an organisation, certainly got our fingers burnt. However, we've
15 considered, on a number of occasions, the opportunity, the desirability, or otherwise, of forming a collective buying group, and I'm advised that the oil companies refused to treat with us on that basis. They have not been, so I'm advised, explicit, but as we heard this morning, they can make things rather difficult, and as I said, my advice is that they refused to treat with us.

20

MR OLIVER: Are you able to say by whom you've been advised of that?

MR PURCHASE: By members, by my members, but it is one of the things that we believe this enquiry ought to look at, and one of the recommendations that we would
25 hope the enquiry might make, and that is that if organisations like mine sought to establish collective, cooperative buying groups, along the lines that you suggest, then we believe the oil companies ought to treat with us, and the amendments of the Trade Practices Act is going to make that a little easier. So, the answer is, have we given thought to it? We once did it, many years ago. We are giving serious thought to it
30 right now. There was a meeting in Canberra with our national body about a week ago, where this issue was discussed in quite some detail. There are further discussions to take place, and if those amendments of the Trade Practices Act are implemented, then we intend to see whether we can do precisely that, and establish cooperative buying groups, and we would hope that the oil companies would treat
35 with us on that basis.

MR OLIVER: Sure, okay.

THE CHAIRMAN: Sorry, just before you move off that, Mr Oliver, because I'm
40 just perplexed by something. First of all, of course, the amendments were implemented nearly a year ago, back in January of this year.

MR PURCHASE: Yes.

45 THE CHAIRMAN: So, they're not your amendments, but I'm just a bit puzzled. You say that you're advised by your members that the oil companies won't treat with you - won't treat with collective group, but in what capacity would individual members be approaching oil companies, in relation to a collective arrangement? I

would have thought that the collective arrangement had to be put in place first, and then someone representing the collective group would approach the oil company, but
- - -

5 MR PURCHASE: That's right.

THE CHAIRMAN: So, who's approaching the oil company, getting advice that they won't deal with a collective group that hasn't been set up yet, and then advising you so?

10

MR PURCHASE: Yes, well, two parts to your question. What would the - would there need to be a collective entity set up? Yes, there would, and VACC is an organisation that would attempt to either be that entity, or set up a separate entity to do that. When this was undertaken quite some time ago, we actually set up a
15 separate entity called Southern Cross Petroleum, so we would - we together with others, would probably this time, set up another entity, a separate company that would become the buying group. Over the years, Chairman, we've - I'm advised by our members that attempts to - or discussions with the oil companies to treat with us on a collective basis have never been successful, and that they have, in effect, refused
20 to treat with us in a collective way.

THE CHAIRMAN: Well, look I won't pursue it, because I'm - - -

MR OLIVER: Presumably, the concept of the - - -

25

MR PURCHASE: Yes. Now, we haven't gone, apart from Southern Cross Petroleum, we have never gone down the path of establishing another collective entity, which then approached them, and was refused, and they refused to treat with that entity. We've not gone that far, other than to have discussions with them, to see
30 whether they would treat with us on a cooperative basis - collective basis, and my advice is that they were never prepared to do that.

THE CHAIRMAN: Yes, I mean, just to speculate, because I'm just trying to get to the bottom of that, it's just got me a bit perplexed. If an individual, or someone,
35 were to go to a major oil company, and say, "will you treat with us collectively?" Then, I would have thought, as sure as night follows day, that the answer would be no. If, in fact, you went to the oil company, and said, "well, you have no choice, because we are now collective", then you would have thought that sure as night follows day, the answer will be, "of course we will".

40

MR PURCHASE: Well, I'm not sure that I - I mean, I can't comment on what the oil companies' response would be now, but we certainly didn't have the amendments to the Trade Practices Act that we've got now, which will help. There's no doubt about that, but feelers put out to the oil companies years ago, to the effect that we
45 wanted to deal with them collectively in a cooperative way, have met with, well, almost derision.

MR OLIVER: It's fair to say it's been some time since those last issues arose. Perhaps attitudes may have changed; we don't know?

