



# **Response to Interim Report on Inquiry into ACT Fuel Pricing**

**July 2019**

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## **Introduction**

Informed Sources (Australia) Pty Ltd supports the work of the Select Committee investigating ACT fuel prices and is appreciative of the opportunity to respond to the committee's interim report.

In preparing its interim report, the committee has consulted with a wide array of stakeholders, many of whom with their own distinct and valid views regarding ACT fuel prices.

Informed Sources has tendered its own fact-based submission to the inquiry and participated in the hearing process.

In the following pages, we share our views on the possible recommendations put forward by the select committee. Our views stem from over 30 years of supporting the retail fuel industry through the provision of market intelligence and also supplying fuel pricing information directly to consumers via our MotorMouth platforms. We also supply market intelligence services to various third-party organisations including motoring clubs and government agencies.

Based on this experience of the industry and many government policies proposed or implemented since the 1990s, our interest is in assisting stakeholders with good policy outcomes that enhance the operation of a competitive fuel market, thereby serving the long-term interests of both consumers and fuel retailers.

Informed Sources' submission to the inquiry is consistent with the views of many other stakeholders that the underlying reason for high fuel prices in Canberra is structural i.e. insufficient sites operated by aggressive retailers to stimulate greater competition, which in turn arises from insufficient availability of well-located sites for these retailers to open new retail operations.

It follows that there are no short-term or easy ways to reduce the higher average prices in Canberra when compared with Sydney and many other locations but the right policies will reduce the price differential over time.

## **Informed Sources' response to recommendations**

### **Response Overview**

The ACT Legislative Assembly passed a motion to establish the Select Committee on Fuel Pricing with that committee inquiring into how fuel prices are set in the ACT, the impact of escalating costs on Canberra drivers, and possible legislative or regulatory measures that could reduce the price of filling up at the bowser.

Having considered how fuel prices are set and the impact of escalating costs on Canberra drivers, it is essential that the committee now consider recommendations that will actually have the effect of reducing the cost of fuel and that impacts are measurable.

The committee has put forward nine recommendations. Informed Sources has considered the first eight of those recommendations and not considered Recommendation 9 as it is outside of the expertise of Informed Sources.

Of the eight recommendations Informed Sources has commented on in this response, we are of the view that two of the recommendations (7 and 8) are likely to lower fuel prices over time and the “do nothing” option (Recommendation 1) could also result in lower prices. During Informed Sources’ testimony to the committee, we stated that we are of the view that there are no “quick fixes” to lowering fuel prices<sup>1</sup> and we still remain of this view.

The objective of the committee is to put forward recommendations that will lower fuel prices. A Government run real-time price monitoring scheme with or without a price lock mechanism will not lower fuel prices. These schemes have not lowered fuel prices in other jurisdictions, and such a measure would not lower fuel prices in the ACT. In fact, analysis performed in WA, NSW and NT has shown that fuel prices have risen in all instances subsequent to schemes in those states being implemented<sup>2</sup>. Analysis on the impact of the scheme in QLD will be undertaken after more time has passed given it has been in operation for just over 6 months.

Informed Sources does not believe an oversight position or body will lower fuel prices simply through a price monitoring role. However, such a position or body would enable the government to monitor changes to prices and market structure over time so as to measure the effectiveness of any recommendations implemented. Total costs of such an initiative are unknown and dependent on the model, but the data that would be required to enable this body to undertake the price monitoring part of its role is already available at modest cost.

Informed Sources has concerns about the viability of a maximum margin given the operating structure of different retailers and their vastly different costs.

We believe that better education if executed effectively is useful for making motorists aware of free resources that are available to them and while individual household budgets may benefit, it is unlikely to lower fuel prices.

We are of the view that two of the possible recommendations put forward by the committee would likely result in lower fuel prices over time. These recommendations being:

- 1) Setting aside highly visible land in the ACT for new, more competitively-priced service stations; and
- 2) A review and lessening of government rates and taxes charges to service station operators.

