

ACCC INQUIRY INTO THE PRICE OF UNLEADED PETROL

Public hearing - Wednesday, 3 October 2007 – Canberra

Time: 12.30pm
Address: ACCC Canberra
23 Marcus Clarke Street
Canberra ACT 2601

Time	Witness	Submission
12.30pm	Australian Automobile Association Mr Mike Harris Executive Director Mr Greg Smith Research Manager Mr John Metcalfe, Director Research and Policy.	24

AUSCRIPT AUSTRALASIA PTY LTD

ABN 72 110 028 825

Level 10, MLC Court, 15 Adelaide St BRISBANE QLD 4000

PO Box 13038 George St Post Shop BRISBANE QLD 4003

Tel:1300 308 420 Fax:(07) 3503-1199

Email: orders@auscript.com.au Website: www.auscript.com.au



TRANSCRIPT OF PROCEEDINGS

O/N 65054

AUSTRALIAN COMPETITION

AND CONSUMER COMMISSION

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

PETROL PRICE INQUIRY HEARING

**CONDUCTED AT: 23 MARCUS CLARK STREET,
CANBERRA**

**DATE: 12.36 PM
WEDNESDAY, 3 OCTOBER 2007**

THE CHAIRMAN:the ACCC and the first hearing that has been held in these premises, so we welcome you to that. I will open the proceedings today and just by way of the formalities, just introduce myself. Graeme Samuel, Chairman of the Australian Competition and Consumer Commission and chair of this public inquiry
5 into the price of unleaded petrol. I'm joined by my fellow commissioners, John Martin on my right and Commissioner Stephen King on my left, and I welcome you all and declare this hearing open.

10 This hearing is convened under part 7A of the Trade Practices Act pursuant to the federal treasurer's approval for the ACCC to hold an inquiry into the price of unleaded petrol. The terms of reference to the inquiry have been published on our website together with an issues paper and all public submission that have been received. The ACCC has also published the names of the witnesses of this inquiry,
15 which outline the procedures followed by the ACCC at public hearings. The names of the witnesses appearing today have also been published on our website. Witnesses appearing today will be questioned by lawyers for the ACCC. Appearing today is a Mr Justin Oliver from the ACCCs legal branch.

20 Could I just note for the record that the conduct of the inquiry is within the discretion of the inquiry chair. Anyone using insulting language or otherwise disrupting the hearing may be excluded. The commission may wish to question witnesses about information that has been provided on a confidential basis. We can take evidence in private if a witness objects to giving evidence of a confidential nature in public and the ACCC considers it appropriate to do so. If this does occur, it may be necessary
25 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 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.

30 A transcript of this hearing will be taken and made available on our website as soon as possible after the hearing. However, evidence given in private will be recorded and transcribed but will not be made available on the website. With those matters dealt with, can I ask the witnesses from the Australian Automobile Association to please come forward to the table? And could you just for the record state your name
35 and position with the AAA?

MR HARRIS: Mike Harris, executive director, Australian Automobile Association.

40 MR SMITH: And Greg Smith, research manager at the AAA.

THE CHAIRMAN: Thank you. No legal representatives with you today, are there, or?

45 MR HARRIS: No.

THE CHAIRMAN: No. Good. Now, could I inform you about some of the rules regarding the giving of evidence at this inquiry. Firstly it's an offence to refuse to answer a question that you are required to answer by the inquiry chair. Second, it's

an offence to give evidence that you know is false or misleading or omits any matter or thing without which it is misleading. You can give the evidence under oath or under affirmation if you believe an oath wouldn't be binding or for religious reasons, you are prevented from swearing an oath on the Bible, so could I ask each of you
5 whether you wish to swear under oath or affirm the evidence you give and then, whichever course of action you follow, there's the Bible and the appropriate card there.

10 <MIKE HARRIS, SWORN [12.39 pm]

<GREG SMITH, SWORN [12.39 pm]

15 THE CHAIRMAN: Thank you. Thank you very much. Could I just open by particularly welcoming you, Mr Harris, and apologising yet again for the inconvenience we subjected you to in having brought you down to Melbourne and then finding that our counsel ran over time and thus made it impossible for us to
20 enable you to give evidence in Melbourne, so we are pleased we are able to accommodate you by bringing the hearing up to Canberra, but thank you very much, and my apologies for the inconvenience you sustained last time.

25 MR HARRIS: Thank you for that. At the risk of turning it into a mutual admiration society, I appreciate the efforts that have been made to accommodate us here in Canberra. I have a very difficult travel schedule at the moment, as I suspect you have too, so I'm very appreciative of the opportunity today. Thank you.

30 THE CHAIRMAN: All right. Well, having completed the mutual admiration, I will now hand over to Mr Oliver who I'm sure will be able to disabuse us of any mutual admiration very quickly.

35 MR OLIVER: Thank you, Mr Chairman. Gentlemen, the commission has a submission from the AAA which it has put on its website and attached to that is the submission that was made to the senate inquiry last year. In addition to that we have a supplement to that submission dated 14 September. I have a series of questions drawn mostly from what was said in that submission. I will address them initially to you, Mr Harris, but, Mr Smith, if it's more appropriate for you to answer, please feel free to do so, but before I start those, are there any comments you would like to make
40 by way of an opening statement or opening remarks?

45 MR HARRIS: Perhaps just a couple. I did provide some additional information at the Melbourne meeting and subsequently formally by writing, which was intended to be my opening statement, if you like, so I won't repeat all of that, but there are a couple of points that perhaps I should make just for the record. As you are aware, AAA is the national association of motoring clubs. There is something approaching

six and a half million members of motoring clubs across the country which we attempt to represent as best as possible.

5 I think it's also relevant to make the point that we have been monitoring petrol prices since 1998 when the treasurer made a statement to the effect that clubs would play a role. I think it's also important for us to say that we acknowledge that an increase in the world oil price has certainly been a major factor in petrol price rises, and in saying that, I should make the point that we don't have an objection to petrol companies or oil companies making a profit. That's not what we are about, but it's 10 also true that there are other factors that are also in play in terms of what constitutes the price, the retail price at the pump, and it seems to us in that regard that wholesale margins today seems to be slightly larger than they have been in the past. I make the observation, that's all.

15 Certainly the price aberrations in January and June this year were concerning and I know that the commission and the chairman in particular made comments on both occasions, and we welcome those comments. I think one of the concerns that the motorists certainly have is the sticky nature of prices of regional areas, and I think that's something that needs looking into, and in relation to ethanol I would just make 20 one comment and that is that to the extent that the introduction of ethanol by mandate or otherwise could lessen competition, then we believe that's a matter that should be investigated as well, and the lessening of competition comes from introducing ethanol and removing some of the other octane blends that are currently on sale. I might leave it at that, I think, for the time being and respond to your questions.

25 MR OLIVER: Okay. Thank you. Can I start with just the work that the AAA has done in relation to surveying motorists?

MR HARRIS: Yes.

30 MR OLIVER: It's pretty clear from your submission that this is an area where there is a lot of work done. Could you please tell the commission a bit about that work; how those surveys are conducted, by whom, the methodology used, how often and so forth?