5 MR PURCHASE: They may have changed but, as I said, my advice is that we would – that they have not been prepared in the past to treat with us on that basis. They may well be now. The Trade Practices Act amendments, I think, will help but they have not been prepared to treat with us in a co-operative way in the past and the only attempt that we ever made to do that as an organisation, as I said before, was done many years ago and every attempt was made to scuttle that activity.

10 MR OLIVER: Sure. Okay. All right. Thank you. Mr Treloar, I was wondering if I might ask you some questions. You mentioned that you also operate a service station site of your own.

15 MR TRELOAR: That's correct.

MR OLIVER: Can you tell us a little bit about that? You're a branded independent, is that correct?

20 MR TRELOAR: We're an independent site. We have a supply agreement with Shell. We only operate the one site here in Ballarat. It's connected to our taxi depot but it's a trade for the public. It was completely rebuilt to a modern convenience style store eight or nine years ago. We do about 3.8 million litres of wet fuel and about two and a half million litres of LPG a year.

25 MR OLIVER: Yes.

MR TRELOAR: We – as I said, we've got a supply agreement with Shell but that's virtually the only connection we have with Shell. We get absolutely no assistance
30 from them at all.

MR OLIVER: Are you a Shell branded site?

MR TRELOAR: We are Shell branded site, yes.
35

MR OLIVER: Right.

MR TRELOAR: For which we pay a per litre charge to carry that branding.

40 MR OLIVER: So, there's no price support offered?

MR TRELOAR: No price support.

MR OLIVER: I assume that you're not part of the shopper docket discount scheme?
45

MR TRELOAR: No. No. We – since 2002 – January 2002, we bought the TGP Plus.

MR OLIVER: Yes. So, it's TGP Plus a margin.

MR TRELOAR: Plus delivery.

5 MR OLIVER: Okay.

MR TRELOAR: Plus equipment supply, equipment maintenance and credit facilities.

10 MR OLIVER: Sure. Sure. And presumably, you own the fuel in the ground? You
- - -

MR TRELOAR: Yes.

15 MR OLIVER: - - - determine the board prices?

MR TRELOAR: We do. That's right. We determine our prices. We are not a
discounter, only having the one site. What we do is we do provide driveway service
20 between 8 o'clock and 6 o'clock at night, which we believe is worth a little bit more
than the discount. It's a facility here in Ballarat that's fairly well supported,
particularly by the elderly and by our lady motorists. We can check their oil, pump
up their tyres and they certainly can't get that done at a discount place.

MR OLIVER: Sure. Sure. You mentioned that the store – the site was upgraded to
25 a convenience store just several years ago. Is that an important part of your business
now, with the convenience store side as well?

MR TRELOAR: Yes, it is. It is. It most definitely is and when we do try and
maximise that – we do belong to a fairly small sort of buying group but we do try
30 and offer specials and special deals to have that.

MR OLIVER: So, how long have you – how long have you held this site?

MR TRELOAR: The site itself has operated since 1988. It was upgraded in 1999;
35 so, just on eight years ago.

MR OLIVER: Okay. And can you tell us – or tell the Commission, what the effect
of the shopper docket was on your volumes, when they first came in?

40 MR TRELOAR: It's – well, probably confusion because we are branded Shell, and
people came in with their shopper dockets. A fair bit of frustration from the
customer's point of view because there was only a fairly small Coles Express sign on
some of the shelf sites. It didn't have a great deal of impact on our volume initially
because we found that our fuel card sales picked up tremendously, being the business
45 part of the dealings – that they're not getting their discount on shopper dockets so –
and we're a Shell site where they can come and use their Shell card and other fuel
cards. In the last 12 months we decreased in our fuel volume, which is the first time
since our upgrade.

MR OLIVER: Can you attribute that to anything in particular?

MR TRELOAR: Probably price. I've found the price here in Ballarat very aggressive in the last 12 months. There's been many occasions when the discounters
5 have been selling below our buy price.

MR OLIVER: Right. When you say, "discounters", are you referring to the supermarkets, the independent chains?

10 MR TRELOAR: The supermarkets predominantly, but basically the other major independents follow what the supermarkets do.

MR OLIVER: So, BP?