These two supply-side measures would need to be carefully constructed by policy makers to ensure safeguards are in place so that the intended competition outcomes are achieved. Policies in these areas should be targeted towards attracting aggressive independents. There are many examples of the impact aggressive independents can have on a market including in the ACT. Costco at Majura and Metro at Fyshwick are price leaders that drive lower prices in their surrounding area when compared to the rest of the ACT. Initiatives that encourage these types of retailers are the only way government can reduce fuel prices based on the recommendations tabled in our view.

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<sup>1</sup> Informed Sources, Transcript of evidence, 14 March 2019, 27  
<http://www.hansard.act.gov.au/hansard/2017/comms/fuel01a.pdf>

<sup>2</sup> Informed Sources Submission to the ACT Inquiry into Fuel Pricing, 2019, 24 – 30  
[https://www.parliament.act.gov.au/\\_data/assets/pdf\\_file/0004/1368202/14-Informed-Sources\\_.pdf](https://www.parliament.act.gov.au/_data/assets/pdf_file/0004/1368202/14-Informed-Sources_.pdf)

## **Possible Recommendation 1: Do Nothing**

The data supports that ACT fuel prices are higher than in many other parts of Australia. Therefore, it stands to reason that the high retail margins available in the ACT are likely to attract investment by independent chains that are already well established in NSW and Victoria. Already, Costco and Metro have had significant local impact in Canberra. These and other independent chains have a significant impact in the Sydney market.

Informed Sources suggests that the ACT Government should consider implementing policies that will not create burdens and increased red tape to industry as this will only add to retailers' costs which will then likely be passed on to consumers through higher pump prices. The government also needs to be mindful of unintended consequences that may arise from the implementation of any policies. Informed Sources examines in its [submission to the inquiry](#) (see pages 24 to 28) some of the unintended consequences that have arisen in jurisdictions where governments have regulated fuel price transparency.

## **Possible Recommendation 2: Better Education**

Motorists should be made aware that fuel pricing information is already freely available and that by taking opportunities to shop around (e.g. filling up when visiting the airport or Fyshwick areas), they can make real savings to their household budget.

However, Canberra is spread out over a wide area, so many motorists would not find it economical in terms of time or cost to make a special trip to these areas. Canberra needs low cost sites in areas other than the airport/Fyshwick.

Information on prices already tells ACT motorists whether local retail prices are high or low; once a motorist has knowledge of existing pricing apps and sites, the problem is not information but the availability of lower-priced retailers.

Given motorists' relatively low level of adoption of government and non-government fuel price platforms in other jurisdictions and weak competition in most of the ACT market, there would not be any consumer led pressure for fuel retailers to lower their prices in the ACT from better education. The reason for this is that any action by a retailer would be matched almost immediately by a competitor, so the longer-term loss of retail margin outweighs any transient sales increase from the few customers switching sites. Price-cutting is only viable where there can be a substantial long-term increase in sales from an existing site or sales from a new site, which has only occurred in one area of the ACT to date.

## **Possible Recommendation 3: Create a fuel prices oversight position or body**

Creation of such a position or body is unlikely to reduce fuel prices. The committee in its interim report points out that a similar position exists in Western Australia. The Commissioner in Western Australia has no authority to set fuel prices or margins and provides a largely educative role of informing consumers on latest fuel price trends. There is no evidence that

this role in Western Australia has lowered fuel prices hence we are of a view that this position or body would not reduce ACT fuel prices.

Notwithstanding this, establishment of such a position or body could be a reasonable step that would enable the government to monitor the effectiveness of any other recommendations it puts in place following the inquiry.

Data that could be obtained are fuel prices across the ACT and comparison locations as well as site data for service stations in the ACT including brands. This would enable the government to monitor any movement in ACT fuel prices relative to other locations as well as any structural changes in the market i.e. introduction of new competitors and development of new sites that offer significantly lower prices. Importantly, all the required data is available now at modest cost to the government and was obtained by the ICRC in their recent factual analysis of the ACT petrol market.

