ACCC INQUIRY INTO THE PRICE OF UNLEADED PETROL

Public hearing – Brisbane, 22 August 2007

Time: 12noon start
Address: Mercure Hotel
85-87 North Quay
Room: Leichardt Room

Time	Witness	Submission
12noon	Neumann Petroleum Mr Charles Wright.	-
	Matilda Fuel Supplies Lawrence O'Keeffe. Mr Garth Anderson.	-
	Fueltrac Mr Geoff Trotter.	-

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TRANSCRIPT OF PROCEEDINGS

AUSTRALIAN COMPETITION

AND CONSUMER COMMISSION

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

PETROL PRICE INQUIRY HEARING

CONDUCTED AT: **MERCURE HOTEL, BRISBANE**

DATE: **12.00 PM, WEDNESDAY, 22 AUGUST 2007**

THE CHAIRMAN: We will get under way. My name is Graeme Samuel. I am the Chairman of the Australian Competition and Consumer Commission and the chair of this Public Inquiry into the price of unleaded petrol.

As Chair, I welcome you all and declare this hearing open. I am joined by John Martin on my right and Commissioner Stephen King, who are the other two presiding members for this inquiry.

This hearing is convened under Part VIIA of the Trade Practices Act. It is held pursuant to the Federal Treasurer's approval for the ACCC to hold a price inquiry into the price of unleaded petrol.

Matters to be taken into consideration by the inquiry shall include, but not be restricted to: the current structure of the industry; the extent of competition at the refinery, wholesale and retail levels, including the role of imports; the determination of prices at each of these levels, including the methodology for determining wholesale prices; and current impediments to efficient petrol pricing and possible methods to address them.

During the course of the inquiry we will endeavour to find answers to these issues.

The ACCC is pleased that written submissions to the inquiry have focused on pertinent issues. With regard to submissions, witnesses should take them as being read.

If time permits, following the questioning of scheduled witnesses, I may invite others here today to give evidence but, as with scheduled witnesses, anyone planning on giving evidence to this inquiry will need to be sworn in and subject to questioning under oath.

We understand that the price of petrol is of immense concern to all Australian motorists. It will greatly assist us in the efficient and effective operation of hearings if participants confine their remarks to the critical issues and not simply provide commentary on the price of petrol.

I strongly urge those of you participating to abide by this requirement. The public hearings will enable the ACCC to hear evidence that will help inform the ACCC in reporting to the Treasurer.

Results of the ACCC's inquiry will be reported to the Treasurer by 15 October 2007. Unless directed otherwise, the ACCC must make its report public after 28 days.

The ACCC views the primary goals of the inquiry as being to increase transparency in the marketplace about petrol prices at the various levels of the industry and to identify any current impediments to efficient pricing.

Before we start, I will go over a few procedural issues. The terms of reference for this inquiry have been published on the ACCC's website, together with an issues paper and all public submissions that have been received. The ACCC has also published Notes for Witnesses at this inquiry which outlines the procedures followed by the ACCC at public hearings. The names of the witnesses who are scheduled to appear today have been published on the ACCC's website.

Some important procedural points for taking evidence at today's hearing: A number of witnesses appearing today will be questioned by counsel assisting the ACCC. Counsel appearing today are Senior Counsel Neil Young and Simon Marks, joined by Fiona Forsyth. Some witnesses will also be represented by their own legal counsel.

All evidence will be taken on oath or affirmation.

Where a witness statement has been provided, the witnesses will be asked to verify, on oath or affirmation, that their statement is true and correct.

Witnesses will then be questioned by counsel assisting the ACCC. Members of the Commission may also have questions for witnesses.

Witnesses will then be given the opportunity to make any clarifying remarks. These should be confined to clarifying or responding to issues that arise during questioning.

I would also note that the conduct of this inquiry is within the discretion of the inquiry Chair. Persons who use insulting language or otherwise disrupt the hearing may be excluded from the hearing.

The ACCC may wish to question witnesses about information that has been provided on a confidential basis. The ACCC can take evidence in private if a witness objects to giving evidence of a confidential nature in public and the ACCC considers 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. The ACCC intends to hold hearings in public as far as possible, but we do want to be able to ask witnesses about matters that are commercially sensitive. This means we may need to close the hearings at certain points.

An audio recording of proceedings will be taken. This recording will be transcribed and the transcript of hearings will be made available on the ACCC's website as soon as possible after the hearing. 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 by beginning to ask the witness from Neumann Petroleum, Mr Charles Wright, general manager, to please come forward and for the record to please state your name and position.

MR WRIGHT: My name is Charles Wright. I'm General Manager for Neumann Petroleum.

THE CHAIRMAN: Are you accompanied by legal representatives today?

MR WRIGHT: No.

THE CHAIRMAN: Could I just inform you about the rules regarding giving evidence at this inquiry? Firstly, it is an offence to refuse to be sworn, to refuse to answer questions or to refuse to produce documents that are required of you by summons under Part VIIA of the Trade Practices Act. Secondly, it is an offence under the Criminal Code to give evidence at this inquiry that a witness knows is false or misleading or admits any matter or thing without which the evidence is misleading. Further, I advise you that you can either swear under oath or if you believe that an oath would not be binding or for religious reasons you are prevented from swearing an oath on the bible, you may make an affirmation of your evidence at this inquiry.

<CHARLES WRIGHT, SWORN **[12.12pm]**

<EXAMINATION BY MR YOUNG

THE CHAIRMAN: I now call on Mr Young to proceed.

MR YOUNG: Mr Wright, my name is Neil Young. I'm senior counsel assisting the Commission. If, in the course of my questions, you feel the need to go into any information that's confidential, please say so and the course we will probably take is to save up that matter and have a confidential session towards the end of your evidence; do you understand that?

MR WRIGHT: Yes, I understand.

MR YOUNG: Mr Wright, the first thing I wanted to ask you about concerns Neumann's sources of supply of petroleum. Forgive me if I introduce my questions with a little bit of the history you have given us. Is it correct that from about mid-2003 Neumann Petroleum has been sourcing its petrol from BP?

MR WRIGHT: That's correct.

MR YOUNG: Initially on a month-by-month supply basis?

MR WRIGHT: On a month by month, after we ceased importing from Luke Oil, prior to that.

MR YOUNG: Since August 2004 you have had a long-term oil supply contract with BP?

MR WRIGHT: That's correct.

MR YOUNG: Does BP supply the whole of your requirements for petrol?

MR WRIGHT: For petrol, yes, it does.

MR YOUNG: Have you had, over the course of the supply contract since August 2004, any difficulty in obtaining the necessary supplies from BP?

MR WRIGHT: Only when the BP refinery suffers from some sort of mechanical breakdowns and when that does happen, the market goes into a rationing-type arrangement.

MR YOUNG: Has that resulted in your needing to obtain supplies of ULP from sources other than BP?

MR WRIGHT: No, it hasn't.

MR YOUNG: Can I go back to the import period prior to BP. You have told us that prior to 2003 you got your supplies from Caltex?

MR WRIGHT: That's correct.

MR YOUNG: I'm speaking about petrol here rather than diesel.

MR WRIGHT: Yes.

MR YOUNG: In 2003 Caltex discontinued supplies to Neumann; correct?

MR WRIGHT: Caltex discontinued supply - again, Caltex - our supply from Caltex was on a month to month-type arrangement. We sought to secure a longer term position.

MR YOUNG: What led to the cessation of supply from Caltex?

MR WRIGHT: One was the inability of Caltex to supply full requirements on an ongoing basis. We were advised that they could supply us if they had sufficient product available.

MR YOUNG: Were there any other reasons that led to the cessation of supply?

MR WRIGHT: No, we needed a long-term surety of supply and month to month didn't satisfy our long term business plan.

MR YOUNG: Did that inability to get long-term supply from Caltex have anything to do with Caltex's alliance with Woolworths?

MR WRIGHT: On my behalf that would be speculation because I'm unsure of what Caltex's capacities up here are in relation to Woolworths' fuel being sourced from them or not.

MR YOUNG: So it came down to a question of your inability to get secure long-term supply from Caltex in 2003?

MR WRIGHT: That's correct.

MR YOUNG: At that point you moved to imports; is that correct?

MR WRIGHT: Yes, we did.

MR YOUNG: Could you tell me about the imports that you arranged?

MR WRIGHT: The imports were designed to give us at least a 12-month contract. We sourced supply from a Russian oil company called Luke Oil, who were buying petrol out of the Asian market, predominantly Korea. And the start of that contract was prior to the commencement of the changes to the Australian fuel standards, of which the first impact was felt in October 2003, from memory. The imports we were bringing to Australia met the Australian fuel standards at that point in time. When the fuel standards changed, our supplier advised us that they could not guarantee to meet one or two of the components of the Australian fuel standard from that point onwards. They said, in the main, they could meet it but they could not guarantee it. So that didn't satisfy our requirements. We then had to change to another more expensive product that did meet the requirements, it was a much higher octane fuel. In importing that sort of product, that took us out of the marketplace in terms of our competitiveness, because we were having to import a more expensive product compared to the local market.

MR YOUNG: Is that because the higher octane product was too pricey for you to import into Australia?

MR WRIGHT: That's correct, yes.

MR YOUNG: Did you have any difficulties in obtaining import quotations or offers of supply from the major oil companies in Asia?

MR WRIGHT: Major oil companies in Asia - we did not get prices from because the major oil companies are represented in Australia. Our alternatives were to seek non-aligned oil companies, such as Luke Oil, China Oil and the other independents such as Trafagura and Glencore.

MR YOUNG: Have you ever experienced any difficulties in buying unleaded petrol from refineries located in Singapore, for instance?

MR WRIGHT: We have never been able to secure products from refineries in Singapore because the refineries in Singapore are predominantly major oil companies and we would be passed on to their local contacts in Australia.

MR YOUNG: Is that your direct experience or is that something you have heard?

MR WRIGHT: That's something I have actually heard. We have never contacted - other than importing diesel into Australia, we haven't contacted a major oil company in Singapore.

MR YOUNG: In the case of diesel, you import diesel from I think you said Japan; is that right?

MR WRIGHT: That's correct, yes.

MR YOUNG: Did you try unsuccessfully to import diesel from Singapore?

MR WRIGHT: No, we didn't actually approach Singapore on diesel. When we look at securing fuel, other than dealing with the Australian oil company traders, we seek alternatives outside the Australian major oil company marketplace.

MR YOUNG: Do you know of any other importers in Australia who do secure their supplies from the Singapore refineries?

MR WRIGHT: You mean outside of a major oil company?

MR YOUNG: Yes?

MR WRIGHT: No, I don't.

MR YOUNG: Is it a price concern about the majors who operate the Singapore refineries, that is Exxon and Shell, that leads you to stay away from them or something else?

MR WRIGHT: Again, it is the fact that if we are dealing with a major oil company we are normally dealing with the local entity, so we deliberately don't even approach Singapore because there is no avenue for obtaining non-major oil from that location.

MR YOUNG: So it seems that you have an expectation that if you approached Exxon, for instance, in Singapore they would decline to supply you and refer you simply to Exxon Australia?

MR WRIGHT: Exxon possibly a different requirement. We have been discussing diesel supply with Exxon in Singapore. Importing petrol into Brisbane has also got logistics issues associated with it for our particular terminal, in that to reduce the risk associated with hedging on buying imports it's very difficult for us to bring in a full cargo of one particular product. Diesel is a lot different because our diesel volume is actually higher than petrol. But the hedging cost of bringing petrol in out of Asia has got some risk associated with it.

MR YOUNG: Yes. You also told us that from time to time to check the prices of local refinery product you obtained quotes for the importation of ULP and other petrols?

MR WRIGHT: That's correct.

MR YOUNG: Who do you go to for those quotes?

MR WRIGHT: We go to independent traders.

MR YOUNG: Yes. Such as?

MR WRIGHT: Such as Glencore, Luke Oil in those days, Masefield, Trafagura.

MR YOUNG: Your diesel is imported through Glencore, is that right?

MR WRIGHT: That's correct.

MR YOUNG: And the current prices being quoted by these trading houses for ULP and other petrols, how do those prices compare with the price of locally refined product?

MR WRIGHT: in terms of premiums?

MR YOUNG: Yes?

MR WRIGHT: Premiums are slightly higher and rate is higher, because of the draught restrictions and also tankage restrictions we have at our terminal.

MR YOUNG: These are premiums over what?

MR WRIGHT: The Singapore plants.

MR YOUNG: For 95 octane?

MR WRIGHT: That's correct.

MR YOUNG: Would you contemplate importing petrol again?

MR WRIGHT: If the - if our ability to import petrol in terms of our facilities improves and the specification required in the Asian market becomes available at a competitive price we would consider it.

MR YOUNG: Could you explain the first part of that answer about your facilities permitting additional imports?

MR WRIGHT: Our terminal here in Brisbane has a maximum capacity of 43 million litres of storage. In order to get shipping economics you need to bring in full cargoes of a particular product, which is nominally 30,000 tonnes or close to 40 million litres. I can't fit 40 million litres into 3 million litres worth of total storage when over 50 per cent of my volume is diesel. It's a terminal storage capacity issue as well as at the moment we have a draught restriction on our berth.

MR YOUNG: Are either of those problems soluble in the short-term?

MR WRIGHT: In the next five years we are hoping they are. The other impediment to importing petrols is because 40 million litres needs to be hedged on the futures market; you need to be able to sell your month's worth of purchases in the same period that you are buying from. So it's again - if your import volume is the same as your sales for the month you can get a hedging facility that covers that whole period and that reduces your risk. If you have excess of imports that you can't sell within your hedge period, then you are exposed to price fluctuations which could well outweigh the savings on premiums.

MR YOUNG: You are referring there to the risk of price fluctuations in the Australian domestic market, are you?

MR WRIGHT: Yes, correct.

MR YOUNG: From one month to the next?

MR WRIGHT: Yes.

MR YOUNG: Are you able to say anything in public session concerning your plans to address terminal storage limitations?

MR WRIGHT: In order for our facility to be competitive in the future we are assessing increasing our terminal storage capacity as well as we have plans in train to relocate to a berth that has got a deeper draught.

MR YOUNG: So bigger ships?

MR WRIGHT: Yes.

MR YOUNG: Looking down the track, you consider that the current long-term contract with BP is going to be adequate to meet your needs for petrol?

MR WRIGHT: We see in the short to medium-term that the refinery capacity from BP should be sufficient. We have the ability to import part cargoes with BP if there is a need and we have done that in the past. If BP refinery has been running short of supply, whether it be through refinery maintenance shutdowns etcetera, we have the ability to take part cargoes from a BP ship that they source into Brisbane.

MR YOUNG: What are the prospects of obtaining supply from one of the other refiners in Australia other than BP?

MR WRIGHT: It is difficult in that, again, it is whether we - whether we deal with a Mobil or a Shell who do not have refineries here and import the product via ship, it's a matter of do we buy a full cargo and, if we can, how do we fit it in? We are under the same restrictions whether we buy from a non-local refinery or an overseas independent trader. So in reality versus imports the only options we do have currently is BP oil cargoes.

MR YOUNG: Yes, but at the moment, are you able to say whether Caltex has the capacity to supply any petrol to you?

MR WRIGHT: From what I have been advised previously, we believe they do not have the capacity.

MR YOUNG: Is that a function of limitations on their refinery capacity or is that because they have other customers to whom the supply is being directed?

MR WRIGHT: The answer is probably one and the same. The refining capacity is probably finite. If they have customers that are a lot larger than us that they are contracted to, then they don't have the spare capacity to supply our requirements.

MR YOUNG: Caltex and BP are the two Brisbane-based refiners, correct?

MR WRIGHT: That's correct. And our terminal is actually linked to both via pipelines.

MR YOUNG: What are the prospects of obtaining supply from one of the interstate refiners? How practical is that?

MR WRIGHT: There is no difference between receiving product from interstate refinery versus an overseas independent trading company. It would need to be shipped in and then it depends on what is the size of cargo that we need to bring into our terminal. In most cases when we have discussed import opportunities with the other major oil companies, it is our limited storage capacity in being able to receive full shipments.

MR YOUNG: In view of the recent quotes you have got about imports simply to test the local refiners' prices, are you able to say whether there is any difficulty in obtaining supplies within the Asia-Pacific region of the right quality of petroleum spirits?

MR WRIGHT: The quality has a major import on the availability and the price.

MR YOUNG: But you have been getting quotes. Have you been able to source potentially shipments of the right quality?

MR WRIGHT: The quotes we have been getting, as I have said before, have been higher than the local refineries because they need to go and source a higher octane product. The availability of the Australian petrol in the Asian market is still not readily available.

MR YOUNG: It's available but at a price that is too high to warrant importing it?

MR WRIGHT: Yes, because in order to meet all of the criteria of the Australian Standard you have actually got to import about a 93 octane product to satisfy all of the criteria of a 91 unleaded in Australia.

MR YOUNG: Do you see that changing?

MR WRIGHT: If the petrol market continues in the same way that diesel has, possibly. As I said, we are now importing 10 parts per million sulphur in diesel out of Japan, whereas five years ago that was possibly not an option. But it is probably, we believe, three to five years away before Asia may be at a stage where their lower octane unleaded meets the Australian Standard. The Australian petrol standard is a bit of a boutique mix in the Asian market.

MR YOUNG: I see. Do you have similar quality issues affecting diesel?

MR WRIGHT: No, the Japanese diesel standard meets the Australian diesel standard.

MR YOUNG: The prices at which you import diesel, I assume, are competitive to the local prices of diesel?

MR WRIGHT: That's correct. If anything, it's probably more of a supply and demand issue with the Australian diesel refiners because most of the refineries in Australia, from my understanding, were built to produce petrol and diesel was a by-product and, therefore, they probably can't produce as much diesel as required. We find that the opportunity to import diesel has not created any issues locally.

MR YOUNG: I think you have said something in your response to the ACCC already to the effect that the local refiners price their product at a price that is just below the cost of importing ULP or other petrols from overseas; is that correct?

MR WRIGHT: When I say "just", it would be within the order of 0.5 to a dollar a barrel, we believe.

MR YOUNG: What does that work out at cents per litre?

MR WRIGHT: Half a cent to a cent a litre. If I can make the point there that 0.1 of a cent a litre is significant.

MR YOUNG: In the volumes at which you buy, I assume?

MR WRIGHT: That's correct.

MR YOUNG: What experience do you have of that pricing objective, of pricing so close to an imported price?

MR WRIGHT: Purely on the numbers that we have been given from independent trading houses. The premiums that we get quoted, when we are comparing with our local major oil companies, is just sufficiently high enough for us not to warrant the risks of importing large cargoes and then taking those hedging risks.

MR YOUNG: I see. I was going to move away from the topic of imports.