15 MR TRELOAR: Like the Uniteds and your APCO and, yes, even the BP, which is the closest site to us. It's about one – one and a half kilometres from us – they normally match what the – or very close to what the Coles Express sites are matching.

20 MR OLIVER: Sure. Our data suggests that there are price cycles, or certainly price fluctuations, in Ballarat, although not necessarily regular weekly price cycles. Would that be your understanding of the market here as well?

MR TRELOAR: I would think that it's fairly stable and, look, I don't race around
25 the town every day and check every site. I check the ones closest to us but I did go back on our board prices between January and August this year. The average number of times we changed our board within a month is six and a half. So, it means once very four and a half days we're changing our board, so I think that our price in Ballarat is fairly stable.

30 MR OLIVER: Is that comparable to other sites in Ballarat, or do you just tend to
- - -

MR TRELOAR: I'm only quoting on my own site.
35

MR OLIVER: Sure.

MR TRELOAR: As I said, we're a little bit – located a little bit out of the CBD and I don't make an effort to check every price.
40

MR OLIVER: Sure.

MR TRELOAR: I check the ones closest to us and I check the Coles Express sites but that's about it.
45

MR OLIVER: Okay. In terms of the Ballarat market, roughly how many sites would there be in a city that size, do you know?

MR TRELOAR: Look, I'm not sure. I'd have to really sit down and tick them off.

MR OLIVER: It would be quite a few, though, wouldn't it?

5 MR TRELOAR: Yes.

MR OLIVER: It's not a small city.

MR TRELOAR: Yes.

10

MR OLIVER: And is it one market, necessarily, or is it more, sort of, geographically divided? I mean, if prices are moving on the other side of town, is that necessarily going to – other side of the city – is that necessarily going to have any impact on where you move?

15

MR TRELOAR: I can't comment on that because I don't – we're located to the north and I do keep an eye on the price in our vicinity but of what's going on to the south of Sturt Street, I really don't take any notice of it.

20 MR OLIVER: Sure. Okay. So, what are the key drivers, then, in terms of the board price that you post? What determines what you put up there?

MR TRELOAR: We have our set margin and we won't go below that margin, which is five cents. Obviously we try and get more than that when we can. We think that the five cents is just our sustainable level.

25

MR OLIVER: That's on top of your buy price?

MR TRELOAR: On top of our buy price, yes.

30

MR OLIVER: Yes.

MR TRELOAR: That covers our labour cost, virtually.

35 MR OLIVER: Okay. Excuse me for just a moment. What happens then when, let's say the prices are being pulled down towards the bottom of the price cycle? There comes a point, obviously, where you can't follow them any further. What happens to your volumes at that point?

40 MR TRELOAR: They do suffer from the itinerant trade.

MR OLIVER: Yes.

45 MR TRELOAR: We still maintain our business type trade, which is using their fuel cards, but - - -

MR OLIVER: What about convenience store trade? One of the comments made earlier was that a lot of the serious discount buyers in that discount market don't tend to spend a lot in a convenience store anyway.

5 MR TRELOAR: I am not hands-on in the store so I'm not really in a position to comment on that.

MR OLIVER: Okay. Do you sell any ethanol blended fuels?

10 MR TRELOAR: No, we don't.

MR OLIVER: No?

15 MR TRELOAR: My understanding is Shell are to introduce an ethanol blend and we do intend to include that.

MR OLIVER: Okay. So, coming back then to your wholesale prices. Given that you're a Shell branded site, does that limit your ability to look to other suppliers potentially to negotiate?
20

MR TRELOAR: Yes. Our agreement is that we can only buy from elsewhere if Shell can't supply us.

25 MR OLIVER: How long does that agreement – are you able to say in open session the term of that agreement or how often it's reviewed?

MR TRELOAR: It is now expired, coincidentally. It was first negotiated ten years ago. It was two five-year terms which is now expired.

30 MR OLIVER: So, from where you sit, would there be any potential to look to other suppliers? To look to someone like a Mobil or someone like that to see whether they might be willing to negotiate with you on price?