35 MR HARRIS: They are done for us by ANOP. The sample size is sufficient for information to be statistically relevant at the national level and by dissection at the state level. The methodology is essentially worked out between us and the ANOP. They are done every two years. The objective is to poll motorists' views about a 40 range of issues that affect motorists, so what we are trying to find out from that polling is the main issues that affect motorists and the priority listing of those issues, so what most effects them and what has changed over time. I think from memory we have been doing this for about 10 years, so this is the fifth or sixth survey, and the interesting thing that was thrown up in this survey is that concern about petrol prices 45 has now come back to the top of the list. It dropped off for a while. It was very high and in fact I think it might have been number 1 back when the price was ranging towards a dollar. Now that it's getting up again in price, it has come back to the top of the list.

MR OLIVER: To your knowledge, does anyone else do this type of research or to the same extent?

5 MR HARRIS: I don't think anybody else does it with the same perspective that we have, which is what is important to motorists. I'm not aware of other surveys that throw up that sort of information.

MR OLIVER: Sure, okay. On page 3 of your submission you set out some of the results from this survey and one of the things there is that 49 per cent of motorists who were surveyed say they try to buy when petrol is the cheapest. I just note in passing that there seems to have been a dip in those figures. In 2005 it was – sorry. In 2003 it was 47 per cent, in 2005 it dropped to 41 and now it's back up to 49.

15 MR HARRIS: Yes.

MR OLIVER: Do you have any views on what happened in 2005?

MR HARRIS: It goes back to the petrol price. When petrol prices are going up and they are reaching pressure points – and I think from memory, that was about when we were approaching a dollar per litre – then it seems this issue comes to the forefront of people's minds. When petrol prices are going up and they're reaching pressure points and I think from memory that was about when we were approaching \$1 per litre, then it seems this issue comes to the forefront of people's minds. When prices start to come down, even if they're coming down from a high level it seems to retreat in motorists' minds. Then when they start to go back up again it comes back into their minds and potentially the timing of our survey could influence that as well because our surveys aren't done at a particular price point, they're done at a point in time.

30 MR OLIVER: Sure. Do you include from that result or do you infer from that result that there is a distinct class of consumers who are particularly price sensitive, particularly driven by price?

MR HARRIS: I think what I would probably conclude from that – the short answer is yes. I think motorists are sensitive to price. I think it depends on where the price is and what the trend is. So as I said, as we approached a dollar the psychological impact of paying a dollar has an impact on people's sensitiveness about price. As we approach \$1.40, \$1.45, \$1.50 I think the same psychology comes into play. If the price drops from \$1.25 to \$1.16 then the psychology is, "The price is going down, I'm probably less concerned about it". But certainly the survey information says, and I'll just quote from this particular slide and it's about price consciousness and it says:

45 *Price consciousness is higher among older motorists, that is 55 plus, mums and as expected among those who use supermarket docketts for petrol discounts.*

So in that sense there are classes within the general motoring public who have perhaps a higher sensitivity for a longer period of time.

MR OLIVER: Okay. On the subject of shop-a-dockets, again the same part of the submission you say that or the survey shows that 79 per cent of motorists claim to have used them, 48 per cent who were surveyed claim they use them at least most of the time that they buy.

5

MR HARRIS: Yes.

MR OLIVER: Now, in relation to the number of motorists who claim to have used them, you have figures going back to 1999. Do you have the same time series for the second group, for motorists who have used them at least most of the time? Does that go back to '99 as well?

10

MR HARRIS: Do you know the answer to that?

MR SMITH: I'm not sure. I don't think you do.

15

MR OLIVER: Okay. Would that be something that it might be possible to check - - -

MR SMITH: We can check that and give you a written response. I'm happy to do that.

20

MR OLIVER: Thank you. Is that broken down any further? Say those who use them most of the time as opposed to, you know, at least most of the time as opposed to almost all the time?

25

MR HARRIS: I'm not sure but we'll do an extraction of the data and provide you with the data.

MR OLIVER: Sure, okay. Do you think it's a coincidence that the percentage of consumers who say that they're price sensitive, 49 per cent, is almost the same as the percentage you say that use shop-a-dockets most of the time, 48 per cent?

30

MR HARRIS: Yes, I suspect so.

35

MR OLIVER: Do you think by and large they're the same body of motorists or does your research suggest that they're largely the same class?

MR HARRIS: I don't believe it does suggest that and I don't think I would be able to say that that was the case. I'm happy to go back and examine the detail data and see if it is the case and see if we can provide you with a definitive answer but I suspect it's not the case.

40

MR OLIVER: The reason I ask is this. the commissioner has heard evidence that there are consumers who are so driven by shop-a-docket that they will queue up at a service station site to use their shop-a-docket even when there is a nearby competitor with a board price of at least 4 cents lower, lower than the price they'll get even with the shop-a-docket. Are you aware that there are such customers?

45

MR HARRIS: I wouldn't dispute that fact. Indeed during the survey activity we found examples where people would actually split their purchases at a supermarket so when the till clicked over - I think \$30 is the cut-off point. Once they all go to \$30 they would stop, they would pay the \$30 get their docket and then they would
5 start the next batch of shopping. So you know, if they had \$120 trolley they potentially would walk away with four shop-a-dockets. So there is a certain passion attached to shop-a-dockets and I wouldn't be at all surprised if that didn't spill over to the queuing at the petrol station.

10 MR OLIVER: Do you think it's on the rise? That obsession with shop-a-dockets but the determination to utilise them?

MR HARRIS: Well, the use of shop-a-dockets as we've said in the submission in 2003 the survey showed 19 per cent usage and now we're up to 48 per cent. So the
15 usage is increasing it's not declining. Whether that's due to more publicity about shop-a-dockets and discounts I'm not sure but it's certainly increasing.

MR SMITH: It's worth going back to the point that Mike made earlier though in the question of people shopping around in the price. The group of people who were
20 more price conscious included those who tend to use shop-a-dockets so it's probably not a black and white question. I don't think people are getting their docket and then blindly going to Shell or Woolworths without checking the prices elsewhere.

MR OLIVER: Is it possible that there are some consumers who think they're being
25 price conscious by using the shop-a-docket as opposed to shopping around for a price that might even be lower?

MR SMITH: That's possible.

30 THE CHAIRMAN: I'm sorry, Mr Oliver, I think that's just worth pursuing because we're getting slightly different answers. I'm not suggesting one answer is wrong or otherwise, but when you put the question to Mr Harris about price sensitivity and the use of the shop-a-docket in preference to going to a lower price site that might be nearby you then rather addressed that focussed on the fact that some people actually
35 split their bills and as my daughter I might say, she doesn't actually shop again, she just tells them to split the bill and that's just being a bit cute, I think. But the real question I guess that we're just trying to establish this is, is your survey picking up a concentration or an obsession with the shop-a-docket such that people will actually use the shop-a-docket and shop at a Coles or Woolworths site even though if they
40 were to travel several hundred metres down the road they can find another site with a board price of which was at least 4 cents lower than the board price at the Coles or Woolworths site?