## **Possible Recommendation 4: Introduce a Government-run real-time price monitoring scheme**

One of the reasons sometimes advanced by those advocating for price transparency regulation is that existing data services are incomplete. This is a very weak justification for regulation for three main reasons:

### **1) Those motorists wanting access to information are already well informed by private data suppliers.**

Informed Sources through its MotorMouth platforms (app and website) publishes real-time fuel prices for 90% of the ACT market. With motorists knowing what is happening across the majority of the market, if they pass a price that is not displayed on MotorMouth or another app, they know immediately whether or not it is a good deal.

Only some small, typically higher-priced local sites are not included (but could be added if deemed important by government, at minimal cost). In what other industry can a consumer go online and access real-time prices for 90% of retailers and easily compare prices? Not supermarkets. Not household energy suppliers. Not travel. We are unaware of any other industry with greater price transparency.

It is also important to recognise that motorists make purchase decisions on more than just price. 60% of motorists purchase their fuel from the same few petrol stations<sup>3</sup> and many do not proactively search for pricing information when purchasing fuel. In fact, our data and industry data support that in addition to price, there are a number of factors motorists take into consideration when purchasing fuel – location and access factors as well as brand loyalty being important factors in motorists' minds. Retailers compete on much more than just price.

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<sup>3</sup> ACAPMA, 2015, National Monitor of Fuel Consumer Attitudes

## **2) Price boards and loyalty schemes are king.**

In a 2015 research report commissioned by ACAPMA<sup>4</sup>, it found that 53% of respondents used street signage to shop for price and 42% of motorists use supermarket discount docket. This leaves 5% of motorists who use other means including apps and websites to shop for price.

Using FuelCheck as an example, costly regulation has not increased the number of motorists wishing to use online price searching and comparison tools prior to making a purchase decision. There are on average about 170,000 hits per month on the FuelCheck website, a rate of about 2 million per year. This sounds impressive until the annual number of fuel purchases in NSW is considered. There are about 5.5 million vehicles on NSW roads<sup>5</sup> consuming about 10 billion litres of fuel per year<sup>6</sup>; at an assumed average fill of 50 litres that equates to about 200 million fills per year. FuelCheck is therefore used on the surface by only 1 per cent of fills.

This percentage however, overstates the scheme's usefulness because retailers and site operators are also heavy users of the FuelCheck scheme for monitoring their competitors' prices. Informed Sources estimates the split of consumer vs commercial usage of FuelCheck to be in the order of 60 / 40 suggesting that the scheme attracts about 100,000 sessions per month from actual consumers or only 20,000 to 25,000 consumers (unique users) when considering users will likely log 4 to 5 sessions per month. This is an expensive service for the NSW Government to operate for a very small proportion of the population.

## **3) Regulation does not reduce fuel prices and may increase them.**

Academic research indicates that government regulated mandatory fuel price reporting schemes facilitate tacit collusion<sup>7</sup>, remove retailer uncertainty and increase pump prices. Services provided by private data providers including MotorMouth, are superior in our view because these services do not have every fuel price for every service station; smaller, independent sites are able to "fly under the radar" to some extent by being less visible to larger, stronger competitors.

Instead, services offered by private data providers such as MotorMouth have fuel prices for most service stations, operate very reliably and achieve the right balance by giving consumers access to sufficient information whilst not providing retailers with full information about competitors. Less than 100% coverage ensures a degree of uncertainty exists in the market with retailers constantly alert to the fact that lower prices may be available from competitors (keeps retailers on their toes).

In its submission and subsequent testimony to this inquiry, Informed Sources has recommended the government consider policies to encourage independent retailers and particularly price discounters to enter the market as a means of putting downward pressure

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<sup>4</sup> ACAPMA, 2015, National Monitor of Fuel Consumer Attitudes

<sup>5</sup> Australian Bureau of Statistics, 2015, Motor Vehicle Census, cat no.9309.0,

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/9309.0Main+Features131%20Jan%202015?OpenDocument>

<sup>6</sup> Department of the Environment and Energy, Australian Petroleum Statistics: Table 3b. Sales of Petroleum products by state marketing area, March 2017 Quarter,

<http://www.environment.gov.au/system/files/resources/08464198-e56c-4f99-a8df-5195573493a1/files/australian-petroleum-statistics-june2017.pdf>

<sup>7</sup> Byrne and de Roos, 2017, Learning to Coordinate: A Study in Retail Gasoline, <http://dx.doi.org/10.2139/ssrn.2570637>

on prices. There are very few independent retailers operating in the ACT at present (9%)<sup>8</sup>, which is fundamentally why Informed Sources is of the view that ACT fuel prices are relatively high.