THE CHAIRMAN: Just before you do, could I put a couple of questions? I want to get this clear. If the price in Australia were to increase so as to reduce that margin or to obliterate it altogether, how easy would it be to obtain imported fuel at that point in time? I want to come to issues in wharfage and capacity in a moment?

MR WRIGHT: You want to exclude wharfage?

THE CHAIRMAN: Exclude wharfage and capacity and say in the event that you had the appropriate wharfage and capacity, how easy would it be to negotiate imported fuel if the price became attractive?

MR WRIGHT: If the price became attractive, I think we would have a very good chance of importing petrol.

THE CHAIRMAN: So if the Australian price were to move marginally above that, the price at which you could import, you could replace it with imported fuel I will say overnight - don't take me literally?

MR WRIGHT: I believe that the Korean petrols and possibly out of Japan would be able to match the Australian Standards if that happens.

THE CHAIRMAN: And you could get adequate supply at that point in time to guarantee you the supply that you needed?

MR WRIGHT: In terms of our petrol supplies, yes, we believe so. But we haven't gone down that path since the days we were importing from Luke Oil because when we seek alternate prices and they are not competitive we don't progress it any further. But there has been interest shown in the past, say, 12 months with people talking about offering us options to import petrols, but the price is not quite right.

THE CHAIRMAN: Now, let's go to wharfage and capacity. Just to understand this, have you contemplated the possibility of joint venturing with others so that in terms of the total volume being brought in as part of a shipload, if you can't take the volume yourself, that there are others that can take the balance?

MR WRIGHT: In terms of independents, we have the only independent facility in Brisbane and we do service a large number of independent customers, retailers and wholesalers in the South-east Queensland market. Our only alternatives, therefore, is joint shipping with one of the major oil companies. We have asked major oil companies in the past about joint shipping into Brisbane and for various reasons it hasn't been able to come into effect.

THE CHAIRMAN: What about joint shipping with an independent based, for example, in Sydney?

MR WRIGHT: If there was sufficient volume in Sydney, yes, and it's a matter of what sort of storage facilities are available in Sydney for that independent to gain access to. You then look at, yes, joint shipping - sorry, joint shipping and sharing a ship. We did, going back a few years ago, look at doing that with Trafagura but the economics were not there.

THE CHAIRMAN: Similarly with Trafagura's terminal facilities at Hastings, it is not economic to be looking at, for example, importing into Brisbane and then into Hastings and allocating between yourselves and Trafagura?

MR WRIGHT: It is, providing your partner has got like for like volumes and has got access to terminal facilities. I don't believe Trafagura has got access to terminal facilities in Sydney any more. It is a matter of what other company of a similar size to us is in Sydney that has that access. Hastings is a long way away and it's not an ideal terminal, either. It's a long way from the Melbourne market. Sydney is ideal but it's a matter of finding the right partner and we have not been able to find one to date.

THE CHAIRMAN: Without going too much into your forward business plans, you say you are contemplating the possibility of shifting wharves so that you can get wharfage with the appropriate - - -

MR WRIGHT: That's correct.

THE CHAIRMAN: And potentially creating new terminal facilities?

MR WRIGHT: No, just adding additional tankage to our current facility.

THE CHAIRMAN: And then what? Piping from the alternative wharf ?

MR WRIGHT: That's correct.

COMMISSIONER KING: If you went to an independent trader for fuel, would you be able to contract with that trader to have initial delivery in a month, two months, three months, six months; what sort of timeframe are we looking at?

MR WRIGHT: By the time you source the trader, you verify the product quality, you verify the off-takes and your commercial negotiations, you are probably looking at about a three-month time frame before you would actually start to commit to a cargo and then a cargo would be traditionally at least a month away. So it would be six months.

COMMISSIONER KING: Would the traders be able to offer you the security of supply that you get currently off BP?

MR WRIGHT: Again, that's one of the criteria on choosing a trader. Before we secured our contract current for diesel we went through probably six months of negotiations, a number of meetings to ensure that our supply lines were secure. It's pointless going for an import when your ship is going to be delayed or you may not have a ship at all. We need to deal with a reputable trading company that has got sufficient resources behind them to keep your supply lines.

COMMISSIONER KING: You mentioned that Shell and Mobil, essentially from the perspective of Brisbane, they are like any other importer. Have you ever approached either Shell or Mobil to get a price on imported fuel?

MR WRIGHT: Yes, we have.

COMMISSIONER KING: How do they compare with the traders that you approached in South East Asia?

MR WRIGHT: We never got to a pricing scenario. The fact that they didn't have the ability to bring in - sorry, go back a step. The option was to bring in a full ship of petrol into Brisbane for us. As I said, a full ship of petrol with our current throughputs takes us beyond our hedging requirements and the risk is too great.

MR YOUNG: You have described your storage and terminal facilities in Brisbane. Are there any other independents that have access to terminal or storage facilities?

MR WRIGHT: In Brisbane?

MR YOUNG: In Brisbane?

MR WRIGHT: The only other independent storage facility is a small one, Pacific terminals, that predominantly deal with chemicals and non-fuel related products. So we're the only independent terminal that stores petroleum products.

MR YOUNG: How big an investment is it to set up terminal facilities?

MR WRIGHT: Brand-new facilities?

MR YOUNG: Yes?

MR WRIGHT: Similar to our facility, you would probably be looking at 45 or 50 million dollars.

MR YOUNG: The other question I had is: To what extent is your ability to import affected by your current long-term contract with BP?

MR WRIGHT: Our long-term contract with BP has an end date.

MR YOUNG: Are you able to say what that is publicly?

MR WRIGHT: Sorry?

MR YOUNG: Are you able to say what that is publicly?

MR WRIGHT: I would prefer not to at this stage. The contract we have with BP is similar to the contracts they have with the other oil companies under the buy/sell arrangements where premiums are negotiated every six months for the next six months' worth of supply.

MR YOUNG: Even during the currency of that BP contract, do you have some flexibility to supplement their supply with imports?

MR WRIGHT: No.

MR YOUNG: Do you have to take, I assume, some kind of minimum allocation from BP?

MR WRIGHT: We have allocations that we forecast on a six-monthly basis and we have tolerances within that.

MR YOUNG: You have a maximum and a minimum that you buy within?

MR WRIGHT: A plus or minus percentage above the forecast that we give BP.

MR YOUNG: This may be difficult in open session, but can you explain your statement that your BP long-term contract is based on the buy/sell arrangements between the majors?

MR WRIGHT: Mm.

MR YOUNG: What do you mean by that? In what sense is it based on the buy/sell arrangements?

MR WRIGHT: The pricing is - starts with Singapore plants for MOPS95. There is a freight component; there is a wharfage component; there is a port use component; insurance, working capital; a premium for quality and a premium for refining margin. They are done on full month's price average from Singapore plants. Our understanding is that when the majors moved away from borrower and a number of years ago, that they are all operating under a similar arrangement to that arrangement.

MR YOUNG: What's that understanding based on?

MR WRIGHT: Negotiations with our traders, with BP and the other oil companies through a period of time. And also our overseas trading companies deal under the same arrangements.

MR YOUNG: If I understand you correctly, you say the price in your long-term BP contract is based on a full-month average of the Singapore MOPS95 price?

MR WRIGHT: That's correct.

MR YOUNG: Could you explain how that works in practical terms with your ordering and payment? In other words, do you simply take supply over the course of the month and then pay at the end of the month according to the monthly average price?

MR WRIGHT: Yes, that's correct. For instance, let's assume through the month we might be receiving pipeline transfers every three days. At the end of the month, the amount of petrol that we have purchased is then calculated. The average MOPS Platts price for the month is calculated; the premiums are then added on. We use also the full-month average oil scale Platts freight premium. And an invoice is given to us based on the month's liftings and the month's average price within the first week of the new month.

MR YOUNG: You know exactly what the refiner's premium is that it adds to the other components of the price, do you?

MR WRIGHT: Yes. Our price from the major oil company is premium plus all of the other components. So that when we do go overseas looking for alternate sources we are getting the same components.

MR YOUNG: How is that premium calculated, if you are able to say?

MR WRIGHT: The premium is calculated based on what they can achieve in the marketplace. It's a refining margin.

MR YOUNG: What risks for your business attend that kind of pricing formula?

MR WRIGHT: The risk is the fact that our buy price is based on a full month average and our sell price is based on the old ACCC formula which is a seven-day rolling average. So where you have got relatively flat pricing, your buy price and your sell price are predominantly mirrored. Where you have a steeply rising market, then you have a lag in your import parity calculation versus your cost of product calculations and your margins are squeezed. Conversely, in a falling market the opposite occurs. So over a period of time where you get the cyclic effect, things balance out.

MR YOUNG: You mention there that your sell price, you work on the 7-day rolling average IPP calculation?

MR WRIGHT: That's correct.

MR YOUNG: What sell price are you referring to?

MR WRIGHT: Our terminal gate price.

MR YOUNG: Who do you charge to - to what customers?

MR WRIGHT: Our terminal gate price - our terminal gate is the basis for selling to all of our wholesale, commercial, retail customers.

MR YOUNG: And what about your own branded sites?

MR WRIGHT: Our own branded sites, it's based on the import parity calculation. So in effect it's terminal gate but we relate it directly through the import parity price.

MR YOUNG: Perhaps I better get you to clarify the classes of customer or sites that you supply. Can you categorise them in some fashion?

MR WRIGHT: In terms of our retail network?

MR YOUNG: Yes?

MR WRIGHT: Of the 48 branded - Neumann branded retail outlets that we supply we have four only under company operation. The balance are under a brand and supply arrangement with independent operators who we sell to off our terminal gate price. So the majority of our network is independent branded resellers.

MR YOUNG: And do you sell petrol spot, as it were, to other independents around Brisbane?

MR WRIGHT: Yes, we do. Predominantly not around Brisbane. They are more so out of the Brisbane metropolitan area, the smaller-type distributers and resellers, Northern New South Wales and country South-east Queensland.

MR YOUNG: How significant a part of your business is supply of petrol to them?

MR WRIGHT: In terms of petrol, in terms of petrol it would probably be in the order of 40 to 50 per cent of our petrol usage to those types of wholesale customers.

MR YOUNG: Is it a growing segment of your business or declining, the wholesale part of it; yes?

MR WRIGHT: Probably declining.

MR YOUNG: And what are the reasons for that?

MR WRIGHT: A lot of those customers are either selling to - in terms of petrol - they would be selling to the non-branded remaining independent service stations that are finding it harder and harder to survive.

MR YOUNG: Do you have any reasons why you think it's getting harder for them to survive?

MR WRIGHT: Predominantly it would be the retail outlets that are the traditional three pumps, one island, one workshop, mum and dad-type operations that years ago they used to make a margin out of their petrol as well as their workshops. Today with modern cars the workshop sales are going down. You have the larger services that are drawing their customer base and their volumes are falling dramatically.

MR YOUNG: Can I just go back for a moment to your price at which you buy from BP. Is that price subject to renegotiation on a periodical basis?

MR WRIGHT: On a six-monthly basis, yes.

MR YOUNG: Are all aspects of the price renegotiated or simply what you call the market premium?

MR WRIGHT: It is predominantly the market premium and quality premium if there is a change in the fuel standards.

MR YOUNG: And who initiates the renegotiation?

MR WRIGHT: The trader within BP.

MR YOUNG: Now, to what extent do you wholesale at a straight TGP price and to what extent do you supply a range of discounts from it - that's a terminal gate price?

MR WRIGHT: The discount off terminal gate really is dependent on the size of the customer. A large distributor-type customer would get a volume discount of some sort.

MR YOUNG: Will that depend on the existence of a long-term supply agreement with that customer or are discounts offered even if it's a short-term, month to month supply arrangement?

MR WRIGHT: In the main, we try and get secured customer base. We tend to steer away from what's deemed to be the spot buyer, only because the - within the bounds of our forecasts that we provide our suppliers it's very difficult to manage very sharp increases or decreases in volumes that traditionally spot buyers moving from one location to another or one supplier to another would impact on your business.

MR YOUNG: I think you said you had four company-owned retail sites?

MR WRIGHT: That's correct, yes.

MR YOUNG: Are they supplied with fuel at terminal gate price or at some adjusted terminal gate price?

MR WRIGHT: They are actually supplied off our import parity calculation. Our terminal gate price is import parity plus a margin. Our company operated sites have what is called a retail transfer price and that's based on the import parity price.

MR YOUNG: If we put aside the company-owned sites, is there a distributor for Neumann branded sites?

MR WRIGHT: A distributor?

MR YOUNG: Well, do you have a company which distributes fuel to all of the branded sites that Neumann has in Queensland or do you do that directly?

MR WRIGHT: We do it directly, yes.

MR YOUNG: And again, supplied at the internal company transfer price?

MR WRIGHT: No, where they are a customer they are supplied at our terminal gate price.

MR YOUNG: But, again, as you said with discounts for volume; is that right?

MR WRIGHT: Yes, correct.

MR YOUNG: There is a company called Zimms Fuel Supplies. I think it now trades as South-West Queensland Fuels?

MR WRIGHT: Yes.

MR YOUNG: What is the relationship between your company and Zimms?

MR WRIGHT: They are a wholesale distributor of ours. So they have their own customer base, which they finance. And we supply them and they then in turn supply that customer base.

MR YOUNG: Do you have a long-term supply arrangement with Zimms?

MR WRIGHT: Under that distributor agreement, yes, we do.

MR YOUNG: Do Zimms get the benefit of volume discounts?

MR WRIGHT: Yes, they do.

MR YOUNG: I take it from what you said earlier, in addition to wholesale supply through the Zimms channel, Neumann supplies on a wholesale basis to other independents?

MR WRIGHT: That's correct.

MR YOUNG: Are there any wholesale customers that you supply at a flat undiscounted terminal gate price?

MR WRIGHT: Wholesale customers?

MR YOUNG: Yes?

MR WRIGHT: That's - I'd say possibly not.

MR YOUNG: And I take it as well that the volume of any discounts vary with the customer and the volume taken, and so on?

MR WRIGHT: That's correct. Also depending on whether we are in a rising market and our margins are being squeezed by that difference between our month average buy price and our import parity calculation.

MR YOUNG: Do you have a way of keeping in touch with whether your wholesale prices are competitive with wholesale prices being charged by the major oil companies?

MR WRIGHT: No, only looking at the major oil company's terminal gate price. We post terminal gate price on our website as well.

MR YOUNG: Do you know from industry knowledge whether the majors discount from their terminal gate price?

MR WRIGHT: I couldn't answer that.

MR YOUNG: I wanted to ask you briefly about price support. There is a limited price support scheme maintained by Neumann, correct?

MR WRIGHT: Correct.

MR YOUNG: To whom does it apply?

MR WRIGHT: Our retail sites.

MR YOUNG: That's your branded retail sites?

MR WRIGHT: Yes, correct.

MR YOUNG: That's company owned or?

MR WRIGHT: Or dealer.

MR YOUNG: And are you able to describe in public session the basic parameters of that price support system?

MR WRIGHT: Not in public session.

MR YOUNG: All right. You have found it to be effective or is it of limited effectiveness in the market?

MR WRIGHT: It depends on the nature of the market aggression around that particular service station that requires price support. From what we've understood from our independent service station operators, it is a lifeline for them. In some cases they need more than that lifeline over a, say, a definitive period of time. In the main, it is seen as a positive.

MR YOUNG: Why adopt a system of price support rather than simply pricing the supply slightly more keenly? What are the advantages to you in maintaining price support rather than simply dropping the price and giving your retailers greater margin to work within?

MR WRIGHT: The amount of price support that is required in certain cases goes below our cost. So if I had to give a price to my service station customers that meant they never needed price support we would be selling at a loss in most cases.

MR YOUNG: Is your price support scheme operating within fixed parameters or is the provision of price support at your discretion?

MR WRIGHT: The service station operator requests price support from us.

MR YOUNG: But once you have given it does it automatically cut out at some point or is it discretionary?

MR WRIGHT: Again, I would like to discuss that under confidentiality.

MR YOUNG: I wanted to move away from wholesale prices to the retail position - - -

THE CHAIRPERSON: Quickly, do you provide any price support of any form whatsoever to wholesalers?

MR WRIGHT: No.

COMMISSIONER KING: You mentioned that your buy price from BP is based on the monthly average but your wholesale price is based on the seven-day rolling average TGP. From the perspective of your business, would it be better if you were able to offer - let me call it a terminal gate price, for want of a better word, but a wholesale price based on your buy price so both are based on a monthly average?

MR WRIGHT: That's interesting. Theoretically you are possibly right. From my understanding, the rationale behind the seven-day rolling average is that it was there to level out the peaks and troughs of the daily Platts pricing. If you go to a monthly average, then you could get a significant jump from one month to another. But then through the month, yes, prices could be flat. So it's a matter of what does the consumer think about monthly flat pricing with a significant jump at the end of each month. I know a lot of smaller Pacific island countries, that's the way they operate.

MR YOUNG: Just by way of introduction, you mentioned you have four retailers directly owned by Neumann?

MR WRIGHT: That's correct.

MR YOUNG: And three are in the Brisbane metropolitan area, are they?

MR WRIGHT: Brisbane, Gold Coast.

MR YOUNG: Where is the other one?

MR WRIGHT: In Casino, in country New South Wales.

MR YOUNG: So I assume that through those directly owned retailers you closely monitor retail prices in South-east Queensland?

MR WRIGHT: No, only within the market area that we believe impacts on those particular sites.

MR YOUNG: All right. Your branded retailers, I think there are something like 40 or so, are there?

MR WRIGHT: That's correct.

MR YOUNG: They are located in a wider area?

MR WRIGHT: From Maroochydore on the Sunshine Coast down to Port Macquarie in New South Wales.

MR YOUNG: Do you monitor prices affecting those branded retail outlets?

MR WRIGHT: No, we don't.

MR YOUNG: You don't? Do you have somebody who administers your price support scheme?

MR WRIGHT: Yes, we do.

MR YOUNG: Wouldn't that person be required to have some knowledge of those local markets?

MR WRIGHT: It's - it's a leap of faith that we actually - we rely on the dealer who is asking for price support to provide a rationale as to why it's required and what particular competitor in his market segment is creating the need for price support. And then I may have a salesperson that will verify that.

MR YOUNG: So you have got one directly owned retailer in New South Wales?

MR WRIGHT: Mm.

MR YOUNG: And three in Brisbane, Gold Coast?

MR WRIGHT: The one in New South Wales was by default. It was not a planned position.

MR YOUNG: I wanted to ask you about pricing in Queensland to begin with, in Brisbane. In particular, there appears to be quite a ridged price cycle, that cycles through on a seven-day period; correct?

MR WRIGHT: Yes.

MR YOUNG: For how long has that been the case?

MR WRIGHT: As long as I can recall in the Brisbane market.

MR YOUNG: Now, what causes do you think bring about that cycle?