MR HARRIS: It's difficult to answer that question because our survey didn't
45 actually tackle that issue. The survey was designed to find out the usage of dockets as opposed to, you know, "Would you use it in preference to going to another site". We didn't go to that sort of level of questions so I can't specifically answer that question for you.

THE CHAIRMAN: Mr Smith, you have a slightly different answer. I'm just trying to test because you've put a slightly different proposition. Do you want to expound on your proposition?

5 MR SMITH: Well, I guess the point I was making is that our survey did find that people who tend to use shop-a-dockets are obviously more price sensitive and that's kind of a logical thing to think. Someone who is more likely to use a shop-a-docket is doing it because they're more sensitive to price. I don't think we're able to drill down any further than that to say whether they would use a shop-a-docket in
10 preference to going somewhere else where the price might actually be cheaper.

THE CHAIRMAN: Can I just drawn down on one other issue which is the comparison between 1999 and we just need to check those figures, I'm not sure that there were too many shop-a-dockets around in 1999 actually at all, if any at all. But
15 certainly 2003 where I think the figure was 19 per cent usage to 2006 where it was a 49 per cent usage. But of course back in 2003 Coles wasn't in the market so that the number of outlets actually providing shop-a-dockets was significantly less than we currently have and I think there were far less Woolworths sites, as I recall. At that stage in 2003 my memory recalls me, we only had the initial acquisition of the
20 Woolworths/Liberty sites that were providing any form of shop-a-dockets. So we didn't have the vast array – well, I guess we've gone from, what, 70-odd sites that Woolworths had acquired from Liberty in 2003, moving up to 2006 we've got about 1100 sites that are selling fuel pursuant to the shop-a-docket scheme. That might have some influence on the 19 per cent versus 49 per cent that are coming in - - -

25 MR HARRIS: I should just clarify that 79 per cent of motorists in this survey say they've used shop-a-docket, 48 per cent of motorists use them most of the time.

THE CHAIRMAN: Correct.

30 MR HARRIS: It's 48 per cent. That's up from 40 per cent in 2005 and 19 per cent in 2003.

THE CHAIRMAN: All I was doing was just trying to draw some issues out in
35 respect of 2003. It's sort of so-called like store basis, if you like.

MR HARRIS: Yes.

THE CHAIRMAN: There's no like store because I think in 2003 there were about
40 70-odd sites in Australia that were using, I think I've got it correct, about 70-odd sites in Australia that were part of the Woolworths shop-a-docket scheme at that stage. The real switch-over if you like or the conversion of the Shell sites to Coles shop-a-dockets, Coles Express and of the balance of the Caltex sites that were moved over didn't occur until 2003/4, the end of '03 and early 2004 which might explain the
45 low number in 2003 versus - - -

MR HARRIS: And there's a lot more publicity attached to it these days as well.

THE CHAIRMAN: Exactly.

COMMISSIONER KING: Can I just, seeing as we're dealing with this particular data, check up. So the question actually asked, "Have you used shop-a-dockets?" did
5 it refer to a timeframe or was it simply open ended, so, "Have you used shop-a-dockets at any time?"

MR SMITH: That's right.

10 COMMISSIONER KING: Okay. Secondly, just to make sure that it's clear, so of the 48 per cent, it's not 48 per cent of all customers, it's 48 per cent of those who use shop-a-dockets or those – so it's 48 per cent of the 79 per cent who said they had used shop-a-dockets that then said that they used them all the time, so it's
15 approximately 38 per cent of the customers.

MR SMITH: That's right.

COMMISSIONER KING: That is correct?

20 MR SMITH: Yes.

COMMISSIONER KING: Yes, okay.

25 MR SMITH: Well, you can't use the shop-a-docket most of the time if you've never - - -

COMMISSIONER KING: Yes, but I just wanted to make sure you hadn't taken the other same population, "Have you used shop-a-dockets?" then to ask them ask
30 them again, "Have you used shop-a-dockets – do you use shop-a-dockets frequently?" and ask the same base population, but you've actually narrowed the population that you took the survey - - -

MR SMITH: Yes.

35 MR OLIVER: More generally, would the AAA say that – and this is rather a blunt question, but are shop-a-dockets good or bad from the motorist's perspective?

MR HARRIS: Well, I mean, if they're providing a real discount on the price of petrol, that's a saving as far as the user of the docket is concerned. Anything that
40 saves them money is fine. From our point of view, I mean, we don't have a philosophical view one way or the other about shop-a-dockets. I know there's been some debate about whether the discount at the petrol station is offset by some other price increase on the supermarket shelf. Now, I'm not going to get into that debate because I don't have any information about it and I don't have a view about it. I'm
45 assuming that the competition in the supermarket business is sufficiently robust to ensure that those prices are competitive, so I don't think that's a particular issue, but as a motoring organisation, we don't have a philosophical view one way or the other about discount docketts or shop-a-dockets themselves. As I said, to the extent that

they're providing a real discount to motorists, then that's a saving in their pockets and that can't be a bad thing.

5 MR OLIVER: What do you mean by "a real discount"? I think you began your answer with saying, "If they are providing a real discount."

10 MR HARRIS: Well, as I said, I'm making that statement on the assumption that the docket is acquired at the supermarket in a competitive environment, and I have no reason to believe that that's not the case.

15 MR OLIVER: Do you see any danger that the increased use of shop-a-dockets may see increased growth by the supermarket outlets, possibly increased dominance in the market, ultimately to the detriment of competition; that is, other outlets may be driven out? Do you think that's a danger associated with the continued use of the shop-a-docket scheme?

20 MR HARRIS: I think it's a potential risk, yes. On the other hand, I suppose it's a legitimate marketing ploy that is used in a whole variety of industries. Frequent flyer points are, I guess, another example of a similar way of providing a bonus or a benefit if you use a particular brand or a particular store or a particular hire car company or a particular airline, for that matter, so, you know, it's not an uncommon thing across other industries. I guess to the extent that smaller players in the oil industry don't have the capacity to access discount schemes or discount systems or perhaps their margins are a bit tighter and they can't afford to discount, then, you know, that might provide a slight bias, but my suspicion is that there will be other factors that came into play that caused a decrease in competition rather than the discount dockets themselves.

30 MR OLIVER: Does your research point to factors other than price which drive some motorists? Say, for example, the existence of a convenience store or the quality of the site, anything like that.

35 MR HARRIS: No, we didn't – we haven't asked questions in that sort of area. We've simply asked about price sensitivity, I think.

MR SMITH: Yes, we have in the past asked about brand loyalty. I don't have the figures to hand, but I think the general rule there isn't a great deal of loyalty.

40 MR OLIVER: One of the propositions that's been put to us by a number of retailers who funnily enough don't use shop-a-dockets is that there is a class of customer out there who are not so price sensitive who will be attracted to a better site, a better convenience store, and possibly a reliability in the quality of the product and that attracting those sorts of customers is – or investing in their businesses to attract those sorts of customers is a response to the growth of shop-a-dockets. Is that a proposition that you would agree with, that there is that class of customer who are out there?

