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Authorisation of Prices for the Supply of LPG in Fiji

Second Quarter 2015

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"To promote Competition in the Fijian Markets"

1.0 Introduction

- 1.1 The Fiji Commerce Commission ("Commission") completed the market investigation into the Liquefied Petroleum Gas ("LPG") in June 2012.
- 1.2 The findings of the investigation satisfied the Commission that the goods (LPG) are supplied in a market in which competition is limited or is likely to be lessened; and it is necessary or desirable for the prices of those goods or services to be controlled in the interests of users, consumers or suppliers.
- 1.3 On 12 July 2012, the Attorney-General, Minister for Justice, Anti-Corruption, Public Enterprise, Communications, Civil Aviation, Tourism, International Trade, Industry and Trade issued the Commerce (Control of Prices for the Supply of LPG in Fiji) Order 2012 ("Order") after considering the recommendation from the Commission and being satisfied that the declaration met the requirements under Section 39 of the Commerce Commission Decree 2010 ("Decree").
- 1.4 As a consequence of the Order published in the Gazette on 12 July, 2012, the Supply of LPG in Fiji became subject to Section 41 (1) of the Decree, which prohibits the supply of controlled goods or services unless a price for those goods or services has been authorized by the Commission and the goods and services supplied are in accordance with the authorization.
- 1.5 Following the declaratory order from the Minister, the Commission obtained the submission from the LPG companies and fixed and declared the Maximum Wholesale Prices ("MRP") and the Maximum Retail Prices ("MRP") beginning from 4 August, 2012. The Commission continues to retain its pricing structure for the quarterly price restatement.
- 1.6 The Commission conducts quarterly price reviews to determine the market wholesale and retail prices of LPG supplies in Fiji.
- 1.7 The 'quarterly restatements' of prices are based on three (3) months weighted average of international benchmark, Saudi Aramco Contract Price, the average exchange rate and international freight and handling charges.
- 1.8 There are two methodologies used in Fiji for the LPG products price review. The methodologies are:
- a. **Quarterly Review**- this is mandatory.
 - b. **Trigger Effect**- In between the quarter if the trigger is met.
- 1.9 The 2015 second quarter, review is based on the quarterly review, as such termed as 2015 second quarter review.

1.10 The Commission notified the LPG companies to make submissions for the review of the domestic wholesale and retail prices for LPG.

1.11 The 2015 second quarter, price review to determine the wholesale and retail prices of LPG is based on average, Saudi Aramco Contract Price, the average exchange rate and international freight and handling charges for the months of January, February and March 2015.

2.0 Legal Framework

2.1 The Commerce (Control of Prices for the Supply of LPG in Fiji) Order 2012 empowers the Commission to control the prices for the supply of LPG in all quantities, qualities, grades and classes in Fiji.

2.2 The request for information and data for the purpose of the second quarter 2015 LPG price review was made pursuant to Section 119 of the Decree.

3.0 Last Price Review

3.1 The last price review of Prices for the Supply of LPG in Fiji was conducted by the Commission on 6 January 2015 termed as first quarter 2015 review. The prices were reviewed based on average Saudi Aramco Contract Price, the average exchange rate and international freight and handling charges for the months of October, November and December 2014.

3.2 The prices were announced on 13 January 2015 and became effective from 15 January 2015.

3.3 The 2015 first quarter, price review resulted in the overall decrease in price of Auto Gas, 4.5kg cylinder, 12kg cylinder and Bulk Gas.

4.0 The Process and Commission's Analysis

4.1 The Commission through a letter dated 19 September, 2012 notified the gas companies about the submission requirements of the Commission for the quarterly review of LPG prices and the deadlines for the various processes that will be undertaken before the price review is completed and announced.

4.2 For the quarterly review, the LPG Companies are required to furnish the following information by the 5th day of the beginning of the new quarter:

- Purchase Orders;
- Commercial Invoices (Split of FOB, Insurance and Freight) including purchases and any other costs incurred;
- Bill of Lading;
- Customs entry;
- Suppliers' statements;

- Payments details, .i.e. cheque or TT forms; and
- Surveyor report.

4.3 The Commission requested for LPG submission from the two (2) LPG companies – Petroleum and Gas Company (Fiji) Limited, hereafter referred to as Blue Gas and Fiji Gas Limited.

4.4 The prices determined for the various LPG market is based on the principle of the lowest price operator to determine the single market price. Using the least cost supplier model, the costs of Fiji Gas have been used to determine the MWP and MRP for Cylinder, Auto Gas and Bulk.

