Mr. Peter Hallahan
Secretary
Senate Economics Committee
Parliament House
Canberra ACT 2600

Dear Mr. Hallahan

Follow up to Senate Pricing Hearings

Mr. Bill Frilay is currently on leave but asked me to respond to a number of requests that arose at the public inquiry session with our Chief Executive, Mr. Gerry Hueston at the hearings of 27 September 2006.

Specifically, BP was asked to provide further information on a number of issues, namely:

1. ***Relationship of 'TGP' to the Retail price***

The Committee Chairman asked BP to respond to the assertion that price cycles are driven by the oil majors and in particular, driven by movements in the Terminal Gate Price (TGP). A graph was sought to demonstrate this.

The attached graph shows BP's published Sydney regular unleaded TGP vs. average BP branded retail prices for the period July to September, 2006.

The data points in the graph clearly demonstrate that the TGP does not contribute to the local retail price cycle. It basically moves with international prices i.e. movements in the import parity price. The weekly retail price cycle is a product of local retail competition within the city (in this case, Sydney).

To confirm that the other 4 major capitals show a similar relationship, we have also provided graphs for these.

2. ***Why were Petrol Refiner Margins low or negative early this year?***

Refining margins were weak globally in early 2006. Markets in the Asian region are linked to other regional markets through direct and indirect trading e.g. via arbitrage opportunities.

During the last northern hemisphere winter, as is typical, gasoline stocks were at high levels and demand low - this resulted in lower gasoline prices. Crude prices remained strong, supported by political concerns around Iran and Nigeria. Low gasoline prices and strong crude prices result in lower refining margins for gasoline. Regionally, oversupply and weak Chinese demand added to the picture.

3. Comparison to Caltex Refiner Margin

BP was asked if our margins were similar to those shown by Caltex in their 2006 first half report.

Firstly it should be noted that BP does not publish an Australian refinery margin - we use a Singapore Generic Indicator Margin (GIM), calculated by the BP Group Economics team, as the basis for our regional margin assessment.

Internally, we calculate a Site Available Margin (SAM) for each of our refineries. The weighted average BP Australia SAM for the first half of 2006 was US$9.15 per barrel.

While we believe that our SAM is likely to be similar to Caltex's CRM, it is important to note that BP's SAM cannot be directly compared to Caltex's CRM. We do not have access to the detail of the methodology Caltex use to derive their CRM. Margins will vary between refineries based on a wide variety of factors including the location, the refinery's upgrading capability and the range of products it produces.

It should also be noted that the SAM is a gross margin figure, i.e. derived before fixed and variable costs, depreciation, tax etc. These costs will vary by refinery depending on factors such as asset configuration, operating models and levels of invest/quality of assets. For example, refineries that have invested significantly in upgrading capability usually attract higher gross margins.

4. Greater Detail selected slides from of our presentation

Detail of these is shown in the attached slides.

If you would like to follow up on any of this material please ring me on 03 9268 4890

I trust this information is of helpful for the Senators in their deliberations and recommendations

Yours sincerely

Ian Fliedner
Director, External Affairs
BP Australia