



SUPPLEMENTARY SUBMISSION

BY

BP AUSTRALIA PTY LTD

ON

THE PRICE OF PETROL IN AUSTRALIA

TO

**SENATE ECONOMICS LEGISLATION
COMMITTEE**

26 SEPTEMBER 2006

Ethanol and e10

At the time of lodging our main submission on 2 August, an announcement by BP Australia Pty Ltd on e10 pricing was in prospect and we deliberately avoided reference to biofuels because of this.

Subsequent to this, on August 10 we announced our biorewards Program which offers 3 cents a litre discount on biofuels (Attachment 1).

This is now in place at the 51 BP branded service stations that market e10 (now branded as New Unleaded on BP sites). The biorewards program has been facilitated by the larger volumes and better logistics associated with the coming on stream of our first major ethanol contract (with CSR).

Our progress on ethanol sales has been:-

- Up till July 2006, we were marketing e10 at the rate of about 1 million litres a month (or 1.2 million litres of ethanol per annum) at about 30 sites in Queensland and 3 in the ACT.
- With the coming on stream of the CSR contract as from August 2006, sales has increased to 80 million litres of e10 per annum (7 million litres a month) currently at 51 sites (Attachment 2).
- At about half of the BP e10 sites in Queensland, e10 has now replaced standard grade unleaded petrol (ULP) as the main product. These will therefore be very high volume e10 sites and e10 will be the main product (compared with that of a niche product at many of our competitors' sites).
- Expansion will continue. (Attachment 3 is a press release of 15 September detailing further progress on biofuels.)

Addressing some issues raised in Other Submissions

Examination of other submissions indicates three major issues. These are discussed briefly below.

1. Why have retail prices risen more than crude prices?

The build-up of the petrol market all the way through to the retail market is simple in concept, but there are so many factors that can complicate the price.

Apart from crude prices (the market for which is influenced by an array of international forces), there are the following factors:-

- The petrol refinery margin, which is the difference between the Singapore or regional product price (known as MOPS 95) and the Tapis crude price. This can vary widely. In January 2005 it was close to zero. In February 2006 it was negative. In June 2006 it was close to 7 Aus cpl. By August it had fallen again. Like the crude price, this is set by international market forces.
- Shipping rates can also vary. They rose sharply after Hurricane Katrina, and have generally increased in the past 2 years. Again, these are set by international market forces.
- Australian fuel standards have increased over the past few years. This has meant that the quality premium over the Singapore MOPS 95 benchmark (which has remained unchanged in terms of quality), has risen each year since 2003. The quality premium is established by the market.
- The wholesale margin can vary in the short term due to lags and competition at the wholesale level. But overall, this has remained unchanged, despite increasing working capital costs.
- The retail margin is determined by competition in the local market. Like any active market, this has its variations, apart from that of the weekly price cycle in the five major capital cities. This is clearly shown in Chart 4.2 on p 40 of the ACCC Submission.

There are many forces acting on petrol prices:-

- All of them are subject to market competition
- Several are internationally related (crude, product, shipping, quality, and exchange rate)
- The markets can rise and fall
- Specific comparisons by time or by place can hide the true picture
- It is the sum of all of the component factors which yields the price at a particular time.

2. At the wholesale level, the Consumer Affairs Victoria report of June 2006 suggests that wholesale margins have increased by some 2-3 cents a litre since 2003.

The Consumer Affairs report is seriously flawed. It failed to incorporate cost increases due to Australian standard quality improvements over this period. It also did not factor in increased shipping costs. This accounts for the "missing" 2-3 cents, and this has been pointed out by the ACCC.

BP's Gross Wholesale Margin in Melbourne (and elsewhere) has been basically flat over this period. And this is despite increasing working capital costs.

Consumer Affairs would not have reached its wrong conclusions if it had consulted with the industry and with other parties such as the ACCC.

3. According to the Australian Automobile Association (AAA) submission, the WA Commissioner for Consumer and Employment Protection advised AAA that their analysis had shown that retail margins had increased in Perth by 2-3 cpl compared to the April and June quarters of the last two years.

If the matter is looked at the matter broadly, the following is apparent:-

- Coles Express entered the Perth market in March 2004. This led to retail margins falling to unsustainable levels.
- Around 12-15 months later, margins returned to sustainable levels
- By contrast, margins in other capitals remained relatively static.

So what happened was that (a) there was market entry by a major new competitor, (b) this resulted in low margins for a prolonged period, to the benefit of the consumer, (c) in due course, margins returned to more sustainable levels.