MR HARRIS: Yes, I would. I mean, “motorists” is a fairly broad term. If you start to break motorists down into subsets then you get a proliferation of types of motorists who, you know – I mean, some of them have particular sorts of cars and those cars run on certain types of fuel and not other types of fuel, so in some senses
5 they’re restricted in where they can go. There are classes of motorists who have particular loyalties and they stick with those loyalties. There are certainly collections of motorists who take no account of price at all and simply go to the nearest petrol station. There’s a broad range.

10 MR SMITH: Just expanding on that too, in our latest polling we did ask people what sort of fuel that they use in their car. 15 per cent of the – of 89 per cent of people use petrol, 15 per cent of those said they use premium fuel. Some of those said that’s because that’s what their manufacturer recommends that they use, but
15 some also said, “I use premium because I get better fuel efficiency and better performance out of that fuel,” so I guess those sorts of people are going to be looking for that type of fuel. Not every service station offers that type of fuel, so I guess they would be more attracted to the companies that offer a 98 run or a 95 run.

MR OLIVER: Can I move then to the subject of price cycles? Does the AAA have
20 a view on what causes price cycles?

MR HARRIS: Do you want to take that?

THE CHAIRMAN: We seem to get the same facial reaction from every witness we
25 ask about what causes price cycles.

MR HARRIS: Well, I’ve had a number of conversations with some of the oil
30 companies about price cycles. I guess there are some facts that you can put on the table. The first fact is that we have them. The second fact is they’re not unique to Australia. They happen in other parts of the world. The third fact is they’re almost completely incomprehensible. The fourth fact is that I think it’s almost impossible to understand, at least from my perspective, why they move as closely in
synchronisation as they do. I suppose the - - -

35 MR OLIVER: Sorry to interrupt. Do you mean in terms of how regular the cycles are? Every Wednesday, for example, they move up - - -

MR HARRIS: Well, the regularity of the cycle and how the vast majority of those
40 who participate in the cycle move at the same time or virtually the same time. Now, you know, it’s been said to me that that’s proof of a competitive market place working, that, you know, when the price is going up, then all proprietors, all stations, are capable of moving the price up because they’re working in competition. When
the price is coming down, they have to move their price down otherwise they’re
losing market share and I can understand that. I guess two things – one thing I don’t
45 understand is why it is that nobody or very few people move out of the cycle in order to try and influence the cycle and the market and their market share. You almost never see people moving out of the price cycle in order to manufacture or create a

different market share for their site than is happening elsewhere, even if that's only for a short period of time.

5 The thing that concerns me and it's a matter that we've commented on when it's
occurred and indeed the commission and the chairman have commented on, is that
the movement in relation to the Singapore price, either up or down, when that gets
demonstrably out of synchronisation, then we believe there's something going on
that is not to the benefit of motorists, particularly when Singapore price is coming
10 down and the price cycle isn't coming down at, at least, the same rate. Now, having
said that, I acknowledge that there are times when the price moves at a vastly
different rate to the Singapore price and indeed there are examples where it goes
below the Singapore price. On the other hand, there are also examples across the
country where the price moves at different times and by different margins and, you
15 know, I think that's a matter of interest that could do with some examination.

MR OLIVER: In the AAAs submission to the Senate Inquiry last year, you cite
something that the RACQ put in a submission of its own: that the existence of
weekly price cycles in major metropolitan areas is evidence of substantial market
power in the hands of oil companies. Is that a proposition that AAA agrees with?
20 This is page 12 of that submission.

MR HARRIS: My hesitancy in answering is that I wasn't part of the AAA at the
time. Nevertheless, just let me refer to the - - -

25 MR OLIVER: Sure.

MR HARRIS: Yes, I would agree.

MR OLIVER: I think it was Mr Cumming from the RACV took, I guess, almost the
30 polar opposite view that you could not have a competitive market unless you had a
price cycle. I mean, I guess it must follow that's not necessarily a proposition that
you agree with, but are prices cycles always anti-competitive; are they necessarily
competitive; is it somewhere in-between? We do have the whole range of views here
before us.

35 MR HARRIS: Yes. It's an interesting point because my concept of price cycle, and
I think perhaps the concept that you are contemplating, is this regularity of cyclical
movement that happens on a weekly basis. It's certainly true that a purely
competitive market place would see prices move up and down on a regular basis in
40 order for people to either capture market share or regain market share or whatever.
Should that be on such a regular weekly cycle or not? Difficult to answer that
question. Is the regularity of the cycle a demonstration of the power of oil
companies to manufacture the market? I think possibly so. Is it the case that
variations in price cycle across the country between urban and regional areas is
45 purely price averaging by the oil companies across the country in order to offset
losses in one part against profits in another part? I think possibly but I have no
empirical evidence to say that that is the case.

Is it true that the oil companies operate in a national market and not a regional, urban or localised market? Yes, that is the case. Is it true that they have to take account of their bottom line and generate a profit? Yes, absolutely. Do I disagree with the oil companies making a profit? No, I don't, but having said all of that, I think it's
5 impossible for the average motorist and certainly impossible for us to come to the conclusion that the price of a litre of petrol is always the fairest price that a motorist can pay. Our objective is to ensure that the marketplace delivers fuel, which is an essential good, at the end of the day, at the fairest possible price.

10 MR OLIVER: Is that a subject on which you've surveyed motorists, their attitude towards price cycles?

MR SMITH: AAA hasn't - - -

15 MR HARRIS: No.

MR SMITH: - - - that I know of, but I understand that a Victorian club has in the past and I think they may have decided that when the ACCC conducted their review of the price cycles a few years ago. I think – and speaking from memory – I think
20 motorists tend to be annoyed by price cycles. The question is the price is always going up. It's rarely reported that the price of petrol went down for another week. It's when the jump happens that it gets reported. So on that basis I think motorists find them annoying. I think it's fair to say that the AAA thought that we don't dislike the cycles. It provides the opportunity for motorists to buy it at the cheap
25 point, which is often very near the terminal gate price or even below.

MR OLIVER: Have you observed that there are particular companies and particular markets who tend to lead the cycles, in particular, who tend to lead prices up?

30 MR SMITH: We don't have any direct evidence one way or the other. I think that our motoring clubs will have told you about their experience over this inquiry. The only bit of hard evidence that I've seen, I think, was presented by Caltex to the Senate Inquiry last year when they plotted the most aggressive discounters in each of the capital cities and the Woolworths brand stands out pretty strongly as being a lead
35 discounter.

MR OLIVER: So if – let's say it was within the commission's power to eliminate or dampen these price cycles, do you think that would leave motorists a whole better off or worse off? Do you think there's a possibility that it would lead to an average price
40 that is perhaps lower than what we're seeing now?