35 MR TRELOAR: I have had discussions with various people at times. There's not discussions on whether they're willing to negotiate on price. It's whether they're willing to supply us. That's basically what it amounts to.

MR OLIVER: Yes.

40 MR TRELOAR: You know, that's my fear, too, in saying that our supply agreement with Shell has expired now. I'm very concerned at what new terms may be offered to us and, you know, basically if the terms are not what we like, we've got nowhere to go and, you know, to follow on with your question to David before about a bulk buying group within VACC, that's something that I believe should be
45 investigated but from our own point of view that we'd really want a guarantee that it's working before we were willing to sever our ties with Shell.

MR OLIVER: Yes. Sure.

MR TRELOAR: So, you know, we'd want to keep a foot in both camps.

MR OLIVER: Are you able to say in open session how much a year, in terms of dollars, you'd purchase from Shell? The reason I ask is that I am fairly sure there's a
5 limit in terms of these collective bargaining provisions which I think, from memory, is \$10 million – it can be changed in any event – is that cap going to impose limits on your ability to utilise a scheme like that?

MR TRELOAR: Our volumes are about 3.84 million litres, so roughly it's \$1 a litre
10 on an average.
Our volumes are about 3.84 million litres, so roughly it's \$1 a litre on an average.

MR OLIVER: Okay.

15 MR TRELOAR: So - - -

MR OLIVER: It would be well within that.

MR TRELOAR: It's well within that.
20

MR OLIVER: Within that cap.

MR TRELOAR: Yes.

25 MR OLIVER: Sure. Okay. I am mindful of the time, Mr Chairman, so I won't ask too much more other than, perhaps, just to ask this question to you and it's something that Mr Purchase has already touched on. What's the single most important thing that you would think needs to be addressed? I mean, we've been looking at various issues from importing, overseas production, all the way through to the retail end of
30 the market. But from where you sit, is it a security of supply? Is it the price that you're getting it at; the price the competitors are getting it at?

MR TRELOAR: It's - security of supply is very important but basically it comes
35 down to price. You know, as I've said, we set out margin but if we can buy it better, we can sell better and therefore become more competitive.

MR OLIVER: What happens to your business when, I mean, we know the 4 cent a litre shopper docket is part of the environment at the moment and we've heard
40 evidence that it's particularly difficult when those discounts go to 8 cents a litre or sometimes even higher. Do you observe a particular effect on your business or on your volumes when that happens?

MR TRELOAR: I can't quote from when the dockets are at that level, but I can
45 quote that there's been times when we've been 8 or 10 cents dearer than what the Coles price has been.

MR OLIVER: With taking the shopper docket into account?

MR TRELOAR: No, before the shopper docket.

MR OLIVER: Yes.

5 MR TRELOAR: Yes, this was only last week, Coles were \$1.18 and we were in the mid twenties at \$1.25. And that was \$1.14 with the shopper docket.

MR OLIVER: Yes.

10 MR TRELOAR: And we certainly notice a difference in our volumes under those sort of trading – I think the 4 cents is sometimes not worth chasing but if it becomes more than that, it opens it up to a wider range of people who find it worthwhile to go to that bit of extra effort to queue up or to get their discount.

MR OLIVER: Sure.

15

MR PURCHASE: Could I just add this to – just some facts about that price and what’s been happening to our members? These may be of interest to you but at the present moment, VACC, and this sort of situation is reflected right across the country, our membership in this area totals 311. Two hundred and twenty-three of those members are regional service stations and 88 are metropolitan, making a total of 311. Two years ago we had 450, so we have dropped from 450 to 311 in two years. When we surveyed the members about the cause of them going out of business, the primary cause was, “We just could not get supply at a competitive rate to keep us in business”. Was that the only reason? It may or may not be, but essentially that was the reason they had given us.

25

Ten years ago the numbers were 800; 15 years ago nearly 1400. Now, some of those would have gone out of existence anyway; there is not doubt about that but the drop over the last two years from 450 to 311, the majority of those service stations said that the cause was just an inability to access supply at a competitive price. And we asked them that very question, “What’s more important to you? Security or price?” While both are very important, price was paramount.