The analysis by the WA Department, as with the Consumer Affairs analysis, failed to comprehend the full picture. As such, both yielded the wrong conclusions.

An unintended consequence of flawed analyses is that they receive media attention at the time of release, but little or no coverage is often given a sound analysis of the data.

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Save 3¢ per litre with BP's ethanol blended fuel



Release date: 10 August 2006

BP Australia announced today that it has commenced the rollout of a program that will save motorists in Queensland and the ACT three cents per litre on its ethanol blended fuel. The offer will be made available from Monday, August 14th.

Today's announcement follows the first deliveries from a supply contract between BP and CSR that will see 23 million litres of ethanol blended into e10 over two years.

By the end of August, BP will also have increased the total number of BP branded sites selling ethanol blended fuel to 50, making the savings more widely accessible.

"As a result of this initiative, BP is providing motorists with the ability to save money and at the same time reap the rewards from a fuel that is good for their vehicle and good for the environment," said Mike McGuinness, BP Australasia's Vice President Fuels Management.

"The ability to pass through these savings is the result of considerable work by BP over a number of years. Our investments in biofuels have now led to a secure source of supply close to market and we are making good on our promise to deliver the resulting benefits to consumers," he said.

"This initiative is due in no small way to the policies of the Federal and Queensland Governments. By incentivising ethanol instead of mandating it, they are ensuring that the benefits will be passed on to consumers," Mike McGuinness said.

Notes to editors:

How do I get the three cents per litre discount?

Simply fill up your petrol at a BP site offering ethanol blended fuel.

An updated list of BP locations at which motorists can purchase e10 is available online at www.bp.com.au/biofuels.

The customer will receive a 'biorewards card' that will entitle them to a discount on ethanol blended fuel. Terms and conditions will apply.

BP's ethanol blended fuel (BPe10)

BP e10 is a high quality, specially formulated, regular unleaded petrol blended with up to 10% renewable ethanol.

BP e10 will perform in an engine, similar to traditional petrol with the benefits of lower emissions.

Ethanol blended fuel is not new for BP, in fact BP first commenced marketing e10 in Queensland in 2001 and has already been successfully marketed by BP in the United States under the Amoco and ARCO brands since the mid 1980s.

BP has now sold more than 23 million litres of e10 without recording a single vehicle complaint.

BP Australia is firmly in the front line of those companies working to significantly improve the environment through the introduction of clean fuels.

About BP

BP is one of the world's largest energy companies with operations across 100 countries worldwide.

BP has worked in Australia since 1920 and today we're involved in a whole range of activities, such as exploring natural gas and crude oil resources. We also refine and market petroleum products, produce lubricants, and help to generate a significant amount of solar power.

We have a network of almost 1,400 service stations throughout Australia, including a number of 24-hour truckstops on the country's major highways. Our focus on superior locations and cleaner fuels, as well as the fresh food and coffee we provide through our Wild Bean Cafés, have made us a strong competitor in both the fuel retail and convenience sectors.

Additional information may be found at www.bp.com.au/biofuels

BP drives eight-fold increase in Queensland sales of e10

Release date: 15 August 2006

BP Australia announced today that it has commenced a further rollout of e10 which will see its sales in Queensland increase this month by a factor of eight

This follows the successful completion of CSR's investment in new ethanol production facilities at Sarina in Queensland and the commencement of a contract between BP and CSR for the supply of 23 million litres of ethanol over two years.

These initiatives will see BP supply 8 million litres of ethanol over the next twelve months, with this figure rising to 15 million litres the following year.

"We announced this contract in March and we are delighted that it has now commenced. This new supply arrangement allows BP to move to the next – and much larger - stage of our biofuels expansion," said BP Australia President, Mr. Gerry Hueston.

BP has marketed ethanol blended fuel in Queensland since 2001 and is moving to make the fuel available at 49 BP branded service stations by the end of this month.

"We now have more volume to offer at more outlets. Not only is ethanol blended fuel now more available to Queensland motorists but they can also purchase this fuel at a 3 cents a litre discount as we announced last week," said Mr. Hueston.

"We are seeking to further expand our sales of e10 in Queensland and are in negotiations with current producers to secure additional supply.

"We are preparing to move to the next stage in the supply of ethanol blended fuel. This would involve the purchase of the entire output from a large scale east coast ethanol plant, and from this a large scale supply of e10 into the Queensland market.

"We again express our appreciation to the Queensland and Federal Governments for their continued support for biofuels," said Mr. Hueston.