MR WRIGHT: Purely speculative on my behalf but my understanding of the price cycle in the metropolitan areas, it goes back into the eighties. But don't understand the rationale behind it.

MR YOUNG: It's just something that happens regular, like clockwork, is it?

MR WRIGHT: Well, again, I've got a personal view as to why it occurs.

MR YOUNG: I'm sure we would be assisted by your personal view based on long experience?

MR WRIGHT: My personal view is probably going to be totally the opposite to anybody else.

MR YOUNG: Well, let's hear it?

MR WRIGHT: Going back into the eighties, I believe in those days people used to get paid on a Friday and you would go and do your shopping on a Saturday and go and fill your car up on a Saturday. Midweek, the retailers would reduce their price because there was no one buying fuel. And I believe it's all stemming from there.

MR YOUNG: So you think originally it was a strategy to raise the price at times when people were buying?

MR WRIGHT: No, the strategy was to reduce the price when people weren't buying.

MR YOUNG: Yes. But raise the margin effectively when they were buying?

MR WRIGHT: No, I'm afraid I didn't say that.

MR YOUNG: Now, in the case of the price cycle in Brisbane, what is Neumann's strategy in relation to the price cycle?

MR WRIGHT: Our strategy in terms of pricing in the Brisbane market is the price cycle to us is - has no real impact. We have a number of service stations that we highlight around our company operated sites as being our competitors. And on a daily basis we match our competitors. Given the fact that we have only got two company operated service stations in Brisbane and one on the Gold Coast, and the Gold Coast cycle is nowhere near as bad as Brisbane, where our main market driver is to match competitors in our local area market so that we get sufficient customers on our driveway and into our stores. So the cycle is there, but it has really no impact on what we are achieving on a day-to-day basis.

MR YOUNG: But do you have a pricing strategy in relation to the cycle?

MR WRIGHT: Not in relation to the cycle. Our pricing strategy is all about matching our competitors in the marketplace.

MR YOUNG: You said that the Gold Coast was not nearly as bad as Brisbane in terms of price cycle; what do you mean by that?

MR WRIGHT: The Gold Coast on occasion - this is one particular site that I'm referring to - may not be affected by the price cycles in Brisbane.

MR YOUNG: Do you mean by that that the cycle is not as large, has not such big movements between the bottom and top?

MR WRIGHT: That's correct, yes.

MR YOUNG: But is it still happening on the Gold Coast, there is still a cycle to some extent?

MR WRIGHT: Sometimes.

MR YOUNG: Sometimes? So it's not regular, it's not every week?

MR WRIGHT: No, not in the particular service station.

MR YOUNG: And the amplitude is not as great?

MR WRIGHT: That's correct.

MR YOUNG: For how long has that been the case on the Gold Coast?

MR WRIGHT: We have only been operating that site since January this year.

MR YOUNG: So since January you have seen a price cycle that's less regular and less volatile?

MR WRIGHT: That's correct.

MR YOUNG: In terms of the Brisbane price cycle, who, based on your observations, moves it; which of your competitors causes the price to fall and then rise?

MR WRIGHT: It is very, very hard to determine that. And I really can't answer it. I've asked my salespeople, you know, on a number of occasions and it is very hard to detect.

MR YOUNG: I take it from what you say that it's not Neumann Petroleum that leads the price?

MR WRIGHT: No, that's correct.

MR YOUNG: You don't lead it down?

MR WRIGHT: No.

MR YOUNG: And you don't lead it back up?

MR WRIGHT: No, we follow the market.

MR YOUNG: And do you go right to the bottom of the market or do you have a strategy of sitting just above it?

MR WRIGHT: There is a point where if we go below our cost we will not move below our cost.

MR YOUNG: And how do you define "cost"?

MR WRIGHT: Our cost is on our retail transfer price.

MR YOUNG: Which includes a margin?

MR WRIGHT: It includes a terminal handling fee. It is cost recovery.

MR YOUNG: But otherwise it is based on the IPP seven-day rolling average?

MR WRIGHT: That's correct.

MR YOUNG: Are you able to say who leads the price back up in these cycles in Brisbane?

MR WRIGHT: No. Again, in terms of the two areas where we have our company run service stations, in both of those cases the sites that we predominantly match are other independents rather than the majors.

MR YOUNG: You match the independents but who leads the price back up to the top of the cycle?

MR WRIGHT: Again, I don't know.

MR YOUNG: Do you have a view about it? Do you think it's the majors?

MR WRIGHT: No, I can't give a view if I don't know. As I said before, we have tried to determine previously who is driving prices and we just can't tell.

MR YOUNG: Do you think the independents such as Neumann benefit from the cycling of prices?

MR WRIGHT: I don't think anybody benefits by the cycling of prices because to creates too much angst in the marketplace.

MR YOUNG: What about the impact on profit and the bottom line? Do the independents such as Neumann benefit from the price cycle?

MR WRIGHT: No, because in severe price cycles when there are major fluctuations between top and bottom, some of the data that I have provided, we are getting down to very, very thin margins, close to break-even or in some cases negative.

MR YOUNG: But you don't follow the prices down that far, in Neumann's case?

MR WRIGHT: We try and stop at our cost. But some of the charts I sent through, I think there is one that shows a negative.

MR YOUNG: Are you able to identify what factors must exist to trigger prices going back up to the top of the cycle?

MR WRIGHT: No.

MR YOUNG: Are you able to say why it's always on a Thursday, it seems, that you have the high price; are you able to say why it's that day?

MR WRIGHT: Again, it's - it's historical and there doesn't seem to be anything that's been able to flatten it or to stop it.

MR YOUNG: Has the retail market been affected by the emergence of the major supermarkets into fuel retailing, their alliances with Shell and Caltex?

MR WRIGHT: It has in terms of areas where new supermarkets have opened or service stations have started to take up the shopper docket offer or any special shopper docket offers that have come out over the Christmas and New Year period. With the volumes associated with those offers, we struggle to get people into our sites.

MR YOUNG: Has the price cycle altered since the advent of the supermarkets?

MR WRIGHT: In general I'd say no, but there are pockets where the price has actually stayed at the low point for a number of weeks, in some cases months.

MR YOUNG: Has the span of the price cycle increased, the amplitude, since the advent of the supermarkets?

MR WRIGHT: I really can't answer that.

MR YOUNG: Mr Wright, in your written submission - in fact, it's your section 95ZK response to the Commission - you have given some figures about margins. Are you able to address those in the open session?

MR WRIGHT: No.

MR YOUNG: Perhaps you may be able to answer this question generally: It appears from other information in the possession of the Commission that retail margins, for present purposes simply defined as the difference between retail prices and the posted TGP, right, just using that as a definition of retail margins for the moment, that they have increased significantly in Brisbane in 2006 and 2007. Just making the assumption that that's a fact, do you have any explanation as to why margins have increased over the last 12 months?

MR WRIGHT: The only comment I can make is in reference to the entry of the supermarkets and the shopper docket offers. If you deal with the equation of redemption rates of 60 per cent by the supermarket petrol alliances and cases where they are offering between 6c and 8c shopper docket offers, at that redemption rate you have between 4 cents and 5c of discount per litre. Somewhere along the line that has to be passed on.

MR YOUNG: But why would that affect the margins available across the board in Brisbane to petrol retailers, including independents? All of the margins seem to have increased at least on average?

MR WRIGHT: In terms of that analysis that's the only analysis we've done.

MR YOUNG: There has been some publicity I think yesterday about the Queensland State Government rebate. To what extent is that actually passed through to motorists in Brisbane?

MR WRIGHT: In terms of our company operated sites?

MR YOUNG: Yes?

MR WRIGHT: Our retail transfer price takes that into account. So the 8.35 is passed on to our company operated retail sites. For our - majority of our customers, which are our retail dealer operated sites, they themselves actually claim the 8.35 and they set their price and take the 8.35 into account. So we - at the wholesale level there is no control over that.

MR YOUNG: Yes. What more generally has been the impact of the supermarkets on the financial position or competitiveness of independent retailers in Brisbane?

MR WRIGHT: It's made the independents suffer in terms of margin. Because the majority of the independents, in order to compete with the shopper docket offers, have to have their own type of shopper docket offering as well. But they don't have the luxury of generating additional supermarket sales at back end. So they are all self-funded in one way or another.

MR YOUNG: Could you explain Neumann's own shopper docket scheme?

MR WRIGHT: Our shopper docket scheme is a 4c discount on production of a docket from either Coles and Woolworths, and that is funded by us. So, in effect, we have a redemption rate in the order of about 25 per cent, 30 per cent. So it equates to about a cent a litre discount that we are giving way.

MR YOUNG: Entirely funded by Neumann?

MR WRIGHT: That's right.

MR YOUNG: To state the obvious, you get no benefit of recognising a Woolworths' or a Coles' voucher as the criterion for getting a discount?

MR WRIGHT: That's correct. But unless you have a shopper docket, your sales volumes drop dramatically.

MR YOUNG: Are you able to do a net calculation as to whether that shopper docket scheme that Neumann runs is on balance an advantage or a disadvantage?

MR WRIGHT: We believe - we had a drop in volumes once Shell and Coles and Caltex and Woolworths initiated their alliances, but we have now stabilised.

MR YOUNG: In fact, volumes have been improving, have they not?

MR WRIGHT: In our total volumes?

MR YOUNG: Your total volumes?

MR WRIGHT: Because we have had a growth in the number of retail outlets, that's what has grown the retail volumes. And that's associated with smaller independent service stations wanting to be aligned with a brand.

MR YOUNG: What about per outlet, have volumes improved per outlet?

MR WRIGHT: Very hard to judge, given the fact the majority of our customers or retail customers are independent operators, other than the sites that we started to company run, which we only started last October.

MR YOUNG: You seem to have been relatively successful at Neumann in surviving the advent of the supermarkets. What's the position from your observations in relation to other independent retailers in Brisbane or the Gold Coast?

MR WRIGHT: Purely as an observation, I think we've - we're surviving because we've - we were forced into introducing a 4c offer and we managed to get our dealer network to support that. Where the other independents have got a similar offer, I think they are surviving but, in terms of their general health, it's difficult to say.

MR YOUNG: Does your survival, indeed it seems slight strengthening, have anything to do with your potential ability to import? In other words, you have the ability perhaps to turn away from the major refineries here and get your supplies elsewhere and perhaps other independents don't have that flexibility?

MR WRIGHT: The terminal is a strategy asset of ours and it gives us, we believe, slightly more marketing power.

MR YOUNG: That's essentially what I was putting to you. It enables you to bargain for a better supply arrangement with the majors than might otherwise be the case?

MR WRIGHT: In the main I would say yes, but we also have a feeling that there are other large independents in the marketplace that perhaps may have a better deal or just as good as us without having a terminal, only because some of them have a national presence where we don't.

MR YOUNG: Historically independents used to compete on price aggressively in order to get volume. But in circumstances where the two supermarkets now command about 50 per cent of the retail volume, do you see independents continuing to be organisations that are going to compete on price in order to get volume?

MR WRIGHT: I think today, with the size of the volume that the supermarkets are taking from the major oil companies, independents cannot compete on price. They would have volume discounts such as we do, but their volumes are massive. Neumann Petroleum's viewpoint is that we are competing by offering alternatives through customer loyalty, supporting independents and also through a mechanism to improve our petrol convenience offer, by offering that alternative.

MR YOUNG: Explain what you mean by a petrol convenience offer?

MR WRIGHT: We are promoting our convenience stores.

MR YOUNG: Do you have a strategy of enlarging and improving your convenience stores?

MR WRIGHT: I would have to discuss that under confidentiality.

MR YOUNG: I'm going to move away from retail prices - - -

THE CHAIRMAN: Can I put a few propositions? These shopper dockets have been the subject of much discussion over recent weeks. We have a number of parties that want to attribute a whole lot of consequence to the shopper dockets. It is fair to say, is it not, that you would prefer to see them banned?

MR WRIGHT: It is difficult to say. If everyone is on a level playing field, then they do have a negative impact on the independents. Not being able to - at the end of the day it's creating an erosion on our margin, our retail side.

THE CHAIRMAN: Can I test a couple of propositions you put to us. I think you indicated that since Coles and Woolworths had entered the market I think the words you used were - I don't want to verbal you - "prices have stayed low for several weeks, indeed months, on end" since the arrival of Coles and Woolworths; is that right?

MR WRIGHT: It is predominantly driven around where new facilities or new supermarkets have opened up. From what we see, it's a strategy to establish themselves.

THE CHAIRMAN: But they are pockets that are operating irrespective of what is happening otherwise in the Brisbane market?

MR WRIGHT: This was also not just Brisbane but Queensland and New South Wales.

THE CHAIRMAN: I think you also indicated that over the past 12 months - I think you are attributing this again to the shopper dockets - that margins had increased. I think you did some calculations that suggested that a combination of perhaps some of the deep discounts offered at times through the shopper dockets and otherwise, that the margins had increased in terms of board prices at the pump price by about 4c to 5c a litre; is that right?

MR WRIGHT: Yes, if you have a 6c redemption rate and an 8c a litre shopper docket, that's equivalent to about 4.5c, 4.6c.

THE CHAIRMAN: So across-the-board margins have increased by about 4.5 to 5c?

MR WRIGHT: I'm not sure of the total increases but that was just to give you an example of what an impact could be of giving 6c to 8c shopper docket rebates at those particular types of redemption rates. On average, I couldn't give you an example.

THE CHAIRMAN: I think Mr Young put the proposition to you that margins may have increased over the past 12 months and that was attributed I think to the shopper dockets having been introduced into the marketplace. I think you showed in your calculations that the margins might have increased- - -

MR WRIGHT: It was suggested that that could have been behind part of the margin increase.

THE CHAIRMAN: Why would that have occurred just over the past 12 months, given that shopper dockets have been with us for three or four years now?

MR WRIGHT: What we are seeing is that shopper dockets have been sitting at 4c for the last three to four years but there are, especially over the December/January period when both supermarkets raise their discounts to 6c and 8c, and that continued over a couple of months.

THE CHAIRMAN: If the margins have increased by 4c to 5c over the past 12 months, why would the independents then - the third proposition you put - why would the independents therefore be suffering because of margin loss?

MR WRIGHT: The independents suffer on the erosion of the total giveaway. In terms of margin increase over the last period of time, I gave my opinion on what I believed was driving the margins up. Getting back to the company operated sites that we have in Brisbane and the fact that we set our bought price based on the local market area that could be a major, it could be a supermarket or another independent. We are dealing in a very tight market area/segment versus a generality of the total market.

THE CHAIRMAN: I'm trying to understand what is happening in the market. I think you are indicating - correct me if I have the facts wrong - you are indicating, particularly over the past 12 months, a consequence perhaps of the shopper dockets, the margins across-the-board have increased on average around 4.5c to 5c a litre?

MR WRIGHT: At a maximum point in time when those sorts of shopper dockets are being offered, that's correct.

THE CHAIRMAN: I think you then indicated that independents were suffering because of margin loss. But wouldn't the consequence of an increase in margins and a failure on the part of an independent outlet to, for example, offer a shopper docket scheme mean that that independent was securing a higher margin of 4c or 5c a litre but might be losing some volume as a result of the shopper docket attracting volume elsewhere?

MR WRIGHT: Possibly you would be losing volume and maybe keeping margins up, that's correct.

THE CHAIRMAN: How would your calculations fare if it became evident that the level of redemption of shopper dockets was something of the order of half of what you had indicated and rather than being 60 per cent was probably closer to the 30 per cent type level?

MR WRIGHT: In that case I really couldn't give a comment on it. That's just my view of what could be driving prices. It's purely an independent view - only driven by the fact that we have got details on three sites only versus the total margin?

COMMISSIONER KING: Can I take you back to a couple of points that were raised in the last 15 minutes or so. You said that one of your theories - and as I understand it, it is just a personal theory - about why the price cycles began many years ago was related to a payday sort of effect. People had their money on the Friday and filled up their car on the Saturday as well as buying the groceries. Do you have any thought as to whether that's still driving the petrol price cycles, that sort of phenomena?

MR WRIGHT: No, I wouldn't. It is purely based on things I have read historically about the oil industry in Australia.

COMMISSIONER KING: Does Neumann tend to sell more petrol, to retail outlets associated with Neumann, at high price in a cycle or at the low price in a cycle. Do you sell more in general on a Thursday or more on a Tuesday?

MR WRIGHT: Actually, at one particular site we sell more on a Wednesday.

COMMISSIONER KING: Is that close to the bottom of the cycle or close to the top of the cycle?

MR WRIGHT: Bottom.

COMMISSIONER KING: Is that general, that you would tend to sell more at the bottom of the cycle now?

MR WRIGHT: Again, given the fact that we have three sites in Brisbane that I can relate to, or in the Brisbane market, it is predominantly when the prices are down that people will come and buy.

COMMISSIONER KING: It is just that that seems inconsistent with the story that you said - as I understand, it was an old story - that people get their money, buy petrol and that's when the price is high. It seems now they are buying petrol when the price is low?

MR WRIGHT: As I said, it's historical. It might be back in the sixties or seventies when that was happening.

COMMISSIONER KING: I just wanted to check with regards to your retail outlets, do you have a pricing strategy? I'm slightly confused because you mention what appear to be a few pricing strategies. You mentioned that you match the other independents and you mentioned that you priced down to cost and a few minutes ago you said that on a local basis, you will follow the independents or a major. Is there a consistent price strategy across your retail outlets?

MR WRIGHT: In terms of our company operated outlets, the strategy is we nominate which competitors in our immediate market area affect our service station and we match their price. Whatever they do, we follow their pricing. But there is criteria within that that says if you get down to a point where you are at cost, the site operator will not board below that cost price.

COMMISSIONER KING: So it's not just in a particular area. It need not just be independents that you follow?

MR WRIGHT: That's correct.

COMMISSIONER KING: Mr Wright, you mentioned a response to shopper dockets was to improve the convenience offering, by which I understand the convenience stores available at your outlets. Have you had any other I guess responses to shopper dockets, other than your own shopper docket scheme, other than a price related response? What else have you done to keep your customers in the face of shopper dockets?

MR WRIGHT: Shopper dockets have really been the main driver, other than the fact that we believe there is a market nearby for convenience stores, good convenience stores.

COMMISSIONER KING: So other than that, there is no other non-price response?

MR WRIGHT: No.

COMMISSIONER MARTIN: Mr Wright, what are the volumes - the sorts of volumes at your 40 outlets and the corporate outlets?

MR WRIGHT: In total or site by site?

COMMISSIONER MARTIN: On average or against averages?

MR WRIGHT: Probably the largest sites we are running 350,000 litres per week.

COMMISSIONER MARTIN: Which is?

MR WRIGHT: 3.6 million. It's nothing like some of the larger sites.

COMMISSIONER MARTIN: On that business model with the role of the convenience stores side of it, and this may be something that's like your margins, it's confidential, what is the mix in revenues?