4.5 The following were observed based on the analysis of the submissions received from the two LPG companies for previous quarter and the Commission’s independent research and computations:

Table 1: World Market Movement

Year	Month	Butane (USD)	Comments
2015	January	470	Saudi Aramco has set contract prices for January at \$425/mt for propane and Butane CP at \$470/mt.
	February	480	Saudi Aramco has set contract prices for February at \$450/mt for propane and Butane CP at \$480/mt. The price of Butane increased by \$10/mt.
	March	460	Saudi Aramco has set contract prices for March at \$500/mt for propane and Butane CP at 460/mt. The price of Butane decreased by \$20/mt. The decrease in CP was due to decrease in the price of crude oil and low demand for LPG in international markets.

Source: Fiji Commerce Commission based on data from LPG Australia website www.lpgaaustralia.com.au

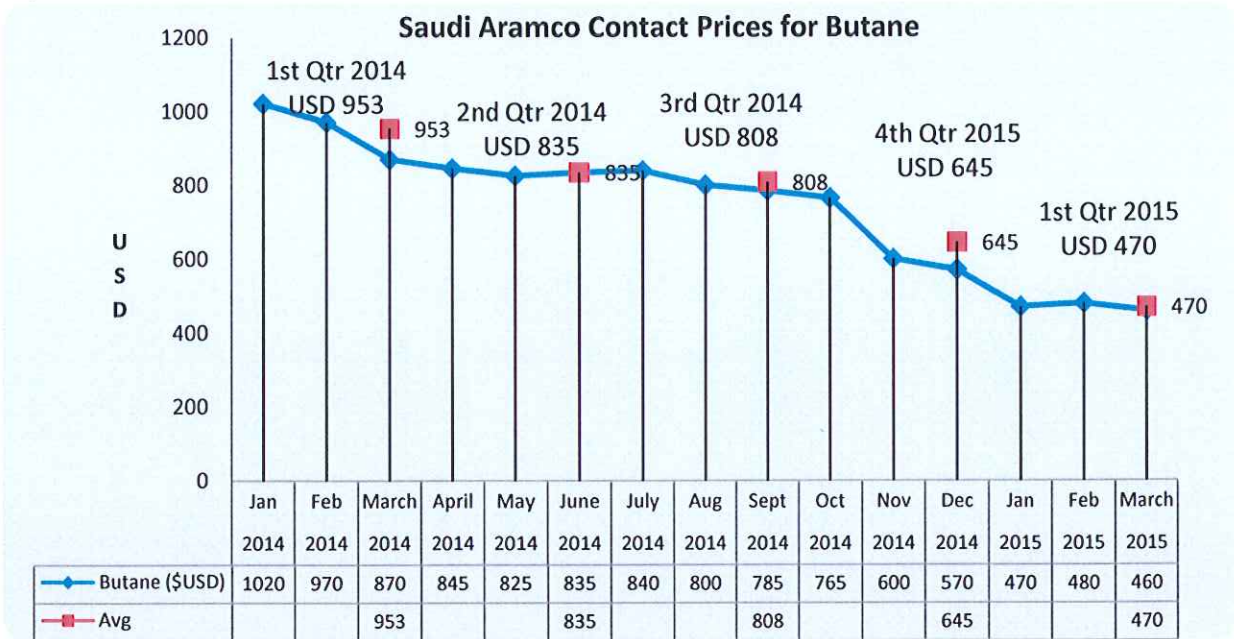
4.6 For the purpose of this determination, the Commission has allowed the same level of mark-up on each of the three relevant products as in the previous determination. The allowable mark-ups are as follows:

- Cylinder LPG - 10% at wholesale level and 8% at retail level
- Bulk sales of LPG- 10% at wholesale level
- Autogas LPG - 10% at wholesale level and 7% at retail level

5.0 International Price Trend

5.1 The two local gas companies import bulk LPG from Australian sources. It is thus crucial to understand the price movements of LPG in Australia and Saudi CP as a symmetrical movement in domestic gas prices should also be noted.