Regulated price transparency would be likely to increase fuel prices and discourage independent discounters from participating in the market. In a 2017 parliamentary inquiry into regional Victorian fuel prices, APCO Service Stations (APCO), an independent petrol retailer based in Geelong that operates 25 franchised service stations said in its submission “These approved schemes [like FuelCheck] to force retailers to post their price changes on a web site for all other retailers to see (and customers) provide an ‘easier’ environment for retailers to check each other’s prices; in fact, they are alerted instantly to any price fluctuations and therefore can react immediately. The only agenda to drop a fuel price is to gain a competitive advantage to chase more market share. If APCO cannot gain a competitive advantage by dropping prices (as our competitors will immediately know) then we have lost the best advantage we have. So, such schemes and ‘technology tools’ forcing us to ‘tell our competitors’ what we have just done in the market is a MAJOR disincentive for us to even bother dropping prices”<sup>9</sup>.

## **Possible Recommendation 5: Petrol companies required to lock in fuel prices for 24 hours, with mandatory reporting**

Informed Sources believes mandatory reporting is ineffective for the reasons stated above in Possible Recommendation 4. Locking in prices for 24 hours is not only ineffective but anti-competitive.

Examination of Western Australia fuel pricing data shows that fuel prices and margins over the long term have increased as a result of the FuelWatch initiative. Byrne and de Roos in their 2017 academic paper conclude that “retailers are making 50% higher profit margins as a result” of tacit collusion facilitated by the PriceWatch scheme.

Furthermore, mandatory reporting with a price lock as is the case in Western Australia is harmful to markets for the following reasons:

- government and motorists supportive of the scheme have traded certainty (in the form of a weekly price cycle and fixed daily prices) for higher prices
- the 24-hour rule facilitates oligopolistic outcomes because it makes it easier for competitors to predict others’ behaviour
- coordination is substituted for competitive rivalry – competitors learn to accommodate others’ strategies to maximise revenues
- smaller competitors are disadvantaged because intra-day discounting is illegal and prices fully exposed – they can’t be tactical price discounters (unlike Sydney, for example)

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<sup>8</sup> Informed Sources Submission to the ACT Inquiry into Fuel Pricing, 2019, 8  
[https://www.parliament.act.gov.au/\\_data/assets/pdf\\_file/0004/1368202/14-Informed-Sources\\_.pdf](https://www.parliament.act.gov.au/_data/assets/pdf_file/0004/1368202/14-Informed-Sources_.pdf)

<sup>9</sup> APCO Service Stations, 2017, EEJSC Submission No. 37, 7  
[https://www.parliament.vic.gov.au/images/stories/committees/eejsc/Fuel\\_Prices\\_in\\_Regional\\_VIC/Submission\\_37\\_-\\_APCO\\_03102017.pdf](https://www.parliament.vic.gov.au/images/stories/committees/eejsc/Fuel_Prices_in_Regional_VIC/Submission_37_-_APCO_03102017.pdf)

- larger brands can “game” system by posting low prices at a few sites to head up the price rankings and create a low-price image
- government bureaucracy and costs, and industry costs, are increased.

Consideration of FuelWatch in Western Australia and any perceived benefits cannot be guaranteed in the ACT because the ACT is a very different market from WA now and at the 2001 introduction of FuelWatch: the ACT has no price cycles, infrequent price changes (average 13 days), little geographical spread of prices (except airport/Fyshwick), and very few smaller chains/independents.