MR WRIGHT: I would prefer to do that under confidentiality.

MR YOUNG: Mr Wright, can I take up a couple of matters that have been raised? The first concerns your company-owned sites in Brisbane where you monitor competitor prices. There are three sites in question. Are you able to tell us what are the rival outlets that you monitor in each of those cases? If we go through them one by one, just starting with?

MR WRIGHT: Eight Mile Plains.

MR YOUNG: Eight Mile Plains?

MR WRIGHT: Eight Mile Plains is a BP and a Freedom and a 7-11.

MR YOUNG: And in the case of Dutton Park?

MR WRIGHT: Caltex and 7-11.

MR YOUNG: The other one is on the Gold Coast, Miami?

MR WRIGHT: The other one is a Caltex and an independent that I can't recall the name. It has only just recently changed.

MR YOUNG: I take it from that that when you say Caltex, are they Caltex/Woolworths sites or just Caltex?

MR WRIGHT: Good point. I think they are both Caltex/Woolworths.

MR YOUNG: I think you have given at least some daily or hourly pricing data about some of these sites to the commission?

MR WRIGHT: Daily pricing, yes.

MR YOUNG: Just taking those three sites as an example, your general feeling was that as a result of shopper dockets and the supermarkets entry, margins had increased in order to support the 4c discount; correct?

MR WRIGHT: Yes.

MR YOUNG: In other words, in order to offer a 4c discount, the supermarkets were at least at some stage of the cycle pricing higher and thereby increasing their margins?

MR WRIGHT: That's my personal calculation of what I believe is happening.

MR YOUNG: That would seem to indicate that it's the - from your perspective at least - your perception is it's the strategy of the supermarkets to drive the top of the cycle higher in order to justify or support their discount of 4c?

MR WRIGHT: Whether it relates to the top of the cycle I can't answer that. My only comment is that whether we give a shopper docket discount or whether the supermarkets give a shopper docket discount, somewhere along the line that discount is to be redeemed. But I can't speculate whether it's at the top of the cycle or not.

MR YOUNG: It may be that the whole of the cycle, top and bottom, has moved higher than it otherwise would be because of the need to support the shopper docket discounts?

MR WRIGHT: I still think the bottom of the market - it's the bottom of the market based on some of the data that I have provided which shows that we do go down to points of a cent.

MR YOUNG: Occasionally, but the bottom of the market is not normally that low, is it?

MR WRIGHT: As I said previously, on some occasions we have known it to be down for months, not in Brisbane but in other locations.

MR YOUNG: In Brisbane, at least for most of the months since the start of the year, the margins have been above that point where you would cease to price, haven't they?

MR WRIGHT: Above the point we cease to price?

MR YOUNG: For most of this year the margins in Brisbane seem to have been quite healthy, even on your own figures, indicating perhaps that it has been a very rare occasion where the bottom price in the cycle has been anywhere near cost?

MR WRIGHT: In the last six months - there are still pockets where that would occur. We still have had price support for some of our dealers in the last six months.

MR YOUNG: As for the company-owned sites?

MR WRIGHT: Company-owned sites, other than those times that I have told you where we get very close to break-even over a period of time, the cycle still exists. And I guess the issue is that, as I said previously, we find our sales increase when the prices are down and decrease when the price is up. Although you may be making more margin at the higher end, your sales aren't as great.

MR YOUNG: What proportion of your sales are made towards the upper end of the cycle? Are you able to say?

MR WRIGHT: I would have to do the calculation. Sorry, I can't do that here.

MR YOUNG: Roughly speaking, is it fifty-fifty?

MR WRIGHT: No, I would really have to do the calculation.

MR YOUNG: I wanted to ask you about your storage capacity again, if I could. You have described the general policy of trying to sell your petroleum in the same month roughly speaking as you buy it. Can you explain the reasons for that policy?

MR WRIGHT: If you - I'll quote some numbers that aren't real just to give you an example. If you are selling 20 million litres of petrol per month, but you import 40 million litres of petrol, you go to the market, you can only get a price spread for a four-month period, so that would be the first month for that cargo. The second month of that cargo is totally priced out at the first month, which means that you are then exposed to whatever price fluctuation happens in that second month. In a falling market you could lose millions of dollars. In a rising market you could make a lot of money. But being an independent where we don't have deep pockets we have to sell what we buy within the month period of our coverage or our hedging. Does that make sense?

MR YOUNG: Yes. You adopt that policy even though you have, I assume, sufficient storage capacity to maintain some inventory as a backstop, as it were, from month to month?

MR WRIGHT: Very little. Because we are talking petrol here, we store petrol, unleaded petrol, 95, we store diesel and we also do ethanol blended. So our total terminal capacity of 43 million litres is taken up by a number of products.

MR YOUNG: How much of the supply is your storage capacity for ULP?

MR WRIGHT: Probably about five days.

MR YOUNG: About five days. Do others in the marketplace follow the same policy of trying to ensure that they sell what they buy within the same month?

MR WRIGHT: The majority of other independents that don't have access to facilities like ours would be buying presumably off the majors' terminal gate price, the daily price. So they don't have the risk associated with looking at month-end carryovers and what the stock price is going to do on a falling market or a rising market.

MR YOUNG: There have been some suggestions that the price of refined product may vary from month to month because there may be some months in which the refineries have over-produced or under-produced. Is that a feature of the marketplace today?

MR WRIGHT: We don't experience it, only because our premiums are set on a six-monthly basis. Therefore, the only variable is in Singapore Platts. So whatever effect Singapore Platts affects our price. Whether a local refiner produces more or less really doesn't affect our buying price.

MR YOUNG: Do you see that as a phenomenon in the marketplace, that is, that all of a sudden the spot price, the terminal gate price drops a particular month because the refineries have over-produced or is that simply a fact, it doesn't happen?

MR WRIGHT: Nowhere near as much as it did say in 2001, 2002 with Australia now being a net importer of refined product, the refiners aren't over-producing. They can't produce enough.

MR YOUNG: Is your experience that most players in the market, certainly most independents, have been moving to a long-term contractual supply basis from the refiners?

MR WRIGHT: The larger ones, yes.

MR YOUNG: Are there any independents that you know of that don't have long-term arrangements?

MR WRIGHT: Very small ones that still - you know, they may buy off three different companies.

MR YOUNG: Would they tend to buy from independent wholesalers like you or from the majors?

MR WRIGHT: A bit of both. They really shop around for the best price.

MR YOUNG: But it sounds as if any sizeable player in the marketplace today is generally striving to have a long-term secure supply arrangement in place?

MR WRIGHT: That's correct.

MR YOUNG: What are the reasons for that?

MR WRIGHT: If you are building a business and you don't have secure supply - I mean, supply is critical to our business. We can't - if - we would be too much exposed to not have long-term supply contracts and rely on buying month to month from various parties because it's the contractual - within our contractual arrangements, there are provisions that, for instance, if BP has a problem with their refinery they will look at some sort of import supplement in order to satisfy that. It guarantees our business continuity.

MR YOUNG: This is changing the subject, Mr Wright, and going back to retail prices for a moment. In your section 95ZK response, in a passage where no commercial sensitivity is claimed, you say that retail pricing is dictated by the supermarket giants, who control 60 per cent of the retail petrol market. Can you explain what you mean by that sentence and what the grounds are for the proposition that you state?

MR WRIGHT: Based on historical evidence where we have seen Caltex/Woolworths and Shell/Coles service stations severely discounting in the marketplace over a long period of time, both in Brisbane and country New South Wales and Queensland.

MR YOUNG: This is perhaps beyond your knowledge, but I assume part of your sentiment there is that the supermarket giants are probably able to buy petrol from the refineries at heavily discounted prices simply based on the volumes they take?

MR WRIGHT: I'm sure their buying power is a lot better than ours.

MR YOUNG: And that makes it very difficult for independents to compete against them?

MR WRIGHT: Correct.

MR YOUNG: That's part of your thinking, is it?

MR WRIGHT: Yes.

THE CHAIRMAN: Can I follow up on a couple of questions there? The 6 per cent market share that has been quoted by a couple of parties, even in the last four days, where do you get that 6 per cent market share from?

MR WRIGHT: It has been in a number of newspaper articles as well as industry publications.

THE CHAIRMAN: That may not necessarily be a good source. It was put to us yesterday, in fact, that it was - I think this is from a representative of NAGRA, which is where the 6 per cent market share seemed to have emanated from, that this was done by taking the total revenue of the two majors as disclosed in their profit and loss accounts without drawing a distinction between their convenience store sales and their petrol sales. I think it acknowledged that that market share may not be an accurate done?

MR WRIGHT: Okay.

THE CHAIRMAN: Can I take this a step further? I'm trying to reconcile some conflicting propositions that have been put to us. When you responded to Mr Young's question in relation to control by the major supermarkets of retail pricing, you seemed to indicate that they were pushing down the prices by severe discounting over time. I'm just trying to reconcile that with some propositions you put to us before that the major supermarket chains were responsible for increasing the margins by 4c to 5c a litre over the last 12 months. Are they pushing the prices down or up?

MR WRIGHT: In terms of the margin impact on the shopper docket offer there is no substance behind that other than my calculation of what may be a perceived position.

In terms of the severe discounting generated by the two supermarkets, that is actual fact. By experience - we have encountered over the last three years - where it has been severe over a number of days and weeks and in a certain number of country locations for months. On one hand, there is a position that I believe may be a reason for driving margins up. I don't know. The fact that we have three company operated outlets in such a large petroleum industry, my knowledge of what is driving the margins up is limited. But in terms of the impact of the supermarkets in driving down the prices, yes, we have got evidence of that.

THE CHAIRMAN: But if they are driving the prices down, how are the margins going up?

MR WRIGHT: Again, it's in pockets. Casino, for instance, in Northern New South Wales, we went through six months of severe discounts in Casino when Woolworths opened a new supermarket. I know that because we have a service station that we actually currently operate down there that struggled for a long period of time. There are pockets in Brisbane where Woolworths and Coles severely discount occasionally. In terms of the overall reason why the margins have gone up, with my limited knowledge of what is happening, that's my perception. It could be totally wrong.

COMMISSIONER KING: You try to sell in the same months as you purchase, can I put it that way?

MR WRIGHT: Yes.

COMMISSIOENR KING: Do you ever end up in situations where you get towards the end of the month and say I have got a bit of petrol that I need to move?

MR WRIGHT: A long time ago, yes. Now, no.

COMMISSIONER KING: Are you ever caught short near the end of the month?

MR WRIGHT: Sometimes. Rarely, but sometimes.

COMMISSIONER KING: What happens when you are caught short? What do you do?

MR WRIGHT: We have to try and buy more from our supplier.

COMMISSIONER KING: So you just go to BP?

MR WRIGHT: If BP can't supply we need to look in the marketplace and buy from outside, buy from other independents if needed to supplement any shortfall.

COMMISSIONER KING: How often would that occur; once a year, once every two years, once a month?

MR WRIGHT: I haven't had to buy outside petrol for a couple of years.

COMMISSIONER KING: When you go outside or when you used to have to go outside BP, what sort of price would you end up getting in that situation?

MR WRIGHT: Do you mean outside of BP.

COMMISSIONER KING: Yes?

MR WRIGHT: It's a terminal gate based price.

COMMISSIONER KING: Would it be as good as the one you got from BP, worse or better?

MR WRIGHT: No, in all cases it would be worse.

COMMISSIONER KING: Is that just because the industry would know that you are after a small volume?

MR WRIGHT: Because I'm not buying from a major, I would be buying from a major's wholesale customer.

COMMISSIONER KING: So you have to take their margin?

MR WRIGHT: Yes.

COMMISSIONER KING: You would be getting it from someone like yourself but they would obviously be charging the margin that you normally charge your customers?

MR WRIGHT: Strange as it may seem, I could be buying off one of my customers that I sold to earlier in the month.

THE CHAIRMAN: When you talk about based on a terminal gate base price, I think you used the expression before, you talked about "selling off our TGP". Does that mean that it is TGP or does it mean it's a price based on TGP and it has some other factors built into it, like discounts?

MR WRIGHT: Our TGP, depending on the customer, could get a discount on TGP, plus there is a freight component.

COMMISSIONER KING: If the requirement under the oil code for setting of a TGP disappeared tomorrow, would it make any difference?

MR WRIGHT: No, because we have been using TGP since 2001.

COMMISSIONER KING: So you would just keep using the formula and base prices off that. At our hearings yesterday we learnt a bit about the American market and jobbing, I think they called it. Have you ever been approached or bought petrol in the sense as a job lot, so where someone has approached you and said, "I've got some fuel I need to move, are you able to take it into your storage facility now? I'll give you a good price". Does that ever occur or has it ever occurred?

MR WRIGHT: No, most calls we get are predominantly people wanting to sell us cargoes of crude oil.

COMMISSIONER KING: So a ship load, in other words. Just on that, is it ever the case that someone is sitting off Fisherman's Island saying, "I have a ship of unleaded petrol and I've got to move it"? What you said sounds a bit odd to me?

MR WRIGHT: They are the sorts of calls we get, people overseas wanting to sell us cargoes of crude. You don't get people ringing you up wanting to sell you cargoes of petrol.

COMMISSIONER KING: So selling crude, it is just traders?

MR WRIGHT: Opportunists. We can't even handle crude.

COMMISSIONER KING: But people who are shipping it around, if they can't sell it to Australia they will sell it somewhere else; is that what you are getting at?

MR WRIGHT: Yes.

COMMISSIONER KING: You have got an ongoing contract with BP. Has BP always - to stick to that contract, is there ever a situation - obviously BP, if they came up to you and said, "We want you to pay more than you normally do", you wouldn't be too happy about that. But I guess on the other side, do BP ever offer you a lower price if you take a bit of extra fuel this month?

MR WRIGHT: No.

COMMISSIONER KING: So you put in the order and it comes through at the contract price?

MR WRIGHT: That's correct.

COMMISSIONER KING: Do you know if anyone else gets those sorts of offers out there in the market, any of the independents get offers to get a bit of petrol at a cheap price?

MR WRIGHT: I haven't heard of any.

COMMISSIONER KING: Finally, I think you mentioned that sometimes the refinery, the BP refinery I think you were referring to, would be down for maintenance or for other problems. What tends to happen in those times with regards to both your own fuel and in the market in general in Brisbane?

MR WRIGHT: Very rarely does the market actually have an impact. Because of our terminal and our storage capacity, we may be getting down to a day's stock or half a day's stock. We may be getting transfers every day rather than once a week. It is rationed so that they keep feeding the product through to keep ourselves and their other supply customers (inaudible). In the history of us being supplied by BP from the refinery, I don't think there have been too many occasions where we have not been able to service our customers.

COMMISSIONER KING: In your opinion it just doesn't have an effect on the retail price, it changes the inventory?

MR WRIGHT: Yes, it changes the inventory, it makes our terminal side of the business very difficult.

MR YOUNG: Mr Chairman, I have reached the end of the questions I had for public session. There are a few matters I would like to take up in private closed session because of the commercial sensitivity of those matters.

THE CHAIRMAN: I think for Mr Wright's convenience we ought to do that now. Perhaps if I can ask for the room to be cleared. If anyone has got any tape recorders, if they can remove those at the same time.

WHEREUPON THE PROCEEDINGS MOVED IN CAMERA [1.42pm]

PUBLIC HEARING RESUMED [2.51 pm]

THE CHAIRMAN: We will resume. I welcome representatives of Matilda Fuel Supplies. Could I ask the witnesses from Matilda to state for the record your respective names and positions?

MR O'KEEFFE: Lawrence O'Keeffe. I'm a director of Matilda Fuel Corporation. I also do contract consulting work to the Matilda group as a whole. The main operating company in the Matilda group is O'Keeffe Nominees and I'm not an officer of that company.

MR ANDERSON: Garth Anderson. I am general manager of Matilda Fuel Corporation.

THE CHAIRMAN: I believe you have legal representation here with you today. Could you also announce your appearance?

MR WISHART: My name is Wishart, initials TJ. I am a solicitor, Group General Counsel to the board of Matilda Fuel Supplies.

THE CHAIRMAN: Could I just inform you about the rules regarding evidence of this inquiry? Firstly, it is an offence to refuse to be sworn, to refuse to answer questions or to refuse to produce documents that are required of you by summons under Part VIIA of the Trades Practices Act 1974. Secondly, it is an offence under the Criminal Code to give evidence at this inquiry that a witness knows is false or misleading or omits any matter or thing without which the evidence is misleading. I further advise you that you can either swear under oath or if you believe that an oath would not be binding or, for religious reasons, you are prevented from swearing an oath on the bible you may make an affirmation of your evidence at this inquiry.

<LAWRENCE O'KEEFFE, AFFIRMED [3.01pm]

<GARTH ANDERSON, SWORN

<EXAMINATION BY MR MARKS

MR MARKS: Gentlemen, I'm going to direct my questions with no fear or favour. They are predominantly to you, Mr O'Keeffe. If it is necessary for you, Mr Anderson, to answer or if you feel you are better qualified to do so, that is fine. I will ask you questions across the range of areas that have identified in your answers to the 95ZK Notice your company received. If, in doing so, I ask you questions which are sensitive in a commercial sense and, thus, which you desire to treat as confidential, then I would be pleased if you indicated that and we will try and accommodate that by asking you some of those questions in a confidential session, which would follow immediately the public session. As I understand it, Mr O'Keeffe, and correct me if I'm wrong, Matilda has provided the following information to the Commission, a letter of 10 August which contains some general information and that document encloses a series of answers to questions posed by the ACCC 95ZK Notice.

MR O'KEEFFE: That's correct.

MR MARKS: And there is a further letter dated 16 August which encloses some answers to specific questions that were not addressed in the first letter or the first set of answers?

MR O'KEEFE: That's so.

MR MARKS: Could I ask you, please, perhaps to start - if you have your answers, Mr O'Keeffe, to the 95ZK Notice questions before you it would be helpful.

MR O'KEEFFE: Yes.

MR MARKS: Can I ask you firstly, did you draught or write the answers to these questions?

MR O'KEEFFE: I did.

MR MARKS: Could I ask you to look at the heading which is headed "Retail" and if I could just use the information you have provided there, Mr O'Keeffe, as a basis for some questions aimed at ensuring I better understand the nature of your retail operation. Could you clarify for me, Matilda operates essentially in the south-east Queensland region; is that so?

MR O'KEEFFE: Correct, yes.

MR MARKS: And that's at retail level?

MR O'KEEFFE: Correct.

MR MARKS: What you say to the Commission is that Matilda does not operate as a wholesaler to any great degree?

MR O'KEEFFE: That's correct, yes.

MR MARKS: It does, you say, undertake some wholesaling but not a great deal?

MR O'KEEFFE: We supply four small service stations as a wholesaler.

MR MARKS: Can you, in this public session, identify to us who those small service station operators are?