MR HARRIS: As a matter of philosophy, market interference isn't something I'm particularly fond of, I have to say, nor would I be an advocate of regulation unless it was proven to me that that had a beneficial effect. I mean, I think you could only
45 answer that question if you could come to the conclusion that the price cycles were, in some way, shape or form, delivering an unfair price. I don't think we're in a position to be able to say that at the present time. I think, as I said before, if we could be convinced that the price that was being charged was the fairest price

possible – and I’m not saying that it is an unfair price at the present time, I’m simply saying that I don’t know it’s the fairest price – but if I was convinced it was the fairest price then, you know, per se I don’t see that the price cycle is necessarily a good or a bad thing. It might well just be as the companies themselves say, the demonstration of a competitive market at play.

I can’t say that there’s collusion in that price cycle although it’s remarkable how most people move in a very fast way. You know, having said that, the price can move very quickly. I mean, I don’t want to bring personal observation into it but I will bring personal experience, because I did fill my car up with petrol the day before yesterday and when I pulled the bowser out of the pump and put it in the car, the thing wouldn’t work. So I went in and asked the question and the guy said, “Well, we just put the price down, so you’re going to have to wait five minutes”. So, you know, the price can move like that. Now whether everybody else put the price down at the same time, I don’t know because I didn’t check, but I think you’d have to come to the conclusion that the price cycle itself was an anti-competitive feature that was delivering an unfair price before you could suggest what you’re proposing.

MR OLIVER: Would you agree that – I mean, I assume you’re aware of products or services like Informed Sources, Fuel Track, who provide information on movements and petrol prices.

MR HARRIS: Yes. We use them.

MR OLIVER: Yes, indeed. That access to information, would you agree that that is one of the things that enables at least the major retailers to follow each others price movements fairly closely?

MR HARRIS: Yes, I would agree with that and I’d go further and say that if more of that information was publicly available through more websites and including the ACCCs website then, you know, I think that would encourage companies to be more transparent to the extent that they can without disclosing commercial material and I think that would encourage a more competitive marketplace than - - -

MR OLIVER: Sure, that is certainly a subject to which I plan to return. Can you point to anything else that enables quick movements in response to other prices, enables retailers in the market to follow when someone does lead a price-up, for example?

MR HARRIS: Well, I think you’ve hit upon one reason why the majority of retailers are able to move their price so quickly and that simply is that they all have access to information. Electronic technology these days allows information transmission very quickly. Electronic control at the bowser from a switch inside or even a remote switch in some other location in the country is certainly contributing to the speed with which a large majority of people across the country can adjust the price in a very short period of time so, you know, I acknowledge all of that.

MR OLIVER: That is not necessary anti-competitive though; is it?

MR HARRIS: No, it's not.

MR OLIVER: No.

5 MR HARRIS: It's not.

MR OLIVER: No.

10 MR HARRIS: I'm not saying it is.

MR OLIVER: Sure. You mentioned - - -

MR HARRIS: Especially when it comes down.

15 MR OLIVER: Exactly. You mentioned country areas before, I think, in the context of price cycles. Do you have any views on why we observe price cycles in some regional cities or regional areas and not in others?

20 MR HARRIS: I think that is a factor of the market, you know, the number of players in the market is going to determine that. If you've got a small number of retailers then, you know, the potential for them to compete against each other is diminished so I think also, you know, as I said in the beginning, there are a number of factors that make up the price per litre of fuel and freight costs internationally and within the country are part of that which, you know, leads you to the transparency
25 issue. Motorists, by and large, and the general public, by and large, are not well-informed and educated about the components that make up the price of the cost of – the price of a litre of fuel at any particular point in time and there's a – as you well know, a complex range of equations that generate that price.

30 MR OLIVER: If I can ask you this then in relation to prices in country areas. Again, I'm going back here to the AAAs submission to the senate inquiry. I think some material provided by Shell is quoted and that refers to a number of factors and you've mentioned freight costs. These are factors explaining why prices in country areas are higher than in city areas. Freight costs, lower volumes, lower shop sales,
35 lower storage capacity and less retail competition but then the submission goes on to highlight a lack of competition at the wholesale level as a possible explanation for higher prices in regional areas. Could you please explain to the commission what you mean by that or how you see that as impacting on regional prices more than it would say in metropolitan areas?

40

MR HARRIS: You go.

45 MR SMITH: That was largely based on evidence that we incurred from our clubs in the RACQ, by its guidance on that. We also spoke to some independent retailers in the Northern Territory when the Northern Territory was undertaking their inquiry and they told us that they have difficulty in sourcing wholesale – competitive wholesale petrol prices and they even said to the extent that from time-to-time they were buying wholesale petrol at prices more expensive than some of their retail

competitors were selling it at. So I guess in terms of evidence, we don't have any hard evidence as to whether there's good competition or not at the whole sale level but it's one issue that we point to as a potential contributing factor.

5 MR OLIVER: Sure.

MR SMITH: I guess another thing that we've read over the course of this inquiry is the issue of whether the terminal gate price published on websites, on company websites, on the Institute of Petroleum website, is actually indicative of the market
10 price for wholesale petrol. We think that's potentially an area where if there were some mechanism that could be used to ensure that that published TGP is more indicative of what's actually going on in the market, that would be good for competition.

15 MR OLIVER: That would be helpful, do you think? In what way?

MR SMITH: Well, I think it would enable all the players to see exactly what's going on.

20 MR OLIVER: Sure. Let's assume, and I think you can take it as read, that not everyone buys at TGP and in fact quite a lot of people buy at a wholesale price that has a discount off TGP. Would motorists necessarily benefit if that sort of behaviour was prohibited, if everyone was forced to buy at TGP price which might be higher than what they could otherwise get petrol at?

25 MR SMITH: So are you asking whether there should be discounting allowed?

MR OLIVER: Yes. Does the AAA have a view on that?

30 MR SMITH: I think there should be discounting allowed, I think it's beneficial for consumers if all the players are able to negotiate a good price.

MR OLIVER: Okay, okay. Are there any other factors you would point to? I think that the submission lists quite a few but in terms of contributing factors to higher
35 regional prices, are there any other things that you would identify or point to as possible causes?

MR SMITH: As causes? I think as – I guess it is worth highlighting the fact that we think there's probably – or a lack of competition would be the key factor in higher
40 prices.

MR OLIVER: At the retail end of the market?

MR SMITH: At the retail end, maybe at the wholesale end as well. I think – I
45 mean, you'd need to go back to I guess first principles on some of these things but it's easy to hypothesis but markets where there's less pressure from your competitor to put prices down, all the players are happier to sit on their market share and take

the price that they're getting rather than enter into competition and potentially drive the average price down and therefore, profits for everyone down.

5 MR OLIVER: Okay. We spoke before about price cycles so regular movements over a period of time. But I would like to talk about a related although slightly different issue, price volatility over the course of a day.

MR SMITH: Yes.

10 MR OLIVER: So whether it is the high point or the low point of the cycle, the idea that the prices is moving up and down on any given day. Have you ever surveyed or do you have a view on the attitude of motorists towards that price volatility? Is it something that they like in terms of the opportunity that it presents or is it something that frustrates and annoys them?