30

MR OLIVER: Okay. Well, that’s very helpful. Thank you. If I can, I wouldn’t mind just exploring a number of other comments, actually, that you have made or that have been reported or attributed to you. There’s two in particular. There was an article published in the Sunday Herald Sun, I think on 17 June 2007, by Kate Adamson, and in that article you were reported as saying that you were concerned that fuel prices will rise to \$2 a litre, within 18 months – by about the end of next year – if the supermarkets continued to boost prices to cover the cost of their shopper docket discount scheme. Is that correctly attributed to you? Is that a concern that you hold?

35

40

MR PURCHASE: Yes, it is. I mean, we have – we take the view that – just deviating for a second – we take the view that, in fact, the shopper docket system is actually somewhat of a con trick. That we are, in fact, paying for the 4 cents through higher grocery prices. We think that; we believe that. Can we prove it? No, we can’t. There is just absolutely no way we can prove it but I think that there are a lot

45

of people in this country who would have the same view. So that's the first thing.
And - - -

5 THE CHAIRMAN: I will just interrupt you on that, Mr Purchase, because as you
will be aware, one of the purposes of this inquiry is to bring about some transparency
and some accuracy and information that is being put to motorists in the consuming
public. Now I'm conscious that this is on the public record, and that's why I'm
anxious that we perhaps pursue this issue of transparency and – if you have read the
10 transcript you will see that we have actually taken some of these issues a bit further
forward with representatives of the other motoring organisations, such as Mr Alan
Evans, the NORMA, and Mr David Cummings, the RACE.

But in that same article you are quoted as saying, in relation to the grocery price rise,
15 you say, “We absolutely know it, it is a fact.” And yet you are actually saying now
that you don't know it and that you don't – sorry, I am just trying to reconcile the
two. I am sorry, this is not to pin you down or to cause you any embarrassment but I
am very anxious that this inquiry produce some transparency and some accuracy to
information to motorists. So can you tell me which is the accurate statement? You
do know it or you don't know it?

20 MR PURCHASE: Well, I think knowing something and being able to prove it as a
fact sometimes are two different things. We take the view that – and I personally
take the view – that higher grocery prices are indeed paying for the four cents. I am
firmly of that view and there are most of the members that I would talk to are of that
25 view. To that extent we feel we know it, but can we prove it? The answer is, no, we
can't prove it. I think there would be a lot of people in this state and in Australia
who would have that view, but again having the view, holding the view, genuinely
holding the view and being able to prove it as a fact, is a very different kettle of fish.

30 And that's why in fact in another press release I had urged perhaps this inquiry to
consider looking at reversing the onus of proof, simply because there are so many
things in this very complex industry, which is made complex deliberately by the oil
companies in my view, that we simply cannot get to the bottom of it and cannot
prove. And therefore, whilst no one reverses the onus of proof very lightly, my view
35 is that we will not get to the bottom of many things unless there is something like a
reversal. So to answer your question precisely, I feel that I know it, and so do our
members, but proving it as a fact is very difficult, almost impossible, and therefore
the only way we're going to get to the bottom of a lot of this stuff is to have a
reversal of the onus of proof and get the - - -

40 THE CHAIRMAN: Yes. Well, feeling – sorry – feeling, Mr Purchase, that you
know something, and having no basis upon which to have that feeling are two
different things. I'm just trying to understand if you have – I'm not asking you to
prove anything – but I'm just trying, in the interests of transparency and accuracy,
45 and truth I guess, to understand do you have any basis for the feeling that you have –
and I well understand many of your members having similar feeling because they're
being told by you all the time that they ought to have that feeling. But I'm just trying

to understand whether you had that feeling based on any information, or any analysis, or any data, or anything else, or is it just a feeling you've got?

5 MR PURCHASE: No, we don't have any data or evidence of the sort that would stand up in a court, but we as an organisation, as a group of members, and as a personal view, are convinced that that's what is happening. But do we have data and analysis that would stand up in a court, no, we don't.

10 THE CHAIRMAN: Do you have data or analysis that would stand up just even in the – leave aside a court, we're not talking about courts of law – but just in – that would assist us to come to any conclusion at all that the feeling is based on anything more other than a feeling?

