ACCC INQUIRY INTO THE PRICE OF UNLEADED PETROL

Public hearing – Melbourne, 19 September 2007

Time: 1pm
Address: Jasper Hotel
489 Elizabeth Street
Room: Room 3 & 4

Time	Witness	Submission
1pm	Mobil Oil Australia Pty Ltd Mr Matt Bergeron, Ex Fuels Marketing Manager Mr Glenn Henson, General Manager, Altona Refinery	25 (public)

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

AUSTRALIAN COMPETITION

AND CONSUMER COMMISSION

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

PETROL PRICE INQUIRY HEARING

CONDUCTED AT:	**JASPER HOTEL MELBOURNE**
DATE:	**1.00 PM, WEDNESDAY 19 SEPTEMBER 2007**

THE CHAIRMAN: I think we will start. Our apologies for the late start. Welcome, counsel.

My name is Graeme Samuel. I am the Chairman of the Australian Competition and Consumer Commission and Chair of this public inquiry into the price of unleaded petrol. I am joined by Commissioner John Martin on my right and Commissioner Stephen King on my left. I welcome you all and declare this hearing open.

The hearing is convened under Part VIIA 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 for this inquiry have been published on the ACCC's website, together with an issues paper and all the public submissions that have been received. We have also published Notes for Witnesses at this inquiry which outline the procedures followed by the Commission at public hearings. The names of the witnesses appearing today have also been published on the ACCC's website.

Witnesses appearing today will be questioned by counsel assisting the ACCC. Counsel appearing today are Simon Marks and Fiona Forsyth. Some witnesses will also be represented by their own lawyers.

I would note that the conduct of the inquiry is within the discretion of the inquiry Chair. Anyone using insulting language or otherwise disrupting the hearing may be excluded. I perhaps note that the wearing of a Geelong tie by Mr Justin Oliver is not regarded as the use of insulting language or disrupting the hearing - it may be bad judgment as well, but that is another issue.

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. We intend 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. That means we may need to close the hearings at certain points.

A transcript of this hearing will be taken and made available on the ACCC 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 to begin by asking the witnesses from Mobil to, please, come forward and, for the record, to state their name and position.

MR HENSON: Good afternoon. Thank you for the opportunity to be here this afternoon. My name is Glenn Henson. I am manager refining, Australia and New Zealand, Mobil Australia. I have held this position for about four years. I have leadership responsibilities for Mobil's refining and supply business, including, among other things, refining, supply and terminalling and distribution of unleaded here in Australia. The areas I can answer questions on, for the purpose of this public hearing, are questions relating to refining, importing, terminalling and distribution.

THE CHAIRMAN: Thank you. Mr Bergeron?

MR BERGERON: Good afternoon, and thank you for the opportunity to participate in this hearing today. My name is Matt Bergeron. I am currently the North American convenience retailing manager for Exxon Mobil's fuels marketing company in the United States. However, until 22 August of this year, I was the retail sales manager for Mobil Oil Australia, a position that I held for about two and a half years. During this time, I also had leadership responsibility for Mobil's fuels marketing business in Australia. The areas that I can answer today are, for the purposes of this public hearing, questions on wholesale and retail fuels marketing.

THE CHAIRMAN: Thank you. You have legal representatives I think here today. For the record, could you identify yourselves?

MR ANASTASSIOU: Mr Chairman, my name is Anastassiou. I am counsel for Mobil Oil Australia. Instructing me today are Mr Guirguis and Ms Ellis from Blake Dawson Waldron.

THE CHAIRMAN: Thank you. Could I inform you about some of the rules regarding giving evidence at this inquiry. Firstly, it is an offence to refuse to answer a question that you are required to answer by the inquiry Chair. Secondly, it is 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 your evidence under oath or under affirmation, if you believe an oath would not be binding or for religious reasons you are prevented from swearing an oath upon the Bible. I will ask each of you whether you wish to swear under oath or affirm the evidence that you are giving, and we will deal with it accordingly.

<GLENN HENSON, SWORN **[1.31pm]**

<MATT BERGERON, SWORN

MR MARKS: Gentlemen, thank you for your attendance this afternoon. As foreshadowed by the Chairman, I intend to ask you a number of questions about Mobil's position in the Australian market relevant to the matters in this inquiry. I will direct my questions to both of you. Mr Bergeron, no doubt you will answer those questions that you feel best qualified to answer and, likewise, Mr Henson.

I wanted to indicate to you two things: first of all, the material we have, just so we are all on the same page about what the ACCC has been able to absorb in the time leading up to your attendances; and, secondly, just to make a couple of comments to you about the process of this hearing.

On the first matter, we have - and please tell us if we have missed anything - the following documents from Mobil. We have a general public submission which was prepared, it would appear, around 27 July 2007. Did either or both of you gentlemen have any responsibility in the preparation of that document?

MR BERGERON: Yes.

MR HENSON: Yes, we made contributions.

MR MARKS: Did anyone else? Who was it prepared by?

MR BERGERON: It was prepared as a collaborative effort within the downstream business, so Glenn would have had input into it, I had input in it, public affairs and law and other folks across the organisation.

MR MARKS: It sounds like a very general group of people. Are there any final authors or people who take the final responsibility for this document, Mr Bergeron, just so we know?

MR HENSON: Well, essentially, the two of us.

MR MARKS: You are going to have to speak up, both for the purposes of the transcript and so we all can hear you.

The second thing I wanted to bring to your attention is we have your answers to the 95ZK notices, for which we thank you. Again, were you gentlemen responsible for the preparation of that material?

MR BERGERON: Yes, I was involved.

MR HENSON: Yes, likewise.

MR MARKS: All right, we will take it you are the authors for relevant purposes.

Then there are a series of folders we have of attachment material, and you can take it that we have had an opportunity to look through that material and to digest most of the contents. That's the framework of materials we have.

I propose to ask you a number of - is there anything else we have missed?

MR HENSON: Not to my knowledge.

MR BERGERON: No.

MR MARKS: I didn't think so. I then wanted to say to you that in the course of this inquiry I will ask a number of questions. As you would understand, our obligations under the Act require us to keep the inquiry open insofar as we can. That is the way the ACCC will conduct the matter. There will, though, inevitably be questions which will invoke an answer of a more sensitive kind, about topics of a more sensitive kind. If it is your view that answers you are giving would be better given, or you would like to give them in private, please do not hesitate to tell us and we will then try to take that on board so that we can accommodate your desires.

Can I start then just asking you some general questions about the nature of Mobil Oil's presence in Australia at the moment. In your 95ZK answers at paragraph 4.1, you have made the point that Mobil is not any longer a retailer. You say it is no longer operational - has operational control, and I just wanted to ask you some broad questions about the structure of the organisation now, having regard to that fact.

I think it is clear from the public submission, Mr Bergeron, that Mobil owns or leases about 280 stations within the Australian market at the present time; is that so?

MR BERGERON: Yes, that is correct.

MR MARKS: The majority of those - in fact, if my sums are right, 279 of the 280 are operated by a franchisor by the name of SEP effectively, or SEP, standing for Strasburger Enterprise Properties Pty Ltd?

MR BERGERON: Yes, that is correct.

MR MARKS: That entity is itself 50 per cent owned by Mobil; is that right?

MR BERGERON: That is correct.

MR MARKS: What are the control arrangements with that company?

MR BERGERON: It is a 50/50 joint venture between Mobil Oil Australia through our subsidiary company called Vacuum Oil and ABN Amro Bank. Actually, there is a holding company structure that sits above the SEP company, that is the 50/50 joint venture holding company, called Distributor Joint Venture Company and SEP sits underneath that structure.

MR MARKS: In terms of the makeup of the board of SEP, could you tell us that?

MR BERGERON: There are four directors of the company - two Mobil Oil Australia directors, myself and another gentleman, Sunny Thong, and there are two outside directors from ABN Amro.

MR MARKS: That company has, does it, an arrangement under a contract for the operation of the Mobil-owned sites?

MR BERGERON: Yes, it is a franchisee of Mobil, so it would be a franchisor direct franchisee.

MR MARKS: It is a franchisor arrangement?

MR BERGERON: Correct.

MR MARKS: SEP is the franchisor?

MR BERGERON: SEP is the franchisee. Mobil Oil Australia is the franchisor, SEP is the franchisee.

MR MARKS: I understand. There is a contractual arrangement under which those franchise arrangements operate?

MR BERGERON: Yes, there is.

MR MARKS: I do not think we have seen that.

MR BERGERON: I think we have provided that.

MR MARKS: Have you provided that contract? I think - - -

MR BERGERON: The franchise agreement between Mobil Oil Australia and SEP, I think we have - have we?

MR MARKS: We will find that out. I have not seen it, and that doesn't necessarily mean you haven't provided it.

MR BERGERON: If we have not, we can certainly take that on notice and provide that.

MR MARKS: Thank you. Can I just go through the rest of the structure. There are then another - is it 30 or so sites which SEP itself owns?

MR BERGERON: Yes. Owns or leases.

MR MARKS: Owns or leases?

MR BERGERON: Yes.

MR MARKS: Again, to the extent that it leases those sites, they are under a contractual arrangement, are they, with Mobil?

MR BERGERON: Yes, they lease those sites and that is part of the - it does fall underneath the franchise relationship between Mobil and SEP.

MR MARKS: Does it? So they are picked up under that arrangement?

MR BERGERON: Yes.

MR MARKS: At those sites, Mobil doesn't set the retail price, you say, but is it right to say that Mobil does have arrangements with the franchisor which enable Mobil to have some influence on setting the retail price?

MR BERGERON: We do describe that in the 95ZK submission.

MR MARKS: Yes, you do.

MR BERGERON: And that mechanism - we have - every site within the SEP franchise has a wholesale price for fuel that is specific to that site. From time to time, that wholesale price will have an element of price support, if you would, based on what's happening in the marketplace and the competitive conditions in the marketplace. You know, it just so happens that currently, today, SEP is the only franchisor. A year ago we had many, so our business structure has obviously evolved over time, as we made changes to our structure.

MR MARKS: All right. I think there might be one site that is not - it is the last site, if you like, that is not captured in the franchise arrangement?

MR BERGERON: That is correct. That site is actually up in Kakadu, which I have never been to, but I hear is very nice. It is up in Jabiru, and it is just a site that was under an old contractual arrangement that just never - was never changed.

MR MARKS: Is that Mobil owned?

MR BERGERON: I believe we lease the site and there is a franchise operator in there. We have an existing contractual arrangement with that operator which we have continued to honour, based on the tenure in that agreement.

MR MARKS: I will come back to the question of wholesale pricing later.

MR BERGERON: Sure.

MR MARKS: Then there are, I think you say, about 500 independently owned and distributor supplied regional sites mainly?

MR BERGERON: Yes.

MR MARKS: They are Mobil branded, but if I have understood your submission correctly, they are not sites where Mobil either sets the price or provides support, which might enable it to have some influence on the price; is that correct?

MR BERGERON: That is correct.

MR MARKS: The next strand of the Mobil arrangements is its arrangements with other wholesalers. There are a number of other wholesalers who Mobil supplies?

MR BERGERON: Yes, there are.

MR MARKS: Can we get an idea of who those are? I think there is United?

MR BERGERON: United, Liberty, APCO, Freedom Fuels, and Trafigura, and then there would be others - - -

MR MARKS: The others are smaller?

MR BERGERON: Those are certainly some of the largest ones that we have. Then there is, obviously, a whole other suite of industrial customers that mainly, predominantly, buy diesel fuel, processed gasoline.

MR MARKS: Can we safely presume that the vast majority of the dealings that Mobil conducts and the sales that Mobil makes to those entities are on a contract basis?

MR BERGERON: Yes, that is correct.

MR MARKS: That market structure you have just described is a change, isn't it, from the market structure which Mobil adopted prior to 2004?

MR BERGERON: Our market structure in Australia has evolved quite a bit in the last four or five years.

MR MARKS: If I have understood it correctly from the material, there used to be a company-owned commission agent operation where Mobil had a large number of sites that it owned, a large number of sites that it set the price at and so on, and over time there has been a rationalisation of that arrangement down to what we now see and the change in structure that we now see.

MR BERGERON: Yes, that is correct. If you go back several years, we would have had a variety of different commercial arrangements in the marketplace. In some cases, we had company owned and operated facilities, in some cases we had company owned and commission agents in there or a variety of franchise dealers, independent dealers, yes.

MR MARKS: Do I understand that Mobil has rationalised down very considerably the numbers. I think what I am reading here is that it has been reduced by about 40 per cent, there is been a sale of some 250-odd sites?

MR BERGERON: Since 2001, that is correct.

MR MARKS: Who have those sales been to?

MR BERGERON: A variety of companies, individuals. In some cases - I will give you some examples - we would have had sites in rural areas which would be the areas predominantly served by branded distributors or resellers, so many of these sites have been sold to distributors, some of whom continue to do business with us, some of whom do not. We also have just - in many cases, just went out to the open market and is managed by our real estate group, and is just sold out, sometimes for continued petroleum use and sometimes not. So you can imagine, it was quite a work effort in the last several years to sell more than 200 retail service stations.

MR MARKS: It was a substantial reduction?

MR BERGERON: Yes, it was.

MR MARKS: In fact, the position - are you out of Western Australia altogether now?

MR BERGERON: Yes, we are.

MR MARKS: Am I right in saying that you are out of Tasmania as well?

MR BERGERON: Yes, we are. I believe the debranding has been fully complete, although I have not personally been to Tasmania, so if there is still a stray Mobil sign somewhere on the island --

MR MARKS: You wouldn't be surprised?

MR BERGERON: Stranger things have happened.

MR MARKS: If I read page 7 of the submission correctly, you also add that the retail sites in the regional areas of South Australia, Victoria, New South Wales and Queensland are now effectively entirely independently owned? Is that so?

MR BERGERON: That is correct. With one caveat to that. There are still two distributor companies. One is located in Southern Queensland, called Lowes Petroleum and the other is in south-eastern New South Wales, called Cocks Petroleum. Both of those companies, Mobil still has a 50 per cent equity share in. However, we are well advanced in negotiations to sell our equity in both of those entities.

MR MARKS: Coming back to the present, where are all of the SEP retail sites located? I understand from the submission it is eastern seaboard, substantially Sydney, Brisbane, Melbourne Adelaide. So you tell me, if you would be so kind, the numbers, where I would find the sites, what presence you have in Melbourne and Sydney, et cetera?

MR BERGERON: I don't have that exact detail with me, so I will go off what should be up here. I would describe all of these sites as located in major metropolitan markets. The largest number of sites that we have would be in the Sydney market, so I have to get up to about 300, so it would be about 125 in Sydney.

MR MARKS: Do you know what proportion that is of the Sydney retail sites market?

MR BERGERON: I do not.

MR MARKS: No idea?

MR BERGERON: I do not know the proportion of the 125 divided by the total industry sites. That information we could get.

MR MARKS: That is fine, I wondered if you knew. Then Victoria.

MR BERGERON: Then Melbourne would be the second largest market for us in terms of number of sites, and that might be around 110. The third largest market would be Brisbane-Gold Coast. We talk about Brisbane, but it is really Brisbane Metropolitan and Gold Coast, and that would be an order of magnitude of about 50. Then the fourth market would be Adelaide; again metropolitan Adelaide, I think we are about 35 sites there. How did I do? That should be close.

MR MARKS: We have to get up to 300, do we?

MR BERGERON: 125, 235 - - -

MR MARKS: Pretty close. Pretty good. We are there. If I pick up the information that you have provided to us in the attachments - and you will forgive me if I miss things, but I just want to get the general flow of this - there is some information that you have provided about site volumes and so on. I just want to quickly pick up a little bit of the information so that we can work through it, and I will come back to it later.

MR BERGERON: Okay.

MR MARKS: At attachment H, you have provided a breakdown of the volumes of wholesale sales and what that shows is the highest volumes, not unexpectedly having regard to what you have just identified as site locations, in New South Wales and Victoria. Would you agree?

MR BERGERON: Yes.

MR MARKS: The volumes in those two areas seem to vary a bit. In 2006, the bulk of sales by volume were from Victoria, do you see?

MR BERGERON: Yes.

MR MARKS: It is the other way around in 2006-2007.

MR BERGERON: Correct.

MR MARKS: Is there any reason for that?

MR BERGERON: I think what you are seeing there is reflective of some new business that we would have picked up, primarily in the unbranded reseller segment. So we talked about United and sales to United and Liberty, so I think what you are seeing in there is reflective of some of that new business coming on, particularly in New South Wales.

MR MARKS: I see. To pick up your response, you say - this is at the top of the table there - that Mobil recently negotiated big accounts, and there you name it. That is what you are talking about there?

MR BERGERON: Correct.

MR MARKS: There is a volume. You say Liberty was also - - -

MR BERGERON: I think Liberty - we have done business with Liberty over the years. I think some of the newer volume would be more reflective of some of the newer business with United.

MR MARKS: I see. We will assume this accurately sets it out. Liberty is not relevant in that context.

MR BERGERON: Yes.

MR MARKS: Then in attachment P you have helped us with some volume information referable to retail. I am looking particularly here at column 3, do you see, which is the column dealing with the franchisee volumes. When I look at this, I see that for New South Wales and the ACT, and again for Victoria, the predominant sales occurring, and that is consistent with the site by site analysis that you have given me. All right, that is helpful. The retail presence for Mobil is most significant in Victoria and New South Wales, by site, by volume sales and so on.

MR BERGERON: I think it is fair to say that, yes.

MR MARKS: Just looking at those two markets - - -

MR BERGERON: In terms of the cities.

MR MARKS: In terms of the cities - - -

MR BERGERON: Obviously, we have Mobil sites throughout rural areas as well.

MR MARKS: I understand, but in terms of these figures, what I am seeing is a substantial number of Mobil's controlled sites or Mobil-affiliated sites at franchisee level being in those two retail regions?

MR BERGERON: Yes.

MR MARKS: And them being a substantial volume for Mobil in terms of its overall supplies.

MR BERGERON: Yes.

MR MARKS: I then wanted to ask you a couple more questions about that. This change that we have seen in structure - and I have just asked you about - where you rationalise down to, effectively, a new model, was there a reason behind that, or a strategy that motivated that at Mobil?

MR BERGERON: Yes, I mean, there were - you know, one of the things we do as a company is continually look at our business and look at ways to optimise and improve the results of our business, and there would have been some strategy studies that took place several years ago, taking a look at the business, the performance of our business, and the competitive landscape, and developed a series of recommendations around a - one of which, obviously, was to significantly change the structure of how we go to market; to significantly simplify the structure of how we go to market; and obviously to rationalise many of the retail sites that we felt could no longer compete effectively in the marketplace.

MR MARKS: Was it really a matter of, in layman's terms, trying to divest unprofitable sites and, really, move to a model which would fix Mobil's attention more firmly on metropolitan-based, larger sized retail operations?

MR BERGERON: I don't take exception to how you have described it.

MR MARKS: So far as Mobil's margins and the development of its margin position over time is concerned, I wanted to just really ask you about that. It may be that the specific answers you want to provide in a confidential context; I am happy to do that, but just for the moment, I wanted to draw your attention to attachment P. Attachment P sets out relevant margin information at the wholesale and retail level.