15 MR HARRIS: I think it's more at the frustration annoyance end of the spectrum and leads to suspicion, I suspect, amongst the vast majority that's certainly what you can imply from the survey data. They don't why that is the case. They don't understand, I think, the relationship necessarily between the factors that are driving the case and
20 the timing of price movements. They get very suspicious about those movements.

MR OLIVER: The reality is - - -

25 MR HARRIS: Mainly when they go up, I should say, not when they come down.

MR OLIVER: I was about to say that the reality, of course, is that volatility goes both ways. Sometimes they go up, sometimes they go down.

30 MR HARRIS: Yes, that's right.

MR OLIVER: Those downward moves do give motorists an opportunity to buy at a lower price than what they might have been able to buy earlier in the day or in the week.

35 MR HARRIS: That's an opportunity that we highlight as often as we can and we encourage people to buy at the low end of the cycle. Obviously, people can't always do that but we encourage them to do that and - - -

40 MR OLIVER: But do you think they value that less than the comfort of knowing what the price is going to be and knowing that if they buy at that price they're not going to miss out, for example? That a couple of hours later that the price may go down and they will be kicking themselves or they will drive past another site where the price has gone down. Do you think that perhaps weighs more heavily on the
45 minds of a lot of motorists?

MR HARRIS: I don't know the answer to that question. I don't know whether Greg has a view but - - -

MR OLIVER: Well, the reason I ask is that, and it is the next subject, I assume you're familiar with the fuel watch scheme in Western Australia where prices have to be notified 24 hours in advance?

5 MR HARRIS: Yes.

MR OLIVER: Where they then can't be moved over the course of the following day. Now, one of the effects of that scheme is to basically eliminate – there is no volatility, the price at the start of the day will be the price at the end.

10

MR HARRIS: Yes.

MR OLIVER: That means the price won't go up but it also means it can't go down.

15 MR HARRIS: Yes.

MR OLIVER: Does the AAA have a view on whether that is something that motorists would value, would prefer to see? I guess does the AAA itself have a view on whether there is merit in that scheme being adopted more widely?

20

MR HARRIS: AAA has a slightly different view to RAC Western Australia and I go back to my two comments earlier on which I've repeated. The first comment is if we know that the price being paid is a fair price then you don't need a regulatory approach and that is a regulatory approach. My second observation was that I would need to be convinced that a regulatory approach either light-handed or heavy-handed was delivering competitive outcomes and reasonable prices and to the extent that it eliminates peaks in volatility I guess that's a benefit. Is it a greater benefit than the potential to take advantage of lower troughs, then I would need to be convinced about that. If we know that the price being charged is a fair price, then I don't have a difficulty with volatility if it's simply reflecting a fair market price.

25

30

MR OLIVER: By fair you mean a price produced by a competitive market that's not being affected by market power or some form of anti-competitive conduct?

35 MR HARRIS: Yes, which is providing the company with a reasonable profit margin and a reasonable return on investment which are both important factors but isn't providing or isn't taking from the motorist an unfair or unreasonable margin.

MR SMITH: I guess one very positive aspect is the amount of information that applies to consumers is that it's made the market very transparent so you can hop on to the website and find out who's selling what petrol for what price and the fact that that price is fixed for a day may be seen to be helpful but that's up for argument, the provision of information is very good.

40

45 MR OLIVER: I'm glad you mentioned that. The other scheme or the other service that provides a similar sort of service is MotorMouth which again provides some information to consumers on where low petrol prices can be obtained. I think you mentioned before that more information for consumers would be an improvement in

this market. What do you see as the limitations of those schemes or how could they be improved?

5 MR SMITH: I think there's potential for the CCC sites for example to publish more information. Currently, you know, you publish daily prices or yesterday's price or five – capital cities and think there's certainly more potential for you to publish more data in more locations for different fuel supply.

10 MR OLIVER: More historical data or would you like to see the Commission site with real time data? I was planning to come to the Commission's price monitoring but just to distinguish between sort of monitoring of prices and profits over time as opposed to information for the consumers in real time which I think is a slightly different issue.

15 MR SMITH: Yes.

MR OLIVER: So if we stay focussed on the real time information, do you think there's a need for, do you think that can be improved, do you think there is a need to have more information out there and I'm wondering how that could possibly be
20 done?

MR SMITH: Well, I think it could be improved. MotorMouth itself is limited in terms of coverage. I'm pretty sure you can't get prices for every location that motorists are driving around so obviously going again to the first principles that
25 perfect information is a requirement for a perfectly competitive market then I think the more data that's out there and the more accessible it is to consumers the better.

MR OLIVER: Now coming to the Commission's role - - -

30 THE CHAIRMAN: Can I just test that a bit further? If you look at the Fuel Watch and the MotorMouth site and compare them what Fuel Watch does is operate off a compulsory notification from every service station which then gets recorded on the site. So now you've got 100 per cent coverage, but the other thing that Fuel Watch
35 does is that it guarantees you because of the nature of the 24 hour notification, it guarantees you that from 6 am in the morning until - - -

COMMISSIONER KING: 6 am the next morning.

40 THE CHAIRMAN: 6 am the next morning, 24 hours you'll get that price that's shown on the site as from 2 pm the day before. MotorMouth is limited in the sense that it doesn't have the number of sites coverage and the other thing is that it will give you - I'm not sure how often it's updated but it will give you a price but you've got no guarantee that's the price that you'll get when you get there because the price might have moved with the volatility of the price movements. Now, you see the
45 difference, they're both real time but the real time nature of Fuel Watch is that it's – the price is locked in for 24 hours and so you can't have the movement down or the movement up as the case may be in that 24 hour period. Now, do you have any sense from the surveys that have been done by ANOP or others as to the desirability

of either process, remembering that one won't guarantee the price but there is the prospect of movements down in a particular day or again, a contrary view, the prospect of movements up, but it's the Fuel Watch that says, "Well, you'll have no movements down during that 24 hour period but you'll be guaranteed that the price you see on the website is the price you'll get."

MR SMITH: I don't think we've got a view from our polling as to which would be preferable but I think, building on what Mike said before, to the extent that the Western Australian model reduces the potential for price volatility in a day, which is presumably a function of competition, we don't think that's necessarily a good outcome. It's a difficult issue this one because, you know, prices are highly publicised and motorists are very sensitive to them and movements do frustrate people. But it's those very movements that may well be driving more competitive and cheaper prices.

THE CHAIRMAN: I just want to test you a bit further because you've had the survey done so I'm just trying to test in terms of – also you've had the qualitative surveys done as well as the - - -

MR SMITH: Yes.

THE CHAIRMAN: If motorists though were given the choice between certainty or price movement and certainty is stability in one sense as against price movement, what would they prefer and just to lay it on top of that as part of the consideration, that price movement, yes, can mean down but it also can mean up. So that you might well see that the price of \$1.20 on the website, you go there and suddenly find that the price has gone to \$1.30. What's the preference?

MR HARRIS: I suspect the preference is to be certain they're paying a fair price.

THE CHAIRMAN: I didn't give you that as one of the options.