MR O'KEEFFE: Yes. There would be Matilda, the Grange.

MR MARKS: Sorry?

MR O'KEEFFE: Matilda, the Grange.

MR MARKS: Yes?

MR O'KEEFFE: Caboolture, Inala and Tanawha.

MR MARKS: Those retail operations, you say they're small. Are they single retail operations?

MR O'KEEFFE: They are.

MR MARKS: Single site operations?

MR O'KEEFFE: Yes, they are.

MR MARKS: And are they located in the Brisbane area?

MR O'KEEFFE: Inala and the Grange are. Tanawha is on the Sunshine Coast and Caboolture is just north of Brisbane. It's probably just outside of the metropolitan area or what people call the Greater Brisbane area.

MR MARKS: Aside from wholesaling - and I will come back to that shortly - I wanted to ask you about your retail operations. Am I right in saying that your answer to me that you retail essentially in the south-east Queensland region means this: You have a series of service stations in the region; is that correct?

MR O'KEEFFE: Correct.

MR MARKS: Your northern service station or northern-most station is at Maryborough?

MR O'KEEFFE: Correct.

MR MARKS: And your most western one at Warwick?

MR O'KEEFFE: Correct.

MR MARKS: Presumably you have stations right down to the border?

MR O'KEEFFE: Well, just to the southern part of Brisbane now, we don't have Gold Coast.

MR MARKS: So it's essentially that area?

MR O'KEEFFE: Yes.

MR MARKS: Can I ask you, then, about the structure of these retailers. You have, I think you said in your answers, a number of company-owned and operated sites?

MR O'KEEFFE: Well, in the Matilda group, the broad Matilda group, there are 19 owned service stations.

MR MARKS: 19, okay?

MR O'KEEFFE: By various companies in the group. And 18 that we have a head lease on.

MR MARKS: I see. The ones that you have a head lease on, there is a commissioned agent structure, is there?

MR O'KEEFFE: All of the sites - the whole 37 - are commission agency.

MR MARKS: So when you say commissioned agent, could you just explain what the practical meaning of that is?

MR O'KEEFFE: We supply the fuel to the site and we set the prices at the site.

MR MARKS: Yes?

MR O'KEEFFE: And we pay the dealer a commission for selling the fuel at the site. The dealer sends a return to us every day on the sales that have been made and we are paid by the dealer or the agent, I should call him, rather than the dealer. We are paid by the agent every day for sales made the previous day.

MR MARKS: I see. The stations have - do they all have a retail outlet business?

MR O'KEEFFE: A shop-type?

MR MARKS: Yes, a shop-convenience type store outlet?

MR O'KEEFFE: Yes.

MR MARKS: All of them?

MR O'KEEFFE: Yes.

MR MARKS: That business, is it operated by the agent?

MR O'KEEFFE: Correct. We licence - as part of our commission agency agreement we give the agent a licence to operate the facility. And how they operate that facility is their own business.

MR MARKS: I see. So the agent is the person who enjoys the benefits of whatever profits, and so on, are made on the site?

MR O'KEEFFE: Correct.

MR MARKS: I take it that that means he is responsible for stocking the site retail outlet?

MR O'KEEFFE: He is.

MR MARKS: Does your company have any role in that?

MR O'KEEFFE: Not really. We do have a merchandising person on our staff and it's her role to negotiate supply arrangements with preferred suppliers and to develop promotional programs, and they are offered to the sites. There is no compulsion on the agent to participate in that program, but most of them do.

MR MARKS: Is the position that the fuel sold at each of these sites is purchased by Matilda from Shell?

MR O'KEEFFE: Shell, yes.

MR MARKS: Under a supply agreement that has been operating for some years; is that so?

MR O'KEEFFE: Correct.

MR MARKS: In due course I want to ask you some questions about the terms of that supply agreement?

MR O'KEEFFE: We would prefer that to be done in the closed session, please.

MR MARKS: Very well. For our present purposes, though, is the position this: Under Shell's agreement with Matilda, if I can loosely call your enterprise that, fuel is picked up by Matilda from the Shell terminal and it is carted to the sites?

MR O'KEEFFE: Correct, yes.

MR MARKS: The fuel is then sold in the way you described to me a few moments ago, but Matilda retains ownership in the fuel from the time it is purchased until the time it is sold at the bowser?

MR O'KEEFFE: That's correct, yes.

MR MARKS: Does Matilda obtain any fuel in its day-to-day operations, it's day-to-day retail operations, outside the agreement it has with Shell?

MR O'KEEFFE: No, the only time that we would obtain fuel from other people would be when Shell can't supply. And I can't think of any time in the last couple of years when that's occurred. It has in the past when there have been problems when Shell haven't been able to supply. But it's very rare, in fact they are almost the perfect supplier. It seems to me they go out of their way to look after us in preference to their own sites at times of stock shortages.

MR MARKS: So you are quite content with your present supply agreement arrangements with Shell, would that be to state the position accurately?

MR O'KEEFFE: Yes, that's true, yes.

MR MARKS: Can I ask you, then, some questions - some broad questions - about the setting of the retail price at your outlets?

MR O'KEEFFE: Mm.

MR MARKS: I take it the position is that Matilda sets the price of petrol at all its outlets from directions from senior management; is that correct?

MR O'KEEFFE: You might have to ask Mr Anderson.

MR ANDERSON: Other than the wholesale sites that Lawrie has talked about before, the four sites, the product is sold to them purely in that exercise. So we are not a manger of price points in that scenario.

MR MARKS: Yes. You have nothing to do with the setting of the price at those four outlets?

MR ANDERSON: Yes.

MR MARKS: But otherwise you have?

MR ANDERSON: Yes.

MR MARKS: Mr Anderson, as general manager, is that your responsibility?

MR ANDERSON: I oversee that responsibility, yes.

MR MARKS: Do you have what I would describe - you may have a better term for it - a pricing strategy which you deploy in the marketplace?

MR ANDERSON: Yes, we do have.

MR MARKS: And that strategy, can I ask you this: Is it a broad strategy with the detail in the particular implementation at sites or is it a site specific strategy?

MR ANDERSON: It's broad in an overall mass management, I guess, approach. But from time to time it certainly does come down to site specific peculiarities which occur in the marketplace that we need to react to.

MR MARKS: Yes. All right. Now, I am conscious of the fact that pricing strategies is an issue you would like to deal with in a confidential context. Can I ask you, though, these questions: Can we take it that Matilda's retail prices are broadly set by reference to the price at which it can obtain fuel from its supplier, Shell?

MR ANDERSON: Yes.

MR MARKS: And Shell has a long-term supply agreement. So can I take it that the price which is set at retail is essentially a price calculated by reference to the most recent pricing arrangement which Shell has agreed with Matilda?

MR ANDERSON: That would be correct. We are certainly very conscious of our cost price at all times, as you would in business.

MR MARKS: Yes?

MR ANDERSON: And then of course we then react to the market forces that we have intelligence from with our immediate competition which filters in and certainly we would price according to that.

MR MARKS: To that, okay. Let me ask you some questions about that. In your answer to question 9 or in Mr O'Keeffe's answer it is said - Mr O'Keeffe, I'm not sure if you are better qualified to answer this but I'll leave it to you to decide - you said, look, Matilda basically reacts to the market in the way you've described and seeks to maximise sales at the top of the market by selling at a discount to competitive retail prices. Then you go and to explain that as the price cycle nears the bottom Matilda will match the market and quite often sit above it. Can I understand that a little better. Is the position this, essentially: Is it that Matilda follows the market or is that, to state the proposition too broadly, would there be sometimes when it does not?

MR ANDERSON: We would certainly say in a normal - just talking a typical market here - of a normal price cycle wave in a week, we would drive the market from the top, certainly be a price fighter, I guess, an aggressor in the marketplace to take away from what the major oil companies have got on the board and discount from that down, certainly to a point where we are getting to our cost price on the bottom where, in effect, we take more of a defensive or matching strategy in effect to slow the market or at least not get into a loss situation at that point.

MR MARKS: Yes. You say that Matilda will not follow prices that are below cost. What do you mean by "cost" in that context?

MR ANDERSON: That's not a definitive answer. That's I guess a typical answer on a mass market. But there are many situations where we will get to a situation where we can - just taking the south-east Queensland, for example - where the whole of Brisbane is not into a loss situation. But there are some sites where you need continue with a strategy to at least match the major oil companies, to slow them out with some of the traffic through the site. That's something that we balance between the volume sites that we have.

MR MARKS: So that's an example where your strategy in pricing is a move from a general strategy to one that is more site specific?

MR ANDERSON: Correct.

MR O'KEEFFE: I think I could probably help there. It would appear that the price cycle is moving up today. On the way in here we observed some prices where the boards have gone to 118.9. I think we are at 105.9 at a particular site. One of our competitors was at 104.9. Rather than drop down to 104.9, we would rather stay at 105.9 and stay there a bit longer. We don't want to be in a rush to move up. We can afford to stay there a bit longer if we stay at the 105.9.

MR MARKS: What about at the converse, what about at the top of the cycle when it's been established and when Matilda finds itself in a position where it has to react to the market? I think the indication we have got from your answers is that it will seek to act in this way: It will try to maximise its sales on the top of the market. Do I take that to mean that you will price a little below the top of the market to attract volume?

MR O'KEEFFE: Sometimes more than a little.

MR MARKS: Does that have the desired effect of either maintaining or improving your volume at the top of the cycle?

MR O'KEEFFE: Not a huge effect. You would notice on the sheets that give the prices in answer to question 15, that we do sell most of our fuel at the bottom of the market, unfortunately. That's why we have to be careful that we don't get into that marginal or loss situation at the bottom. But we are also about trying to establish a perception that we are very, very price competitive. I have a personal view that in the price cycle the prices go too high. I think it's crazy for us to - I - my view doesn't always prevail, I might add. But I think it's crazy for anybody to go to the top of the cycle, because all that does is give the guys that are pricing at that level - and typically that would be the Woolworths and the Coles-type sites - that gives them more money to fight you with at the bottom. I think it's a little bit stupid. And we have noticed, even at the top of the cycle, those Woolworths and Coles' sites still do an extremely good business. So we don't want to be giving them something to belt us around the head with.

MR ANDERSON: I was going add to that, that is exactly right. The effect of an independent being able to - in our niche market that we are working in, being an aggressor and working the boards from the top down, that effect of us having that market advantage of being able to keep the bigger major oil companies on, so to speak, is certainly lessened. Hysteria or excitement on a price board at Matilda being less than a major is not what it used to be since the introduction of the shopper docket scheme.

MR MARKS: I want to ask you some questions about that but can I just broadly ask you this. Mr O'Keeffe, I think you said that, generally speaking, the greater volume of your sales occur at the low end of the price cycle.

MR O'KEEFFE: Yes.

MR MARKS: Have you undertaken any or are you able to tell us what percentage of your volumes are at the lower end, if you were to take a line and draw it through the cycle?

MR O'KEEFFE: No, I haven't, but that could easily be done from the figures provided.

MR MARKS: Anecdotally you say that that's when the larger volume of your sales occur.

MR O'KEEFFE: Yes.

MR MARKS: At the top end, when you say you seek to maximise sales, do you try and hang back a little bit at the high end of the cycle to increase revenue or are you simply driven by - - -

MR O'KEEFFE: We do, but not too much. We don't want to have the thing collapse because if it collapses - we have had situations - and I think in, was it July last year?

MR ANDERSON: May 06 and July 05 - the market certainly flattened for a number of weeks.

MR MARKS: When you say "flattened" - - -

MR ANDERSON: Flattened as far as cost, the entire market to the point of cost or marginally below cost, as Lawrence correctly points out, where, if we are seen to be upsetting majors or they are reacting to us, at times you can have a week to two weeks when there is no price wave, the price wave will stop.

MR MARKS: No price cycle. What do you say the cause of that is?

MR ANDERSON: It could be, as Lawrence said, if we become too cheeky as an independent or upsetting the major oil companies, we are holding back and not moving with the cycle, to the top of the cycle, and we are seen to be sitting on the bottom for too long, the next thing you can see major oil companies will come back and match you and go below that point.

MR O'KEEFFE: Nobody has told us that. It is just maybe we get a little bit sensitive about it. But you feel as though you are under attack at times. When you go for a period of three weeks and the market doesn't move, it's not a very nice position to be in. So we have to be extremely sensitive to make sure that we do get an average margin and that's all they are on about. I would rather sell more at a higher margin than sell a lot at zero margin or a very poor margin.

MR MARKS: Is the broad strategy then at a retail level really this: You will essentially follow prices rather than lead them; is that so?

MR O'KEEFFE: No.

MR MARKS: Sometimes you will actually lead them down?

MR O'KEEFFE: We do lead from the top of the market.

MR MARKS: You will follow the market, lead them down. The lead down will no doubt be to some extent by reference to other competitors?

MR ANDERSON: Leading down? We do react to the other competitors and try to lead the market through, where we can, to the bottom.

MR MARKS: But I take it there are other people in the retail market who would also - thinking really of the independents here - take that position.

MR ANDERSON: That would be taking that position.

MR MARKS: Who would be taking that position.

MR ANDERSON: Sure.

MR MARKS: What I am trying to understand is whether on a normal basis you are really leading the market or simply responding to what others are doing the market. Which is it?

MR ANDERSON: We believe we lead the market.

MR O'KEEFFE: At the top.

MR MARKS: Do you find yourself leading the market to the point where you are fairly close to cost? When do you hang back and start to - - -

MR ANDERSON: As we are approaching cost we do, we slow. We get to a more of a matching scenario than a bettering scenario.

MR MARKS: Once you get to that scenario, are there market forces that continue to drive it down? Are you experiencing that?

MR ANDERSON: Yes.

MR MARKS: Are you experiencing it on a regular basis?

MR ANDERSON: In particular locations, yes.

MR MARKS: Are you able to identify those locations?

MR ANDERSON: They are hot spots. It may be two major oil companies sitting side - it may be Coles and Woolies, where they are sitting opposite each other and they will put themselves into a very tough bottom position. They can sit there for a week. If it's in a country area they can sit like that for a week. If it's in a metropolitan area they can sit like that for a couple of days. But we can't go there. It is the amount of volume that could potentially go through a site, at that loss situation.

MR MARKS: To go back to my question, Mr Anderson, how often are you experiencing this? Is it a phenomena of recent times that prices will fall below cost or is this something that's been happening for a long time?

MR ANDERSON: I would say every few months. There wouldn't be a situation go by within a period of each quarter where there will be a particular oil company in a hot spot selling at cost or below - our cost or below - in any case.

MR MARKS: These price cycles have existed in the Brisbane market for some time, you would agree?

MR ANDERSON: Yes.

MR MARKS: The cause of these cycles is a matter of considerable interest to the Commission. The view traditionally has been that they are attractive to independents and that independents play a significant role. The impression I'm getting from you is that that continues to be the case. What role do you think, though - - -

MR ANDERSON: The role that we are playing, certainly, we are being put into a position where there is no other role to play. There are not too many more cards to play. The shopper docket - with the role that we are playing, in being the aggressor and moving the boards down a little bit, the effect on the market is lessened dramatically.

MR MARKS: All right. Do you think the causes of the price cycle have changed in recent times?

MR ANDERSON: Expand on that. What do you mean by "causes"?

MR MARKS: Let me make it more specific. Do you think the supermarkets are playing a significant role, the major retailers, in the way the price cycle now operates in Queensland?

MR ANDERSON: Absolutely. Just from the fact of the number of sites that they have and the effect that they have on us in reacting to that, yes, they do.

MR MARKS: You have indicated in your answers about the way they impact on the cycle moving down. Do they have an impact on the cycle moving up?

MR ANDERSON: Yes, they do.

MR MARKS: What is that impact?

MR ANDERSON: Matilda is not a company that moves the boards up. We are not first out of the gates to move boards up. But certainly, we just answered the question previously, we do in time move up a point less than what the top of the market is and start to move back down again from that point. In effect that we are reacting to the boards, in the main Coles and Woolies and other major oil companies, yes, they do move boards up.

MR MARKS: But who is moving them up, do you think? Is it the majors, is it the supermarkets; who is it?

MR ANDERSON: I would just say majors. To finger point at one that moves boards up would not be possible from my perspective.

MR O'KEEFFE: I think they all take a turn. I don't mean by that there is a roster or anything like that.

THE CHAIRMAN: I was starting to get excited.

MR O'KEEFFE: You will see Shell - Coles will go first sometimes. BP will go first quite often. Caltex will go first. It used to be that Caltex would lead it up, but that doesn't seem to be the case so much now that they have got the alliance with Woolworths. It really is hard to say. I think the people from Geoff Trotter's organisation or from Informed Sources would probably be in a better position to know who is leading them up.

MR MARKS: When you say these things are happening, have you observed this simply anecdotally or have you actually undertaken marketing and research to try and ascertain what exactly?

MR O'KEEFFE: It varies in every site's market. You know, in a particular local market it might always be the Caltex service station that goes up first or in another one it might be the BP that goes up first. It just varies from site to site. But we have certainly never carried out any market research on it.

MR MARKS: Have you observed any - we have talked about peaks and troughs in the cycle. You have observed any variations in the peaks and troughs in recent times? By that I mean the peaks getting higher, the troughs getting lower? Are there any observations that you have made about the Brisbane price cycle in that sense?

MR O'KEEFFE: As I said earlier, I think that the prices move up to a point that is too high. I think there has been a trend there. I haven't done any study to confirm that. But that would be my feeling, there is a trend there.

MR MARKS: Mr O'Keeffe, what time period are you talking about? Is this something you have observed very recently or have you always had the view that they simply move them up to a price that's too high?

MR O'KEEFFE: I think I've always had that view. But I think it's got worse, yes.

MR MARKS: Lately?

MR O'KEEFFE: Yes.

MR MARKS: This year in 2007?

MR O'KEEFFE: Yes.

MR MARKS: What do you think is causing these peaks?

MR O'KEEFFE: I don't know. But one interesting thing, I heard your - I heard the questions that were asked of Neumann's before. There seems to be this general assumption that margins have increased. I just don't believe that that's the case. They have increased if you are talking cents per litre margin. However, if you look at margins in terms of the percentage of sales, they haven't. Most retail businesses, when they talk about margins, they talk about margins talk about percentage margins. They don't talk about cents per litre or anything like that. They talk percentages. Just on our figures, and I can give these to you later, the 03-04 percentage was 8.07 per cent. And that's now come down in 06-07 to 6.18 per cent.

MR MARKS: Yes. You say that - perhaps I can ask you: Is that the trend? We have got 03-04 and 06-07 - - -

MR O'KEEFFE: Starting from 03-04, it's 8.07. The next year 7.08. The next year 7.14 and the next year 6.18. Historically, this industry has always talked in cents per litre but the supermarket chains historically talk in percentages. So there might be a connection there, but I wouldn't know.