MR BERGERON: Is this the one labelled "MOA gross margins", for sites where Mobil sets the retail price?

MR MARKS: It is.

MR BERGERON: I have got it.

MR MARKS: It is those last few words that are important, because the information would appear to have been provided only for the years 2003 to 2005 financial years. I anticipate that there is no information for 2006 financial year, or 2007, and I have anticipated that is because Mobil has changed its structure.

MR BERGERON: That would be correct.

MR MARKS: I take it also, though, that that margin information is available for both the wholesale and retail level?

MR BERGERON: At the wholesale level it is certainly available from us, yes. From the retail level, it would be from the SEP companies.

MR MARKS: Yes. Mobil would have access to all of that information, would it not?

MR BERGERON: Yes, we would be able to get that.

MR MARKS: Could you provide us, please, with the same margin information at both wholesale and retail level for the 2006 and 2007 financial years, if you don't mind taking that on notice?

MR BERGERON: We can take that on notice. That is fine.

MR MARKS: Thank you very much. Can I move then, gentlemen, to some more specific questions, now that we understand the structure of Mobil's operation at retail. Can I turn to the topic generally of refining and importing. If we have understood the position broadly, the Australian market is still largely self-sufficient but not entirely self-sufficient in its fuel needs; would you agree?

MR HENSON: There is unleaded petrol imported into Australia, yes.

MR MARKS: To answer my question, the position is this, is it - leaving aside the fact that imports exist: Australia still is largely self-sufficient in fuel needs? It is not entirely so; is that correct?

MR HENSON: That is correct, yes.

MR MARKS: If one were to try and allocate proportions, would I be right in saying it is about 90 per cent self-sufficient across all products?

MR HENSON: I think that is a bit on the high side.

MR MARKS: I have seen figures ranging from 85 per cent to a little over 90 per cent. What is your view?

MR HENSON: The broad view I would have - I do not have the numbers right in front of me, but I think the Australian numbers that I have seen quoted around about 150,000 barrels a day of product imports and total demand is 650,000 or something like that. That is in terms of gasoline, diesel and jet as the whole products go, as you asked for.

MR MARKS: Let us just take petroleum products. What's the position?

MR HENSON: You asked me the question about all products, that is gasoline, jet and diesel.

MR MARKS: Let us take gasoline. Do you have any idea?

MR HENSON: I don't have the industry numbers in front of me. I have our numbers.

MR MARKS: If I am wrong about that, I would like you to tell me - you don't have to do it right now. The picture we have is it is about 85 per cent or 90 per cent, somewhere around there, for gasoline. If that is wrong, we would be grateful - - -

MR HENSON: It may be a bit on the high side, but we will check.

MR MARKS: Thank you. So far as Mobil is concerned, Mobil sources its product to the market really from three sources: first of all, from products produced from its own refinery here in Victoria?

MR HENSON: That is correct.

MR MARKS: Secondly, from imports?

MR HENSON: Yes.

MR MARKS: And, thirdly, from buy/sell arrangements that it enjoys with the other refiner markets?

MR HENSON: Purchase arrangements from other refiners, yes.

MR MARKS: I am loosely calling them that, I am going to continue to call them that.

MR HENSON: They are separate contracts.

MR MARKS: I understand there are two parts to that arrangement.

MR HENSON: They are separate contracts, yes.

MR MARKS: I will come back to that later.

MR HENSON: Sure.

MR MARKS: Can I quickly understand Mobil's position at Altona. Before I do that, can I ask you a couple of general questions: Mobil Oil is a subsidiary of Exxon Mobil? What is the relationship?

MR HENSON: We are a subsidiary of Exxon Mobil Australia.

MR MARKS: What is the relationship - is it 100 per cent owned by Exxon Mobil Australia?

MR HENSON: I believe that is correct, yes.

MR MARKS: What is the relationship between Exxon Mobil Australia and Exxon Mobil Singapore, described as "the affiliate"?

MR HENSON: It is a separate affiliate which has common shareholding, which is US-based companies, I assume. I don't know the exact structure, unfortunately. We don't have - we, as Mobil Oil Australia, don't have a shareholding in the Singapore affiliate.

MR MARKS: No, but does the Singapore affiliate have a shareholding in Exxon Mobil Australia?

MR HENSON: No, not to my knowledge.

MR MARKS: You will have to make the arrangement clearer, I am sorry.

MR HENSON: Well, they are separate affiliates and the ultimate shareholder is Exxon Mobil Corporation - both affiliates.

MR MARKS: Where is that corporation located?

MR HENSON: I think the state of Delaware. Is that right, Matt?

MR BERGERON: I think it is Delaware.

MR MARKS: So far as the Altona refinery is concerned, the capacity at the moment is about 80,000 barrels a day; is that so?

MR HENSON: Yes, that is about right.

MR MARKS: Is that - that is on obviously less than the nameplate capacity; significantly so, as I understand it? Is that the - - -

MR HENSON: Well, prior nameplate capacity, yes.

MR MARKS: Is that about its current nameplate capacity after specification - - -

MR HENSON: Correct.

MR MARKS: Okay, that is about the maximum. The prior nameplate capacity was about 130,000 barrels a day?

MR HENSON: Approximately, yes. That is about right.

MR MARKS: The change or the reduction, is that due to the restructuring operations required to enable the refinery to comply with Australian quality specifications?

MR HENSON: Yes, due to the changes we have made and our approach to meeting the clean fuel specifications, yes.

MR MARKS: The clean fuel specifications, as you describe them - and I think that is the way you describe them in the materials - are, in effect, the fuel standard changes that were brought about from January 2002 through to January 2006, and there are still some further changes?

MR HENSON: Predominantly the ones that came into effect at the start of 2006, they were the key major changes.

MR MARKS: That is the MTBE changes?

MR HENSON: No, no, it's a whole suite of changes, including benzene levels, sulphur levels, diesel and so forth.

MR MARKS: Accompanying those changes, it was necessary for Mobil to undertake a series of investment capital intensive work at the refinery, was it?

MR HENSON: We made a number of modifications to plant, requiring a considerable amount of money, yes.

MR MARKS: The way you put it in your public submission, at page 3, is to say that the tightening of the fuel standards led to significant investment in cleaner fuels. AIP data indicates that a lot of money has been spent in the last decade to come up to the quality requirements. Mobil itself has spent a considerable amount of money. But in the second main paragraph you say: The capacity reduction from 130,000 to 80,000 was in the face of an alternative which would have been to shut down the refinery altogether. Can you explain that, please?

MR HENSON: Yes, I am happy to talk about this. I would probably prefer to do it on a confidential basis because it gets into some of our business planning and strategy. I am happy to do that.

MR MARKS: I thought I would ask you in this open session, Mr Henson, simply because it is in your open submission.

MR HENSON: I am not sure of the degree of detail you want to go to. Perhaps I will start - I might have to stop at a certain piece. Could you ask the question again?

MR MARKS: Certainly. I am more than happy to pick it up. It is just that I want to keep it open if I can, for obvious reasons. You say the structure entailed shutting down parts of the refinery and putting some existing equipment in new service. This reduced the capacity of the refinery from around 130,000 barrels a day to around 80,000, but the alternative would have been to shut down the refinery altogether. I just wanted to know if you can explain that a little further.

MR HENSON: Sort of from a public perspective - and I can probably share more later on, if need be, the experience with, I guess, clean fuels, investments and changes to refineries around the world is that those investments generally do not generate a return. They are what we would call stay-in business investments over the long term.

MR MARKS: Yes, I see.

MR HENSON: We looked very closely at our business and looked at some pretty tough cases, and one of which was whether it was worth continuing to refine in Australia. I guess that was a situation that we worked very hard, we came up with an option we felt was better and that is the one we have since progressed. Part of that was to reuse equipment differently so that we minimised the cost of the investment and changes we needed to make to the refinery, so that we minimised the debit to the overall business of meeting the clean fuels requirements. Essentially, that is the high level perspective.

MR MARKS: I understand. As a consequence of all that, what percentage - in terms of Australia's petroleum products generally - can you give me an indication about what percentage are we looking at from Altona now? Is it about 10 per cent, or perhaps a bit more?

MR HENSON: It would be a bit over 10 per cent. I think we are talking about 600,000 barrels, something like, of total gasoline and diesel; Altona would probably be close to 13 per cent or 14 per cent of that.

MR MARKS: Thank you. That is helpful. That is at high level for the moment, the home refinery. Imports is the second category I wanted to - I will go into these in more detail at the moment. Just to pick up where we are with imports generally, I think you say in your answers at 2.4 that Mobil imports a considerable volume. The way you describe it, I think, is this - and there is a part in the public submission around page 4.2. You say Mobil sees itself as the largest importer. That is of the four majors, is it?

MR HENSON: We think we are the largest importer of anyone in Australia of petrol.

MR MARKS: You are certainly the largest if you are the largest among the four majors.

MR HENSON: Yes.

MR MARKS: What you are referring to here is the four majors, I take it?

MR HENSON: Yes.

MR MARKS: It is a net supplier. Is that a reference to the buy/sell arrangement position, namely, that Mobil is really - it is supplying more than it is receiving?

MR HENSON: I prefer to talk about that in confidence, because that relates to commercial terms.

MR MARKS: I just want to remind you, Mr Henson, that the points I am putting to you are in your public submission.

MR HENSON: Are they? Okay.

MR MARKS: I know there is a fine line to be drawn here, and don't worry, I have had difficulty with this right through this inquiry, but I am trying to keep to questions that you do feel comfortable with. I am trying to get a feeling, for the moment, of what you mean by that comment, that - and it is in the public submission at page 4:

Mobil is a net supplier of fuel to the industry.

Do you want to come back to that question?

MR HENSON: Let's come back to that in the confidential session. I think it would be more instructive to answer that then.

MR MARKS: That is helpful, and I understand that. You also say, again in the public submission, that Mobil - that the imports for which you say Mobil pays market price represent over 40 per cent of the fuel that it supplies to the market. Do I understand that to mean that of Mobil's contribution to the market, around 40 per cent is sourced from imports, around 60 per cent from its own production at the refinery here in Victoria?

MR HENSON: That is the case.

MR MARKS: I imagine that that percentage has changed significantly since the Port Stanvac closure.

MR HENSON: It has certainly decreased, yes.

MR MARKS: Mobil is more reliant now on imports than it has ever been to satisfy its needs or its sale needs in the market?

MR HENSON: Since the start of the refining industry in the 1950s, that is correct.

MR MARKS: In recent times and, really, compared to the other refiners, it is more exposed to a requirement to get refined fuel from outside Australia?

MR HENSON: I would not necessarily use the word "exposed" in a negative sense.

MR MARKS: No, I didn't really necessarily mean it in a negative sense, but assuming it has obligations, under forward contracts on the Australian market, without meaning to make it any more pejorative than that, it is seeking to satisfy those obligations, more than other refiners in this country, from imports, is it not?

MR HENSON: That is correct. Yes.

MR MARKS: In a sense, that places it, doesn't it, in a different position to the position that the other three major refiners are in; would you agree?

MR HENSON: There are certainly some differences. Now, what sort of differences do you really want to refer to?

MR MARKS: Perhaps I can ask you this question, rather than put something to you. Does that position I have just described place Mobil at any disadvantage in terms of its dealing with customers on the Australian market?

MR HENSON: I don't believe so.

MR MARKS: Mobil doesn't think so, anyway?

MR HENSON: I think there are advantages, frankly.

MR MARKS: The sort of things I am thinking of is the forward lead times, the security of supply issues and so on, making sure that contracts can be met. That is really where I am coming from, but is the answer, from Mobil's perspective, no?

MR HENSON: I still think there are advantages.

MR MARKS: Are there nevertheless some disadvantages such as those I have just described, or is that not an issue for the moment?

MR HENSON: It is not an issue for the moment.

MR MARKS: The third category at a high level for the source of petrol is the buy/sell arrangements. You have mentioned those in different places, but in the open submission you say Mobil is a net supplier, as I have already raised with you, both to major oil companies and to independents.

Currently over half the fuel Mobil imports is supplied to other companies.

I wanted to ask you about that last comment:

> *...over half the fuel Mobil imports is supplied to other companies.*

When you say that, are you referring to the buy/sell arrangements or are you referring more generally?

MR HENSON: Referring more generally. It would include contracts where we had sales arrangements to other companies. Those companies include oil majors, they include other companies beyond oil majors.

MR MARKS: Are you able to tell the Commission what percentage of Mobil's annual volume sales have been sold under buy/sell arrangements to other Australian refiners?

MR HENSON: I have the data here, but again I prefer to do that -- if it is not in the public submission, I prefer to do that privately.

MR MARKS: Okay, we will note that. Can I then ask you about those three categories I have highlighted. Again, I will try to keep the questions open. It may be that there are areas where you want to come back, and I understand that, because necessarily those issues will cut across some topics about which there is sensitivity. I may have to come back, but I want to give it a go, if you don't mind. Coming back to the Altona refinery, I will deal with each of the three areas in turn. Firstly, at Altona, the production that goes on at Altona of refined petrol, is that production entirely from imported crude, can you tell me?

MR HENSON: No.

MR MARKS: Okay. What percentage of locally-produced crude makes its way or finds its way into refined petrol production?

MR HENSON: It varies quite substantially but it is about half at the current stage.

MR MARKS: All right. They are, of course, different: you have the heavier crudes, the Tapis crude and the lighter Australian crudes. Are they simply - does Mobil have to deal with these crudes differently, or is it all thrown into the refining mix and dealt with as one product?

MR HENSON: Well, for a start, Tapis crude is a relatively light crude, and there are heavier crudes which we and others run, and the refining process is about selecting and finding the right mix and acquiring the right mix of crudes to operate the plant optimally. That can be a mixing and matching exercise. It is very complex, but it is a matter of the price of the crudes on the market, the availability of those crudes and the ability of those crudes to produce the products we need to produce in the refinery. So it is quite a complex process we go through to determine how we best run that, and it would be a mixture of crudes that can vary from month to month quite substantially.

MR MARKS: Answer me this then: can Mobil obtain locally-produced crude more cheaply than it could obtain refined crude?

MR HENSON: How do you mean, "refined crude"?

MR MARKS: Sorry, I said "refined", I meant international. Can it obtain locally available crude more cheaply than internationally imported crude?

MR HENSON: The cost of the crude is just one element. There is - the value the crude can produce through the refinery is the more important issue to determine what crudes we want. Sometimes local crudes are more expensive than imported crudes, sometimes they are less expensive. But the key issue for us is not just the price of the feedstock but what the refinery can produce from that feedstock, in terms of the market price of gasoline, for instance, and what comes from it in running through the refinery.

MR MARKS: If we focus on price for a minute, obviously the advantage to Mobil in refining here in Australia is it can obtain crude more cheaply than it can obtain refined petrol from overseas sources; would you agree?

MR HENSON: Well, hopefully, we can make money refining crude and supplying product that way, compared to importing product. That's what we're trying to do.

MR MARKS: Hopefully? I mean, that is the basis of your Australian operation, isn't it?

MR HENSON: That is right.

MR MARKS: I mean, let's not get cagey here. The reality is that Mobil can, like all the refiners in Australia, obtain crude, both on shore and offshore, far more cheaply than it can obtain refined petrol. That is the advantage, if you like, that it enjoys in having a local refinery; would you agree?

MR HENSON: No, because there are situations where the price of product is low enough that it is not worth refining it. I think just a few days ago, the price of gasoline on the Singapore market was lower than Tapis crude. I have had situations where I run the refinery backwards, frankly, to make money.

MR MARKS: Mr Henson, I am not suggesting for a moment that there aren't times - I mean, don't assume we know nothing about the market. I am not suggesting there aren't times when the margin might be negative. What I'm saying to you is that across Mobil's operations it can obtain crude much more cheaply than it can obtain refined and the difference is in dollars a barrel, isn't it?

MR HENSON: Yes, but - - -

MR MARKS: It is bleedingly obvious.

MR HENSON: Yes, but that is not a continuum.

MR MARKS: Not at all. But across a year or a period, you would expect, and if you are running the refinery, you would expect, indeed you would jolly well hope that what I said held good.

MR HENSON: Yes.

MR MARKS: Do you know on an annual basis what is the difference, in dollars a barrel, please, between the cost of importing refined petrol and buying crude?

MR HENSON: Well, you can look at some of the published market data in terms of the MOPS 95 quote versus the cost of Tapis crude. There is data publicly available for that which appears on the AIP website.

MR MARKS: I know all of that. I am just asking you what, from your knowledge of this industry - and you have more knowledge than most - the average difference is. Is it $4 a barrel, $5 a barrel?

MR HENSON: I will have a look at the numbers. It varies quite substantially and it depends on which year you are looking at, of course.

MR MARKS: Let us take the 2007 year to end June.

MR HENSON: I have some numbers here. The MOPS 95 quote versus Tapis crude, year to date, 2007, has been running about $15 a barrel.

MR MARKS: So let us compare that, if we can, to the 2006 year. If you have the 2005 figure, I would be grateful for that, too, please.

MR HENSON: In 2006 it was about $12 - sorry, that's - my apologies, I quoted the wrong number. The 2007 year to date number is actually $8. The 2006 number is about $5. 2005 is a bit over $5.50, or thereabouts.

COMMISSIONER KING: US dollars a barrel?

MR HENSON: US dollars, yes.

MR MARKS: US dollars, yes. Really, am I right in saying that difference is important because it essentially becomes the basis of the refiner margin?

MR HENSON: It is a key element to it, one of the elements to it.

MR MARKS: It is not the only element, but it is the key element, isn't it?

MR HENSON: No, it is one of the elements.

MR MARKS: What are the other key elements?

MR HENSON: Diesel margins, fuel oil costs, plus our operating costs - - -

MR MARKS: You are talking about the net margin?

MR HENSON: Yes.

MR MARKS: I am sorry, I was talking about the gross margin.

MR HENSON: The gross margin in terms of income, but obviously gasoline versus crude, but also diesel versus crude - - -

MR MARKS: I understand.

MR HENSON: - - - jet fuel versus crude. They are all part of the potential earnings a refinery can make.

MR MARKS: Of course, but the difference in each case is critical to an understanding of how the refinery operates and its profitability?

MR HENSON: Yes.

MR MARKS: Because once you know that, you really know the underlying basis for the gross margin?

MR HENSON: You have got the basis of the earnings, yes.

MR MARKS: Then it is a matter of, as you rightly point out, understanding what the underlying costs are, and then you can work out what the net position of the refinery is?

MR HENSON: Sure.

MR MARKS: Insofar as Mobil is concerned, I think you say at page 3, as I pointed out, that there were substantial - - -

MR HENSON: Page 3 of which?

MR MARKS: Page 3 of the public submission. I want to take you back to these differences pre and post the fuel standard changes, just to understand what the position is. You say, as I have already said, that there was this reduction. I was wondering whether part of the reason for the reduction in capacity was a decision by Mobil not to spend what might have been necessary to attain a greater production level; in other words, a decision not to put in the capital expenditure that might have been necessary to achieve a higher production capacity?

