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2 September 2008

John Hawkins
Committee Secretary
Senate Economics Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear John

At the request of the Committee at the hearing in Melbourne on 7 August, I attach a copy of the report from Access Economics dated 4 July 2008 that was commissioned by BP Australia Pty Ltd (BP) in February 2008.

Following the interchange with the Committee Chair, BP has considered the nature of the report and is comfortable that the information contained within it is not commercially sensitive to BP. However, the initial agreement with Access Economics when the report was commissioned back in February was that the report would be confidential, but would be able to be shared with others by BP on that confidential basis. As such, BP is requesting that the Committee treat the report as confidential. Per our evidence to the Committee, the report has previously been provided to the ACCC and is the subject of ongoing discussions and analysis.

I also attach a further report by Access Economics, dated 18 August 2008, also being provided on the same confidential basis. This report is also being provided as, while it is consistent with the approach of the first report, it provides a clearer explanation of the analysis undertaken and clarifies several points raised in discussions with the ACCC. These are discussed below for the information of the Committee.

Firstly, the report of 18 August 2008 makes clearer reference to the impact of the differential change in freight costs by consistently adjusting landed prices for fuel premiums. (The ACCC had asked for explanation of the difference in the 1.9cpl saving from FuelWatch in their analysis compared to Chart 3 in the 4 July report which referred to a difference of 0.4 cents per litre over time. The answer is that 0.4cpl was not adjusted for the difference in fuel premiums, meaning that there was a lack of consistency in the reporting of the gaps in margins and as such it would not be correct to compare the 1.9cpl and 0.4cpl figure as this would not be a like-with-like comparison). As the revised report makes clear, the difference in landed costs in Perth versus the average for four

other States capitals was small at the time that FuelWatch was introduced, but has averaged 1.4 cents a litre since early 2004.

Secondly, the analysis in the 18 August report now covers the exact same timeframe as the ACCC analysis (whereas the earlier analysis dated 4 July covered an additional six months, for which some monthly time series data was used rather than weekly data).

Thirdly, the revised report splits out the results in the 4 July paper into two – comparisons of margins in Perth versus those in the (weighted average of) four State capitals, and comparisons of margins in Perth versus those in Sydney. The 4 July version of the paper included results from both these types of comparisons, but did not make that clear. The results of the comparison with Sydney strongly show FuelWatch as irrelevant to margins, while the comparison to the four State capitals shows a differential freight impact of 0.8 cpl, with the remaining 'FuelWatch effect' only seen from 2004 onwards (that is, timed to Coles entry to the market, rather than necessarily attributable to FuelWatch).

Notwithstanding the submission of a second, clearer report from Access Economics, BP would like to draw the Committee's attention to the conclusion, consistent with our evidence, that FuelWatch in Western Australia has had no material impact on reducing the price of fuel in WA relative to those prices experience on the East Coast of Australia.

While we ask that the Access Economics reports be kept confidential, there are a number of quotes drawn from the 18 August report that we provide for the explicit use of the Committee.

'Access Economics has performed the same basic regression as the ACCC report, but has adjusted the margins in each market by the relevant freight costs faced in that city.'¹ 'When comparing average weekly prices, the ACCC analysis suggested FuelWatch had a downward impact of 1.9 cents per litre, whereas these results suggest that half of the matching results estimated by Access Economics was caused by changes in relative freight costs.'²

'Moreover, even the remaining effect allocated to FuelWatch assumes that the introduction of Coles to the Perth market has no effect on relative margins.'³ To quote directly from the report, 'attributing the final impact on margins to FuelWatch is not correct'⁴.

Subject to the potential impact on the analysis of the change in the timing of Perth's retail cycle from one to two weeks, the Access Economics report found that 'When comparing minimum weekly prices, the ACCC analysis suggested FuelWatch has had a downward impact on margins, while results here suggest FuelWatch have, if anything, lifted margins in Perth.'⁵

¹ Access Economics, *Fuelwatch Analysis*, 18 August 2008, p.10.

² Access Economics, *Fuelwatch Analysis*, 18 August 2008, p.13.

³ Access Economics, *Fuelwatch Analysis*, 18 August 2008, p.14.

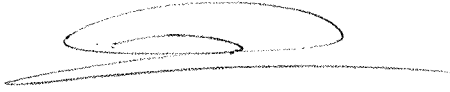
⁴ Access Economics, *Fuelwatch Analysis*, 18 August 2008, p.14.

⁵ Access Economics, *Fuelwatch Analysis*, 18 August 2008, p.13.

If you or any members of the Committee have any queries regarding this report, please contact me at gavin.jackman@bp.com or on 03 9268 3854, noting that I may need to refer to Access Economics any detailed queries on methodology or analysis.

I have copied this letter to Chris Richardson, Director, Access Economics, for his information.

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized loop at the top and a long, horizontal stroke extending to the right below it.

Gavin Jackman