MR MARKS: When you say there might be a connection, are you saying that a cause of this falling margin - - -

MR O'KEEFFE: That might influence how they set their prices, you know, trying to achieve a percentage. Because we do know that just following a cents per litre number can get you into a lot of strife. When cost prices go up, a lot of our business now is on card - all merchant service fees are paid on a percentage basis. You are paying out a lot more in actual dollars in the merchant service fees.

MR ANDERSON: Labour costs, rents.

MR O'KEEFFE: Rents have all gone up by CPI. Labour costs go up by whatever and probably going even higher as labour is becoming extremely tight. It is probably a smarter way to look at it in terms of percentage when a lot of your costs are increasing that way.

MR MARKS: Given what you have just told us, how do you see Matilda's position in the retail market at moment? Are you - - -

MR O'KEEFFE: We have a mix of sites. We are finding that the larger sites are now traveling quite well, to use the jargon. Ones with the bigger shops, with the bigger foot traffic through the sites are now starting to travel or trade more profitably. Some of the smaller sites, though, are very marginal. We expect to see a number of the smaller sites disappear out of the market in the very near future. The other pressure that is coming on is of course the need to improve the facilities in terms of the environmental requirements, council requirements and state government requirements for environmental equipment, upgrading the equipment on the sites.

MR MARKS: Yes.

MR O'KEEFFE: The big companies have been doing that at a faster rate than we have. We haven't been able to afford to do it so we do need to make some money to be able to afford to do these things, otherwise we will be shut down anyway.

MR MARKS: When you talk about margins and you have given us the picture you have, you have been talking about margins on petrol sales?

MR O'KEEFFE: Yes.

MR MARKS: More generally, can I ask you: The convenience stores or the retail outlets that you have at the sites, are they operating profitably, generally speaking?

MR ANDERSON: As Lawrence was saying, it probably fits into a couple of criteria here. There are larger sites where we might run an associated supermarket, an IGA, a Spa or Foodworks or something like that. There has certainly been a shift away where we have needed to invest significant money into the business to give the business a large enough footprint to have foot traffic coming through, some shop turnover. We have that model. We have a workshop model, which as much as they are not major dealerships they are still a reasonable - to be made out of a workshop situation. As Lawrence said, the dealer or agent who is left with a set of bowsers and a smallish shop and not the hysteria on the price board that's been there with the shopper docket now is certainly doing it very tough. As labour costs increase, merchant service fees ratchet up and as a percentage basis and their rents increase, they are under some severe hardships. And I don't really hold much hope for them in the future if the current trend continues.

MR MARKS: I wanted to ask you some questions about the shopper docket arrangements. You say in your answer, Mr O'Keeffe, they have had a significant impact and there has been a flow-on effect, you say, with decreased shop sales due to lower numbers. I just wanted to ask you generally: have you undertaken any support for your site businesses? Have you offered any support other than - well, have you offered any support at all?

MR O'KEEFE: Very much so.

MR MARKS: Tell us about that.

MR O'KEEFFE: That merchandising program that I was talking about before, where we have appointed a special person. It has been Garth's particular interest so I will let Garth expand on that.

MR ANDERSON: We are in a position obviously with the 4c deal which was rolled out from Coles and Woolies to combat that and do some sort of a comeback position, which started off just quite simply as a milk and bread deal, which has been done by many others around Australia as well. Nevertheless, it certainly was a way of us being able to offer a 4c discount and at least be in the game.

MR MARKS: How did that work?

MR ANDERSON: That was through a negotiated trading terms on milk and bread product, which was a particularly good by if the group did it as a group and worked with scales of economy and buying in volume. That effectively - that got the dealer into a break-even point, where if someone was to come in, buy 50 litres of fuel, receive a 4c discount with a quota for $2 and the $2 was factored into the purchase price for the milk and bread, they would at least be at a break-even point on a fuel purchase and offer the 4c discount. That program has moved from milk and bread into a number of other items that we do in the shop. We call it a buy and save program. So we have tried to excite the market a little bit with our loyal clientele being able to offer other types of products from milk and bread, now extending to a range of things. It's not a massive winner. It's allowed a little bit of a fight-back plan. The uptake at best would probably be in a site doing, you know, if I say some 700,000-odd litres, it would be about 50,000 to 60,000 litres of uptake would be the discounted fuel. We are talking about less than 10 per cent as an uptake on that. It is not major, but it certainly has assisted us in getting foot traffic through the shop where they might buy something else or at least hold the clientele for a fuel sale.

MR MARKS: Is the plan to expand that form of support or at least maintain it?

MR ANDERSON: We are looking for any ideas that we may be able to link in. We have a couple of IGA supermarkets which do a reverse type of deal from the Woolworths and Coles type of model. But the uptake on that is very low. Other than that, no, we can't really afford to move up like we do with Coles and Woolies, where there are 12c programs now, they have moved on to that. We are certainly just looking for other ways to at least do a meaningful 4c program at the sites.

MR MARKS: So you do intend to continue the 4c program?

MR ANDERSON: Yes. We have our full agent network support on that.

MR MARKS: You say in your answer to paragraph 24 - perhaps I can just refer you to it. Do you have it in front of you, Mr O'Keeffe?

MR O'KEEFFE: Yes.

MR MARKS: You have already given us some assistance about the price cycle. Is there anything you want to add to what's in your answer in paragraph 24?

MR O'KEEFFE: First of all, I can understand the commission's desire to try and understand the price cycle and get to the bottom of it. I was surprised that the inquiry was restricted to unleaded petrol, because I would have thought that looking at diesel could have been quite instructive. Most of the market pressures that apply to petrol apply to diesel and yet there is no price cycle in diesel or not in Queensland, anyway. Not in the area that we work in. I would have thought that it would have been - maybe the commission could have found something out from that.

MR MARKS: Do you have any view that in open session you are prepared to share with us as to why there might be no price cycle in diesel?

MR O'KEEFFE: The only thing I can really think of is that a lot of the business is captive business with the oil company cards. That's the only conclusion that I can come to. But there certainly doesn't seem to be that price reaction in the diesel market. And diesel has an impact on the economy and quite a significant impact on transport costs. That just surprises me. That's the only reason that I can think of.

MR MARKS: Could the size of the market be a factor, do you think?

MR O'KEEFFE: It probably is. It is a smaller market. It's certainly a growing market. So whether we will see that trend or not, I don't know.

MR MARKS: It's quite a substantial market now, the diesel market, isn't it?

MR O'KEEFFE: It is, yes. We have some fairly large diesel sites where we supply trucks. I think it's probably - we do have a very large truck stop site, so that probably skews our numbers to a degree. The refining margin in diesel is extremely healthy and it has been for a long time. The refining margin in petrol does seem to vary, although it has been - over recent years it has been extraordinarily healthy. I have never seen margins like it. Quite frankly, I get rather disturbed when the finger is always pointed at the retailer as being the person that's doing the price gouging. I would have thought that there would have been more questions asked of the refiners because their margins are really quite obscene. In pointing the finger at the reseller, what is occurring is a lot of drive-offs. It is not just in one particular socioeconomic group, it seems to happen right across the whole spectrum. People just seem to think, "We've got politicians telling us that it's the retailers that are gouging, we have the ACCC telling us it's the retailers who are gouging so we'll get square." Some of the behaviour at the consoles is really intolerable and not acceptable. People get abused. It is becoming a difficult thing to get people to go in and work in a service station let alone work in a service station at night-time.

MR MARKS: Mr O'Keeffe, do you have a view about the cause of the improvement in the refiner margin in the last couple of years?

MR O'KEEFFE: Not really. We don't subscribe to PAX numbers. I have never really kept a record. I see these numbers on the AIP website. It was interesting that when the Senate inquiry was on - was that last year or the year before?

MR ANDERSON: Last year.

MR O'KEEFFE: Last year. All of a sudden refiner margins became compressed and then of course they have been compressed again recently. But the diesel margins continue to be very high. That is obviously a function of the demand for diesel in the region.

MR ANDERSON: We have had significant growth in our volumes in diesel with not a price cycle occurring in diesel. For an independent company to get in and get stuck into the price boards and discount we have had - you can probably see from the figures that you have got there, we have had significant - - -

MR O'KEEFFE: No, they don't have numbers for diesel.

MR ANDERSON: The diesel numbers are the complete flip side of what we have with several million litres of unleaded motor spirit - - -

MR MARKS: I am going move to a slightly different topic now. You said earlier that your present arrangements are with Shell and you are happy with those arrangements. Can I ask you: Practically speaking, is there an alternative arrangement that is available to Matilda at the present time for petrol?

MR O'KEEFFE: The only - well, I guess we can go to the open market and I don't know - I don't know whether any of the other majors would be interested in supplying us. But I would imagine that Neumann probably would be. But I couldn't speak for the others. We haven't tested the market at all. We really don't know.

MR MARKS: You have an opportunity under your arrangements with Shell to review pricing and, if so - - -

MR O'KEEFFE: Yes. There is.

MR MARKS: Are those meaningful reviews? Do you undertake an evaluation of what other options are available and whether you could do better somewhere else?

MR O'KEEFFE: There have been no changes as a result of reviews in recent years. But prior to that, they were very helpful, yes.

MR MARKS: Apart from the majors, is there an independent who could be a realistic option as a supplier?

MR O'KEEFFE: That would only be Neumanns.

MR MARKS: Apart from Neumanns.

MR O'KEEFFE: No, there is not.

MR MARKS: Are they the only independent?

MR O'KEEFFE: It is the only other independent terminal.

MR MARKS: All right. So far as your facilities are concerned, you have an arrangement with Shell to supply petrol on an as ordered basis. Are there times when you find you have got excesses of supply or deficiencies of supply and, if so, how do you deal with that situation?

MR O'KEEFFE: No. We go to Shell and pick up petrol as we need it, petrol and diesel. I don't - I can't recall when Shell has ever come to us and said, "We've got a surplus of product, would you like to take this". That certainly hasn't happened. We have to forecast our volumes with Shell and we do that probably every quarter, just talk about what our offtake will be for the following quarter. It's being managed quite well from a supply point of view. We certainly don't have any problems with them as a supplier. They have been a very good supplier.

MR MARKS: But do you have an ability to vary your requirements? You do?

MR O'KEEFFE: Yes, we do.

MR MARKS: That you are able to do quite satisfactorily?

MR O'KEEFFE: Absolutely, yes.

MR MARKS: So you don't really get situations, at least so far as you can remember, where you get either - certainly excesses of supply? Are there times when Shell can't supply you, all of your needs?

MR O'KEEFFE: The only time Shell haven't been able to supply is when there has been a problem at their terminal or if they haven't been able to get product from wherever they are bringing the product. They bring some in by boat and they take it from other refineries by pipeline.

MR MARKS: Moving to another area, can I ask you about your future strategies? You have broadly touched on some of these already. I'm not sure whether you can answer questions in open session about what your future strategies are.

MR O'KEEFFE: I would prefer not to.

MR MARKS: All right. Mr Chairman, that's all I had in open session that I wanted to ask these witnesses.

THE CHAIRMAN: We will go into closed session in a moment to deal with some of the issues that I wanted to raise but I think Commissioner King had a couple of questions.

COMMISSIONER KING: I think these are probably fine for you to answer in open session. But if they do raise confidentiality concerns, please let me know. When looking at diesel, are the average retail margins higher on diesel than they are on standard unleaded petrol?

MR O'KEEFFE: On a cents per litre basis?

COMMISSIONER KING: On either?

MR O'KEEFFE: They are pretty similar, actually. Very similar.

COMMISSIONER KING: On a cents per litre basis?

MR O'KEEFFE: Yes.

COMMISSIONER KING: Does Matilda sell LPG?

MR O'KEEFFE: Yes.

COMMISSIONER KING: How do the margins compare on that?

MR O'KEEFFE: We would rather not know about it.

MR ANDERSON: It is a service to customers - - -

COMMISSIONER KING: It is to get the throughput into the convenience stores. Do you have a higher octane unleaded petrol which you sell?

MR ANDERSON: We have a 95. Shell's 98 hasn't been released to us yet. For that matter, there was an E10 product being released through the Shell network.

COMMISSIONER KING: What do the margins look like on the higher octane, the 95 product?

MR ANDERSON: Very similar. The usage rate for our 95 is very small.

COMMISSIONER KING: By that you mean for standard unleaded?

MR ANDERSON: Yes.

MR O'KEEFFE: That leads to a point. I have noticed that some of the ethanol blends are promoted as 95 octane and some ethanol blends are promoted as 90 - they don't actually promote the octane but it would appear that it's 91 octane. Some of the ones, the 95 blends being sold, they are sold at a discount of 3c a litre. At times - and I think quite a lot of the time - you couldn't really afford to give a 3c a litre discount on that blend. But I have often wondered whether that mightn't be behind trying to move the unleaded prices up so that they have got room to discount that 95 blend. I don't know. It's just an observation. But I think the 91 blend that's being sold, you know, they start off with about an 88 octane petrol and that's what costs the money, it is the octane level that costs the money. I often wonder again whether that might be false or misleading advertising.

COMMISSIONER KING: Just if you can look at petrol price cycles, you know that there are periods of time when there is no price cycle at a low price. If I can paraphrase, the reason for that is as you felt it was - particularly if one of the independents didn't follow the majors up, the majors would tend to come back down and either match or undercut the independent and that would tend to kill the cycle for possibly even a number of weeks.

MR O'KEEFFE: Correct. I don't know whether that's the reason.

COMMISSIONER KING: That was your speculation. Do the price cycles ever die out at other times other than at a low price? Do you ever have a situation where the price cycle disappears for a couple of weeks at the high price?

MR O'KEEFFE: It almost seems to do the opposite to what you think it should do. You know, if the cost prices are moving up fairly quickly, which they have in the past, you would tend to think that the price cycle might sort of stay up a little bit. But at the bottom, it wouldn't go as deep at the bottom of the cycle. But generally when that happens it will go very, very deep at that particular time, your replacement costs are well above your selling price at the time.

COMMISSIONER KING: Do the petrol price cycles actually benefit Matilda? If you are able to, in a sense, undercut the top of the cycle and keep good margins and good flow through your outlets, is it Matilda's view that you are better off with the price cycles than you would be without the price cycles?

MR ANDERSON: If you take the diesel scenario into that question for the moment. We are saying that the margins are very similar and we are pushing hard under - a little bit under those major oil company prices in growing that volume, you would have to think without a shopper docket and in a more stable market we would do better.

COMMISSIONER KING: So in essence you are hurt by the petrol price cycle?

MR ANDERSON: With the shopper docket where we haven't got a level playing field, yes.

COMMISSIONER KING: Before the shopper dockets came in would you have the same opinion, were you benefiting?

MR ANDERSON: I think we were. As I said to the other gentleman, we were able to create more of a feeling - of a reason to come to Matilda, because they don't have a shopper docket, where now it is almost a routine or a mind-set of people, the shopper docket, it doesn't seem to matter what is on the price board, you need to go and use your shopper docket, even when the price boards are high. We can be at the bottom of the market, there will be a Shell service station or Woolworths' service station within a stone throw from us but the forecourt is full.

COMMISSIONER KING: So the price cycle probably benefits Matilda and the shopper dockets have now hurt Matilda, so putting those two together.

MR ANDERSON: Correct.

COMMISSIONER KING: Can we still say, though, that Matilda, with the presence of the shopper dockets, Matilda believes it would be better off with the cycle than without?

MR ANDERSON: I have used the diesel one just as a scenario, but that's probably not going to happen so it's probably pointless talking about it. But if it was, would we have achieved a similar margin in diesel? In the cycle, proprietary docket, there was a mass market that we were able to get at. There were price conscious people that we were able - in the market that we could tap into.

COMMISSIONER KING: Do you have any views on whether customers benefit or lose from the price cycle?

MR ANDERSON: I think the smarter customers that understand cycles and who are price conscious and look at days, triggered by motoring organisations on days, I think the smarter ones do know the days to buy on, which would be reflected in our figures when we get the bigger volumes on the bottom days, on the days when it is close at cost.

COMMISSIONER KING: The smarter customers gain.

MR ANDERSON: Websites. Communications. Radio stations.

COMMISSIONER KING: Thank you.

THE CHAIRMAN: We will now move into closed session if we can so Mr Marks can put a few questions that he has reserved for that.

WHEREUPON THE PROCEEDINGS MOVED IN CAMERA [4.00pm]

PUBLIC HEARING RESUMED [4.40pm]

THE CHAIRMAN: For the record, could you state your name and position? I will perhaps get that microphone moved up a bit closer.

MR TROTTER: Geoff Trotter, General Manager Fueltrac.

MR CABLE: Chris Cable, General Manager Fueltrac.

THE CHAIRMAN: There are no legal representatives. I would like to inform you about the rules of giving evidence at this inquiry. Firstly, it is an offence to refuse to be sworn, refuse to answer questions or refuse to produce documents that are required of you by summons under Part VIIA of the Trade Practices Act 1974. Secondly, it is an offence under the Criminal Code to give evidence at this inquiry that a witness knows is false or misleading or omits any matter or thing without which the evidence is misleading. Further, I advise you that you can either swear under oath or, if you believe an oath would not be binding or for religious you are prevented from swearing an oath on the bible you may make an affirmation of your evidence at this inquiry. Do you wish to swear under oath or affirm the evidence you will give at this inquiry?

<CHRISTOPHER CABLE, SWORN

<GEOFFREY TROTTER, SWORN

<EXAMINATION BY MR YOUNG

THE CHAIRMAN: Mr Young?

MR YOUNG: Mr Trotter, if your presentation is not ready, perhaps I can proceed with some questions and we might come back to it. Mr Trotter, could you describe the business activities of Fueltrac that are really relevant to the subject area of this inquiry?

MR TROTTER: Yes. We provide retail price monitoring services. We provide international price monitoring services. We conduct major fuel supply tenders for governments, large commercial customers, large feed customers and aggregated small business. As part of those activities we collect substantial transaction data, which allows us to track movements in retail pump prices, internal gate prices, in international prices, shipping rates, port charges, all of the components that the oil companies currently put into their terminal gate calculations.

MR YOUNG: You mention I think somewhere your clientele in respect of your price monitoring services include the Australian Automobile Association and the RACQ. Are there any major oil industry companies amongst your clientele?

MR TROTTER: No. In fact, I'm not sure how far you want to go down this track but I will just make the point, there is a major competitor into our price monitoring activities currently in the inquiry room. If you want to go into the detail of our price collection and monitoring activities, we would be happy to do that in a closed session.

MR YOUNG: I don't think I need to pursue it, Mr Trotter. It does appear that you are commonly quoted in the media as a person having some expert knowledge about prices in the petrol industry; correct?

MR TROTTER: Yes, I think - industry expert under pressure.