MR HENSON: Could you rephrase the question?

MR MARKS: Yes. My point was this: was the reduction in capacity that you indicate in your public submission at page 3 as the consequence of the decision to comply with the fuel standards, in effect a decision to minimise the capital expenditure associated with continuing to operate the refinery under a clean fuels environment?

MR HENSON: Yes, it was, because, long term, our view is you don't get a return from that investment.

MR MARKS: All right. Now, do you think that that reduction in capacity has made Mobil more or less competitive vis-a-vis the other refiners than was the position prior to the fuel standards?

MR HENSON: Are you talking about from a pure Altona refinery perspective or Mobil Australia?

MR MARKS: I'm sorry, I am talking about Mobil Australia's perspective. I am really trying to understand whether these changes have affected its ability to compete with the other refiners on the Australian market. I am interested in your view.

MR HENSON: I don't believe so, in the sense that we can source product to supply the needs that Matt and others we sell to have, and we do that on a market-related basis anyway.

MR MARKS: Let me ask you, more generally, some questions. You closed the Port Stanvac refinery, you say, in 2003.

MR HENSON: Yes.

MR MARKS: After several years of poor results.

MR HENSON: Correct.

MR MARKS: You say the refinery was then mothballed, to use your word.

MR HENSON: Yes.

MR MARKS: Tell us what that has practically meant?

MR HENSON: The refinery was methodically shut down and prepared - and preserved for potential restart. That is what it means.

MR MARKS: Was the decision to mothball the refinery one made by Exxon Mobil in Australia?

MR HENSON: The board of Mobil Australia made that decision.

MR MARKS: The board of Mobil Oil?

MR HENSON: Yes.

MR MARKS: Is the consequence that Port Stanvac is now not used at all, either for refining or storage, terminalling or anything else?

MR HENSON: It is not used for the oil business, no. It is used for other purposes, not oil purposes.

MR MARKS: Is it still realistic to suggest that Port Stanvac might be reopened, or is that really an unrealistic proposition?

MR HENSON: Well, Mobil has spent considerable sums preserving the refinery for the opportunity to reopen it, and it can be - there is sufficient investment - with sufficient investment and sufficient time and planning, it can be restarted.

MR MARKS: I have no doubt that is physically correct and I am not suggesting otherwise. Really, Mobil says a couple of different things in its submission. It says on page 3, in recent years there has been an improvement in the refining business.

MR HENSON: Yes.

MR MARKS: Then it says, look, at the moment there is just insufficient certainty to know what is going to happen, and whether it's going to be possible or appropriate to undertake the investment that is necessary to get the refinery up and going again.

MR HENSON: Yes.

MR MARKS: Then it says in a different spot: look, the Australian refineries are small - that is both its refineries, I imagine - and they have a higher cost base in comparison with other refineries in the Asian region, and those refineries compete for the supply of Australian product.

MR HENSON: Yes.

MR MARKS: Then in other locations it says: well, the ability of the Port Stanvac refinery to compete with product sourced for Exxon Mobil was a basis upon which a decision was made to close it. Do you understand?

MR HENSON: Yes.

MR MARKS: Likewise with the Altona refinery. Now, I am reading all of this, and then I read at answer 2.3 in your answers that, for Mobil, sourcing unleaded petrol from third parties or by way of imports continues to be a more cost efficient way for Mobil to meet Australian consumer demand. In that context, I wanted to ask you, as I have: is it realistic to contend that Port Stanvac might be opened or is the true position that Port Stanvac will not be a proposition to reopen again?

MR HENSON: Sure. Yes, it is realistic to contend that the possibility of reopening Port Stanvac is there. I mean, one example of that is that there has been a number of parties who have approached me and shareholders about purchasing the facility as a refinery. Those have not come to anything yet but there are quite a number of parties who have approached us on that, so I contend it is realistic.

MR MARKS: Yes, okay. But you say, to the extent you are able in open hearing, there has been no decision by Mobil at the present time about the future of Port Stanvac?

MR HENSON: Correct. Yes, that is right.

MR MARKS: All right. In your answers, it is in an open part of the answers, you say:

> *Mobil's present expectation is that the refinery will remain mothballed to 2009, at which time the South Australian Government is seeking Mobil's decision as to its intentions.*

Is that the correct position?

MR HENSON: Yes, that is.

MR MARKS: But you maintain that Mobil hasn't made any decision at the moment?

MR HENSON: Yes, that is right.

MR MARKS: All right, that is helpful, too. Thank you. Can I then move from your refinery position to imports and ask you a few more questions about those. I think in your submissions you have said in various locations - and I hope I am right in saying this - that the imports that Mobil makes are from the Exxon Mobil refinery in Singapore?

MR HENSON: Yes.

MR MARKS: Are they all from there?

MR HENSON: In recent times they have been, yes.

MR MARKS: What do you mean by "in recent times"?

MR HENSON: I think the past four or five years they have been from there, yes.

MR MARKS: So if Mobil is to import any fuel into Australia at present, it will do so through Exxon Mobil in Singapore?

MR HENSON: We would - our Singapore affiliated refinery has been a good source of product and will likely continue to be a good source of product.

MR MARKS: But what I am really saying to you is: do you have a relationship with Exxon Mobil in Singapore at the moment whereby it is agreed that all Mobil's present needs for imported fuel will be sourced from there?

MR HENSON: I don't think we would have what we would call an exclusive all product. We have an arrangement with them where we can source product from them, yes.

MR MARKS: I am not sure that that answers my question. Do you have an arrangement with Exxon Mobil in Singapore, the effect of which is that all current imports of fuel into Australia by Mobil Oil are from Exxon Mobil in Singapore?

MR HENSON: Currently, that is happening, correct.

MR MARKS: You say that Mobil pays - and this is on page 4 of your open submission - market price for these imports. You say:

If Mobil was not able to recover the market price from its wholesale customers in Australia then it would not be commercially viable for it to continue to supply that fuel.

Can you explain what you mean by it pays market price?

MR HENSON: We pay the Singapore market price for, say, unleaded petrol, which is based on a formula based on MOPS 95 quoted in Singapore, and - plus we pay freight and quality premium and so forth on that.

MR MARKS: I see. So when you say Mobil pays market price, what you mean, do you, is that Mobil imports off a price calculated by reference to a market price. Is that what you are saying?

MR HENSON: Yes, because that represents the buyer and seller's opportunities to buy and sell.

MR MARKS: Yes, but my point really is this: Mobil - when you talk about market price, it is a bit of a subjective thing. What you are really saying is, look, there is a formula out in the market which is readily recognisable as a basis upon which to calculate a market price, and you have described that in other parts of your submissions.

MR HENSON: Sure.

MR MARKS: My point really is slightly different. I have no doubt that is so but what I want to know is: in your dealings with Exxon Mobil in Singapore, what do you mean by "Mobil pays market price"? Do you simply mean that it buys off or purchases off a market-based formula, or are you saying that it purchases at a market price?

MR HENSON: Well, we have a purchase arrangement with our Singapore affiliate, which has a formula base to it, but that formula is representing a market.

MR MARKS: But I take it that Mobil is obtaining cheap - petrol far more cheaply through Exxon Mobil than it could obtain it from any other source?

MR HENSON: Why do you assume that?

MR MARKS: I may be assuming it incorrectly. I am putting the proposition to you - - -

MR HENSON: No, you are incorrect.

MR MARKS: Okay.

MR HENSON: We have got to pay the Singapore refinery what they would get from selling it to somebody else.

MR MARKS: So are you saying Mobil gets no discount for its purchases of fuel from the Singapore refinery?

MR HENSON: No, we pay market price to what the alternate Singapore refinery has.

MR MARKS: But a price calculated by reference to a market plus a discount is still market price. My point to you really is not whether you are paying a market price but whether you are obtaining a discount off the market-based price?

MR HENSON: No.

MR MARKS: No?

MR HENSON: We have to meet Singapore refinery's alternate options for selling that product. They sell to us, they can sell to Joe Bloggs in Asia Pacific somewhere.

MR MARKS: I appreciate that, but what I am asking you: you say there is no discount, as such, built into the market formula?

MR HENSON: No.

MR MARKS: Is there then a reason why you obtain all of your fuel from Mobil in Singapore and none at the present time from any or source?

MR HENSON: They are reliable.

MR MARKS: They are reliable?

MR HENSON: Yes.

MR MARKS: There are many other refineries that are reliable. I could name you five in Singapore, for a start.

MR HENSON: They are not as reliable as our refinery.

MR MARKS: So you say it is purely a reliability issue. You don't go to the Shell refinery in Singapore because it is not as reliable. Is that what you are saying?

MR HENSON: Well, we go to the refinery that can provide our quality, our time requirements, the combination of cargoes we need. Because we -- the other piece about it is we bring in what we call combination cargoes of petrol and diesel and jet fuel and black products. It's really hard to get that loaded at most refineries. If you want a full ship of gasoline, you can go and do that. If you want a combination cargo, you know, our Singapore refinery is a very reliable supplier of that. You can't quite get that from most other refineries. So that is what I mean about the reliability of the supply chain.

MR MARKS: Okay. But the realistic position, I suggest to you, is that whilst the point you make is a good one, there are other refiners that can also supply a reliable source of supply within the context of the comments you have just made, aren't there?

MR HENSON: Probably not to the same degree of the combination of products we want loaded on each boat - not regularly - not as regularly.

MR MARKS: Who makes the decision within Mobil as to who to obtain imported fuel from?

MR HENSON: We make that locally, since we sign contracts.

MR MARKS: Who are the local people who make that decision?

MR HENSON: Well, essentially myself and our trader.

MR MARKS: Are you instructed by anybody, Mr Henson, about who you can obtain refined fuel from on the international market?

MR HENSON: I haven't been instructed, no.

MR MARKS: Are you instructed that you cannot obtain fuel from any other source but Exxon Mobil at the present time?

MR HENSON: Not that I am aware of.

MR MARKS: Not that you are aware of?

MR HENSON: Not that I am personally, no.

MR MARKS: You say Exxon Mobil is the sole source because you have in effect, with a team, whoever they may be, chosen that that may be the position?

MR HENSON: Yes.

MR MARKS: You have done that purely on really an effectiveness of supply or security of supply?

MR HENSON: The effectiveness of supply, the type of supply we want and is it competitive.

MR MARKS: And the price, that is what you mean by "is it competitive"?

MR HENSON: Yes, absolutely.

MR MARKS: What I am asking you is: is it more competitive, that is, is the price better, than you can get elsewhere on the international market at the moment?

MR HENSON: No, we pay the price that our Singapore refinery would get on the market.

MR MARKS: I have no doubt that that may be so. What I am asking you is, from Mobil Oil's perspective, whether the price you are paying from Exxon Mobil is more competitive than you can obtain elsewhere on the international market at the present time?

MR HENSON: Well, it's equivalent.

MR MARKS: You say it's been equivalent for the last four or five years?

MR HENSON: Yes.

MR MARKS: It hasn't been better, it has just been equivalent?

MR HENSON: Yes, but there are other factors, such as reliability of supply and so forth to make it very efficient for us to get it from the Singapore refinery.

MR MARKS: All right. I might come back to that in a different context, if you don't mind.

MR HENSON: Sure.

MR MARKS: I think you might have said earlier that there were some advantages which Mobil enjoyed from actually importing more fuel, rather than manufacturing it or producing it here?

MR HENSON: Sure.

MR MARKS: Can you just help us, what are the advantages?

MR HENSON: Diversity of supply. We have a very reliable supply chain. We have had situations where we have had product where other people haven't because they have had refinery issues or whatever, so we have had a very effective and reliable supply chain.

MR MARKS: I am not sure what you mean by "diverse". You only have one international supplier. I am not sure that I am following.

MR HENSON: Well, we have a number of ships, I think it is five or six ships, plying between Australia and Singapore on a regular run, supplying product to Australia. That gives us the ability to deal with supply issues around the coast more flexibly than a lot of others do, plus we have our own local production here in Australia also, plus we source from some other parties and other refineries here in Australia too, so we have more diversity of supply.

MR MARKS: But everybody does those second and third things you are saying. But what everybody doesn't do, and Mobil seems to uniquely do, is source as much of its refined fuel ultimately sold into the Australian market as it does from international sources.

MR HENSON: Yes.

MR MARKS: You say there is an advantage in that?

MR HENSON: There is.

MR MARKS: I am not sure I understand your diversity point?

MR HENSON: It is another source of supply, of regular supply, where you have ships regularly coming to Australia. For instance, if there is a shortage in, I don't know, Melbourne due to problems, ours or others, we have more flexibility than most others to deviate where we put a ship into. A ship coming to Adelaide, we might say, hang on, bring 5,000 tons across to Melbourne. We can fill some holes that other people perhaps cannot.

MR MARKS: It guess you some flexibility?

MR HENSON: Extra flexibility, yes. Because we have a regular supply. This is not spot stuff, this is a regular supply chain from the import segment.

MR MARKS: The petrol or the fuel that you get from Singapore, is that all refined to final Australian standard in Singapore?

MR HENSON: Yes.

MR MARKS: It is shipped in at Australian standard?

MR HENSON: It is.

MR MARKS: Does Mobil pay Exxon Mobil a premium for that refined standard fuel?

MR HENSON: Based on the Australian quality, we do, yes.

MR MARKS: Is that premium the same as the premium Mobil ultimately charges those who buy?

MR HENSON: Well, that is commercial information which I will discuss in private.

MR MARKS: We can talk about that later, okay. But I will want that question answered.

MR HENSON: Absolutely, that's fine.

MR MARKS: Is it right then, at the end of the day - again, tell me if you prefer to deal with this in a different way - but I just want to understand whether Mobil pays Exxon Mobil a landed price which picks up the other costs associated with transport, wharfage, freight, all those things?

MR HENSON: I think it would be better to talk about that more comprehensively in a private session.

MR MARKS: All right. Can I ask you then whether you can tell me whether into the price that Mobil Australia is charged by Exxon Mobil, there is a margin for its Singapore refiner?

MR HENSON: The Singapore refinery, like any refinery, sells product into a market. That market consists of what that refinery's sale options are for that product. We pay a price that is equivalent to that or competitive with that. Therefore, what the Singapore refinery makes versus that market price is their refining margin, that is what they make.

MR MARKS: I am just making sure I understand it. You say, first of all, the first thing you need to understand is it is a market price?

MR HENSON: Yes.

MR MARKS: The second thing you need to understand is that it is calculated in accordance with a formula, as market prices are in that market; do you agree?

MR HENSON: Yes.

MR MARKS: You have set out a formula in attachment E, which is open, whereby you - tell me if it is not open - - -

MR HENSON: I thought that was confidential.

MR MARKS: I will just check, if you don't mind.

MR HENSON: My copy has "Confidential" on it.

MR MARKS: But as I understand the position, there is a - we have a document which has marked the confidential parts in a highlighted way. This is not, but I think, if you go to the volume of folders, it doesn't appear to be there, so I will treat it as confidential.

MR HENSON: I think, properly, we can have a more comprehensive discussion on it, put it that way.

MR MARKS: I will come back to it. It is very difficult, Mr Henson and Mr Bergeron, to ask you questions when, at the end of the day, every answer is the subject of a confidentiality claim. I have an obligation to ask open questions, and you will forgive me if I trespass on to ground, but just remind me, if you would, and I will try not to.

MR HENSON: I understand that.

MR MARKS: There is an attachment, I will come back to that attachment in this context and ask you some further questions about it. Can I ask you a few broader questions and, hopefully, we will be able to deal with it even at a high level. It is correct to say, is it not, that the benchmark, the MOGAS benchmark, which forms a platform for the pricing of fuel has built into it a refiner margin; would you agree?

MR HENSON: Yes.

MR MARKS: So there is a price, if you like, which the Singapore refinery will accept?

MR HENSON: There is a price a refiner will accept.

MR MARKS: Yes.

MR HENSON: But there is not a margin built into that, per se. I mean, there is no structures - - -

MR MARKS: Let me put it to you differently. We are arguing about semantics, Mr Henson. There is a price which he will accept.

MR HENSON: Yes.

MR MARKS: And that price is at a level high enough to enable him to make a return; would you agree?

MR HENSON: Correct.

MR MARKS: You don't want to talk about it as a margin, but what I am saying to you is it really is a margin because it is a price which enables him to recover a marginal return above his costs.

MR HENSON: Absolutely, yes.

MR MARKS: And that is why he is in business.

MR HENSON: Yes, absolutely.

MR MARKS: Okay. Being a spot price, based on an average of prices over a period, is it right to describe it as really a maximum wholesale price of a kind?

MR HENSON: I don't understand why it is called "maximum".

MR MARKS: It is as good as he's going to get on the market, isn't it? It is a spot price on average market. It is not based on a contract, it is not based on any forward arrangement, it is just a price that he will accept on a day-to-day basis?

MR HENSON: It is a price that is available to him, yes.

MR MARKS: Yes, and it is available to -- and anyone can buy at that price now, in theory?

MR HENSON: In theory, yes.

MR MARKS: That suggests to me - and it may be wrong, but I want to understand it - that it's likely to be at the high end of the wholesale prices that are available on the Singapore market at any one time?

MR HENSON: Why would that be the case?

MR MARKS: Because the supply contract prices are likely to be less?

MR HENSON: Why?

MR MARKS: For a whole series of reasons, including the longevity - - -

MR HENSON: If I am running a refinery in Singapore, why am I going to sell for anything less than the spot price?

MR MARKS: I am asking you. There are, I take it, arrangements that refiners enter into on a long-term basis that are less than the spot price, is that wrong?

MR HENSON: Yes, as far as I am aware.

MR MARKS: As far as you are aware, nobody buys for less than the spot price?

MR HENSON: I'm not aware of what other people's business arrangements are, but generally the arrangements that I am aware of is that you sell at market price, spot price. I mean, I buy crude at spot prices and market-related prices.

MR MARKS: Yes.

MR HENSON: Okay.

MR MARKS: But wouldn't you expect that if people have long-term arrangements with a supplier, such as the Singapore refiner, they are likely to enjoy the benefit of some discount or some better price than the spot price which is available to anyone in the market at a given time?

MR HENSON: That's not been my experience.

MR MARKS: All right. Let me then ask you a few other questions, just about the price generally. In so far as Mobil in Australia is concerned, Mobil has to be assiduous to ensure, doesn't it, that its costs of production are not too high, or at least are not so high as to stop it making a profit?

MR HENSON: Sure.

MR MARKS: And when it looks at the price of refined petrol, it has to make sure that it can refine at a cost which still enables it to compete with the Singapore refiner?

MR HENSON: That's the business objective.

MR MARKS: That's the business objective, and it does that every day. It monitors its own costs and I imagine it monitors the Singapore refiner and the market costs, does it?

MR HENSON: Yes.

MR MARKS: So what does Mobil actually do to monitor its costs position and make sure it is competitive? Firstly, its refinery costs, how does it keep abreast of those?

MR HENSON: I have just come from a refinery costs review meeting this morning, actually. Once a month, we have business reviews, we have targets and so forth which any good business will go through to make sure we're meeting our budgets for the year to ensure we've got the best opportunity to make money.