MR HARRIS: No, I know now. I know you didn't. I think if we were to test that question I think that's what they would come back with. You know, we don't have a preference one way. If they were locked into a low price they would have a preference. I think the issue is that the vast majority of our motorists are not convinced they're paying a fair price.

THE CHAIRMAN: Well, that's what I want to test you on. Sorry, Mr Oliver, I just want to test this a bit further. Does your survey indicate what it is that's creating that question mark in their mind about the fair price? Is it the volatility of the price? Is it the price hike that's occurring on certain days and the almost sort of coincidental movement of price hikes all service stations at the same time which I think will be explained partly by informed sources?

MR HARRIS: Yes. I agree with that.

THE CHAIRMAN: Is it that? Is it that they are irritable at the uncertainty of the price or irritable at the volatility of the price? What is it that's concerning them most?

5 MR HARRIS: I think it's - all of those things are factors, lead to a suspicion in motorists' minds that they're being charged too much, that too high a margin is being taken by the oil companies. I don't think it's one or other of those factors. I think each of those is a component which leads to a suspicion in the motorists' mind that they're being ripped off somehow. Now from the AAAs perspective our survey
10 gives us no information as to whether they are being ripped off or not and I am not saying and I have never said that there is any form of consistent price gouging or excessive margin pricing. Unless I've had evidence through our price tracking which is essentially the same data that you use, that the gap between the Singapore price and the retail price is not moving in synchronisation. So I think the answer to your
15 question is each of those issues, the irritability - all of those things are components which lead to a suspicion in the motorists' mind that the price that they're paying is not a fair price, whether it's a high price or a low price it's not a fair price.

THE CHAIRMAN: Okay. Now I want to take this a step further because I want to
20 check the ANOP and you may need to go back through the survey details perhaps even consult ANOP on this, but if you were to say to motorists - - -

MR HARRIS: I'm happy to give you the data if you wish?

25 THE CHAIRMAN: Well, that would be very helpful, yes. Although you may well have, it may well be that ANOP has got some more qualitative data that hasn't come out in the results that have been provided to you.

MR HARRIS: No, what I meant was I'm happy to go back to ANOP - if you want
30 to give me some specific target areas, I'm happy to go back to ANOP and say, "From the data that you've got from the survey, can you answer these specific questions? - - -"

THE CHAIRMAN: All right. Here's the target - - -
35

MR HARRIS: "- - - rather than speculate on them."

THE CHAIRMAN: Okay. Here's the target area then just to have a look at. Motorists are given two choices. One is the state of play that exists on the Eastern
40 Seaboard in South Australia where the prices are moving down through the week and then they jump by upwards of 10 or 12 cents consistently on a Wednesday or Thursday, as the case may be, so that's scenario number 1. Scenario number 2 - I'm not suggesting that this is necessarily the Perth scenario, but scenario number 2 is more certainty. A consistent price through a 24-hour period and a price jump, for
45 example, of five or six cents that occurs once every couple of weeks. So it's a flatter price cycle and a longer lasting one and less of an amplitude in the price movement versus volatility and a greater price gap over that price hike. It will be very interesting to see what motorists - you may well have the answer, Mr Smith.

MR SMITH: I don't off the top of my head, but do we assume that both models deliver the same average price?

5 THE CHAIRMAN: The average price is a very interesting one to try and calculate, because we're talking about, "Yes, I can tell you an average price by taking the prices on a daily basis and then just sort of average them out, or do we take the average price weighted for the volume of fuel sold at particular prices?"

10 MR SMITH: Well, I guess my point is that if we go back and ask motorists, "Which of those two models do you prefer?" the next question is, "Well, where am I going to benefit most by it?"

15 MR OLIVER: Is that necessarily right though. I mean, if motorists are so frustrated by price volatility, knowing full well that that might actually create opportunities for them to buy it at a cheaper price on any given day, is it not possible that they would rather see that volatility dampened out than – I mean, by definition that's going to, for some of them at least, mean they're not get as low a price as they otherwise might, but is it not possible they would still prefer that, to see the price volatility done away with?

20

MR HARRIS: It's possible, but I still come back to my key point. What I understand from the material we've got and from other sources is that they're suspicious of the price they're paying at whatever price they're paying. Whether it's the top of the cycle or the bottom of the cycle, they're suspicious of the price. It will be interesting to find out what answer we did get.

25

30 THE CHAIRMAN: The reason I'm sort of testing on what would be interesting in the ANOP survey is that anecdotally – and by this we're taking what you hear on talkback radio and the like – the greatest outrage occurs on a Wednesday or else the day before a weekend or a holiday period or whatever it is when the price hikes a large amount. Then you see, "It's outrageous. How could prices have been hiked by 12 cents or 14 cents?" You don't hear any cries of outrage when the price keeps dropping by a cent a day or a cent an hour, whatever it is, but it's the price hike that causes it. So you might be led to the conclusion that if you could reduce the price

35 hike there might be less outrage, but that might then also mean that the - - -

MR HARRIS: Based on the percentages of people who are outraged on the Friday as opposed to those who take the benefit on the Tuesday.

40 THE CHAIRMAN: Exactly. Exactly. So that's why I would be very interested in the ANOP survey material, if it does actually give me an indication of that particular issue.

45 MR HARRIS: We'll go back and see what we can discover.

MR SMITH: Yes, that will come out of our focus group work.

THE CHAIRMAN: Precisely. Yes, yes. Sorry, Mr Oliver.

MR OLIVER: Thank you, Mr Chairman. Moving then onto price monitoring, one of your recommendations to this inquiry, as it was to the senate inquiry, was that the commission should, I guess, ramp up its price monitoring role. What exactly would you like to see the commission doing and what do you think that would achieve?

5

MR HARRIS: Well, a couple of things. I mean, we're not only suggesting more price monitoring, but we're suggesting legislative amendment to allow the commission the discretion to call one of these types of hearings as opposed to having to wait for a direction from the government to do so. The reason that we are suggesting that is not to suggest that the government sits on its hands for any particular reason. We simply think that if the discretion rested with the commission as an independent authority, that's a bigger stick to wave at the oil companies than the commission having to wait for a direction to undertake an inquiry of this sort. Certainly the oil companies have proven that they are responsive to the commission's statements and the commission's views.

10

15

You know, if the commission had the power to launch an inquiry of this sort at its own discretion, then we believe that the oil companies would be more responsive. In relation to ramping up the publication of information and the collection of information, again, as Greg has mentioned and I think I said as well, the more information that is available to consumers on the price they're paying for products, then the more informed the marketplace is and the more competitive the marketplace is going to be. You see that in all sorts of places. We simply think more information more readily available to more people will force oil companies to be as competitive as they can possibly be.

20

25

MR OLIVER: So it needs a transparency measure as much as anything about helping motorists understand what's driving the price.

30

MR HARRIS: Yes, and if you do all that and we still have the same price cycles and the same prices, then, in my view, we will have gone a long way to proving that the price that's being charged is a fair price.