MR YOUNG: In terms of those media statements you have made from time to time, could you describe the basis on which you make those statements; in other words, are you acting simply as a spokesman for Fueltrac or are you doing that kind of exercise on behalf of clients?

MR TROTTER: No, it's strictly in relation to the promotion of our consulting business.

MR YOUNG: So you see those statements really as a promotional exercise?

MR TROTTER: Well, we don't have large advertising budgets and so on, but we have considerable expertise in relation to petrol price activities, oil companies' activities in Australia. So if media asked us to comment on specific situations in any given market, then we examine our data and comment accordingly.

MR YOUNG: Do you as a matter of course as part of your business carry out any analysis of the raw data that you collect for your various clients?

MR TROTTER: Absolutely, yes, absolutely.

MR YOUNG: Do you analyse what is happening with the price cycles in various cities from time to time?

MR TROTTER: Yes, we do.

MR YOUNG: Have you done that with a view to ascertaining the cause of particular price cycles?

MR TROTTER: Not so much the cause, just the nature of them and the different behaviour patterns that appear in different markets in Australia.

MR YOUNG: Is it right to say that there are no price cycles as such, for instance, in Darwin, whereas if we look at Brisbane they seem to be pretty rigid price cycles?

MR TROTTER: There was one weekly price cycle three weeks ago in Darwin when, according to our figures, United had taken over a couple of Mobil service stations in that market. There were seven days of prices about 12c lower than the average in Darwin. It lasted almost exactly seven days and then disappeared, never to return.

MR YOUNG: Was that a one-off-off incident for Darwin?

MR TROTTER: It's a very rare occurrence in Darwin. That occurred, as I say, about four weeks ago now.

MR YOUNG: I think Hobart may be another example of a city with no price cycles.

MR TROTTER: Hobart is interesting to the extent that at times there will be extended periods of low prices and then there will be an absence of any cycling for extended periods. It seems to us that it depends what is happening with the activities of United in that market as well.

MR YOUNG: Let me focus in on Queensland for the moment. In the major regional cities in Queensland moving up the coast, Townsville, Rockhampton and so forth, do you find price cycles in any of those cities?

MR TROTTER: No, we don't.

MR YOUNG: But it's fair to say that the price cycles revealed by the data for Brisbane are really quite ridged, a pretty strict seven-day cycle?

MR TROTTER: Normally, although there was a period in 2003-04 when Coles Express came into the market. There was a four-week period without any price cycle. But apart from that, it's very rare that there is not the normal weekly sawtooth pattern.

MR YOUNG: That incident when Coles Express came into the market and you said there was no price cycle, is that because prices were held low during that period?

MR TROTTER: They were.

MR YOUNG: Have you generally noticed - just focusing on Brisbane at the moment - any change in the pattern of price cycles in Brisbane over the past few years?

MR TROTTER: Only to the extent that they tend not to go quite as low as they did and they tend to go higher than they used to. When I say higher and lower, it's relative to the TGP figure. Obviously there have been price increases due to international factors and so on but we use the TGP as a benchmark. So we find that now they rarely go below the TGP posted in that market and they go up as high as 15c litre above the TGP in the market.

MR YOUNG: When do you date this development from?

MR CABLE: It's very hard to say without the figures.

MR YOUNG: Do you have the figures in front of you?

MR CABLE: Not with respect to that particular instance, no.

MR YOUNG: But, broadly speaking, is it something we have seen over two years, three years?

MR TROTTER: Two years at least.

MR YOUNG: Two years?

MR TROTTER: Yes.

MR YOUNG: It postdates Coles Express' entry?

MR TROTTER: It does. Let me say that there were many times prior to Coles and Woolworths entering into the retail petrol market where the bottom of the cycle would be down as low as 4 or 5c below the TGP. It is very rare for them to now go below 1 or 2c, if that.

MR YOUNG: Have you also noticed in the past few years in Brisbane that there has been some change in the amplitude of the cycle, that is, the difference between the low and the high?

MR TROTTER: Yes, that's right. At times it has gone up as high as 15c a litre.

MR YOUNG: Generally, what is the pattern? Has the amplitude increased?

MR TROTTER: The differential 15c has increased and then the relativity to TGP has increased. This is what we have - we have got the Queensland Government subsidy inquiry launching as well. It will be very interesting to see why it is the differential prices between Brisbane, Sydney and Melbourne have changed to the extent that the average differential for the last six months has only been 6.2c a litre, not the previous 9c a litre.

MR YOUNG: I will ask you to develop that and make it a bit clearer. What is the comparison you are making between Brisbane, on the one hand, and Melbourne and Sydney, on the other?

MR TROTTER: It's the difference between the average retail pump price. For the six months January to June - sorry, seven months, January and to July 2007.

MR YOUNG: What's the position in Brisbane in that regard?

MR TROTTER: In Brisbane, prices are generally higher by about 2c to 3c a litre. So they have eroded the average differential between Brisbane and Sydney which used to reflect the full benefit of the state subsidy here, including GST which was in the order of 9 to 9.3c a litre.

MR YOUNG: Before the - if I can do it this way: Before the state subsidy in Queensland, what was the difference in average pump prices, Sydney compared to Brisbane?

MR TROTTER: The state subsidy has been in place since the High Court challenge I think in 1998 in relation to the removal of franchise fees. Queensland adopted the - decided to go with the state subsidy. Over a long period of time - we have posted data on our website from 1998 - up until the last year in particular, the average difference, it was very close to 9c a litre. For the period January - that differential is between the average pump price Brisbane metro versus average pump price Sydney metro and average pump price Melbourne metro. In the last seven months the differential has come down an average of 6.2.

MR YOUNG: But in each case Brisbane is the lower.

MR TROTTER: The higher.

MR YOUNG: The higher?

MR TROTTER: Sorry.

MR CABLE: It depends if you are talking about differentials - - -

MR YOUNG: You are comparing Sydney to Brisbane for two periods. You are saying Brisbane is always lower but the gap is now narrower.

MR TROTTER: The gap has narrowed down to around 6c rather than 9c.

MR YOUNG: What does that tell you about the state subsidy in Queensland and whether it's being passed on to consumers?

MR TROTTER: That's the question for the inquiry.

MR YOUNG: Do you have a view about it?

MR TROTTER: No, we have been tracking all the data. It can only be occurring in one of two places, either at the wholesale level or at the retail level. Further examination of the data at that should identify who has been increasing their margins at that point in the pricing - - -

MR YOUNG: Have you undertaken any of those investigations yourself?

MR TROTTER: Not yet. But no doubt the inquiry will ask us to do that.

MR YOUNG: Having monitored petrol price cycles - let's just stick to Brisbane for the moment - what do you regard as the causes of the existence of price cycles in Brisbane?

MR TROTTER: I have given this a lot of thought. People have tried all sorts of explanations. I know when, in my previous life at Shell, it was just a marketing strategy that we adopted - I was at Shell for 15 years, in retail for about 10 of those years. Back then, we were - we were actively competing against independents in the market. And we would have this - there would be this chase down cycle thing and then we would get down to the price at which we were supplying the independents and then the thing would come to an end and we would go back up. There was no rational explanation for it but we were at that time working for the oil company reacting to the activities of independents in the market, the likes of Matilda in particular, and many others at that time.

MR YOUNG: That's well and good so far as you are following the price down. But about the increase in the price back to the top of the cycle?

MR TROTTER: What would happen there, we would get instructions that prices would go up on whichever day - back then I think we used to put them up on Mondays. We would lead with the CAs, the commissioned agency sites. Under the old Franchise Agreement Sites Act oil companies were allowed to have 25 commission agency sites each. Sometimes Shell would go, sometimes BP, sometimes Mobil. So we would move the CAs and then the franchise dealers, we would cancel their price support and that would get them up. And then the independents would normally come up to about within 2c a litre of us.

MR YOUNG: If I can summarise, you are describing - - -

MR TROTTER: A process.

MR YOUNG: - - - the historical process that you recall from your days working for an oil company.

MR TROTTER: Yes.

MR YOUNG: At that time the price would be led up by the majors.

MR TROTTER: Yes, through the CA sites.

MR YOUNG: Making a decision to move up on a particular day, first through their commissioned agent sites and then through their withdrawal of price support to the franchisees.

MR TROTTER: That's right.

MR YOUNG: And that would drive the price back up to a figure determined by the oil companies.

MR TROTTER: Yes.

MR YOUNG: And the independents would then follow the market back up to something close to the price set by the majors but normally 2 or so cents below.

MR TROTTER: Yes, 2c.

MR YOUNG: That's your description of how historically it worked. From your observations and the data you collect, is that how it currently works?

MR TROTTER: In terms of the detail of the data that we have got available, it's not down to hourly data so it's hard to sort of pick first movers. But I mean, we operate our business right throughout the Brisbane market. We drive across town every day. Almost invariably we find that it's normally - it's normally an independent in an area that does take a price lead.

MR YOUNG: In which direction?

MR TROTTER: Down.

MR YOUNG: All right.

MR TROTTER: For those competing at the margins in terms of they haven't got a shop offer, they haven't got all of the bells and whistles at the convenience stores, their only offer in the market is the price offer. Some of them still operate just on that price offer basis.

MR YOUNG: So where you have a site like that and you have competition in that particular site area, you might - you would say you usually find that it's the independents with no shop offer, just a price offer that tends to lead the prices down at the start of the cycle?

MR TROTTER: That's right.

MR YOUNG: What if you assume a different set of dynamics for a particular site? You don't have any independents, you have got some majors in that particular area, perhaps two majors head to head, maybe two supermarkets head to head; what are the dynamics in that kind of site?

MR TROTTER: Unfortunately you have just described Darwin and Hobart. In Darwin you have the majors all there. You have Caltex Woolworths, Shell's Coles Express. Three - there used to be only two but now I think there are four - run by United. In that market they don't have the market power to achieve any price discounting in that market. There are also supply constraints that come into effect. But that aside, the retail market only, in those markets, Coles and Woolworths do not compete on price.

MR YOUNG: So your theory is that the price discounting that goes on is usually initiated or carried on by the independents.

MR TROTTER: Yes.

MR YOUNG: And without independents in a particular market competing against each other you tend not to have a price cycle where prices are driven down by discounting?

MR TROTTER: That's right. Darwin, Hobart and most of the regional cities and rural locations around Australia.

MR YOUNG: Do you have anyone in Darwin making these observations about that market or how do you collect your data?

MR TROTTER: We use the same methods we use everywhere else in Australia. We collect retail pump price data.

MR YOUNG: From subscribers?

MR CABLE: No. If you would like a clarification of that, we would be happy to do that in a closed session.

MR YOUNG: We will come to that in the closed session. Can I come back to your analysis of the Brisbane market?

MR TROTTER: Yes.

MR YOUNG: You have spoken about how it is you think the prices are driven down. What about movements of price in the other direction? What initiates or causes the price increase back to the top of the cycle in Brisbane?

MR TROTTER: Normally it's Caltex. Normally it's Caltex. But at times it's Shell Coles Express. The others are really followers.

MR YOUNG: But presumably there are some local sites where Caltex is not present and you might have another major like BP? If you take a site like that - - -

MR TROTTER: Given the spread of Caltex and Caltex Woolworths outlets across south-east Queensland and Brisbane and Shell's Coles Express, no, it is almost exclusively those two.

MR YOUNG: When you said given the spread of Caltex, I assume you mean the number and location of the various Caltex outlets?

MR TROTTER: They are by far the biggest.

MR YOUNG: When you speak about Caltex, are you speaking about their company sites or their joint venture sites with Woolworths?

MR TROTTER: Normally it's their - I'm not sure exactly what the arrangements are, you guys - Caltex didn't put in a submission, I don't think. It's normally at their - at the ones that are still Caltex branded. The Caltex Woolworths ones often lag.

MR YOUNG: All right. What role do any of you think price support supplied by the major oil companies to their franchisees plays in the price cycle?

MR TROTTER: It's absolutely critical in getting their franchise network up to whatever - how the market price is.

MR YOUNG: Can you explain how you say that happens?

MR CABLE: Can I put up a graph on the overhead?

MR TROTTER: It's been a long time since I - - -

MR YOUNG: I think we will take Mr Trotter's verbal explanation and then we will go to the graph.

MR TROTTER: As I understand it, they are all linked on computer systems and so on back to the pricing system within the oil company. They receive an email advice or some electronic advice saying that effective such and such a time, your fuel delivery price will be 1.05 a litre. On the price support scheme it may have been 99c.

MR YOUNG: When you use the worth "they" you are referring to the franchise outlets of in this case Caltex or some other major oil company?

MR TROTTER: Although of course again I'm not sure what the ownership arrangements are, but the sites are directly controlled by the oil companies on commission agency arrangements and they don't have to go through that process. They just ring them up and tell them what price they go to.

MR YOUNG: Do you have current knowledge as to the extent to which price support schemes are operated by each of the major oil companies in Brisbane?

MR TROTTER: Not current knowledge. There would have to be some sort of price support scheme for them to be able to survive, given that at the bottom of the price cycle they are down - they are down sort of almost at TGP.

MR YOUNG: Do you know whether as a matter of fact BP or Mobil operates price support schemes of the kind you have described?

MR TROTTER: I don't have any specific knowledge of that.

MR YOUNG: You are simply making the assumption that they do?

MR TROTTER: It is just that I happen to know some Caltex dealers who told me that's what happens when they have to put the price up under the Caltex scenario. I don't know what the exact arrangements are for BP or Mobil dealers.

MR YOUNG: What explanation do you give as to the causes for the price cycle now in Brisbane rising to higher peaks and deeper troughs than previously? What's the cause of that of that phenomenon?

MR TROTTER: I'm not saying they go deeper troughs, I'm just saying they go higher.

MR YOUNG: A bigger span.

MR TROTTER: A bigger span, but not lower.

MR YOUNG: What's the explanation for that?

MR TROTTER: I think it's got to do with the activities of Caltex and Woolworths and Shell Coles Express to recover some of their funding on those shopper docket schemes. I mean, the biggest divergence we saw back in January which triggered the ACCC's interest in relation to the divergence of the TGP price and the pump price - do we have that? It was something that the market leaders in terms of the retail price during that period of two weeks when they were operating that Christmas/New Year offer, spend $80 and get 20c a litre rebate, the average price for those outlets was about 5 or 6c a litre higher than it would have been normally.

MR YOUNG: What's the basis on which you calculate the price it would have been normally?

MR TROTTER: Because we know what the TGP price was and we know what the difference was relative to the pump price. It's a simple calculation.

MR YOUNG: Mr Cable, just for the clarity of the transcript it may be easier if I come to you in one piece with perhaps a general presentation at the end of a series of questions of Mr Trotter. It is simply so that we have a coherent transcript rather than a broken one. Now, perhaps I will ask you to explain more fully what you say the impact is of the Coles Express, Woolworths shopper docket kind of discount. What do you see is the significance of those discounts?

MR TROTTER: Well, the significance of them - we think that it's an aberration in the retail petrol market. Before their existence, there were weekly discount price cycles. Although the amplitude wasn't as much as it is now, certainly the discount relative to TGP was lower at the bottom of the cycle than it is now. We think that they have effectively - they have stuck with the old price cycle scheme. That suits - everybody likes to have these discount cycles. But they have effectively been able to increase their margins. The other interesting thing is that that flow-on effect has gone through to the independents because how can you explain the fact that in a scenario where we are supposed to have these deep discounts, independents' margins have actually improved, because they are spending more time at the top of the cycle, going higher, and not going as low as they used to. Now, most of them are now price followers, they are not price leaders as they were in the previous market.

MR YOUNG: If we take that explanation and apply it to Brisbane, who do you say is the - what independents do you say are the price followers in Brisbane?

MR TROTTER: Well, you have had two of them here today. They are large. The smaller ones, to some extent they can trigger the discount cycle but then they just follow - you know, once the move is on, they invariably go up as well. There is hardly any lag time. If there is a lag, then what we find is that the oil company moves the price down surrounding that independent outlet, normally for 24 hours. When he has got the message, they go up and then he follows.

MR YOUNG: Yes. Now - - -

MR TROTTER: There are no phone calls. They just watch the price boards. You have informed sources feeding this information to all the oil companies and everybody else every hour or two hours. So they know exactly what is going on with the independents outlets and the majors in the area. They call it tactical pricing.

MR YOUNG: To what extent do you think that the supermarket alliances, Coles Shell and Caltex Woolworths, are actually determining prices, that is, setting the higher prices or controlling the rate of discount?

MR TROTTER: I think they are absolutely setting the agenda. And they all subscribe, as I understand it, to tactical pricing. They have - in fact, they have much better information than most independents because the independents basically can't forward tactical pricing from informed sources or wherever.

MR YOUNG: You had better explain what you mean by tactical pricing.

MR TROTTER: As I understand it, they get feeds, depending on the level of service you buy, hourly, two hourly, three hourly, and it gives you the prices of all your competitors in specific areas, locations. So you know if they have stayed up - sorry, if they have gone up or they have stayed down. What they do, if they have stayed down, then the oil companies, because they have all got the same information, then target those commission agency sites or franchise sites and offer them price support again and move the price down, often lower than the price that the independent was at, with the clear message to them that if you don't move your prices up we can go lower than you are and watch out for your business. They then get their - what normally happens the next day is the independent then goes up to 1c a litre below the major in that area.

MR YOUNG: When you use the expression "they" in describing tactical pricing, who do you say it is in Brisbane that adopts this kind of pricing?

MR TROTTER: As I understand it, tactical pricing information is sold to BP, Caltex, Mobil, Shell, Coles and Woolworths, as I understand it. Someone in the audience can probably answer that question better than I can.

MR YOUNG: What impact do you say that these pricing changes have had and perhaps will have on the independent retail outlets?

MR TROTTER: Well, it's not a uniform situation, because we have had a number of examples where the grocery retailers have used almost predatory pricing in relation to entry into the markets or for specific periods in certain markets. As we understand it, Shell Coles Express undertook some study in terms of the benefit of selling at a low price for three or four weeks in the Adelaide market versus going with the weekly cycle in the Adelaide market. So if they want to, if they choose to do so, they can sell at or below TGP and can force any independent out of the market that's linked to a TGP buying price. If they choose to. And they have tested that scenario, as far as we can see in our data, in Adelaide.

MR CABLE: Adelaide in April and Sydney in July.

MR TROTTER: Sydney in July. They kept the prices down there for three weeks in July. We don't know - they test their modeling in terms of market share growth, volume growth or whatever. But it's something that they do that any other independent in Australia can't possibly do, and hasn't done before.

MR CABLE: It was April in Adelaide and July in Sydney.

MR YOUNG: So what do you say of the proposition that petrol prices have been lower as a result of the entry of the supermarkets into retail petrol?

MR TROTTER: I would say that is wrong.

MR YOUNG: That's because you would say that the discounts are being offered off, in effect, higher retail prices than might otherwise be the case?