MR MARKS: Okay. So Mobil would pay close attention to its own costs?

MR HENSON: Absolutely.

MR MARKS: And it would be able to promulgate those costs, no doubt, on an annual basis or a bi-annual basis or a half year - whatever?

MR HENSON: Yes.

MR MARKS: We have asked about Mobil's costs. We have been told that Mobil cannot provide its disaggregated costs.

MR HENSON: Correct.

MR MARKS: But Mobil can provide costs that have not been disaggregated?

MR HENSON: Correct.

MR MARKS: And, likewise, Mobil could tell us, could it not, about the proportions, if you like, of its petroleum and other refined products that are dedicated to particular products? So it could do that, too, couldn't it?

MR HENSON: Sorry, could you repeat that? I didn't - - -

MR MARKS: Yes, certainly. Of all its refined products, all its petroleum products, it could say, 10 per cent of what we refine is fuel or is gasoline or is unleaded or is premium unleaded or is diesel or - - -

MR HENSON: Sure.

MR MARKS: It could disaggregate, in that sense?

MR HENSON: The production, yes.

MR MARKS: Can Mobil provide us with that information?

MR HENSON: Yes. In fact, I have got some information that we can talk about in the confidential session, too.

MR MARKS: All right. That would be helpful. Even if it is not on a technically disaggregated basis, the Commission can still get a firm idea of Mobil's underlying costs of production?

MR HENSON: As a total refinery, yes.

MR MARKS: As a refinery?

MR HENSON: Yes.

MR MARKS: Yes, I understand. That's good. Does Mobil also have any understanding of what the Singapore refiner's costs of production are? So, putting the price to one side for the moment, the underlying cost?

MR HENSON: In terms of running the Singapore refinery?

MR MARKS: Yes. I mean, Mobil makes all those comments in its submissions. It says, look, what you need to understand is the Singapore refineries are larger, the Australian refineries are smaller, they have a much higher cost base, you know, the unit cost of production is higher, and so on. That suggests, as you would understand, that Mobil has a good understanding not only of its own costs but also of what the international refiner's costs are like?

MR HENSON: We do, yes. Well, we have a reasonable costs basis.

MR MARKS: Reasonable. Does Mobil keep a record of that information?

MR HENSON: We don't have a detailed record of other affiliates' costs but there is refinery competitive information that we subscribed to under the Solomons survey, for instance, which gives quite clear data as to cost performance of the refining industry in this part of the world.

MR MARKS: Would that information be available to the Commission?

MR HENSON: I will have to check our arrangement with Solomons Associates. We certainly have data, but I assume contractually we are able to share it, but it would probably have to be kept in confidence.

MR MARKS: All right. Can we follow that up, please?

MR HENSON: Sure.

MR MARKS: You see, for example, I am just looking here at your submission or parts of the submission - I am sorry if this is a bit disjointed - at paragraph 2.19 you make some comments, and I think these are, with one exception, open. You say:

> *Mobil mothballed a number of units, that reduced the capacity...*

- and we have talked about that:

> *...with the consequence that the operating costs per barrel of oil processed have increased significantly.*

The flavour that comes out of these comments is that cost is something that Mobil could say a lot more about.

MR HENSON: Sure.

MR MARKS: Both at the local and international level. We would be very helped by that.

MR HENSON: As I said earlier on, we can share some cost information on a confidential basis.

MR MARKS: Look even though this is open, perhaps I will come back to that, too, to try and - - -

MR HENSON: Sure. I mean - the other comment, I mean there is a range of things which have increased our costs which I can say publicly.

MR MARKS: Can you say those publicly, just to give us an indication?

MR HENSON: Well, I take it - just in terms of the things that have increased our costs, let me be quite clear. Our business is run and traded on a US dollar basis. The Australian foreign exchange - the strengthening of the Australian dollar over the last year is - you know, the Australian dollar has gone up 40 per cent versus the Asian currencies. I mean, that has increased our US dollar per barrel cost which has, therefore, reduced our potential margin on product, for instance. You know, the Australian economy has been booming. We have been seeing lots of cost pressures in many areas and I think that is characteristic of many manufacturing industries in Australia. Fuel - electricity costs in particular have gone up dramatically in recent times, with the drought. Materials and so forth have gone up very dramatically, and more so in Australia, it would appear, than other parts of the world.

MR MARKS: Yes. It is not just that. You have mentioned other costs here in this open submission, down towards the bottom of 2.19. I am looking at this and I am also cognisant, as you are, that refining margins have generally been on the increase in recent times. I am thinking to myself, well, how is it that - and there may be a very good reason, but I am not sure I understand how the impact that you have just described, which I understand, is aligned with the realities that there have been improving refiners' margins and so on in recent times.

MR HENSON: Well, I mean, the margin available to us as refineries is depending on what value we can get from products in the market and what costs we have to pay for crude. We have no influence on that. Certainly there has been some improvements on those in recent times.

MR MARKS: So the answer is to the extent that there are increased costs and so on, they are being picked up at wholesale, in the prices that are being charged?

MR HENSON: Well, the costs that we have to run our business have no bearing on the earnings we get in terms of gross earnings. They are a separate issue.

MR MARKS: But, ultimately, the costs have got to be borne in some way and -

MR HENSON: The costs - - -

MR MARKS: Is what you are really saying that despite the increased operating costs, the improving exchange rate in terms of the value of the Australian dollar, nevertheless Mobil's margins can and have improved at the refining level in recent times?

MR HENSON: Well, what I am saying is that - in fact, the strengthening of the Australian dollar has hurt our competitiveness because it has increased our cost on a US dollar per barrel basis. The cost of running our business is one lever we have in terms of the profitability of our business. What margins we can get in the market is another lever. The two are quite separate.

MR MARKS: How have you been able to improve your margins in the ways that you have just described?

MR HENSON: We have had really no influence - you cannot have any influence on the market. I mean, the cost of crude is the cost of crude and the cost of the product is the cost of product. We have the ability to improve our operation, our yields, our performance, and so forth of our refinery. They are the levers that we work hard on, our reliability of our refinery and the efficiency.

MR MARKS: Is the answer then that the price you have been able to obtain on the traded market has been improving at a sufficient rate - - -

MR HENSON: Of course, it has - - -

MR MARKS: - - - it has been sufficiently high to enable you to make a higher margin, notwithstanding all of these higher costs?

MR HENSON: For the last few years, yes. In previous years it has been worse.

MR MARKS: But that is the position?

MR HENSON: Yes, that is right.

MR MARKS: You say at page 4 of your open submission the fact that product specifications generally in Asian countries are not as stringent as those in Australia has meant that not all refineries around the region can currently supply product meeting Australian standard. But you say there are larger refineries - you say in the first paragraph - in Singapore, South Korea, Taiwan and Japan, which are capable of supplying fuel to Australian standards, and there are, it would appear, regular imports from those countries.

MR HENSON: Yes.

MR MARKS: I wanted to ask you a little bit more about that. You don't obtain fuel from any other refiner but the one you have told us about?

MR HENSON: Yes.

MR MARKS: But you say, look, there is fuel to go around, effectively.

MR HENSON: Yes.

MR MARKS: I suppose my question is: what experience you have, in view of the fact that you have a sole supplier?

MR HENSON: Sure. I know four - five refinery managers in Japan, so they are part of our world, and I know what quality specs they can produce to, and they can produce to Australian specs. I'm aware of - - -

MR MARKS: Let's assume that's all right - and I am not arguing or debating any of that. It is pretty obvious that you can get fuel to Australian spec in Singapore, in

South Korea, in Taiwan, in Japan, in some parts of India. You can get it even in China, even though it is a little different because it is really reliant on imports. But there is no doubt about all that. I suppose what I am really asking you is at what cost? Can you get refined fuel to Australian standards from all of these locations at a competitive price?

MR HENSON: Well, yes. I mean, if a purchaser in Australia wants to get the fuel delivered to Australia or sourced to Australia at Australian specifications, he can go to a refiner in Singapore, a refiner in Japan, a refiner in Timbuktu. If the guy can supply at a price that is competitive to somebody else, he'll take that, and normally that price has got to compete with what you can get out of the Singapore market, so you can.

MR MARKS: But there isn't too much importing coming into Australia from anybody other than the majors; you would agree with that, wouldn't you?

MR HENSON: Well, yes, Mobil is certainly dominating that import market, yes.

MR MARKS: That is true, too. There is not much importing going on in Australia outside - there is a little bit -- outside the majors; would you agree with that?

MR HENSON: I think so, yes.

MR MARKS: And almost all of the importing into Australia at the moment is coming out of Singapore?

MR HENSON: Not necessarily.

MR MARKS: There is a little bit coming - - -

MR HENSON: Other majors source their product elsewhere.

MR MARKS: Well, shell gets its predominantly out of Singapore, it has made that clear to us. There is some that comes from other location, and the other refiners are predominantly out of Singapore. We have had people say, look, you can get had fuel from Japan and other places but it is very expensive. Woolworths have said, in its open submission, you can get fuel from Japan, but it is very expensive, it is not price competitive. I am just wondering whether Mobil's experience can help us here, or whether - - -

MR HENSON: Well, I sort of come back to the point if you have got the market, if you want to import fuel into Australia, you can go to someone in Singapore, someone in Japan, someone in Taiwan, and they will have to sell you the product at - they will have to sell you a product that's competitive - we'll pick the lowest price to get it in. My experience has been that people will compete around that. I am aware that there has been product sold out of Japan to another major, one of our major competitors here in Australia that was sourced out of Japan. But it would have been sold - I don't know the details, but it would have been sold on a price basis that was competitive with Singapore market prices. I mean, the reason the Singapore market is the key one is you have very large merchant refineries. I mean, we have got a very large refinery in Singapore ourselves, Shell do, SRC do, and there are others close by in that region where the big surpluses of refining capacity are relative to local demand, so they produce into the market.

MR MARKS: What is the position with overseas refining capacity, more generally? Is it becoming - are there more and more refineries that are providing fuel to Australian standard?

MR HENSON: I don't know, I can't quantify it, but I think it is increasing, yes.

MR MARKS: We are told refineries in India are opening up. There is one very large refinery in India that will open at the end of next year, isn't it?

MR HENSON: Yes.

MR MARKS: That will provide very significant amounts of petrol and petroleum products and so on refined to Australian standards.

MR HENSON: I am not sure what standard. If you are referring to Reliance, their website does quote Euro 4, I think, but I am not exactly sure.

MR MARKS: Is that - - -

MR HENSON: It is similar to Australian standard, yes.

MR MARKS: I am not sure whether Reliance is the only one, there may be others in the region.

MR HENSON: Yes.

MR MARKS: Do you know what the position is? Will it become easier and easier?

MR HENSON: Yes.

MR MARKS: Tell us what - we know about Reliance, in general terms.

MR HENSON: I don't have the detail of all the refinery expansions, and the new builds that are going on, but there is a substantial - if you look at the literature and the data, there is a substantial increase in refining capacity happening in this part of the world.

MR MARKS: Yes. We are interested in that and we want to you help us, if you can. We know that Reliance is coming on board and we are told it will be the end of 2008.

MR HENSON: Right.

MR MARKS: I am wondering are there other - we have heard about, but at a pretty high level, about some other refineries. What can you tell us?

MR HENSON: Well, as I say, I don't have the data in front of me but when we - I guess our sister company, Exxon Mobil, in China is expanding a refinery there, Fujian, which is - - -

MR MARKS: And when is that expected to come on line?

MR HENSON: 2010, I think. Something like that.

MR MARKS: Anywhere else?

MR HENSON: No, I just don't have the data in front of me. Can we look for the data?

MR MARKS: Is that data you could obtain for us, because - - -

MR HENSON: There is data directionally available from Independent Sources. FACTS particularly based in Singapore can provide this information.

MR MARKS: From Mobil's perspective, Mobil would be vitally interested, would it not, to know and understand the likelihood of further competition for Australian fuel in the international market occurring at any point in time?

MR HENSON: Well, I think yes.

MR MARKS: I mean, that is pretty central to the operation of its business?

MR HENSON: So we will - - -

MR MARKS: Has Mobil undertaken evaluations or assessments of the change in the international refining market into the future?

MR HENSON: We have done - we have information on that. We have particularly used outside organisations also to help us, such as FACTS, which is the one I mentioned previously.

MR MARKS: But I am just trying to get to the bottom of whether Mobil has at its disposal documentation which would show what the position is: whether it has done evaluation reports which the Commission could look at and have the benefit of?

MR HENSON: Yes, we can provide information on potential refinery expansions, announced refinery expansions and that sort of thing.

MR MARKS: Could you take it on notice, please, that - - -

MR HENSON: We will do that.

MR MARKS: We would be very grateful for that material, so we can understand the Australian market in the future.

MR HENSON: Yes.

MR MARKS: Can I just ask you a couple more questions about the importing position, then I will ask you a few more specific questions about Mobil's position in Australia. The fuel standards that you have told us about that are applicable to the improvements or changes to the specification for Australian fuel, are they the only standards - I will put it differently. Are they the only quality issues in respect of which there is a premium in the price, or are there other product quality premium issues?

MR HENSON: Essentially, yes, those fuel standards are about, you know, a particular quality in Australian gasoline that makes it distinctive from - - -

MR MARKS: I understand, but apart from that reality, is there any other premia or any other - - -

MR HENSON: Quality.

MR MARKS: Other quality kind that we should know about?

MR HENSON: Not that I am aware of.

MR MARKS: Because we have seen references to quality premia of a more general kind in documents on occasions. We are just wondering what the position is at the moment.

MR HENSON: Well, at any stage, if you have got a quality - if you are after a quality of product that is different than, let's say, quoted under the MOPS 95 basis, you will pay a premium. If the quality is lower, you will get a demium. I mean, it works both ways.

MR MARKS: I understand. That is the only one that Mobil builds into its - - -

MR HENSON: The ones at the moment that are the clean fuel specifications, yes.

MR MARKS: I understand. In relation to the clean fuel specifications, you say at page 3 that the local product premium which has been part of the price now for some time may diminish over time as product specifications tighten generally around the region and more of the production from regional refineries meets Australian standards. I am wondering realistically whether Mobil has a view about how long this premium will be sustainable in the price?

MR HENSON: Yes, I mean, that is a pretty tough call because you just - you know, your crystal ball is not that good, frankly. Directionally it will go down. It is a question of over what period of time.

MR MARKS: Has it already started to go down directionally, from the time of introduction?

MR HENSON: Again, I would probably prefer to talk about that confidentially, because we talk about that in terms of some of the purchase and sale contracts obviously then.

MR MARKS: I am just asking at a very general level at the moment.

MR HENSON: I don't think I'm aware of any - I don't know, I will have to check my data.

MR MARKS: Have you got any data available to you that would enable you to answer that question in public session?

MR HENSON: I have some data here which should help. I don't think the data shows a conclusive trend, frankly. It is a bit up and down.

MR MARKS: Is it?

MR HENSON: Yes.

MR MARKS: Can I just ask you one more general question before we leave imports, Mr Henson.

MR HENSON: Sure.

MR MARKS: It is really just about the prospect of any international refiner importing into Australia outside of the existing arrangements. Is that a possibility in the foreseeable future? So to take an example, just say a refinery in Singapore that doesn't have an affiliation here in Australia, making a decision to supply into the Australian market; is that a realistic possibility or is it just not?

MR HENSON: Well, if that refiner has a customer here in Australia or a customer who wants to bring product into Australia, I don't see that there is any particular impediments to it happening.

MR MARKS: But is that the only way it might happen, and you would have to rely on the customer's infrastructure, terminalling abilities and storage and all that sort of thing?

MR HENSON: Well, there are independent terminals around the country. I don't see why that would be necessarily - - -

MR MARKS: You don't think there would be difficulties with the current - - -

MR HENSON: You would have to have a market for the product. Because you have a lot of product sitting on a ship that is worth a lot of money, you wouldn't want it hanging around for a long time.

MR MARKS: But is the reality that with the market in its present state, three or four major refiners, limited terminalling arrangements, a tight retail market, with strong alliances to refiners and supermarkets, which you refer to in your submission, is the reality that the prospect of any international refiner coming not Australian market or making direct supplies is pretty remote?

MR HENSON: No, why? Why would that be the case? I don't understand it.

MR MARKS: Well, what's your view? You think it wouldn't be remote?

MR HENSON: No.

MR MARKS: You think that, despite the nature of the retail market, with 50 per cent or 60 per cent of the retail sales by volume tied into two alliances, despite the fact that there is limited terminalling capacity in Australia at the present time - there is some, and I will come back to that in a moment - - -

MR HENSON: Who said it's limited terminalling capacity? There's enough terminalling capacity for the supply of the market.

MR MARKS: Okay. So is that your view?

MR HENSON: I mean, if one of the substantial retailers you talked about elected to purchase product offshore rather than from a local refiner, there would be adequate interest in doing that.

MR MARKS: But you continue to maintain it would take some interest by a local, through which international imports might occur, rather than an importer coming on to the Australian market and wanting to compete?

MR HENSON: Well, you need an end - you would need an end market for your product. You are bringing $25 million worth of product, you don't want it sitting there for very long. You need to be able to sell it into trucks and petrol stations. So if someone has that a ability or someone has an interest in that, then what are the impediments?

MR MARKS: I mean, isn't the reality what you said, that that is a limitation in itself?

MR HENSON: Why? What - I mean, there are independent marketers in this country who could choose to import.

MR MARKS: Okay. I'm just trying to be realistic here. I'm trying to understand what you think. Let's go through this. You talk about the terminalling capacity.

What terminalling capacity are you talking about? Let's go through it. What terminals do you say are available for an international importer by volume to import into Australia? Let's start at the top, what have we got in Darwin?

MR HENSON: There is a Vopac terminal in Darwin.

MR MARKS: We know about the limitations of Vopac, it is currently taken up by the Australian refiners. There is a very, very small amount of excess terminalling capacity.

MR HENSON: I don't know what the excess is.

MR MARKS: We do, we know. What about on the eastern seaboard? Let's go down there and work out what the terminalling arrangements are.

MR HENSON: Well, there is an independent terminal in Brisbane.

MR MARKS: Okay. Whose terminal is that?

MR HENSON: Neumann's, I think.

MR MARKS: Okay. Do you know anything about the capacities of the Neumann terminal?

MR HENSON: No, I am not familiar with it.

MR MARKS: Okay, let's go further down the coast. What else is there?

MR HENSON: Vopac in Sydney, very large terminal.

MR MARKS: Do you know anything about the terminalling capacities at Vopac or what availability there is beyond present capacity?

MR HENSON: Well, we have capacity that we have contracted with them. I assume that if somebody else wanted to contract capacity, they'd do - they'd have to come to some sort of arrangement with Vopac.

MR MARKS: Let's just tackle that a little bit further. So far as the Neumann arrangements are concerned in Brisbane that you referred to, do you know anything about the wharfage arrangements or the limits in shipping size, availability, that sort of thing?

MR HENSON: I think they could get an MR tanker in there.

MR MARKS: Well, they can't. Does that help?