Graph 1: Saudi Aramco Contract Price from January 2014 to March 2015



Source: Fiji Commerce Commission based on data from LPG Australia website. (www.lpgaaustralia.com.au)

6.0 Price Change Analysis

Table 2: Current Prices Vs Revised Prices

Product Type	Current Prices (\$)	New Prices (\$)	Price Change (\$)	Price Change (%)
4.5KG Cylinder	15.33	13.45	(1.88)	-12.24%
12KG Cylinder	40.87	35.87	(5.00)	-12.22%
Bulk (KG)	2.74	2.41	(0.33)	-12.13%
Auto Gas (Litre)	1.93	1.70	(0.23)	-11.74%

Source: Fiji Commerce Commission

7.0 Commission’s Authorisation

7.1 Based on the current pricing practices by the two companies, the pricing structure for Vanua Levu and Viti Levu is same, whereas the Outer Island Prices are priced slightly high to account for freight costs. Also, the cost structure for transportation of LPG to Taveuni from Vanua Levu is considered and included as a separate schedule.

7.2 The prices set out in schedule 1, schedule 2, schedule 3 and schedule 4 herein shall be the maximum retail and wholesale prices, as the case may be, at which the goods mentioned therein may be sold in the area so specified in the schedule. Furthermore, where the maximum price of an item listed in the schedules is required to be rounded up by reason of cessations of one (1) cent and two (2) cent denominations, the consequential increase in the price of that item does not constitute a contravention of this determination.

7.3 Where specified quantities in Schedules 1, 2, 3 and 4 are not available or a new quantity is introduced in the market, proportionate prices MUST be applied to all other quantities.

7.4 For Bulk Gas, the prices have been set as Ex-Factory prices and the suppliers can add a reasonable (market determined) freight and delivery charges.

7.5 For Home Delivery of 12 Kg Cylinder Gas, the Gas Companies can add an additional \$5.00 on the MRP.

7.6 The Maximum authorized Wholesale and Retail prices shall be as follows:

Schedule 1

The prices set out in Schedule 1 are the maximum retail or wholesale prices, as the case may be, at which the goods specified in it may be sold on the Island of Viti Levu and Vanua Levu.

	Wholesale Price (VEP)	Retail Price (VIP)
<u>Cylinder [Residential]</u>	(\$)	(\$)
Per KG	2.41	2.99
4.5KG Cylinder	10.83	13.45
12 KG Cylinder	28.88	35.87
<u>Bulk – Ex Factory</u>		
Per KG	2.41	NA
<u>Automotive Gas</u>		
Per Litre	1.38	1.70

Schedule 2

The prices set out in Schedule 2 are the maximum retail or wholesale prices, as the case may be, at which the goods specified in it may be sold on the Outer Islands and any area not mentioned in Schedule 1 and Schedule 3.

	Wholesale Price (VEP)	Retail Price (VIP)
<u>Cylinder [Residential]</u>	(\$)	(\$)
Per KG	2.47	3.06
4.5KG Cylinder	11.10	13.78
12 KG Cylinder	29.59	36.75
<u>Bulk – Ex-Factory</u>		
Per KG	2.41	NA
<u>Automotive Gas</u>		
Per Litre	1.43	1.77

Schedule 3

The prices set out in Schedule 3 are the maximum retail or wholesale prices, as the case may be, at which the goods specified in it may be sold on the Island of Taveuni for LPG delivered out of Vanua Levu.

	Wholesale Price (VEP)	Retail Price (VIP)
<u>Cylinder [Residential]</u>	(\$)	(\$)
Per KG	2.58	3.21
4.5KG Cylinder	11.62	14.44
12 KG Cylinder	31.00	38.50
<u>Bulk – Ex-Factory</u>		
Per KG	2.41	NA
<u>Automotive Gas</u>		
Per Litre	1.43	1.77

Schedule 4

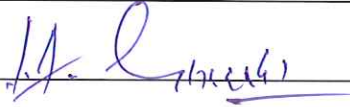
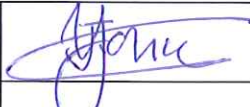
The prices set out in Schedule 4 are the maximum retail or wholesale prices, as the case may be, at which the goods specified in it may be sold on the Island of Rotuma for LPG.

	Wholesale Price (VEP)	Retail Price (VIP)
<u>Cylinder [Residential]</u>	(\$)	(\$)
Per KG	3.13	3.89
4.5KG Cylinder	14.09	17.50
12 KG Cylinder	37.58	46.68
<u>Bulk – Ex-Factory</u>		
Per KG	3.13	N/A
<u>Automotive Gas</u>		
Per Liter	1.80	2.22

No new charges shall be applied unless authorized by the Commission.

This authorization comes is effective from 15 April 2015 or as earlier announced.

8.0 Commissioner's Endorsement

	
Mr. Firoz Ghazali	Ms. Joann Young
Deputy Chair /Acting Chairman	Commissioner
8/4/2015	8/4/2015

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