15 MR PURCHASE: Well we've seen reports, we've seen material that the NRMA, I think, collected at one stage. There have been some attempts by some groups to try and track grocery prices, and so we've seen some of that. But again it's very difficult to prove that a bottle of sauce that you buy in Toorak, that's dearer than the same bottle of sauce that you buy in one of the western suburbs, it's very difficult to prove that the difference in those prices is an attempt by the supermarkets to have
20 those who can pay, pay a bit more, and in the process jack up the price to effectively pay, to effectively fund, for the four cent discount. So I think - - -

MR OLIVER: Can I put this to you – sorry.

25 MR PURCHASE: - - - I think all I can say is that, if I could put it very lightly, go home and ask your own wife or your partner whether grocery prices are going up, and I doubt very much whether she will say, "No, they haven't." They have in fact gone up, and our view is that that's what is in fact funding the four cents, but I have to repeat we do not have the analysis and the data to prove that in this inquiry or any
30 court of law, but we have a very strong feeling that that's the case.

MR OLIVER: Let's assume that's right. Why then would Coles Express need to raise their petrol prices to recover the cost of the shopper docket scheme, if it is being in fact funded out of the supermarket side of their business?

35

MR PURCHASE: Yes. Well you will need to ask them that. But large companies are known to be quite greedy.

40 MR OLIVER: Well in fact we have asked them that, and they've given evidence on the subject, that a certain number of cents per litre is funded out of the supermarket side of the business, and it's on the public record. There is a small part of that discount to be funded out of petrol sales. What I don't understand, and I'm hoping you can give some views on this, how that gets petrol prices to a level like \$2.00 a litre.

45

MR PURCHASE: Well, as I said, I mean, you will have to ask them that question. But we have a right to our views, and our view is that increased grocery prices are paying for a part of – at least a part of, if not the four cents.

MR OLIVER: I understand that. And assuming that's right, I guess what I'm interested in is trying to understand the causes of the, you know, that could lead petrol prices to rise in the way you've described, because it's a very sudden rise, much higher than where we are now, in a very short space of time. And it seems to
5 be attributed to the shopper docket scheme, or the need to recover those costs, and it's not clear to me at least how that would happen, why that would be necessary, or how that would even be possible unless wholesale prices increased to a level that demanded retail prices at around \$2.00 a litre across the board. Even with the four cent a litre shopper docket you've still got a customer paying \$1.96, and no one is
10 going to do that if there is a United or an APCO or anyone else, a non-aligned independent still selling for \$1.10, \$1.20, \$1.50. Is that not the case?

MR PURCHASE: Yes. Well I think that, you know, petrol prices going to, you know, \$1.50, \$1.80, \$2.00 is not out of the question. If you go back just a couple of
15 years, you know, we were paying, you know, 70 and 80 cents for petrol. You know, it wasn't all that long ago, and I'm going back two or three years, it wasn't that long ago they got up to nearly \$1.50. So from, you know, 70 cents to \$1.50 in just a couple of years, it's not out - - -

20 MR OLIVER: But presumably you don't attribute that to the supermarket shopper docket scheme necessarily, do you? I suppose things like world oil prices for example?

MR PURCHASE: Well, it could be attributable to all sorts of things. I mean, this
25 is the difficulty with this industry. There are so many – it is such a complex industry, there are so many unknowns, it is very difficult to get to the bottom of it. It is in our view – it is a very confusing industry, the pricing models are very confusing, in our view deliberately so. You can't get to the bottom of things. And that's the concern that organisations like mine have. It's very difficult to know what it costs to produce
30 a litre of petrol. What does it cost to produce a litre of fuel? That's the sheer frustration that organisations like mine and my members have. You can't get to the bottom of anything.

What does cause petrol prices, pump prices, to increase? We're told it's the price of
35 oil, it's exchange rates, price cycles, competition, location, volume, there are so many imponderables. I don't know essentially what causes the pump price to increase, all of those things I suspect. But how much influence does any one of those have on the precise pump price?