MR HENSON: As I say, I'm not familiar with the details of it - - -

MR MARKS: What about Sydney? Do you know realistically anything about Vopac's ability at the present time to provide storage space beyond its obligations to existing refiner markets and - - -

MR HENSON: I think you have to talk to Vopac.

MR MARKS: We have.

MR HENSON: And what have Vopac said?

MR MARKS: They haven't, but in the future it would be possible.

MR HENSON: What's an impediment then for someone doing a deal with Vopac to expand the terminal?

MR MARKS: That is the way you would see it?

MR HENSON: Yes.

MR MARKS: Okay. What about further down the coast, let's take Victoria.

MR HENSON: There's terminal, Trafigura in Hastings.

MR MARKS: Do you know anything about Trafigura's terminal at the moment? What the arrangements - - -

MR HENSON: It's a fairly large terminal. We have supplied product into it occasionally ourselves.

MR MARKS: I will come back to that and ask you about it. Do you know the current capacities is? Do you know about Trafigura, the fact it is up for sale at the moment?

MR HENSON: I'm aware of that, yes.

MR MARKS: Yes. Do you know about its capacities?

MR HENSON: I think it has about 400,000 barrels, or thereabouts, of capacity, the tankage.

MR MARKS: And do you know how much of that is presently uncontracted or available for - - -

MR HENSON: I don't know how much is available. Probably a reasonable amount but I don't know.

MR MARKS: Do you think? You don't know?

MR HENSON: I don't know. I really don't know.

MR MARKS: What about elsewhere in Australia? What about in Adelaide?

MR HENSON: They have a very small terminal in Adelaide. The terminal is a small one in Adelaide.

MR MARKS: Can it handle economic cargo sizes?

MR HENSON: I don't think they have good wharf access.

MR MARKS: No, they don't have good wharf access at all, do they? And we know that. What about Perth?

MR HENSON: The Coogee terminal in Perth.

MR MARKS: What do you know about Coogee?

MR HENSON: Good access. We use it. We regularly import into it. Gull, I think, had a terminal there.

MR MARKS: Do they have some space at Gull's, do you know? Do Mobil utilise Gull's space?

MR HENSON: We use - we utilise Coogee's space.

MR MARKS: But not Gull?

MR HENSON: Not Gull.

MR MARKS: Okay. I will mention Hobart.

MR HENSON: I think there is an independent in Hobart. There is Bell Bay - - -

MR MARKS: There is Mastelle. Mastelle has now got - - -

MR HENSON: Bell Bay.

MR MARKS: Bell Bay, haven't they?

MR HENSON: Yes.

MR MARKS: What's the available - do you know anything about Bell Bay, can you tell me?

MR HENSON: I mean, I haven't - I mean, Bell Bay is a very large terminal. We used to own it.

MR MARKS: That is why I asked.

MR HENSON: So don't know what their contractual arrangements, though, in terms of most recent - - -

MR MARKS: You don't know too much, do you, about the existing capacity of the Australian terminals?

MR HENSON: Well, I can get that information, if you want it.

MR MARKS: I accept that. I don't want to argue with you about it, but I'm just really putting to you as a matter of basic reality, you are not able to tell us much about - -

MR HENSON: Well, this is - hang on, this is other people's business. I mean, I don't know what the details of Vopac's business are, or Trafigura's.

MR MARKS: I'm sorry, I'm asking you questions based upon what you told was available. I asked you, and you said, no, there is no constraint in terminalling and I'm asking you questions about it. So I have only asked you on that basis because you proposed it. Okay?

MR HENSON: Okay, I understand. My comment on availability, I mean, as I understand it, Vopac would be interested in doing a deal if you wanted to expand terminalling capacity.

MR MARKS: But that would involve - - -

MR HENSON: That was the basis of my answer.

MR MARKS: I see. So what you are really saying is there are people in the market, Vopac is an example, who if you are prepared to contract with them and undertake the infrastructure costs and do all of those things, all based no doubt on your ability to predict how successful your entry into the Australian market would be, this can all be done? That's really what you're saying.

MR HENSON: Sure.

MR MARKS: All right. Let me ask you a little bit more about Mobil, and just - - -

THE CHAIRMAN: Do you want to take a break at this stage?

MR MARKS: I would be quite happy to, if that would suit.

THE CHAIRMAN: Let's give everyone a break. We will take 10 minutes.

SHORT ADJOURNMENT [2.38pm]

UPON RESUMPTION **[3.14pm]**

MR MARKS: If I could continue, chairman.

THE CHAIRMAN: Yes.

MR MARKS: Before we leave the questions I was asking you before, Mr Henson, I want to ask you a couple more questions generally.

I am still thinking here of the international refiner who might, in theory anyway, make a decision to import on to the Australian market in competition to the majors. Do you understand what I'm saying?

MR HENSON: Yes, sure.

MR MARKS: I have asked you these questions really just to try to get a feel for how realistic it is or is not as a proposition. You have said to me in your general response it is realistic. Tell me if I am misinterpreting you, but as I understand it you are saying it is a realistic proposition because such a decision could be made any day. You might need to incur some costs. In the case of terminalling, you might need to spend some money, but it could be done; that's what you are saying.

MR HENSON: Even in terminalling, there is a certain volume of market to the Australian marketplace, that's a discrete volume. It's a question of supplies it. If that person or that organisation were to take some business from somebody else, there would be some terminalling capacity freed up. So it wouldn't necessarily be an independent, it could be an oil company way, they could say, "Hey, could you sell me some throughput capacity?" That's another way it could be done, too.

MR MARKS: In theory that probably holds good, but in practice it doesn't, does it?

MR HENSON: Why not?

MR MARKS: Don't ask me, just answer my question. In practice the reality is this, isn't it, that the Australian refiners have local refineries and they are at a significant advantage, in terms of refining, to somebody who is trying to deliver a product on to the Australian market from a refiner overseas; would you agree with that?

MR HENSON: No.

MR MARKS: You wouldn't?

MR HENSON: No. We have just been through that discussion. Someone could import product if they wanted to.

MR MARKS: But apart from the difficulties I have already pointed out to you, which is if you import it, where do you import and all that sort of stuff, we also have the reality that the international refiner would have to add on a whole lot of costs that are notional costs to the Australian refiner, because they are not incurred unless he imports. Would you agree with that?

MR HENSON: No, not necessarily.

MR MARKS: You wouldn't agree with that either?

MR HENSON: No.

MR MARKS: For locally produced fuel, you wouldn't agree there are notional costs?

MR HENSON: Sorry, I'm sort of confused a bit by your questioning. Let me come back perhaps to an importer or a refiner. What used to happen in the past was a trader would buy product from an overseas refinery and bring it into Australia, and they would have to pay shipping costs and terminalling costs and that sort of stuff to do it. But that used to be a quite common occurrence.

MR MARKS: I know all that. I'm simply saying, so far as an Australian refiner is concerned, for the petrol he locally produces there are quite a few costs he charges for that are actually notional, not real; would you agree with that?

MR HENSON: Can you explain what you mean by notional?

MR MARKS: Yes, not actually incurred.

MR HENSON: I'm struggling with the issue of charging on costs.

MR MARKS: The Australian refiner charges an international price, a MOGAS or IPP based price.

MR HENSON: Okay.

MR MARKS: There are a whole lot of components of that price which are notional costs, in the sense that for locally produced product they are not incurred, they are charged but not incurred, and that's how the local refiner makes his money, isn't it?

MR HENSON: Well, the local refiner comes to an agreement with a purchaser to sell product at a price that is competitive with the purchaser's alternates.

MR MARKS: I understand that. Forget all that.

MR HENSON: It's not based on a costs plus business.

MR MARKS: I understand that too. But putting all the mantra to one side, I'm just asking about the reality. The reality is that the Australian refiner who is able, as Australian refiners are at the moment, to charge an import parity price based on a

MOGAS Singapore spot moving average is better placed than someone who has to bring in fuel and incur actual costs associated with landing the product on the wharf, wharfage, insurance, freight, all of those sorts of things. Do you understand what I'm saying?

MR HENSON: I understand what you're saying.

MR MARKS: It goes without saying, doesn't it?

MR HENSON: Well, I don't understand the point you're trying to make.

MR MARKS: I'm not trying to make a point. I'm just asking you: when the international refiner is thinking about bringing product in, he has to think about the real costs to him associated with doing it and has to ask himself, "Can I recover those costs?"

MR HENSON: Sure.

MR MARKS: The answer is he can recover the costs but to recover them he might have to charge much more money or a higher price than the local refiner might have to charge. Would you agree with that?

MR HENSON: Well, the practice has been that you negotiate, whether you're a local supplier or an international supplier, as we, Mobil do, negotiate with a potential purchaser and you've got to be competitive with that purchaser's options, whether those options are buying from a local refinery or imports, that's where the deal is done, and that's how it works. I mean, it's not a question so much of recovering your costs as can you make money versus those end prices.

MR MARKS: Mr Henson, the "can you make money" is really at the centre of this question. I'm not trying to trick you. I'm just really asking you what the practical difference is between the local refiner who is in the large part refining and producing locally, and the international refiner who is not, when the price, we know, is built upon the Singapore MOGAS price and additional costs.

Now, is the reality not this: that the Singapore refiner who makes a decision, for example, to supply into the Australian market - and assuming all the other things are equal and he had terminalling space and he had a market and all of those things - he's going to have to actually incur all of the costs of landing the product into Australia.

MR HENSON: He will have to do that, yes.

MR MARKS: He will have to do that. Now, the Australian refiner will charge a price that's the same, he will have all of those costs factors built into it, but the difference for him is that some of those costs are notional, in that they are not actually incurred, so he is better off.

MR HENSON: But he will have another set of costs, though.

MR MARKS: But whatever the other set of costs is, he has an advantage, doesn't he, from having his foot in the mainland with a refinery, if an IPP price is charged? That's unarguably the case, is it not?

MR HENSON: He's still got to sell - he's still got to be competitive at that price. He may not be able to make money at that price.

MR MARKS: No, he might lose at that price.

MR HENSON: He may not end up selling at that price.

MR MARKS: That is right, and the price that in the end he may sell at may not be competitive with the price the Australian refiner can sell at in this market; would you agree with that?

MR HENSON: That may be the case, but there could be cases where the Australian refiner can't compete with the import costs, too, and that has happened. So it works both ways is what I'm saying.

MR MARKS: But it's really like what I was asking you a little earlier today, Mr Henson: that there are times when the Australian refiner might be negative, but overall in the context of running a business annually that is not the position.

MR HENSON: Not at the moment.

MR MARKS: And were it the case the Australian refiners wouldn't be in business; do you agree?

MR HENSON: Yes.

MR MARKS: All I'm really putting to you is when you compare one business to another, one which has real costs and one which has notional costs - and we can talk about those costs later - the local refiner is going to be in an advantageous position in terms of the price he can charge.

MR HENSON: So long as his total costs are competitive with what price he can get in the marketplace. He will have a different set of costs to an importer.

MR MARKS: If his costs weren't competitive he wouldn't be in the marketplace, would he?

MR HENSON: Probably not for very long.

MR MARKS: Let me just ask you a couple more questions to ensure that I don't miss anything here. The international refiner, he wouldn't make a decision, would he, to incur all of the costs associated with bringing fuel on to the Australian market in competition with the other majors unless he had a market. Is that a fair proposition?

MR HENSON: A market to sell the product, yes.

MR MARKS: By a market, you can call it a wholesale market or a retail market, but he would want to ensure that at the end of the day he could sell on to the market.

MR HENSON: That would be a pretty practical and sensible business approach, yes.

MR MARKS: Pretty practical, it seems to me, too. If he found himself looking at a market where at least half of the retail volume of sales were out of sellers who are in an alliance arrangement with one of the majors, that might make him a little more reluctant about incurring all of the capital expenditures and investment costs and so on associated with bringing product on to the Australian market, just as a matter of practical reality?

MR HENSON: Well, I guess it depends whether he felt he can do a deal with one of those parties. There are other parties who sell in the Australian business, in the Australian market.

MR MARKS: We are really - as I say, I'm not trying to trick you, I'm just trying to understand not what is theoretically possible, what in our market today, Mr Henson, is the reality. And the reality, I suggest to you, is that no international refiner would be thinking, in the present state of the market, with static demand growth for petroleum and for gasoline particularly, of making a high cost import decision at the present time; would you agree with that?

MR HENSON: No, I don't think I would.

MR MARKS: There isn't a market at retail, there isn't terminalling opportunity.

MR HENSON: Hang on. Why wouldn't one of the independent retailers, if they had sufficient volume, go to a trader and purchase product?

MR MARKS: Internationally?

MR HENSON: That's their decision. I mean, there is umpteen litres of product available in the region; why wouldn't someone find an opportunity to do that if they were interested?

MR MARKS: You may say, from the international refiner's point of view, that's the only way he would do it, because then he's got some way of getting around the barriers to entry into the market because he would be aligning himself or contracting with one of the players in the market.

MR HENSON: Yes.

MR MARKS: I understood you said that before. My question really was slightly different. It was: put the independents and the players in the Australian market to one side and answer me the questions I have asked you. I'm really just wondering if in the end the position really is simple: that an international refiner would not seek in the Australian market at the moment to sell petrol in competition with the existing major players.

MR HENSON: Well, I disagree.

MR MARKS: Right. But you disagree only to the extent that you say, well, if he did it - tell me if I'm wrong about this - it would only be through the avenue of some existing party in the market? That's what you're really saying?

MR HENSON: That's one route it could happen.

MR MARKS: What is another route, tell me that?

MR HENSON: I'm not sure.

MR MARKS: Tell me the other route.

MR HENSON: This is not unleaded petrol, this is diesel, but there are mining companies who purchase product direct.

MR MARKS: Don't worry about diesel. We are talking about petroleum. This is an inquiry into unleaded petrol. What about that, what are the other possibilities?

MR HENSON: From time to time, the independent markets, as far as I'm aware, put in a tender for that business. Why couldn't someone overseas put a tender in for that business?

MR MARKS: Let me ask you some different questions, if I may.

MR HENSON: Sure.

MR MARKS: You have said in your submission that Mobil imports some petroleum into the following states - and I hope I have got this right - into Victoria, into New South Wales, into South Australia, and I think also in the west.

MR HENSON: Yes, that is right.

MR MARKS: Can I just get a bit of a better handle, please, Mr Henson on some of these matters. I will have to go from document to document here, I hope you don't mind. In paragraph 2.4 you make that point.

MR HENSON: Yes.

MR MARKS: You say, well, look, we bring it into New South Wales, Victoria, South Australia and Western Australia. Can I start with Victoria.

MR HENSON: Yes.

MR MARKS: Can I just ask you a few questions about Victoria. It's the home refinery state.

MR HENSON: Yes.

MR MARKS: You have obviously got some storage capacity at the main refinery. Is the main refinery storage capacity used at all for imported product?

MR HENSON: Not generally, no. We have Yarraville terminals.

MR MARKS: I will put that to one side. The imports into Victoria, firstly, do they happen frequently?

MR HENSON: Yes.

MR MARKS: Secondly, are they of a substantial size?

MR HENSON: Yes.

MR MARKS: Can you give us an idea of what the shipments might be and how often?

MR HENSON: It's shipment every couple of weeks, probably, for Mobil. And other companies, of course, shipping internally.

MR MARKS: Is it a full MT?

MR HENSON: MR.

MR MARKS: A full MR load?

MR HENSON: Yes, but not of petrol, it's a combination.

MR MARKS: I understand. In terms of import locations in Victoria, apart from the refinery we have spoken about, there is Yarraville?

MR HENSON: Yes.

MR MARKS: What's the capacity at Yarraville?

MR HENSON: For unleaded petrol?

MR MARKS: Yes, predominantly unleaded petrol, but you might want to tell me if there is ...

MR HENSON: For unleaded petrol, we have tankage size of 31 million litres.

MR MARKS: Have you got spare capacity at Yarraville?

MR HENSON: Yes, there is some.

MR MARKS: Would that be capacity that Mobil either does or would be willing to offer to a third party?

MR HENSON: At an appropriate commercial arrangement and details of scheduling, and that sort of stuff, yes.

MR MARKS: But do you do it?

MR HENSON: Well, we share the terminal with - we have a JV with BP, so that is another party going through it.

MR MARKS: I should have made that clear, my apologies. Can I put aside joint storage with the other majors and just talk about other third parties.

MR HENSON: It has in the distant past. I'm not aware of any recent occurrences, although we do sell products to independents from Yarraville terminal. That's essentially a throughput for independents. They can source that product from a number of places - I mean, normally from the Altona refinery.

MR MARKS: I understand that totally. My question was a little different. Do you have any space at Yarraville, any capacity which an independent could knock on your door and ask you to allow it to use?

MR HENSON: The answer it that question is yes.

MR MARKS: Okay. Now, has any arrangement in recent times to that effect been entered into by Mobil at Yarraville?

MR HENSON: I'm not aware of any.

MR MARKS: Does that mean no? Because if you're not aware, who would be?

MR HENSON: I don't - I think the answer is no. The terminal Trafigura, that's - - -

MR MARKS: I will come to that in a minute. I'm trying not to forgot any. I want to thoroughly understand the point. You said there's lots of terminalling space and I want to understand all the terminalling space. You say - is Yarraville joint?

MR HENSON: Yes.

MR MARKS: Who is that?

MR HENSON: BP.

MR MARKS: Apart from Trafigura, is there anything else in Victoria that Mobil use to import into?

MR HENSON: We supply Trafigura sales.

MR MARKS: Do you have - - -

MR HENSON: Yarraville is our terminal.

MR MARKS: You don't utilise Trafigura for Mobil storage or Mobil terminal?

MR HENSON: No.

MR MARKS: Is there anywhere else in Victoria that you utilise apart from Yarraville?

MR HENSON: No.

MR MARKS: Can I ask you about Tasmania. There has been a bit of a change there. I think at page 5 - - -

MR HENSON: Page 5 of which one?

MR MARKS: This is the open submission. You say:

> *Mobil's product requirements in Tasmania are currently supplied by Shell under buy/sell out of the Geelong refinery through terminals operated by BP in Mastelle.*

I read that as meaning - tell me if I have done this correctly - that you obtain Mobil's current petrol needs in Tasmania from Shell, you do so under buy/sell arrangements where fuel comes out of the Geelong Shell refinery and into terminals which Mobil utilises which are operated by BP in one case and Mastelle in the other?

MR HENSON: Yes, we have throughput arrangements through those terminals, yes.

MR MARKS: That's what you say in the open submission. In the answer to 2.4 you say something a little different. You say:

> *Tasmania Mobil's unleaded petrol requirements are supplied by* - - -

MR HENSON: Which page?

MR MARKS: Paragraph 2.4.

MR HENSON: Page 2, yes.

MR MARKS: I'm just going by paragraph numbers.

MR HENSON: That's all right.

MR MARKS: I think this appears to be open. You say:

> *In Tasmania, Mobil's unleaded petrol requirements are supplied by Shell and BP under buy/sell arrangements. The product sourced from the Geelong refiner in the case of Shell and in the case of BP from BP's Kwinana refinery through terminals operated by BP in Mastelle.*

If I read that correctly, it suggests that under buy/sell arrangements some fuel is from BP's Kwinana refinery, so it's not from Shell Geelong?