The interim report states that a FuelWatch type scheme “May encourage more independent retailers into the market who benefit from the free advertising and, at times, will have a competitive advantage for a full 24 hours”. We would challenge this notion. During the 2017 parliamentary inquiry into regional Victorian fuel prices, APCO Service Stations (APCO) said “Because of the 24-hour price set rule, the discount petrol seller is adversely impacted if they get the price wrong and spend the day (24 hours) uncompetitive in their local market, which would be devastating for an Independent. As a result of the 24-hour price rule under Fuelwatch APCO (and any discount retailer) when setting retail prices would do so less aggressively and “play it safe” which, would result in a levelling of prices at the pump. Hence, the motorist will pay more for their fuel.”

APCO added, “Unfortunately, under schemes such as in WA and in NSW ... fuel prices would remain very stable and would most likely increase over a period due to a lack of competitive ‘spirit’ amongst retailers because no retailer could establish a long-term competitive advantage or discount reputation by dropping their board prices. Retailers will err on the side of caution when considering their option of dropping fuel prices.”<sup>10</sup>

We would also add that MotorMouth enables and actively encourages retailers to post their prices online as often as they wish free of charge with these prices displayed via MotorMouth and via our partner network including motoring clubs. The reality is, many smaller retailers elect not to post their prices for the reason stated above by APCO.

## **Possible Recommendation 6: Set Maximum Retail Margin for fuel companies**

In its submission, Informed Sources commented, “Service stations face widely varying costs for several reasons including, their operating structure, location and their business model/offer.”<sup>11</sup> Introducing a model where retailers are required to charge a price which is no more than a certain level above what they paid for the fuel does not consider retailers’ other costs or operating models. One service station may be family-run and prepared to accept lower wages (as owners) than a competitor with employees at award rates.

A maximum retail margin would potentially disadvantage some retailers more than others and would likely distort the market. Smaller volume, higher-cost sites could be forced out of

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<sup>10</sup> APCO Service Stations, 2017, EEJSC Submission No. 37, 8  
[https://www.parliament.vic.gov.au/images/stories/committees/eejsc/Fuel\\_Prices\\_in\\_Regional\\_VIC/Submission\\_37\\_-\\_APCO\\_03102017.pdf](https://www.parliament.vic.gov.au/images/stories/committees/eejsc/Fuel_Prices_in_Regional_VIC/Submission_37_-_APCO_03102017.pdf)

<sup>11</sup> Informed Sources Submission to the ACT Inquiry into Fuel Pricing, 2019, 3  
[https://www.parliament.act.gov.au/\\_data/assets/pdf\\_file/0004/1368202/14-Informed-Sources\\_.pdf](https://www.parliament.act.gov.au/_data/assets/pdf_file/0004/1368202/14-Informed-Sources_.pdf)

the market because the maximum margin would not allow them an adequate return on investment; on the other hand, if such sites were accommodated by setting the maximum margin higher, lower-cost sites could make excessive margins.

## **Possible Recommendation 7: Set aside highly visible land in the ACT for numerous service stations**

Highly visible sites located on transport routes with greater traffic volume (compared to suburban sites) will tend to sell higher volumes. Higher throughput allows retailers to cover their operating costs more effectively and lower their prices if they are willing to forgo the potential profit gain. With competition present, retailers have no choice but to keep their prices sharp otherwise their volumes diminish. However, this dynamic is rare in the ACT.

The ACT Government should consult with retailers confidentially about the difficulties they face in obtaining new sites and their interest in driving new, lower priced competition. Land use planning and development approvals could be modified as required to encourage new investment. However, not all retailers have marketing strategies based on lower prices; they may, for example, be based on modern convenience retailing.

We note in the interim report it states, "Previous Territory governments have made land available for independent retailers however, these measures have not provided long term solutions to Canberra's concentration of major fuel retailers"<sup>12</sup>. The fact that this initiative has failed previously is a weak justification for dismissing this recommendation as the fuel market has changed greatly in the past 20 years.