35

MR OLIVER: Now, I think you mentioned a little bit earlier that you don't say that there's evidence of ongoing price gouging. I think Mr Evans from the NRMA in fact testified he thought there was. In support of that he pointed to the difference between crude oil prices and pump prices, but I think you yourself said that when you're looking for evidence of abnormalities, you're monitoring comparisons between pump prices and the Singapore benchmark, Singapore Mogas. First of all, do you agree with Mr Evans that monitoring that gap between crude oil and pump prices is a useful exercise, and do you think there's any evidence there of profiteering arising out of that?

40

MR HARRIS: Well, as you say, we monitor the Singapore price, we take account of the terminal gate price, and we take account of oil company margins and excise from the other components that make up the price at the pump. There have been a couple of occasions this year when the rolling average Singapore price has been coming down and the price at the pump has not been coming down by the same amount or,

45

indeed, has been going up at the same time as the price in Singapore was going down, which was the case in June. The other example this year was back in the January when there was a diversion as well. Now, I was asked a question on ABC Radio late May, from memory, as to whether I thought there was price gouging going on.

My response was that at that particular time we had no evidence that there was a diversion between the Singapore price and the retail price at the pump, that the cycles were in synchronisation, and on that basis I was not in a position to say at that point in time that there was price gouging going on. A couple of weeks later, three weeks later, thereabouts, there was a divergence and I did make a public statement that said, you know, "On the evidence that's available to us, the price is too high by at least five cents and perhaps more." In our view, the monitoring that we do and the comparisons that we do between the Singapore price and the terminal gate price are reasonable in terms of making the sorts of statements that I make.

I think they're an accurate reflection of price trends and movement trends, and that's really all that we're monitoring. We can't convert that into a specific price differential of 3.78 cents a litre of whatever. We can have a stab at what it might be. Would crude oil price be a better monitor? We don't monitor that price. We haven't got – I don't think we monitor that price.

MR SMITH: We do.

MR HARRIS: We do monitor that price. I'm sorry, we do monitor that price, but we don't make trend comparisons the way we do with the other Singapore price.

MR OLIVER: Well, you wouldn't, would you? I mean, when you are looking to get a view where Australian prices should be, it's not just a crude price you would have to have regard to, I assume.

MR HARRIS: No.

MR OLIVER: But also the other margins and other costs of refining, production and transportation, so - - -

MR HARRIS: Transport costs.

MR OLIVER: Which is why we do tend to refer to - - -

MR HARRIS: A whole bunch of costs that we try to take into account.

MR OLIVER: Which is why we do refer, as a rule, to – which is why, for example, you look at Singapore prices as a benchmark rather than crude oil.

MR HARRIS: Yes. I believe that the monitoring we do is a very good reflection of price movements and trends and gives us a capacity to comment on the basis of reasonable research and accurate data in a responsible way.

MR OLIVER: Mr Chairman, those are all the questions I had. I'm mindful of the time, so if there's anything else that you wish to ask?

5 COMMISSIONER MARTIN: Mr Harris, just a couple of matters. On the surveys, the ANOP surveys, you seem to think that you are the only ones that do this. In your discussions with the oil companies do they do this type of surveying of what motorists want or do they use yours?

10 MR HARRIS: I don't think they use ours. I'm happy to sell it to them, though. I have never asked them that question. I don't know whether Greg knows the answer to that.

15 MR SMITH: Yes. I think that Mike said that our polling is – we are the only people who do the polling from our perspective, the motorists' perspective. I'm sure lots of other entities do polling of some sort and I know for a fact that Caltex does a regular survey of people's attitudes towards prices.

20 COMMISSIONER MARTIN: Thanks for that. Another thing: you mentioned ethanol and ethanol blends. I wasn't quite clear on your point about the introduction. What is the AAAs position on ethanol blends at the moment?

25 MR HARRIS: Entirely positive. We don't have a negative view about ethanol blends. The issue we have is that to the extent that the introduction of an ethanol blend at a particular site is at the expense of one of the other blends that's currently available, like 95RON, for example, then you are removing the potential for customers to access another blend in substitution for an ethanol blend, and to the extent that that - - -

30 COMMISSIONER MARTIN: Okay, that was the point that - - -

MR HARRIS: That's the point I was trying to make, yes.

COMMISSIONER MARTIN: Okay.

35 MR HARRIS: It wasn't an anti-ethanol point.

COMMISSIONER MARTIN: No.

40 MR HARRIS: It was an access to other blends.

45 MR SMITH: And can I expand on that? Earlier this year we wrote to each of the fuel companies to get their policies, I guess, on how they plan to introduce E10 and whether they will be replacing bowsers. The point about removing 95RON bowsers is in fact – if you are driving, for example, a Ford Focus, Ford recommends that you use 95RON. That's when you will get the best fuel efficiency. If you move back to 91, you are likely to get less fuel efficiency, and so the incentive is to move up to 98, so you are paying more for that fuel, and 98 is also a proprietary fuel so it's not as widely available. 7/11 told us that they have been trying to source 98RON from the

major clients. Shell haven't been able to. One of the other factors obviously too is that the supply of ethanol is very limited at the moment, so that in itself will put upward pressure on prices, I would expect, and the other thing is that a large proportion of the fleet, so all of the pre-1986 cars, can't use ethanol so again they are
5 forced to move to a different type of fuel so - - -

MR HARRIS: It's something like 5 million cars.

MR SMITH: To the extent that the introduction of ethanol - I should make the point
10 we are very supportive of biofuels. We think that they will play an important part in future fuels, but to the extent that they might limit competition, I think that's something that this inquiry ought to consider.

MR HARRIS: Limit competition or disenfranchise part of the market.
15

COMMISSIONER MARTIN: Thank you.

THE CHAIRMAN: Mr Harris, I would like to take you up on your offer that you
20 made generously to give us access to the ANOP data. It may be that not only the written data would be useful, but perhaps in conjunction with yourself or officers from the AAA, we could actually sit with the ANOP representatives and perhaps test a few of the propositions. Motorists' attitude of course is as important here as the economic reality of what is happening in relation to fuel prices.

25 MR HARRIS: Yes.

THE CHAIRMAN: And I think I have indicated on several occasions that one of
30 the things we want to achieve with respect to this inquiry is some transparency and some accuracy and some truth as to what is occurring in petrol pricing, and so motorists' attitude and the sorts of issues that are of concern to them will be a factor that we need to take into account, so if we could take you up on that offer, that would be very helpful.

MR HARRIS: I will speak with Rod Cameron and see how we can make that
35 happen.

THE CHAIRMAN: That would be useful. Thank you very much indeed.

MR HARRIS: No problem.
40

THE CHAIRMAN: And thank you for your time.

MR HARRIS: A pleasure.

45 THE CHAIRMAN: And I appreciate you coming over.

MR HARRIS: Thank you very much.

MR SMITH: Thank you.
50

THE CHAIRMAN: Close this hearing. Thank you.

5

<THE WITNESSES WITHDREW

[1.49 am]

ADJOURNED

[1.49 pm]

Index of Witness Events

HARRIS/SMITH, SWORN	P-2
THE WITNESSES WITHDREW	P-26

Index of Exhibits and MFIs

--	--