MR HENSON: Some of it may be from BP. In the past it was Shell.

MR MARKS: It's quite important. If you don't mind, it may be something you will have to follow up.

MR HENSON: I might have to check on this.

MR MARKS: I would be grateful. Because as we understand the position - and it may not be absolutely right, but I do want to confirm it - Shell Geelong is supplying into Tasmania and the other majors acquire their petrol in Tasmania from Shell refinery in the way you described in the open submission.

MR HENSON: Yes.

MR MARKS: I'm not aware of BP bringing in fuel into Tasmania, and I just want to make sure - - -

MR HENSON: Let me check that.

MR MARKS: Would you be kind enough?

MR HENSON: Historically that did happen.

MR MARKS: I understand, but it's precisely because historically it did happen that I want to make sure I understand what the present position is.

MR HENSON: We will check that.

MR MARKS: Great. Just a bit more about Tasmania. The Bell Bay terminal, you said earlier, had been sold by Mobil to Mastelle.

MR HENSON: Mastelle.

MR MARKS: Can you tell me why that happened?

MR HENSON: I guess they saw more value in it that than we did. Our market in Tasmania was very small volume, because we had sold a big chunk of our marketing business to United.

MR MARKS: I was just wondering whether the reason was linked to the reality of Mobil's reduced fuel capacity at the Altona refinery, along with the conversion to meet the Australian fuel standards?

MR BERGERON: I think it was more linked to the decision that we made, which was to sell the joint venture company that we had in Tasmania, which was called Norvak, which we sold, divested and United purchased that entity. So it would be more linked to that than it would be to anything around the Altona refinery.

MR MARKS: But is the consequence, I suppose, of the existing arrangements that Mobil has a greater capacity in Victoria, so far as Mobil's needs are concerned, to exploit its refining advantage through its retail outlets and so on, in a strong position in Victoria, does it sort of help it?

MR BERGERON: I can't see any link between Tasmania and Victoria, if that's your question.

MR MARKS: The link is this, or might be this: that it has a limited capacity in Victoria, it is now significantly less than it was; would you agree? It can now obtain its Tasmanian supplies from another source, which frees it up to use its diminished Victorian supplies in other locations. Does that make sense?

MR HENSON: The decisions are more on the marketing side of the business, as Matt indicated. That's what was driving this. The refinery supply is an outcome of that.

MR BERGERON: We made the decision to sell the company in Tasmania because we didn't want to have that equity position there, we didn't view that as a piece of business that we wanted to continue to be involved with. I don't see it as linked to the Altona refinery capacity. I don't see it at all.

MR MARKS: It may not be, but I just wondered whether that was a part of the Mobil strategy?

MR BERGERON: No.

MR MARKS: Elsewhere in Tasmania, in terms of terminalling arrangements, there is an arrangement with BP at Burnie, is there not?

MR HENSON: Yes.

MR MARKS: And also in Hobart?

MR HENSON: I believe so, yes.

MR MARKS: Is that correct?

MR HENSON: That's what I have said, yes.

MR MARKS: I am just wondering if you agree with what's said?

MR HENSON: Yes.

MR MARKS: Is that Tasmania? Have I missed anything?

MR HENSON: Yes, that's it.

MR MARKS: What about New South Wales, what have you got in New South Wales? You say in New South Wales Mobil has a choice of two local suppliers. Who are they?

MR HENSON: In terms of supply/purchase arrangements, it's Shell and Caltex. They have refineries in those cities.

MR MARKS: You say, as well as that:

> *We have the ability to import and we negotiate fuel supply arrangements on a competitive basis.*

What does that mean?

MR HENSON: We negotiate with Shell and Caltex to supply product that is competitive with our other alternatives.

MR MARKS: It's that simple?

MR HENSON: It's as simple as that.

MR MARKS: Okay. I don't know why, if that's the position you didn't just say it. In any event, can I go on. In Sydney you have the Silverwater terminal. Is that jointly owned, jointly operated.

MR HENSON: Yes, with Caltex. We operate it, they have joint ownership.

MR MARKS: What other terminalling facilities? You use Vopac, I think you said.

MR HENSON: We use Vopac. We have a throughput arrangement through Vopac.

MR MARKS: Is there a substantial terminalling facility in Vopac?

MR HENSON: Yes, there is.

MR MARKS: Do you have any spare terminalling facility at Silverwater?

MR HENSON: Probably very little because it's an inland terminal and it's pipeline supplied.

MR MARKS: What about your joint terminal with Shell at Newcastle, do you import into that facility?

MR HENSON: No, we pipeline supply from Sydney.

MR MARKS: Do you import into Silverwater?

MR HENSON: Not at this stage, no, because we have pipeline supply from Caltex.

MR MARKS: I appreciate, which is why I asked.

MR HENSON: And Shell Clyde, yes.

MR MARKS: You said, "We import into New South Wales." I am wondering where.

MR HENSON: Vopac.

MR MARKS: I thought you said you didn't import into Vopac.

MR HENSON: I don't think I said that. Apologies if I did. We do import into Vopac and to our Botany terminal, where we inject fuel in.

MR MARKS: Do you have regular imports into Vopac of unleaded petrol?

MR HENSON: I believe so. I don't have the numbers in front of me, though. Do you need those?

MR MARKS: What would be useful is to understand just the extent of your imports into Sydney, into New South Wales. It sounds from what you are saying as if the only real importing you do is into Vopac.

MR HENSON: Yes.

MR MARKS: That would then mean it would be very helpful for us to know what importing you are doing?

MR HENSON: Okay. Let me just check. I don't think I have - - -

MR MARKS: You can take that on notice, if you wouldn't mind.

MR HENSON: I will take that on notice. We do import into Vopak, we do bring jet fuel into Botany also.

MR MARKS: I am just really interested in unleaded petrol. Have I missed anything in New South Wales?

MR HENSON: I don't think so.

MR MARKS: What about Queensland, that's another non-refinery state. You purchase fuel, I take it, from Caltex and BP under buy/sell arrangements?

MR HENSON: And we have terminalling, a joint venture terminal with BP at Whinstanes, and that's pipeline supplied from those refineries.

MR MARKS: Did you import into - I am just trying to get a picture - - -

MR HENSON: Into Brisbane?

MR MARKS: Yes.

MR HENSON: Not regularly, no. We don't because we get a supply from BP and/or Caltex.

MR MARKS: If I can go back to paragraph 2.4 - okay, that's good, thank you. Is there anything else? You have got some arrangements, haven't you, in Cairns, Townsville and Mackay with BP?

MR HENSON: Yes, we have throughput arrangements.

MR MARKS: When you say a throughput arrangement, you mean you have access to fuel supplied by BP at that location?

MR HENSON: We supply fuel into that facility and we have a throughput arrangement at that facility.

MR MARKS: I think you have one at Gladstone, operated by Caltex?

MR HENSON: Yes.

MR MARKS: That covers Queensland?

MR HENSON: Queensland, yes.

MR MARKS: WA, Perth for a start. You import into Perth from Exxon Mobil?

MR HENSON: Yes.

MR MARKS: Where do you import into?

MR HENSON: Through the Coogee terminal, Kwinana.

MR MARKS: Is that your sole terminalling space?

MR HENSON: Yes.

MR MARKS: What about out of Perth, do you utilise any storage?

MR HENSON: No, we don't.

MR MARKS: That's helpful. And South Australia, what's the position there?

MR HENSON: We have a Mobil terminal at Birkenhead, which is a JV with Shell, but we operate it and we import through Birkenhead terminal.

MR MARKS: So it's jointly operated with Shell. Is it a substantial terminal?

MR HENSON: Yes.

MR MARKS: In terms of size, do you have any spare capacity at Birkenhead?

MR HENSON: Yes.

MR MARKS: Do you have, or have you had in recent times, any arrangement with a non-refinery marketer, such as an independent, to use that space?

MR HENSON: No.

MR MARKS: Have you been asked by an independent at any time whether you would have available space to lease out?

MR HENSON: I'm not aware of being asked that.

MR MARKS: What sort of space would you have available at Birkenhead at the moment, were a third party to be interested?

MR HENSON: Well, I mean, our tankage size is 25 million litres there, in tankage size, and we have about - well, we don't have full utilisation. I don't want to tell people publicly what the utilisation is, because that's commercial.

MR MARKS: I understand that. Is that space which Mobil alone can access or is that joint space with Shell?

MR HENSON: I believe it would be joint space with Shell.

MR MARKS: So we can assume that Mobil's space would be something less than that.

MR HENSON: Well - - -

MR MARKS: Not necessarily?

MR HENSON: But the way we schedule ships, you bring a load in and that's your load, then you bring your load in and you use the full tankage.

MR MARKS: That's really why I asked this question about what available excess storage space you might have. Because it seemed to me, given the way imports work, it may be that you really don't have any, because at any one point in time you might have spare space, but then there's a capacity need for either Mobil or Shell.

MR HENSON: But the capacity is really a matter of how many ships - the frequency of bringing ships in. If you bring the ships in more frequently, as long as you are loading the product out the other side, there's quite a deal of flexibility in that.

MR MARKS: I suppose the only way I can ask it then is to say: are you in a position to say whether Mobil could sacrifice any significant amount of that space in favour of a third party?

MR HENSON: Let me answer it in a more positive way. If the third party wanted to contract space through the terminal or throughput through the terminal, we would be receptive to doing a commercial - coming to a commercial arrangement.

MR MARKS: So Birkenhead is a possibility in terms of a third party?

MR HENSON: Yes.

MR MARKS: Darwin, what's the position in Darwin?

MR HENSON: We have a throughput arrangement through the Vopac arrangement.

MR MARKS: With Shell?

MR HENSON: It's a relatively small utilisation. I don't have the Darwin numbers in front of me because we don't operate the terminal.

MR MARKS: Vopac is the terminaller?

MR HENSON: Yes.

MR MARKS: The supplies in Darwin come from the Shell refinery in Singapore, and you buy from Shell under a buy/sell arrangement for Darwin, do you not?

MR HENSON: I believe that's the case, yes.

MR MARKS: Why doesn't Mobil import into Singapore; it's so close, easy? Is there a reason?

MR HENSON: Why doesn't Mobil?

MR MARKS: Why doesn't Mobil bring in fuel from Exxon Mobil in Singapore?

MR HENSON: Because Shell offers us a more effective way of doing that. I can't remember all the details, but that probably relates to our relatively low volume throughput through that. We can't bring in a full ship. If you start getting into partial ships, you add a lot of costs to the business. So you have to try to do an arrangement where you can share some space.

MR MARKS: It's better for Mobil to do a deal with Shell, given the volumes that either all of the refinery marketers are selling or at least Mobil is selling in Darwin?

MR HENSON: Yes.

MR MARKS: I think that picks up most of the terminalling space from Mobil's perspective. Does Mobil say, when all of that is thought through, that it has adequate terminalling space for its own needs?

MR HENSON: Yes. In fact, Mobil has indeed sold terminal capacity, as you are well aware.

MR MARKS: How is it placed now? Is it intending to sell any more terminalling capacity or has it got it to an equilibrium?

MR HENSON: There are some spare terminals that we are looking for interested parties on.

MR MARKS: Thank you. The only other thing I wanted to ask you about terminalling just goes back to Port Stanvac. There are a couple of things that I wanted to discuss. First of all, I think you said there was no oil related use being made of Port Stanvac at the moment, although I think you did say there was some use being made of it that is non-oil related.

MR HENSON: That's correct.

MR MARKS: Are you able to tell us what that is?

MR HENSON: There are facilities such as the laboratories contracted out to a third party, a laboratory testing service and a workshop and other facilities that a certain contracting company is using for their business.

MR MARKS: Is the terminalling space that was there space that could be utilised at the present time or would significant expenditure have to be incurred?

MR HENSON: Significant expenditure would have to be incurred. It's a refinery tankage area as opposed to a normal terminal area.

MR MARKS: So it wouldn't be readily available for third party terminalling use?

MR HENSON: Well, we have had some negotiations on that in the past but it hasn't come to a practical outcome because we are still keeping open the position to start it up as a refinery, of course, so it's not a practical outcome.

MR MARKS: Thank you. I'm just - having gone through that terminalling information with you - wondering what Mobil's view is as to the position of terminalling space for independents at the present time. I am only going to ask you - I have already asked you some broad questions about terminalling - I really just want to get a feeling now for Mobil's available terminalling. Is the position this: that Mobil would have or might have some space in some locations which would be available to a third party were they to want to use it?

MR HENSON: So long as commercially attractive arrangements could be made, and that's a complex set of arrangements, because of ship scheduling and those sorts of things.

MR MARKS: There is some space?

MR HENSON: Yes.

MR MARKS: I really want to get to the bottom of this. The only space you told me about is Birkenhead.

MR HENSON: And Yarraville.

MR MARKS: Birkenhead and Yarraville, and there might be some space at Mastelle, Bell Bay, which has gone from Mobil, but there might be some space there.

MR HENSON: I can only comment on the terminals we actually operate.

MR MARKS: Forget Mastelle.

MR HENSON: Just about everything else we have talked about is throughput arrangements we have with third parties.

MR MARKS: Tell me about the ones you operate.

MR HENSON: We only operate Yarraville, Birkenhead, Silverwater, as far as ULP is concerned.

MR MARKS: Assuming some economy of scale is required here, is there enough for a ship load?

MR HENSON: Again, it's just a matter of the frequency of ships. If you increase the frequency of ships you can get more utilisation through the terminal, all other things being equal in terms of product quality and liftings and so forth by the trucks. You can increase the frequency of ships, which therefore gives capacity to put more through the terminal.

MR MARKS: I suppose what I'm really asking you is realistically could you make available space to a third party tomorrow at those terminals if you needed to?

MR HENSON: Tomorrow is a bit short. This is a very complex business.

MR MARKS: That's why I'm asking.

MR HENSON: It needs to be well thought through and well managed. Even when we have done deals with third party terminals, as a major oil company and a major terminalling company, it takes some time to get those details worked through. But they could be worked through.

MR MARKS: It's quite a complex issue, it's not really simple at all.

MR HENSON: It can be achieved but it needs some time to work through.

MR MARKS: Can I ask you then just some questions about your buy/sell arrangements. You have referred to those in a few locations in your submissions. Can I just ask you a couple of general or generic questions about these arrangements, just to make sure we understand them. Firstly, are they exclusively the province of refining marketers, these buy/sell arrangements?

MR HENSON: Well, we as Mobil enter into purchase contracts with other refiners who supply us product and we enter into sales contracts. We have to have someone who can supply product as part of that contract, so we usually have to have a refinery or an import capability around it. We sell under buy/sell - we have sales contracts to people who are not oil majors.

MR MARKS: You don't have buy/sell arrangements with them; you have different contracts?

MR HENSON: We have purchase and sales contracts with a whole lot of people. Buy/sell, as you have called them, are just a subset of those purchase and sales agreements we have with people.

MR MARKS: What's different about the buy/sell arrangements, if anything?

MR HENSON: Each contract is an individual contract. I mean -

MR MARKS: I understand that. What's different about them, if anything?

MR HENSON: I'm not sure there's anything particularly different. It's a purchase contract or a sales contract.

MR MARKS: Are they purchase contracts at a lesser price than purchase contracts available from wholesalers throughout the industry? In other words, just in layman's terms, are the refiners buying product from each other under these arrangements at a lower price than petrol is available at wholesale?

MR HENSON: Each of these contracts is based on negotiations on buyers' and sellers' alternatives. Those alternatives may differ from what the local wholesale price is.

MR MARKS: I accept all of that. My question remains. What's the answer to it?

MR HENSON: Which wholesale price are you referring to?

MR MARKS: It doesn't matter whether you talk about Mobil's list price, Mobil's terminal gate price. Let's talk about those prices, take the terminal gate price, buy/sell arrangements.

MR HENSON: Okay.

MR MARKS: Whatever you like. I just want to get a feeling for what the position is. Let's use the terminal gate price.

MR HENSON: Okay. So our purchase and sales contracts with other oil companies and with independents and others is based on the alternative that that purchaser or seller has, which generally is an import related price, and there's generally some margin between that price and the terminal gate price; there has to be, because you're running a terminal and all that sort of stuff.

MR MARKS: I understand. I am just thinking, from Mobil's position this is quite an important question, because Mobil is bringing in quite a lot of fuel on import, I think you said it's a substantial proportion of what Mobil sells.

MR HENSON: Yes.

MR MARKS: Mobil is selling that petrol, some of it at wholesale, but it's selling a lot of on it a buy/sell basis to other refiners, that's true, is it?

MR HENSON: Yes.

MR MARKS: Mobil wouldn't be selling, I would have thought, on a buy/sell basis to other refiners unless there was something in it for Mobil, would it?

MR HENSON: Yes.

MR MARKS: And assuming that is the case, I suppose what I'm trying to get to is the area of difference between the price paid at buy/sell level and the price which might be set at terminal gate, so that we can understand.

MR HENSON: Well, I mean - - -

MR MARKS: What is the difference?

MR HENSON: Well, for instance, we might sell to a customer here in Melbourne who takes pipeline delivery from the refinery and puts it into his terminal. He then will charge a terminal gate price that reflects the market of the terminal gate price, what his view of the market is. So the price we sell to him is obviously going to be different to the terminal gate price because we are not selling into the terminal, we are not selling at the rack of the terminal, because terminal gate price is the rack of the terminal, so there would be differences.

MR BERGERON: Perhaps also, just to build on that, the alternative for the refiner in the buy/sell arrangement would be typically based on a import parity type basis. The Fuels Marketing Organisation goes out and tries to sell product normally through not only its own retail outlets but also through independent branded distributors, which we have talked about. Obviously it's the charge of the Fuels Marketing Organisation to try to generate a margin for that sale. So the difference - there would be a margin, at least an attempt to make a margin above import parity, and I think that's some of the distinction you are trying to get at.

MR MARKS: That's helpful. Really what I'm doing is wanting to explore that a bit further. On the assumption that there is a margin on wholesale, say, it would differ from customer to customer?

MR BERGERON: Correct.

MR MARKS: On the assumption that there are buy/sell arrangements between refiners where refiners sell to each other and buy from each other, there will be, I take it, a margin?

MR BERGERON: One is more of a refining margin versus a marketing margin. I think that's the distinction we are talking about. The import parity - Glenn will correct me if I'm wrong.

MR MARKS: It might be a question of language.

MR HENSON: Let me perhaps put it in my words. A buy/sell, or a sale contract that a refiner has with another customer, the margin that comes from that is the refining margin, because that's the market price, that's what he is able to negotiate a deal with another party. He will obviously want to try to maximise his margin versus that, but you can only go to a point which is competitive with someone else's alternative. Hence the purchase and sale contracts or buy/sell contracts are all about selling the product and getting what you think you can in the market for it. So that's where the margin comes from. So it's as simple as that. There is nothing magic about the arrangements, they are just simply purchase and sale contracts, on the back of a refining or importing business or whatever.