40 MR OLIVER: I would like to talk about some of those, if I could, because - - -

MR PURCHASE: So I simply say that it is not beyond the realm of possibility that we could see pump prices around that price, now whether they will go to
45 precisely \$2.00 or not, time will tell.

MR OLIVER: One of the – another set of comments that have been attributed to you, and this was an ABC interview, and I understand this is the VACCs position, is that we pay higher prices for petrol in Australia than we would if we weren't tied to

international events because we are beholden to activities off shore. That Australia, we have favourable climatic conditions, we don't have to put up with – and the quotes here are earthquakes, volcanos, natural disasters I assume is what you are referring to, civil unrest and we have a stable political environment and so forth, that
5 this should lead to petrol prices in Australia being lower. I'm wondering if you could elaborate on that and explain why you think that's the case?

MR PURCHASE: Well I think that we – perhaps could I explain it this way. We believe that oil producers in this country, Esso, could extract oil out of the ground,
10 sell it to a refiner at a cost less than one based on import parity price and still make a reasonable return. Now that's a view we have.

MR OLIVER: Why is that?

15 MR PURCHASE: Can we prove that? No, we can't because we don't have the statistics and the evidence.

MR OLIVER: Not so much what you can prove, but why you think it's true?

20 MR PURCHASE: Well we believe that you could do that. Now the oil company, when a producer sells the oil to a refiner, he will sell it at a price that's based on the import parity price plus all the add ons. And what - - -

MR OLIVER: Actually crude oil in fact – are you familiar with the fact that
25 Australian crude oil is actually worth more as an export than it is being sold into Australian refining? Only about a third of the crude used in Australian refining is actually sourced in Australia?

MR PURCHASE: Yes. Yes.

30 MR OLIVER: You are aware of that?

MR PURCHASE: Yes, I think so.

35 MR OLIVER: What we've been told, and other inquiries have also found this to be the case, is that Australian refineries are configured to produce a certain blend of products that are in demand in the Australian market, and not just petrol but kerosene, jet fuel, bitumen, lubricants, etcetera, and that Australian crude is a lighter, sweeter crude, and frankly isn't ideally suited for use in Australian refineries. If they
40 were to use Australian crude in Australian refineries it potentially would increase the costs of production as opposed to importing heavier crudes that are better suited for the blend of products they need to produce in those refineries to meet Australian demand. Isn't it possible in fact that using that locally produced crude could lead to higher costs of petrol, as opposed to the current process of using some of that but
45 blending it with heavier crudes that are imported from overseas?

MR PURCHASE: Well that may well be, but I think the point that we were trying to make is that in our view, rightly or wrongly, in our view the oil producers in this

country could, if they wished, sell at a price that was lower than the import price and still make a reasonable return. Now the fact - - -

5 MR OLIVER: I'm just wondering why it's cheaper to dig a hole and get the oil out of the ground in Australian than it is in other parts of the region, for example?

10 MR PURCHASE: Yes. Well, because we feel that the world price, the import parity price, may well have a risk component attached to it to cover the sort of risks that you just mentioned. We feel that - - -

MR OLIVER: A number of those risks are faced by Australian explorers are they not?

15 MR PURCHASE: Not to the same extent, and that was the point that we were trying to make, that in other parts of the world you do not have the climatic risks, you do not have the volcanos, and the earthquakes, and all sorts of things, you do not have the geographic risks, and you do not have the political risks that are experienced in other areas of the world where oil is produced. So our view, rightly or wrongly, is that the world price may - probably does have a component in there for those sorts of
20 risks which are not experienced in this county. So therefore - - -

MR OLIVER: Most of our crude is produced in the Bass Strait and off the North West Shelf, is it not?

25 MR PURCHASE: Yes. Yes.

MR OLIVER: They are affected by climatic conditions aren't they? In March the was severely affected by three hurricanes in the row, three cyclones in a row - - -

30 THE CHAIRMAN: Mr Oliver, look, I think I'm going to cut this short, I'm sorry, I don't mean to be disrespectful to you, Mr Purchase, but I preface this, and I prefaced every comment we have made about this inquiry to say that we are seeking transparency, some accuracy and some truth, and at this stage I have to say to you that the impression I'm getting is that what you're offering to us is your feelings on a
35 whole range of things, but not a lot of information that's based on thorough knowledge or information or information based on analysis. And in terms of providing useful material for this inquiry, I would have to say to you with the greatest respect, sir, that the information you're giving to us is not that valuable, it is based purely on feelings, and feelings are not that helpful.