MR TROTTER: Yes. And the effect has been even worse to the extent that because it's across the supply arrangement, our view is that Coles and Woolworths have increased their prices in the grocery market.

MR YOUNG: Is that based on any research or data, Mr Trotter?

MR TROTTER: I'm sorry I don't have the presentation. There was an ABARE study just released and a Pricewaterhouse study released in June that showed that farm gate prices across all food groups had increased 2.8 per cent, CPI for the same period - yes, for the period 2002 to 2006 across all food groups 2.3 per cent at farm gate price, the consumer price, CPI for the same period was 12.1. The supermarket price rise at the checkout was 17.8 per cent higher. So - that's ABARE and ABS, June, Pricewaterhouse study that was published in June 2007.

MR YOUNG: Mr Trotter and Mr Cable, is your presentation now in a condition to proceed with it? What we might do, Mr Chairman, is invite the witnesses to make this presentation and then, if there are any further questions, we can follow with those.

MR TROTTER: We will skip through very quickly.

THE CHAIRMAN: Is any of this confidential?

MR TROTTER: No, this can go on the internet.

MR CABLE: There is a copy for the Commission to take.

MR TROTTER: Very quickly. The highest level Fueltrac average metropolitan prices - obviously we agree with the ACCC's observations that there was a divergence in January 2007 and June 2007. That has largely been corrected in the five capital cities. It hasn't been corrected to the same extent in the regional locations. When we plot our figures it's amazing to see the drops that occur, particularly after Mr Samuel's media campaign in January, and also recently on 15 June with the announcement of the petrol price inquiry. That's the delinking. Maybe that is 95 lag price, Singapore the red line, whereas all the other lines are regional pump price locations. We have taken major regional centres and plotted them on that line. You can see that many of them are going up at the time that that line is going down. That's nothing new and there is a major divergence in June, obviously. What concerns us is - when I was reading the submissions, all the oil companies and grocery retailers say how competitive the market is, the cost of discounts and so on, yet since their entry, that's the performance of their share price and that's their net profits before abnormals. So whatever else they are doing, being competitive in petrol prices and grocery prices hasn't impacted on their profitability. Coles Woolies, 79 per cent of the 74 billion grocery - this is the PWC inquiry, supermarkets all foods up 17.8, farm gate 2.3 and CPI 12.1. Since 2003 this in the grocery markets has come into the retail petrol market. Since that time - the figures seem to vary greatly. Caltex at least identified in their latest annual report that they conceded they have 43 per cent of the market with the grocery retailers. They were done through acquisition of Shell's 584 branded sites, a JV arrangement with Woolworths. Woolworths had their own network and the final point is it's our estimate of the reduction of the independent network since 2003-2004 - and we took the starting point, the AIP published service station location numbers by category, in 2000 there were 8,370 sites down to 6,300 today. They have achieved their dominance by the base shopper docket, promotional pricing offers up to 20c. They target specific periods in specific geographic areas. And they often are the highest retail pump price in geographic areas. For instance, in Darwin they don't compete at the lower end of the market. They are just up there with the rest of the majors. And Coles and Woolworths with this - with some more sophisticated software I am sure they have got, they have done demographic breakups. In Brisbane, anybody who is familiar with Brisbane, relatively affluent western suburbs, you are going out along Coronation Drive, the first site you see on your way out of the city is a Shell's Coles Express which today and for the last week has been selling at 113.9. You go on the other side of Brisbane, Shell Coles Express in a less affluent demographic area has been selling today at 106.9. So they differentiate pricing even within the markets that they operate in. That's the disconnect between the MOGAS price. You can see there is a price cycle that occurs and then Darwin, of course, you can see there is no price cycle. That's the average differential between Darwin and Sydney. You can see that when we had the disconnect between the MOGAS 95 price in Singapore and retail pump prices, the differential in Darwin jumped from an average of 10.6 up to around 18c per litre. They were pretty much the basis of my comments to the Darwin media. I was asked to comment on given that we had the strongest Australian dollar in 18 years, declining oil prices, had Darwin had any benefit from those two things and I said no, they had not, no benefit whatsoever. Oil companies claim that the principle wholesale price in import parity translate into the terminal gate price. However examination of the pricing methods by the market brand indicates that's not the principal pricing methods used at all. Of the estimated 24.6 billion per annum of petrol sold in the Australian retail market, 9.7 billion is sold at TGP and the balance at other wholesale pricing arrangements.

Coles and Woolworths volume up as high as 10.6 is purchased under long-term exclusive supply arrangement between Shell and Caltex. As we understand it, it is based on an IP, import parity, plus a margin, not terminal gate price less a rebate. But we don't know for sure. The Mobil supplies independents on term contracts using a variety of Mobil reference prices. Mobil has at this stage seven different Mobil reference prices they use in their pricing formulas. Caltex supplies independents on a mixture of TGPs and another conglomeration called the Caltex reference price formula. TGF in its submission to the inquiry said that they only supply 65 per cent of their volume on TGP and Shell has submitted its suppliers, independents, based on TGP based term contracts. They, for instance - they are major suppliers to Matilda, which indicated they are on TGP. However, most independents are supplied primarily on TGP-based price arrangements. Given the market dominance of those two, if retail price is kept below TGP and given that most of the independents are buying at a TGP-based price and given the tactical pricing available, they know exactly at what level they can drive those independents - they can make it non-profitable for them. This has happened twice in the major markets over the last eight months in Sydney, and that's in Adelaide where the - - -

MR CABLE: The blue line represents the average terminal gate price in those capital cities, Adelaide and Sydney.

MR TROTTER: You can see how they were able to eliminate virtually that normal price cycle that in that market for that period.

MR CABLE: Those two slides should actually be about-face because it happened first in Adelaide and, secondly, in Sydney.

MR TROTTER: The effects of these complex wholesale prices - state-based TGPs in Western Australia, we think they are irrelevant as they only cover an estimated 14 per cent of the total retail volume. WA and Victoria represent 36 per cent of the total retail petrol volume in Australia but there is only about 39 per cent of total fuel sold on TGP. That means only 40 per cent of the total retail petrol sold in Australia is linked to TGP in those two states. They are circumvented by Coles and Woolworths by their exclusive supply arrangements, so they have got nothing to do with TGP. They do apply to most independents and are the base price under which these oil companies add branding charges, freight charges and credit costs. Some of the independents may qualify for volume based rebates. For instance, Matilda as I understand it gets some sort of a rebate from Shell based on their volume. There is no transparency whatsoever of the other wholesale pricing mechanisms in the Australian petrol market. There is no transparency of the Caltex CIP or Mobil MRPs. It is market share by state. That's the most recent pricing in Sydney, I think. Where we had that period of four weeks where the grocery petrol retailers kept the price down in Sydney, they missed out on three cycles. We don't know what was going on but they did it earlier in the year in Adelaide in April. So despite being the most competitive petrol industry in Australia as claimed by the oil companies, year on year since the entry of the grocery retailers, they have been able to increase both their refiner margin and their marketing margin. They are running at record levels. The other thing that we are very concerned about - it's had no focus whatsoever - is that oil companies for small business, commercial fleet, government supply fuel, petrol, diesel on fuel cards. We estimate that 3.7 billion litres or 15 per cent of the total retail petrol is purchased on oil company fuel cards based on these cardless price systems. There is absolutely no transparency with these systems. They are not regulated in any way and they are used by oil companies to delink what a customer pays for their fuel from international prices and from pump prices. Typically these cardless prices are set at 1 and 7c per litre above the average pump price in any given market. That is the situation in metro New South Wales. The bottom line is the

MOGAS 95. All the other lines are the cardless prices that they apply in those markets.

MR CABLE: The orange line is the average retail price for that market.

MR TROTTER: That's what happens in country New South Wales. You can see that what the oil companies have done there, when the international price drops significantly, they just put a floor on their cardless prices. So people didn't get the benefit of the international buying on cardless prices. In brief, our recommendations: We give some licence - I understand that one of the commissioners mentioned the unbundling of the report, used that term, we recommend unbundling of the exclusive grocery retail petrol shopper docket schemes so that they have to compete in their respective markets. They compete in the fuel market and they compete in the grocery market. The ACCC's petrol price monitoring activities are critical. All we ask is that they stand publications on their website to take into account regional - even though the data as I understand is collected, I have not seen any public information made available on regional prices versus international prices and for the ACCC to legislate and approve terminal gate formula based on import parity components - they all claim that they are doing it but hardly any of them do it because they have got them on these other wholesale price arrangements called Caltex reference prices and Mobil reference prices, so they have been able to delink a substantial volume of their business off terminal gate prices, all approved TGP for all petrol grades, because what we are finding is that the ULP market is in decline. The premium fuels market and the ethanol market is in a rapid growth phase. But they do not post any - sorry, some of them may post E10, but for the other grades there is no posting of terminal gate prices for those grades. For the ACCC to have a look at these other pricing systems such as cardless prices that oil companies we think use to control prices in the tied card volume market, which we think is about 15 per cent of the total retail market. Such measures, we believe, would release up to 14.9 billion litres of what we call truly contestable petrol volume. With a volume of fuel that size in the Australian market, then we think that would be attractive to our importers, refiner marketers, the likes of Glencore and so on, other Japanese refiners, Korean refiners who would think it was a good investment decision to invest in storage and terminal facilities, to have access to contestable volume of that size. That's what we think.

MR YOUNG: Some of those graphs are obviously based on data. Are you in a position to supply the hard data that underpins those graphs to the Commission?

MR TROTTER: Sure.

MR CABLE: There are some limitations. Obviously we subscribe to daily international pricing indices. Some of them are copyright. On the basis that we would be released from that, I don't think that would be a problem. I don't know what the Commission's understanding of the copyright issues involved is. We subscribe to daily downloads of international prices from Platts, which is a McGraw Hill company.

MR YOUNG: I think the position at least at first blush would be that the Commission's compulsory powers are not impinged on in any way by copyright. I don't think there are any questions further that I want to press today. Mr Chairman?

THE CHAIRMAN: I have two questions. We had a hearing yesterday, as you are aware, with representatives of the independent service station outlets, Service Station Association and Motor Traders Association. They have put forward similar views and similar information to that that you provided us with today. One of the contradictions that we are perhaps having some difficulty with is this: The proposition has been put, you put it today, that the result of the Coles and Woolworths entry into the market has been that the margin of the independents has improved?

MR TROTTER: That would appear to be the case.

THE CHAIRMAN: But they all want Coles and Woolworths and the shopper dockets taken out of the marketplace. Why would that be?

MR TROTTER: I think they - they feel they can compete on petrol pricing. They have got no - most of them don't have a sustainable shopping or convenience offer. And they are trying to match those sorts of offers with these ad hoc schemes. I think they are offering 4c if you buy bread and groceries and so on. So they are funding that out of their own resources. They are not having any cross subsidisation from a huge grocery chain. Even though their gross petrol margin may have increased, I think if they do the sums in relation to the net margin, after making costs to try to compete against these other offers, I think they would find they are worse off, the net margin. The gross margin on fuel up, but the net margin after this involvement in budget savers and 4c off for $5 worth of bread and milk and so on, and then the interesting thing is they are then loading - they are trying to load that into the bread and milk price as well I would be very surprised if that's not the same rationale that the other big grocers apply. If it works for the small independent guy, we seem to think that Coles and Woolworths would be applying the same principle. We think there is a whole lot of cross-subsidisation going on that distorts the two markets. We think that removal of those offers would get us back to a situation where we would have contestable volume, that independents would be able to get much better pricing deals than they have got currently and they would then - as they have done historically - they would price their product at a significant differential to the majors in the petrol market.

THE CHAIRMAN: Again, that further information you have just provided creates even more puzzling contradictions, because what it is suggesting is that the consequence of the shopper docket arrangements has been to not only improve the margins in retail petrol across the board but also - and you quoted the PWC report, with which we are familiar - but to significantly increase the margins in respect of groceries. You have talked again about the subsidies that are potentially being applied from grocery margins towards supporting the retail petrol discount schemes and how that - I think you then talked about how the independents might be pursuing similar practices in respect of bread and milk.

Again, I'm trying to understand - if this is as profitable as it all sounds with increased margins and substantially increased margins relative to CPI, why would it be that those who stand to significantly benefit from this, that is the independents, as well as Coles and Woolworths, would want these schemes stopped?

MR TROTTER: I don't seriously believe that they can compete in relation to the grocery component of the offer. I mean, the fact that they might get some special deal from bread and milk might cover some small fraction of that $2 I think that Matilda quoted it's giving away. Whereas Coles and Woolworths across a vast range of products would appear that they have been able to achieve a 17.8 per cent lift in total grocery prices. I think they may think that they are doing better - they probably are on the fuel, but net-wise I don't believe that they would be. If that makes any sense.

THE CHAIRMAN: I guess we will work through this over the next few weeks to see if we can make sense of this. You have identified two of your clients as being the Australian Automobile Association and the RACQ. Could you give us either now or separately details of your other clients.

MR TROTTER: Separately.

THE CHAIRMAN: That would be fine.

COMMISSIONER KING: I have one question. You referred to the two anomalous periods, one in Adelaide and then recently in July in Sydney, when there were low prices. As I understand it, you intimated that was a deliberate policy by at least one of the majors.

MR TROTTER: Yes, Shell Coles Express we understand in Adelaide. I don't know if we have identified the culprit - good news for three weeks in Sydney. But there was a reason for them to do it and we think it would be some sort of tactical scenario that they were running to see what effects having sustained low price would do in terms of their overall redemption rate on dockets or penetration rates in certain markets. We're not aware of it. I understand you guys will be questioning them.

COMMISSIONER KING: If we can take the Adelaide one, as I understand it from what you have said earlier on today, the lead major in bringing the price cycle to an end and bringing the price cycle up - it's not always the same one?

MR TROTTER: No, it's not always the same one.

COMMISSIONER KING: So it wouldn't always be Coles, for example, in Adelaide?

MR TROTTER: No, in Adelaide they were the drivers down. They were the ones that kept the lid on the price.

COMMISSIONER KING: So in Adelaide there would have been attempts by the majors to lift the prices back up and they failed?

MR TROTTER: If Shell Coles Express doesn't go up in a given market, then the others won't stay up.

COMMISSIONER KING: Do you have any evidence to say that BP, Caltex or some of the others in Adelaide tried to lift the price back up and failed?

MR TROTTER: I'm not sure what the ACCC has access to, I am not sure if the ACCC gets the hourly data feeds from Informed Sources, but it is possible to examine that data to see which ones moved.

COMMISSIONER KING: I was wondering if you had.

MR TROTTER: No, we have not gone down to that level of detail in terms of which other ones may have tried to go up.

THE CHAIRMAN: I am trying to pursue this contradiction in some of the information provided to us. If the margins have gone up in respect of both retail petrol and potentially also in groceries for the independents as a result of the creation of the shopper docket schemes and the entry of Coles and Woolworths, why have we seen, I think you indicated, the doubling of the demise of independents over the past two years, which I think you have linked to, and others have linked to, the advent of the shopper docket schemes?

MR TROTTER: We don't quote doubling. Certainly we are not saying doubling. I understand some of the other associations have. They would be better placed. Certainly, the - if you tier the market in terms of independents, those that are not part of any substantial chain, those that don't have a convenience or a food offer, those that don't have some sort of alliance to an IGA supermarket and so on, those price-leading independents have certainly declined dramatically in the market, those sorts of outlets. The likes of these other ones, particularly I think the likes of United and Liberty and so on that have invested in major outlets with food, convenience stores, they are able to survive largely because of their expanded food and shopping offers. But they are not being as competitive as they were previously on the fuel offer.

THE CHAIRMAN: It's actually been put to us, Mr Trotter, I would be interested in your comment, that those that have disappeared from the market have been following a trend that has been occurring for some time, which is that we are seeing the demise of those outlets that, as was described this morning, the standard three pumps, the old motor workshop and a very small not convenience store but almost a cubby-house to receive payment for the fuel, and that they were proving to be less than satisfactory for motorists in the current environment?

MR TROTTER: That's right. I don't know if the commission - if you happen to go out through East Brisbane, there is this thing we call the flying shit-house. It's called

Boomerang Fuels. These buggers, they have got, as you described, three pumps, and there is a BP up the road. And somehow or other, regardless of what's going on, they are always 2c or 3c a litre or more below the market and they set the price through that East Brisbane area. At some point they will go broke. They can't possibly survive based on the facilities and so on that they offer. If they go, that pricing mix in that part of Brisbane, East Brisbane, will change completely. We recently undertook a study for the Queensland government Department of Transport. There is a major bypass planned for the Bruce Highway coming into Gympie. There is a huge Matilda outlet on the approach. It pumps in excess of 20 million litres or something. To try and save that outlet, we were asked by the Department of Transport to see what the economic impact of that site would be. We went through all of our data for years, and it indicated that that site is the price leader in that whole Gympie-Rainbow Beach area, and on average they are 3c to 4c a litre lower than the others. And Gympie is 3c to 4c a litre lower than other pockets on the Sunshine Coast. We then extended the study because, if they lose that outlet, Matilda is under severe threat because that's the anchor for a lot of financial arrangements for their funding. They have 26 other outlets. We then studied their 26 other locations. In all the operations that they operated in they are the price leaders. Not Coles, Shell Coles Express, not Woolworths Caltex - Matilda. If you look at the Motormouth data, courtesy of our friends, on their monthly summaries for the lowest priced outlets in almost every market in Australia it's not Shell Coles Express, it's not Woolworths Petrol Plus, it's Matilda, it's Freedom, it's Neumann. We are concerned that under whatever circumstances they are in decline and, if they go, then the real price drivers in the retail market will be lost.

THE CHAIRMAN: All right - - -

MR YOUNG: Mr Samuel, there is one matter I would like to clarify if I could. It seems to me there may be some confusion, Mr Trotter, on what you are saying about margins. Can I put this to you. You appear to accept the evidence we have heard today that the margins of at least some independents - - -

MR TROTTER: Some.

MR YOUNG: - - - have increased in terms of cents per litre.

MR TROTTER: That's right.

MR YOUNG: In Brisbane. But you basically say that those figures should not be taken at first blush because overall the price of petrol has increased so therefore an increase in cents per litre may not translate into a percentage increase in margin.

MR TROTTER: That's right.

MR YOUNG: And secondly you say you need to get away from gross margins and think about net margins and you doubt whether there has been any real increase in net margins; is that right?

MR TROTTER: Yes.

MR YOUNG: The other matter I wanted to ask was to see whether it is clear between us that you will be providing the base data for your various graphs, including those two aberrant periods that you point to in Adelaide and Sydney, for instance?

MR TROTTER: Yes, certainly. Happy to.

THE CHAIRMAN: Thank you, Mr Trotter. Thank you, Mr Cable. At this point I declare the hearing closed.

ADJOURNED **[5.41pm]**

Index of Witness Events