MR MARKS: Presumably at the end of the day - I think this may be what you were saying - is there would be some margin, you would hope, you would aim for, above the IPP based price that you would seek to try to recover on a buy/sell arrangement; is that right?

MR BERGERON: No, that's not what I said. I said that the goal of the marketing organisation is to try to make a return on its business and to try to generate, and one of the ways you do that is by trying to get a margin above. In our case, how we look at it is we consider import parity to be that landed cost. So how do we make a margin above that is the challenge of the marketing organisation. And that's really separate from the trading organisation that might be negotiating a buy/sell or a sell or a buy with a different oil company.

MR MARKS: So at the end of the day, as between the oil companies, do oil companies achieve a price above IPP when charging to each other?

MR HENSON: I don't believe so, because that's usually our negotiating leverage, that's usually the basis for the alternatives people have.

MR BERGERON: I think we have provided some copies of - - -

MR HENSON: We have all the copies of the buy/sell agreements and so forth.

MR MARKS: You have, yes, and they don't identify - I don't want to go into too much detail in this public context, mainly to respect your desires and wishes. But I'm really just asking you whether, particularly for Mobil, which has a significant amount of its business in buy/sell or sell arrangements to other refiners, whether Mobil can make such sales profitably and if it does so, how?

MR HENSON: And we do so because the sale agreement, say, from Altona refinery to the customers of Altona refinery is about realising the refining margin we have for Altona refinery, that's what it's about.

MR MARKS: You say it's all built into the refining margin?

MR HENSON: It's part of how you realise the refining margin. The other part is the purchase contract. The purchase contracts that a refining supply organisation enters into are about supplying the product that the Fuels Marketing Organisation for Mobil needs to supply to the marketplace. It's a matter of us - the most cost effective way of supplying our marketing organisation. That's how the refining and supply business works.

MR MARKS: Are these arrangements traditionally reciprocal?

MR HENSON: How do you mean reciprocal?

MR MARKS: Well, you were describing earlier that they are separate arrangements.

MR HENSON: Yes.

MR MARKS: There's the buys and the sells. But is it the position that for every buy between two refiners there is a sell arrangement?

MR HENSON: Not necessarily. The volumes are quite different.

MR MARKS: No doubt the volumes are different. I'm asking you whether the refining arrangements between refiners whereby they buy fuel have a reciprocal sell arrangement?

MR HENSON: Well, we need to have arrangements with a variety of them because we don't have a refinery in each state.

MR MARKS: I understand the justification. I'm just asking to you answer my question yes or no, are they normally reciprocal?

MR HENSON: Depends what you mean by the word "reciprocal". Can you explain?

MR MARKS: I will put the question differently. Does Mobil have any buy or sell - let me start with buy. Does it have any buy arrangements with BP?

MR HENSON: Yes.

MR MARKS: Does it have a sell arrangement with BP?

MR HENSON: It does, yes. But the detail of those agreements and arrangements can be quite different.

MR MARKS: Are they in fact quite different? You say they could be and I respect that. But are they in fact?

MR HENSON: Yes.

MR MARKS: In what - - -

MR HENSON: If you looked at what we provided you with, we have different volumes, different products, different locations, different prices.

MR MARKS: Obviously there are variables, but in terms of the basic calculation of the price as between the refiners, if you take two refiners, are they different or are the basic constituents of the price much the same?

MR HENSON: The price reflects the alternates that each party has in the process. As is pretty clear in the Australian market, that's usually an import parity type process.

MR MARKS: Let's accept that's the key component.

MR HENSON: Yes.

MR MARKS: What are the other components of the price? Let's take the fuel standard premium.

MR HENSON: The fuel standards are pretty similar.

MR MARKS: Are they pretty much the same?

MR HENSON: No, not entirely, because RVP differs by state.

MR MARKS: I accept they differ by state, there it may be that in a particular transaction there will be - - -

MR HENSON: That's what you're asking me.

MR MARKS: As between the two refiners, are they broadly the same?

MR HENSON: In terms of - yes, they are, because the alternative to refiners is essentially an import, so that will be the common element.

MR MARKS: And the other charges, let's take the wharfage charge, are they essentially the same?

MR HENSON: The wharfage charge is essentially what the local port authority charges.

MR MARKS: So that's the same.

MR HENSON: But port authorities charge different charges.

MR MARKS: In different places, I understand that. But accepting that difference, they are struck on the same basis, the same formula?

MR HENSON: Because that represents the alternative that each of us has.

MR MARKS: Is the answer yes?

MR HENSON: Yes, because it represents the alternative each us has.

MR MARKS: What about the insurance costs, are they different from time to time?

MR HENSON: It depends on each company's view of the insurance costs.

MR MARKS: As between a company where there are buy/sells, taking BP as an example, is the price charged by BP on the one hand for insurance and costs versus the price charged by Mobil to BP the same?

MR HENSON: I think they are similar.

MR MARKS: They are identical.

MR HENSON: I don't have the numbers in front of me.

MR MARKS: They are the same, aren't they?

MR HENSON: I think they are between companies, yes.

MR MARKS: Are there any costs that are different, apart from by location or by state, accepting that those real differences must exist?

MR HENSON: The end dollar numbers are different.

MR MARKS: I know that, for the reason I have just articulated.

MR HENSON: But also the reference marker is different for some companies, too.

MR MARKS: What do you mean by the reference marker, do you mean 92 or 95?

MR HENSON: Yes.

MR MARKS: I'll ask you about that later. Putting that to one side, let's assume it's a 95 MOGAS reference, everything is pretty much the same, is it not, as between two refiners who strike a buy and sell arrangement with each other.

MR HENSON: Yes, because that represents the alternatives.

MR MARKS: So the answer to my question is yes, is that so? You will need to respond.

MR HENSON: Well, it is because of the alternatives that each party has.

MR MARKS: Okay. Now, these arrangements, how often are they struck?

MR HENSON: Negotiations are generally every six months.

MR MARKS: When you say negotiations - - -

MR HENSON: For a six-month period.

MR MARKS: Are they bilateral negotiations in the sense that at the same time both a buy arrangement will be struck and a sell arrangement, as between two refiners?

MR HENSON: There's an efficiency in doing it that way, yes.

MR MARKS: Is that the way it happens?

MR HENSON: Yes.

MR MARKS: So it's kind of, you show me what you're charging and I'll show you what I'm charging? It's kind of like that, in the sense that each will work off the other's arrangements to strike a buy/sell deal?

MR HENSON: No, we have a negotiation.

MR MARKS: In the negotiation - so if you took two pieces of paper and you wrote down a list down each one as to all the key components of the price, is the reality that each of these key components would be pretty much the same, each of the deals would be struck on a six months going forward basis at about the same time?

MR HENSON: They have to be, because you have to get your product supply sorted out for six months.

MR MARKS: So that's the reality of the buy/sell arrangements?

MR HENSON: But, you know, each can have different terms in terms of volume and price, in terms of the end outcomes.

MR MARKS: Each can have different terms of what?

MR HENSON: Each of the six month arrangements can have and has had different outcomes in terms of the end price.

MR MARKS: But that's because of factors associated with geographical location and so on and volumes.

MR HENSON: No, not only those issues.

MR MARKS: Perhaps we will come back to that and you can explain in private session how they are different.

MR HENSON: Perhaps we should look at the agreements.

MR MARKS: I don't want to mislead people in an open context. I am going to ask you, as you probably know, much more detailed questions about this.

MR HENSON: Sure.

MR MARKS: But the public are entitled to know, this is an open hearing, and I want to broadly understand from you whether the arrangements are as I have asked you: namely, they are struck as between two refiners in a bilateral way, they are struck at the same time?

MR HENSON: Um-hm.

MR MARKS: They are struck for the same period and they broadly involve substantially identical formulaic components of a price. What is the answer to my question?

MR HENSON: And they do that because that's how it represents the alternative.

MR MARKS: You say yes because.

MR HENSON: Yes, because they represent our alternatives.

MR MARKS: Okay. Thank you. If I can just - I think I can do this in the open submission because you have referred to it on page 4, I think - if I can pick up a couple of further points, just generically, if you don't mind. You say at page 4 that Mobil's fuel purchase and sale arrangements with other companies are negotiated independently on commercial terms of the transparent import parity price. You say, broadly the cost involved in purchasing product on the Singapore spot market plus a quality premium for local standards, freight, wharfage and other charges to deliver that product to Australia. Do you stand by that?

MR HENSON: Yes.

MR MARKS: Just going through that, the components of the general buy/sell price, you say the components are negotiated independently, as I have just said. That presumably means each refiner independently negotiates with another refiner?

MR HENSON: Yes, we would negotiate with Shell for a supply and so forth.

MR MARKS: You say on commercial terms, and you have really described that, but it's based on an IPP price with a number of other landed cost factors and so on.

MR HENSON: It's based on our particular views of each component of that import price, which is our alternative.

MR MARKS: You say it's off import parity, and I stopped you before when you drew a distinction between MOPS 95 and MOPS 92. I didn't mean to do that, but I wanted to come back to it. Can I ask you about it. From what you say, it sounds as if the marker is not necessarily one or other.

MR HENSON: Well, I think - in fact, you refer to off IPP all the time. There are a number of components that go into what's called IPP. We will have negotiations on each of those components in terms of quantum, because again that represents our alternatives.

MR MARKS: What are those components that you are talking about now?

MR HENSON: It will be freight, assessment of freight rates. It can be assessments of quality premium. Going back to your question on 92 versus 98 - - -

MR MARKS: Versus 95.

MR HENSON: Sorry, 95. There are a number of ways of coming up with a market representation. Now, our view has been that the 95 has been a pretty effective way of doing that.

MR MARKS: Why is that?

MR HENSON: Because it's been closest to the value of the Australian quality. You can use 92, you just add a much higher quality premium. From my practical perspective, I prefer to have something that's on the market and is as closely represented as possible to the product we are selling, hence 95 needs a smaller quality premium than 92, hence logically I think there is some attractiveness about 95. Other people have different views.

MR MARKS: In determination of your buy/sell arrangements, do you use one or other or both?

MR HENSON: We have tended to use 95. But, as I say, not every party has the same view.

MR MARKS: Can you say in open context whether any of your buy/sell arrangements are struck on the 92 as opposed to 95 marker? Is that something you can answer in open hearing?

MR HENSON: I can say, yes, there are some.

MR MARKS: Can I then just ask you this: for those that refer or use as a reference the 92 marker, is that reciprocal in the sense that it will be the same in both the buy and the sell arrangement?

MR HENSON: Well, the purchase contract and the sales contract are separate contracts. However, if a party has a view of using 92 versus 95, they tend to want to use that for both contracts.

MR MARKS: So is the answer - perhaps I will ask you a different question. Do you have any existing buy/sell arrangements with one of the other three major refiners where a buy price and a sell price marker are different? In other words, 95 for one, 92 for the other?

MR HENSON: No, because a party that has a different view insists on that different view prevailing for both.

MR MARKS: So they are reciprocal in that sense too, that there will be the same marker in any bilateral arrangement?

MR HENSON: In this particular case that party has insisted on that, even though we would prefer another - - -

MR MARKS: I understand. I'm not asking you about a particular party. I'm just saying that where there is a 92 arrangement somewhere, can we safely assume that it is both buy and sell?

MR HENSON: Because that party has insisted on that.

MR MARKS: So the answer is yes?

MR HENSON: Yes.

MR MARKS: I just want to pick up - you said there were all these other components, I want to make sure we haven't missed any in the generic formulation. Apart from what I have asked you about, there is, as you said, a freight component?

MR HENSON: Yes.

MR MARKS: That ocean freight component is generally calculated by reference to a benchmark, is it not?

MR HENSON: Yes.

MR MARKS: It's the quote from - - -

MR HENSON: The world scale quote plus a Platts quote.

MR MARKS: Is the Platts quote used now Singapore-Japan or is it Singapore-Australia?

MR HENSON: Singapore-Australia.

MR MARKS: How long has it been Singapore-Australia?

MR HENSON: A year or so, I think. I can't remember the actual time.

MR MARKS: At the time that change was made, are you able to tell me, was it made across all buy/sell arrangements?

MR HENSON: I don't have the detail on that.

MR MARKS: Do you broadly know?

MR HENSON: I think it probably was, but I don't know.

MR MARKS: It's logical it would have been, but it may not have been.

MR HENSON: It was a reflection of the liquidity of the market.

MR MARKS: I accept that there is a reason why the change might have been made.

MR HENSON: Yes.

MR MARKS: My question to you is not that. My question is, if there was a change, and you say there was, my question is: did that change happen simultaneously across all buy/sell arrangements?

MR HENSON: I don't remember, but I could check that.

MR MARKS: Would you check that for me?

MR HENSON: Yes.

MR MARKS: Thank you very much. So far as the Platts quote is concerned, you say it is now Singapore-Australia?

MR HENSON: Well - - -

MR MARKS: That's the - - -

MR HENSON: Again, it depends on buyers' and sellers' alternatives. I don't particularly want to talk about that because there are some commercial aspects that I think we can talk about separately.

MR MARKS: Very well. But can I ask you at a high level. So far as the world scale Platts quote is concerned, can I safely assume that it is the same route? There is nothing terribly secretive about that, is there?

MR HENSON: The Platts quote itself, correct.

MR MARKS: I was going to say, if there is, all the other refiners have been prepared to tell us about it in open hearing.

MR HENSON: No.

MR MARKS: Can I then ask you about the flat quote for locations into Australia, is there a flat scale used for that, too?

MR HENSON: Yes, the world scale.

MR MARKS: Is that common across all agreements?

MR HENSON: Yes, I think so.

MR MARKS: Now, have I left out any components in the buy/sell agreement?

MR HENSON: I think we covered them. We covered quality premium, standard, freight - sorry, quality premium, local standards, freight, wharfage, exchange rate.

MR MARKS: So I think we have covered them all. Thank you.

MR HENSON: There's insurance and so forth, too.

MR MARKS: Yes. I should have mentioned that. There is insurance and so on. Is there anything else? Are there any costs that I have forgotten? I know about insurance.

MR HENSON: There's cargo size and so forth.

MR MARKS: So are there some penalties or some costs that might be applicable depending on wharfage or cargo size.

MR HENSON: Cargo size looks at the utilisation of a ship. If you have ship coming in with dead freight, it's going to cost you more per tonne to land that product. So cargo size is an important piece of it.

MR MARKS: Then I wanted to ask you some more specific questions about Mobil's buy/sell arrangements. Unless you are willing to do it openly, I might leave that for the moment.

MR HENSON: I think that would be more productive, yes.

MR MARKS: Can I then change the subject and ask you some general questions about the wholesale and distribution. Again, I will try and draw a line between what I ask you in open submission and what I might move on to ask you in a closed context. At page 7 of your submission you say:

> *Mobil's share of the wholesale petrol market in Australia is around about 15 per cent.*

I think that's where I got that figure from earlier. You say that has reduced from 20 per cent several years ago. You say:

> *Its branded share of the retail market, covering both the SEP operated core retail network of 310 sites and distributor outlets, has reduced from 15% to approximately 10%.*

Do you stand by those figures as broadly accurate?

MR HENSON: Yes.

MR MARKS: Can I ask you just to clarify - and again tell me if you can't - I did ask you more generally earlier, about who the major wholesale customers are. Can I get you to clarify again? I think you said United.

MR HENSON: Maybe Matt can answer that.

MR MARKS: If you don't mind.

MR BERGERON: There are major wholesale customers that are both branded and unbranded. We have about 27 branded wholesale customers. We call them branded distributors. Some might say they are branded resellers. Of the 27-odd, all but two are completely independent. I mentioned earlier the two we still have an equity position in.

MR MARKS: Can I put them to one side.

MR HENSON: Some of them are very large customers.

MR MARKS: If you want to draw them to our attention, I would be grateful.

MR HENSON: Some of them are very large customers. Our largest brand distributor would be based in Albury, a company called Tasco. We also supply Scott's in South Australia, through several of their entities, branded and unbranded fuel. And we have others, located geographically in rural areas, predominantly the south-eastern seaboard, but it goes all the way up to Cairns and well into South Australia and the like, so several - an extensive branded distributor network.

Then for the unbranded resellers, we mentioned earlier some of the larger - again, just speaking of petrol, unleaded petrol, because diesel is a whole other kettle of fish, if you would, but some of the larger unbranded resellers of current would be United, Liberty, and I mentioned Freedom Fuels, Trafigura, Budget in New South Wales, Apco, I think. Now, I don't have every one of those individual customer's volumes committed to memory, so there are some that would be larger than a branded distributor and some that would be smaller than a branded distributor, but there's a large range in terms of customers that we supply at a wholesale level.

MR MARKS: Insofar as your wholesale arrangements are concerned generally, can you I ask you: it appears that Mobil has a terminal gate price which it regularly sets?

MR BERGERON: Yes.

MR MARKS: It has what it calls an MRP or a Mobil reference price?

MR BERGERON: Yes.

MR MARKS: That seems to be the price that it uses for its contract customers?

MR BERGERON: That's correct.

MR MARKS: That price, I imagine, is based upon a TGP-type formula?

MR BERGERON: It's really what comes first, the TGP or the MRP. I would probably describe it more as the MRP comes first, but they are both - they follow similar methodology; and it really starts with import parity.

MR MARKS: Perhaps I will go the TGP, then come back to the MRP and we can look and compare them.

MR BERGERON: Okay.

MR MARKS: You say they both start with the import parity. In the TGP context, do I understand that Mobil uses a daily MOPS price based on the 95 marker generally?

MR BERGERON: Yes, that's a distinct - the TGP decision is made every day. So it's more the spot type of price that's made every day.

MR MARKS: I understand.

MR HENSON: The MRP --

MR MARKS: Just stick with the TGP at the moment, because there will be some distinctions.

MR BERGERON: Right.

MR MARKS: The TGP, do I understand that insofar as the IPP is concerned, Mobil is using a 95 marker?

MR BERGERON: Yes.

MR MARKS: Secondly, it is using a daily price as opposed to a seven-day average product price?

MR BERGERON: Yes, that's currently how it works.

MR MARKS: Is there any reason why Mobil uses a daily price rather than a seven-day average in the TGP context?

MR BERGERON: I don't know that there's a specific reason why but I do know it's one of the things we are looking at in terms of simplifying our pricing, administration of our pricing. I think we are looking at reverting that to a seven-day, so it's - - -

MR MARKS: I'm sorry.

MR HENSON: No, I can't tell you the specific reason.

MR MARKS: It's just when I read this, you said, we used that for historical reasons and I was wondering what that really means.

MR BERGERON: It's probably more like that's how we have done it in the past and we haven't changed it.

MR MARKS: Yet you use a seven-day average for the reference price?

MR BERGERON: Yes.

MR MARKS: The fuel standard premium is the TGP. I think you deal with this - I need to look where - in 2.22. On page 6 of your answers you make a reference, a very broad reference. Perhaps I can just ask you: you just say that the fuel standard quality premium is set by reference to the market.

MR BERGERON: Right.

MR MARKS: Is there some basis upon which the range of that price is determined? It seems to be it can be a range. Can you describe to me how that is set?