40 Indeed I might just observe, as I have also observed to Mr Cumming of the RACV and Mr Evans of the NRMA on public record that the feelings, the observations in one place was described as a "gut feel" is actually proving to be unhelpful to the inquiry, but also be proven to be unhelpful to Australian motorists. So I think unless
45 you can provide us with the information that's based on proper analysis and data, and I observed that VACC, with its high number of members, has not provided a submission to this inquiry. But unless you could do that, I'm not sure that carrying

this further forward is going to be of any great assistance to the Commission in forming some conclusions.

5 MR PURCHASE: Well, I understand that, and I appreciate that. Could I just say that first of all, just on your last point, we didn't make a submission, separate submission, because our national body did just that.

THE CHAIRMAN: Yes.

10 MR PURCHASE: But you are absolutely correct, that there are many views and feelings, if you like to call them that, that we have about many aspects of this industry. And as I said before, it is our frustration that we can't prove a lot of this stuff. And we simply do not have the evidence and the statistics and facts to back it up, and that is a frustration. And as I said before, that's probably an entirely
15 unsatisfactory situation as far as this inquiry is concerned, or any court of law. But we hold those views, we hold them genuinely, but the frustration is that there are many things that we simply cannot prove. And that's why we have made, as I said before, and we didn't make it lightly, I have a legal background, that doesn't really mean much, other than I have a few clues about some of these things.

20 That's why we have called for a reversal of the onus of proof in certain areas because we simply are so frustrated in being able to produce proper facts and figures to substantiate very strong views that we hold. So I take your point, Chairman, we simply don't have that evidence, and we can't prove it, and it's a frustration.

25 THE CHAIRMAN: Yes. Well of course that's our task, and I would hope that the multi-page report that we will prepare will actually provide some facts and transparency and some accuracy and some truth in this area. But what I was anxious to do, I mean, and we've done this right through this inquiry, is to endeavour to
30 confine witnesses to providing information to us that's based on thorough analysis, rather than simply providing observations or, you know, feelings. And, Mr Purchase, I should just point out, because it's important that you be aware that this is not confined to yourself, but with a number of witnesses in one particular case, where a comment was made that – or an observation was made about the market share,
35 combined market share, of the major supermarket chains.

And we asked from what source was that derived? And the response given, "Well it was gut feel." I have to say you gut feel is not really helpful in terms of our
40 preparation of our report. So I think at that, Mr Oliver, we might – unless you have some specific areas to - - -

MR OLIVER: No, I'm mindful of the time, Mr Chairman, I can leave my questions.

45 THE CHAIRMAN: Yes.

MR PURCHASE: Could I just, by way of explanation, I do accept your point, and as I said, the frustration is we can't prove a lot of this. But what we were just trying

very genuinely to tease out in relation to that last question that you were asking me was that we feel – and as I said, it may not be correct, but it would be wonderful if someone could get to the bottom of this – we feel that that world price, that international price, that international world parity price, has in fact a component in there for risk to cover risks that would not be experienced in this country. And therefore if that is correct, if there's any truth to that, then we are paying a higher price in this country as a consequence.

10 THE CHAIRMAN: And they are some of the inquiries that we're making and some of the facts that we're establishing, you know, as part of our inquiries at the moment. Thank you.

MR PURCHASE: Thank you very much.

15 THE CHAIRMAN: Mr Purchase and Mr Treloar, thank you very much.

<THE WITNESSES WITHDREW

[2.07 pm]

20

MR OLIVER: I think, Mr Chairman, that the inquiry - - -

THE CHAIRMAN: I think that concludes this hearing.

25 MR OLIVER: Thank you.

MATTER ADJOURNED at 2.08 pm INDEFINITELY

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