ENDS

Notes to editors:

BP's ethanol blended fuel (BPe10)

- BP e10 is a high quality, specially formulated, regular unleaded petrol blended with up to 10% renewable ethanol.
- BP e10 will perform in an engine, similar to traditional petrol with the benefits of lower emissions.

- Ethanol blended fuel is not new for BP, in fact BP first commenced marketing e10 in Queensland in 2001 and has already been successfully marketed by BP in the United States under the Amoco and ARCO brands since the mid 1980s.
- BP has now sold more than 23 million litres of e10 without recording a single vehicle complaint.
- BP Australia is firmly in the front line of those companies working to significantly improve the environment through the introduction of clean fuels.

BP's biofuels initiatives in Australia

- Investment to allow production at BP's Bulwer Refinery in Queensland of 110 million litres per annum of renewable diesel through a new technology, with the fuel being made available to the market from 2007. The biomass feedstock has been secured through a contract for supply of tallow from Colyer Fehr Tallow Pty Ltd.
- A Memorandum of Understanding with Primary Energy Pty Ltd to purchase the entire output from a new ethanol plant to be constructed by Primary Energy in Kwinana, Western Australia. This would see the production of 80 million litres of ethanol per annum to be sold across Australia as e10 from 2008.
- A contract for purchase of 23 million litres of ethanol from CSR over 2 years. The ethanol will be purchased from CSR's Sarina distillery near Mackay and blended to produce e10 that will be sold into the Queensland market.

Further information:

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Websites:

• [Download the latest list of participating sites \(pdf 43KB\)](#)

BP to surpass Federal Government biofuels target

Release date: 15 September 2006

BP Australia today announced its plans to surpass the Federal Government's 2010 national biofuels target at least one year ahead of the scheduled delivery date.

BP's plans include three further initiatives that will see the company delivering over 400 million litres of biofuels per annum, a volume greater than the Federal Government's target of 350 million litres.

The initiatives include:

- An agreement to double the capacity of a new ethanol plant to be constructed by Primary Energy in Kwinana, Western Australia. The plant's capacity will be increased from 80 million litres to 160 million litres per annum and construction is expected to commence in early 2007.
- Separate MOUs to secure the supply of ethanol from one or more new plants with Primary Energy (Brisbane and Gunnedah) and CSR (Eastern Australia). The total level of supply sought is expected to be greater than the new output from the proposed Kwinana ethanol plant.
- The purchase from Manildra of 3 million litres of ethanol over one year commencing in November of this year. Negotiations have also commenced to secure a further 12 million litres of ethanol from Manildra over the same period.

BP Australia President, Mr. Gerry Hueston said "BP was the first serious player to market biofuels in Australia and now we are the first to ensure that it will be supplied on a large scale.

"This is a clear signal of our intention to make sure that biofuels play a role in Australia's fuel supply both now and in the future. It is a plan that is good for motorists and good for the future of the biofuels industry."

ENDS

For any media inquiries please contact:

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Notes to editors:

Previously announced BP biofuels initiatives in Australia

- On August 10 2006, BP announced that it will provided motorists in Queensland and the ACT with a 3 cents per litre discount on ethanol blended fuel.

- On August 15 2006, BP announced that it had commenced a further rollout of e10 which will see its sales in Queensland increase month by month by a factor of eight. This announcement followed the successful completion of CSR's investment in new ethanol production facilities at Sarina in Queensland and the commencement of a contract between BP and CSR for the supply of 23 million litres of ethanol over two years. These initiatives will see BP supply 8 million litres of ethanol over the next twelve months, with this figure rising to 15 million litres the following year.
- In March 2006, BP announced three initiatives that would see it meeting over 50% of the Federal Government's target on biofuels by 2008 including:
 - Investment to allow production at BP's Bulwer Refinery in Queensland of 110 million litres per annum of renewable diesel through a new technology, with the fuel being made available to the market from 2007. The biomass feedstock has been secured through a contract for supply of tallow from Colyer Fehr Tallow Pty Ltd.
 - A Memorandum of Understanding with Primary Energy Pty Ltd to purchase the entire output from a new ethanol plant to be constructed by Primary Energy in Kwinana, Western Australia. This would see the production of 80 million litres of ethanol per annum to be sold across Australia as e10 from 2008.
 - A contract for purchase of 23 million litres of ethanol from CSR over 2 years. The ethanol will be purchased from CSR's Sarina distillery near Mackay and blended to produce e10. This supply of ethanol from this contract has already commenced and is being sold into the Queensland market.