MR BERGERON: That premium, we have typically reverted to the premium that comes out of the buy/sell negotiations, using that as the basis for what the market is ultimately determining the premium to be.

MR MARKS: When you say as the basis, it's not necessarily the same?

MR BERGERON: No. I mean, that's what we used. What we used to determine the premium in our MRP or TGP is the outcome of the buy/sell negotiations.

MR MARKS: Are you just saying it's calculated by reference to that price?

MR BERGERON: Correct.

MR MARKS: But it may be something different to that price?

MR BERGERON: No, I'm saying that's what it is.

MR MARKS: That's what it will be?

MR BERGERON: In practice that's what it is, and we advise our customers on what that premium is going to be.

MR MARKS: The only reason I asked it that way is you said these quality premiums in the short term are not based on cost, in 2.23, and I wanted to understand whether there was anything - - -

MR BERGERON: Because it's based on the market, and what we are saying is the market is what's being negotiated in the marketplace.

MR MARKS: All right, I understand that. Now, that presumably is subject to this reality, though: that the premium which you ultimately struck will vary state by state? Is there a variation in the quality premium across TGPs?

MR BERGERON: I would have to check. It's not part of the business that I would personally do day to day, it would be done in our pricing group, so I would have to check on that.

MR HENSON: It would vary for RVP, for instance, so it would vary by state.

MR BERGERON: To the extent there is a variation in the buy/sell, it would be reflected in that.

MR MARKS: It looks like a number of answers you have given about this have been made in a confidential context, so I will just try to keep my questions at a high level, albeit that may be not that helpful. The terminal gate price contains an ocean freight component?

MR BERGERON: The MRP contains - - -

MR MARKS: I know the MRP does too, as it transpires, but I am trying to keep my questions to the terminal gate price for the moment.

MR BERGERON: Yes, there would be - - -

MR HENSON: Based on the MRP.

MR BERGERON: Because it comes - I know you want to talk about the terminal gate price, but what I'm trying to do is the practical reality of how it works in our company, which is the MRP comes first and the MRP has the ocean freight in that component. So to the extent the TGP is closely aligned with what the MRP is, then yes, there's an ocean freight component in that.

MR MARKS: That component, does it reflect exactly what the ocean freight component is at the buy/sell level?

MR BERGERON: That is - we have provided that, the definition of our Mobil preference price to you.

MR MARKS: You have or you haven't?

MR HENSON: We have.

MR MARKS: I know, but you have done it confidentially. Do you understand? I am trying to ask you questions here in an open context, not confidentially. In the end, you will have to judge whether you want to answer those questions openly or whether you want to do them in confidence, so I am giving you an opportunity to answer them.

MR BERGERON: I don't have a problem in an open setting.

MR MARKS: You see my problem. I have a whole lot of confidential information here that you have told me you want to keep confidential.

MR BERGERON: I'm willing to answer your questions.

MR MARKS: It's just that the line will have to be drawn. Can I ask you questions about this subject in open session or is there a line that needs to be drawn?

MR BERGERON: I appreciate that both you and I at times may have to think about where we are at, as to whether it's confidential or something I'm willing to disclose in public, and that's not always easy at times, I understand that.

What I would be willing to say is that the freight component that we put into that pricing formula is the Singapore to Australia freight rate.

MR MARKS: So it reflects, it's the same?

MR BERGERON: Yes.

MR MARKS: Wharfage - I know there is a wharfage rate. You can tell me what it is on the wholesale, the WRP, if you want, then talk about the terminal gate. But can you tell me, please, generally in both is there a wharfage component, and, if there is, does it mirror the port authority charges?

MR BERGERON: It's a pass-through.

MR MARKS: Then there is the insurance/loss component that applies under both the MRPs and the TGPs?

MR BERGERON: To the extent the MRP and the TGP follow similar methodology, yes.

MR MARKS: But the reality of what you have just said is that each of those wholesale prices, or formulas for price, will have a component referable to insurance and loss?

MR BERGERON: Yes.

MR MARKS: Now, is it the same in both?

MR BERGERON: This is the distinct - I think it would be better to describe it as the TGP is a number that derives from the MRP. I think we have shown you that in some of the other confidential documents, so you can see how the MRP is calculated and how the TGP is calculated. So we are giving you that information. And I think the challenge here is in a public setting I would not be discussing, for example, the nuances of TGP and MRP more than what I have said in a public setting, because this is commercial confidential information.

MR MARKS: I understand that.

MR BERGERON: I certainly wouldn't indicate that to my competitors, so I think that's probably as far as I can go in that regard.

MR MARKS: I understand. That's fine. I wasn't asking you about what the rate was, I was simply asking you whether it existed and whether it was the same in each, that was all.

MR BERGERON: Yes, but I think the way you are going with this is potentially you are going to get me to define in a public setting how we set the Mobil reference price, and I think I am going to have to stop it there and suggest we do that in a private setting.

MR MARKS: You understand my position, Mr Bergeron. I have asked the same questions of all the other major refiners, and no one else has had any difficulties in a public forum, as you would have seen from the transcripts, of saying the basis of their prices, both reference and terminal gate. For some reason - it's not immediately apparent to me what that reason is - you do seem to have a difficulty. If you insist on doing it that way then we can do it that way but I would prefer to do it in open session.

MR BERGERON: The distinction I'm trying to make is you are getting into the heart of the commercial negotiation that we have with the customer, and that's not something that I would disclose in a public setting. And if my view is different, I don't really care what the other oil companies think, I can only tell you what my view is and my view in terms of the interests of the company.

MR MARKS: It's for that reason I wanted to ask you about the terminal gate price, not the reference price, because in the terminal gate price we are not dealing with the contract customers, we are just dealing with published price.

MR BERGERON: Correct. The terminal gate price is the price on the day.

MR MARKS: Exactly. That's why in relation to the terminal gate price I was asking you these things, because I didn't - - -

MR BERGERON: What I'm trying to tell you is to say that there is no - if I'm contradicting myself, I will come back. Let me step it all the way back. The terminal gate price is not necessarily formulaically driven, the way the Mobil reference price is. The reference prices comes first. The terminal gate price is a daily decision made using the Mobil reference price as a barometer, but also using whatever else is out there in the marketplace, what are the other competitors' terminal gate prices. So it's a daily decision on the terminal gate price versus a formula that's in the Mobil reference price.

MR MARKS: If I accept that 100 per cent, is the consequence that you are unable to tell me about whether or not the daily terminal gate price that you set at the gate includes a component for insurance and loss? If you can't, just tell me that, I'll accept it, I won't push you.

MR BERGERON: I think the technical answer to everything you are saying is no, because it's just a number and it starts with the Mobil reference price.

MR MARKS: I'll return to it. The other components of the price - and they're potentially a number - are they all matters that you only want me to ask you about in a private session?

MR BERGERON: The components of our - - -

MR MARKS: The other potential components of the reference price - and there are a number of them - are they all things you would want us to ask about only in a private session?

MR BERGERON: I think what I would say is that the components of the import parity that we have already talked about in the public setting, I would say to you that every one of those components is in the Mobil reference price, and then there are other things in there besides that. So I think if we - perhaps that might save us some time, if I can put it that way.

MR MARKS: We haven't talked about price components that might be referable to particular customers, but no doubt there are some you could broadly discuss, such as credit cost, distribution costs and brand value costs and those sorts of things. They would all be picked up in the price somewhere, I take it, or they would be?

MR BERGERON: Or else through other means.

MR MARKS: But if they are -

MR BERGERON: Presumably you get something of value for your brand.

MR MARKS: It might be easier if I come back to these matters. There is a little bit of tension about how the matter might be approached. I am happy, if the commission is so minded, to ask these questions more specifically in the private context. I doubt that it's necessary, but I am happy, if the commission is so prepared to accommodate Mobil's - - -

THE CHAIRMAN: I wonder if I can make an observation, perhaps, for the benefit of the witnesses, and they might want to think about this overnight. They have clearly read the submissions and the evidence that has been given by others in the oil industry and they would be aware of the level of public examination, as distinct from private confidential examination, that has taken place.

I simply make an observation that when we produce our report we will find it necessary to observe a disparity between those witnesses that have insisted on providing information in private, as distinct from those that have provided information in the public arena, and that may lead to observations by those who read the report that there has to be a reason for the disparity in confidentiality, and may raise questions as to those reasons for disparity.

It may just be - I know, Mr Bergeron, you have suggested that you are not particularly interested in what the others have done because you have your own confidential arrangements, but it just may be that you want to give some consideration overnight as to how far you might want to actually expound on issues that Mr Marks is trying to put to you very carefully in the public arena, rather than keeping them perhaps closeted in a confidential discussion, only in the sense that it will raise some questions when the report is provided and people observe the report, and then start to ask questions as to why Mobil has insisted on certain information being confidential that others in the industry have been quite happy to provide in open session.

MR BERGERON: That's fine, I will take that on board. I want to be as cooperative as I possibly can be.

MR MARKS: Mr Chairman, there is only one related issue to that, and that is that it may also be necessary for the commission to review some of the transcript material that has been provided and is provided with a view to deciding what matters are really confidential and what matters are not, under the relevant provisions of the Act. I only want to add that in terms of what you said, so that Mobil can take that on board as well.

THE CHAIRMAN: I think, just to make that absolutely clear, Mr Marks, in one or two cases we have indicated to parties that have moved into confidential inquiry that it would appear, in retrospect, that some, if indeed not much of the information provided in confidential inquiry turns out not to have been confidential and could have been public. What we have indicated is that we will be reviewing that and perhaps reverting then to the witnesses and the companies concerned, indicating that there are areas that either we consider ought to have been on the public record and seek the views of the witnesses concerned. That may occur after the - - -

MR BERGERON: That's fine, I understand that. Perhaps if I maybe make one clarifying statement. The TGP, the terminal gate price, which we set at every single terminal in Australian that we market through, and are required to under the oil code and certainly in Victoria and Western Australia to sell at that terminal gate price, or sell to customers at a terminal gate price, the published TGP that is publicly available, is out there, is really just a number. If that - if I'm making any sense out of that. So I think I need to just clarify, because you were asking me, is the shipping component in the terminal gate price? Yes, notionally it is, because the terminal gate price is - really references - at least our terminal gate price is in direct reference to the Mobil reference price and all those items of import parity are in the Mobil reference price. So when I said that it's in the TGP, it is because it references specifically the Mobil reference price, and all those components would be in there. If that - hopefully, that clarifies it.

MR MARKS: Yes, I think you have made that point before, and it is fine for you to make it again.

MR BERGERON: Okay. That's fine.

MR MARKS: Just bringing the wholesale price together then - and again this is just really at a high level.

MR BERGERON: Yes.

MR MARKS: If you take these components, you have the major component, which is the IPP component.

MR BERGERON: Yes.

MR MARKS: That has a refiner margin built into it, as we talked about earlier, does it not?

MR BERGERON: It would.

MR MARKS: It has a Singapore refiner margin built into it?

MR BERGERON: Yes, right.

MR MARKS: So in that sense it would.

MR BERGERON: Yes.

MR MARKS: I'm now just thinking really just from the perspective of the local refiner, Mobil here in Australia, or indeed the other refiners. To the extent they are producing product locally - - -

MR BERGERON: Yes.

MR MARKS: You know what I am saying? I want to ask you some questions on that assumption. So for Mobil, for example, in relation to its locally refined product, priced at - based upon an IPP price, its position would generally be as follows, would it not - just help me through this, if you would - firstly, in relation to the IPP component there is, as I have said, this refiner margin, step one.

MR BERGERON: Yes.

MR MARKS: Step two is there is then a series of further components which in some case might be notional, in the sense I used that word earlier today.

MR BERGERON: I recall the discussion.

MR MARKS: Do you agree with that?

MR BERGERON: I think what was missing from that, from my perspective, was that there are - it was really a discussion about - or a distinction between gross margin and net margin. To the extent that a refining margin is a gross margin number, because it's based on the price of crude, which is your raw material feed into the refinery, and then a market price, call it MOPS 95, and one describes that as the refiner margin, I would view that as a gross margin. The difference is what is the cost structure of that local refinery, how much does it cost that local refinery to do business and how might that compare with a much larger scale refinery in Singapore, Japan, wherever. So - you know - - -

MR MARKS: So you say, look, be careful to draw a distinction. When you think about, say, a refiner margin, be careful to understand there is a difference between gross and net?

MR BERGERON: Absolutely.

MR MARKS: And when you talk about net, you have to pay careful attention to what the underlying costs are.

MR BERGERON: Right.

MR MARKS: Because you might have a gross margin of 5 cents or 6 cents or whatever it might be - - -

MR BERGERON: If the costs are uncompetitive with the Singapore refinery then you may have nothing at the end of the day.

MR MARKS: Exactly. Just building on that a little bit, can we take it that there's no doubt that we all understand the gross margin component as really just the difference between the IPP and the cost of crude and so on.

MR BERGERON: Right.

MR MARKS: The underlying costs, can we take it that Mobil is refining with a degree of efficiency that enables it to recover some net margin on refining?

MR BERGERON: The recent history of the refining business in Australia is - - -

MR HENSON: Yes, well, I mean, that's the case, yes.

MR BERGERON: That's the positive, yes.

MR MARKS: I'm going to ask you about a bit more about that in private session. I just wanted to get the flavour of it.

MR BERGERON: That's right. Yes.

MR MARKS: Then if we just move through, if you stay with me for a few more moments.

MR BERGERON: Yes.

MR MARKS: Then there is the fuel premium standard component. We've talked about that at an IP - at an IPP context and now in this context. You've said, look, that really is just a follow-through, in a sense, you are picking up the IPP and you're applying it, so that the benefit of that premium is enjoyed by the local refiner. I understand that. So I'm not going to take that any further, unless you tell me I have missed something. There is then a series of what I will call notional costs, using the definition I have used, in relation to locally refined product. So for the local refiner, the ocean freight cost component is a notional cost.

MR BERGERON: Meaning they don't incur the cost directly?

MR MARKS: Precisely. Precisely.

MR BERGERON: I'm fine with that.

MR MARKS: Then there is the insurance/loss component which varies, but we broadly know what that is. That, in a sense, is to the local refiner again a notional cost; would you agree?

MR BERGERON: As you have - - -

MR MARKS: As I have described it.

MR BERGERON: - - - defined it, I don't take exception to that.

MR MARKS: All right.

MR HENSON: Oh, there are losses across the refinery, so there - it's a different set of issues but - - -

MR MARKS: So far as it's brought to bear on here on - - -

MR HENSON: It's not a freight loss.

MR MARKS: No - - -

MR BERGERON: But it would be a component - - -

MR MARKS: - - - it's not a freight-related loss. I'm not saying you mightn't pick up some loss in a refiner margin issue, but I'm just talking in the way it pans out here, it's a notional cost in that sense, is it?

MR BERGERON: Yes.

MR MARKS: Okay. Then there are the wharfage-type issues; again they are notional, aren't they, insofar as they are picked up in this pricing?

MR BERGERON: Yes.

MR MARKS: Now, there are - can I just ask you: are there any other costs? I have seen broad reference - and I'm not saying it's necessarily in relation to Mobil - but to other costs like storage costs or intermediate storage costs, or - does Mobil, in its wholesale reference price, have any intermediate storage costs?

MR BERGERON: The terminalling costs - let me just double check. I think the answer to that is no, but let me - no, there's no direct link to terminalling costs.

MR MARKS: Or storage?

MR BERGERON: Correct.

MR MARKS: Okay, thank you. Then the next issue really is the wholesale margin?

MR BERGERON: Correct.

MR MARKS: Okay, and I will ask you some further questions about that. But I have picked up then the broad thrust of the Mobil reference price, and I suspect because of that, the terminal gate price?

MR BERGERON: Yes. And we have done it all in public.

MR MARKS: Yes, which is what I was hoping we might be able to do.

There is a series of questions that I wanted to ask you about that flowing from margins. I will pick those up later, if you don't mind, but I just wanted to ask you one question about SEP, in open session. Does SEP have or enjoy any special arrangements in terms of its buy price with Mobil that make it more competitive, whether in the form of a cheaper wholesale reference or a - could you answer that point?

MR BERGERON: The starting point upon the Mobil reference price.

MR MARKS: Right.

MR BERGERON: And then the difference between our price to our franchisee SEP and when we had more than one franchisee, a number of franchisees, the difference - and we have laid this out in some of the documents, and - but I appreciate that you would like to review that in the public arena - the difference is that we, from time to time, based upon competitive conditions in the marketplace, might offer price support which is a discount to that wholesale price charged for a particular service station, based on the competitive conditions surrounding that service station, specifically the competitive street prices in the trading area surrounding that service station.

MR MARKS: All right then. So that really picks up the totality of any buy price arrangement with SEP. Apart from price support, there's no other particular wholesale discount, rebate or some other special arrangement for SEP?

MR BERGERON: No, it's really all in the price support.

MR MARKS: Yes, I understand. Thank you.

MR BERGERON: I'm just trying to think. I mean, I - credit terms - credit terms across customers are not always the same, but it would not be a material difference.

MR MARKS: All right. Thank you. Then I wanted to just ask you some questions about pricing strategies, and this material seems to be contained in confidential attachments, so I'll leave that for the moment. But I then wanted to ask you a couple of open questions about Mobil's returns. We have asked the other refiner marketers to provide, for the benefit of the ACCC, their profits, on a cent per litre basis, from the refining of petroleum, and in particular we've asked them about gasoline. We have also asked about net profits. In all cases, I think we've been provided with that. I don't think Mobil has provided us with any of that information, has it?

MR BERGERON: We've provided some strategy documents which would have historical profit by business line, and those would be net profit numbers.

MR MARKS: But beyond that -- and I have seen those documents, thank you - I don't believe there's any material on that issue. Beyond what you've just spoken to me about, I don't think Mobil has provided any further material, am I right?

MR BERGERON: We provided what was asked for, which were some strategic planning documents, which also included some P&L information.

MR MARKS: It's not a criticism at all.

MR BERGERON: Yes, I understand, yes, but I do have some other unit margin and - information, because based on some communications we got from the ACCC prior to this hearing, there was a letter that said it would be good to have some unit costs and unit margin information, which I did bring along - - -

MR MARKS: Excellent.

MR BERGERON: - - - with me and I certainly have that information.

MR MARKS: And can we ask you about that in private session?

MR BERGERON: Yes, absolutely.

MR MARKS: That might be easier and you - - -

THE CHAIRMAN: What time did you want to - - -

MR MARKS: I had intended to move to retail now, Mr Chairman.

THE CHAIRMAN: That is a long subject.

MR MARKS: It is. I was going to suggest, therefore, that we pick it up in the morning.

THE CHAIRMAN: Yes, I think that might be better. It might be a clean break to do that and then move to retail tomorrow morning.

MR MARKS: Yes. Thank you very much. And then after we have concluded that, we will try to pick up some of these other matters in private session.

THE CHAIRMAN: Thank you. I will adjourn the hearing then until tomorrow morning, 9.00, and at this location, Mr Marks.

HEARING ADJOURNED at 4.56 pm TO THURSDAY, 20 SEPTEMBER 2007

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