

COMMENTS.

The following general comments are submitted :—

- (1) The major oil companies are all foreign owned and controlled, and branches of world-wide organizations.
- (2) The accounts kept by the companies do not readily lend themselves to the extraction of the information necessarily required by the Department in this investigation.
- (3) Owing to financial interlocking of producing and refining oil interests, it is difficult to verify the f.o.b. costs shown on the companies' invoices. There are indications that prices are fixed by the exporting organization at a rate in excess of the market price at the date of shipment. To what extent the invoiced price is justified, having in view the cost of production and refining, is a matter on which the Department cannot, with the information available, express any definite opinion. This comment is also applicable to freight rates, as each major oil company is associated with a company owning or operating a tanker shipping service.
- (4) The major oil companies, as branches of larger organizations, compile trading, financial, and statistical data for use of their respective head offices. This involves a considerable amount of clerical labour and expenses which would not be required in the case of a locally owned and controlled oil-importing company. The expense involved under present conditions increases the cost of distribution in New Zealand.
- (5) The marked spread between c.i.f.e. duty-paid cost and ultimate selling-price is due to the following circumstances :—
 - (a) The competition for business between the oil companies and the resultant overcapitalization of the system of distribution, exemplified by excessive terminal and other tank storage accommodation, excess number of pumps, and other distributing plant.
 - (b) An excessive number of retail distributors.
 - (c) Heavy provision for depreciation. This is common to all the major oil companies. The object of the policy adopted appears to be to write down the capital assets of the companies as rapidly as possible.
 - (d) Extensive advertising conducted on a scale which it is suggested is a distinct burden in view of the constant demand for a commodity which probably does not vary in quality to any appreciable degree as between the comparable products handled by each competing unit.
- (6) The major oil companies act in agreement in regard to wholesale selling-prices and terms of sale, and, while there is keen competition for trade, there appears to be no wholesale competition on price as between the major oil companies. The fixation of a uniform price by common agreement is, of course, an alternative to the fixation of a uniform price by force of competition. The circumstances are such that differing price-levels could not be maintained, and uniformity of price must necessarily be a feature of the trade. The main point of importance is the fact that the prices fixed by general agreement between the companies are presumably reasonably satisfactory to each and every company, irrespective of the proportion of total requirements of the market secured by the different companies.
- (7) The investigation has drawn attention to the desirability of some statutory obligation on foreign owned and controlled companies to keep adequate records that will readily disclose the financial results of the trading operations of such companies in New Zealand.

The results of the investigation show that the spread between the landed duty-paid cost and final cost to the user is mainly absorbed in distribution expenses. On the part of the major oil companies a substantial proportion is absorbed in overhead and general office expenses, and it is these heavy expenses, in a large measure, that have made possible the operations of the independent oil importers. At the same time, it must be recognized in any comparison that the major oil companies provide a distribution service over the whole of the Dominion.

The fundamental advantages of bulk importation appear to a considerable degree to have been lost by the heavy costs of internal distribution resultant, in the main, from competitive oversupply of distributive facilities and organization.

There has, of course, been a recent reduction of 1d. per gallon in wholesale selling-prices, due essentially, no doubt, to the reductions in values at points of origin. The present overseas cost now represents only a small proportion of the total duty-paid cost to retail distributors.

G. W. CLINKARD, Secretary.