There is no such thing as a *free lunch* and availability of land could be made with certain conditions attached. Should those conditions not be adhered to, the retailers should not benefit; surely mechanisms could be devised to create incentives and penalties for retailers developing new sites where the understanding is those sites will sell fuel at lower prices, while making such development commercially attractive. It may be possible for innovative arrangements for leasing or government costs to relate to retail prices; consultation could throw up other ideas on how to encourage investment.

Alternatively, the allocation process for such sites could place significant weight on stated pricing strategies and track records, without particular incentive/penalty mechanisms. The oversight position/body could track outcomes and make recommendations about policy adjustments as required. Such action by government would be in addition to facilitation of new service station development and upgrades.

Furthermore, whilst acknowledging the negative aesthetic impact a traditional service station can have on natural surroundings, arguably main roads in these areas are already also interrupting the aesthetic appeal. Notwithstanding this, should there be concerns about the impact on near or surrounding nature reserves, perhaps this creates an opportunity for policy makers to stipulate certain design and environmental principles and for developers to build

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<sup>12</sup>Interim Report on Inquiry into ACT Fuel Pricing, Select Committee on Fuel Pricing, May 2019, 8, [https://www.parliament.act.gov.au/\\_data/assets/pdf\\_file/0004/1368850/Interim-Report-om-Inquiry-into-ACT-Fuel-Pricing.pdf](https://www.parliament.act.gov.au/_data/assets/pdf_file/0004/1368850/Interim-Report-om-Inquiry-into-ACT-Fuel-Pricing.pdf)

service stations that are low impact and fit-in with the surrounding area. The UK has some very good examples of this – see [Gloucester Services](#)<sup>13</sup>.

## **Possible Recommendation 8: Review the government rates and taxes charges to service station operators**

During the inquiry, several retailers provided evidence suggesting that their cost of doing business in the ACT was higher than surrounding areas. Viva Energy said their lease costs were 7 percent higher than comparable sites in Wollongong, Newcastle and Sydney<sup>14</sup> and 7-Eleven said their land and construction costs were around 2.5 percent more expensive in the ACT and their lease costs about 12 percent above regional NSW and 20 percent above metropolitan Sydney<sup>15</sup>. Government rates and taxes will at least go part of the way to explaining why these costs of doing business are higher in the ACT. Therefore, any ability the government has to reduce rates and taxes directly imposed on retailers will reduce their cost of doing business and potentially enable them to retail fuel at a lower price. Pressure to lower prices will be greater with competition present.

With potentially lower costs and margins greater than surrounding regions and in Sydney<sup>16</sup>, economic theory would suggest that the ACT would become a more attractive location for new entrants who upon entering, would need to offer fuel at lower prices to win market share and in doing so, over time put downward pressure on prices.

## **Possible Recommendation 9: Subsidies for low-income families**

We will not respond to this recommendation and leave it to those more qualified to comment on this area.

## **Further information**

Informed Sources welcomes the continued engagement with the committee as the inquiry continues towards its conclusion. Should we be able to assist the committee in any further way, please do not hesitate to get in contact.

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<sup>13</sup> Gloucester Services, miracle off the M5, Financial Times, 2015 <https://www.ft.com/content/5d0365e2-6c6d-11e5-8171-ba1968cf791a>

<sup>14</sup> Viva Energy, Transcript of evidence, 09 May 2019, 215  
<http://www.hansard.act.gov.au/hansard/2017/comms/fuel07a.pdf>

<sup>15</sup> 7-Eleven, Transcript of Evidence, 09 May 2019, 235  
<http://www.hansard.act.gov.au/hansard/2017/comms/fuel07a.pdf>

<sup>16</sup> ICRC Draft Report – Investigation into motor vehicle petrol prices in the ACT, 2019, ii – v  
[https://www.icrc.act.gov.au/\\_data/assets/pdf\\_file/0004/1361065/Draft-Report-Investigation-into-motor-vehicle-petrol-prices-in-the-ACT.pdf](https://www.icrc.act.gov.au/_data/assets/pdf_file/0004/1361065/Draft-Report-Investigation-into-motor-vehicle-petrol-prices-in-the-ACT.pdf)

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