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## Final Determination

### Determination of Prices for the Supply of LPG in Fiji

Date Issue: 02 August, 2012

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*Promoting Competition in the Fiji Markets*

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## 1.0 INTRODUCTION

- 1.1 The LPG industry plays an important role in economic and social development in Fiji. Its highly flexible supply chain provides an energy source to support all manner of economic activity.
- 1.2 The LPG sector in Fiji plays a significant role in the economic and social activities and ensuring its supply while at the same time ensuring that it is priced right is essential.
- 1.3 The LPG sector has a positive contribution to make in terms of households living standards, industrial and commercial sector development, transport sector growth and ensuring environment protection and sustainability of our resources.
- 1.4 In June 2012, the Commission completed an extensive Investigation into the Level of Competition and Pricing Structure in Fiji's Liquefied Petroleum Gas ("LPG") Market.
- 1.5 The initiation of the investigation was due to recent price hikes and public outcry and request for the Commission to control the prices of LPG in the domestic market.
- 1.6 The Commission, in its investigation considered LPG to constitute a separate market, not substitutable to most other energy sources. Because of the different kinds of methods of distribution and the different composition of LPG products (propane, butane, or a mixture of both) the Commission considered that the general LPG market be divided into the following three market segments:
  - **LPG sold in bulk ("Bulk"),**
  - **LPG sold in cylinders ("Cylinders"), and**
  - **LPG sold as car fuel ("Autogas").**
- 1.7 The Commission after the completion of the investigation established that there was a case for independent economic regulation of LPG market as it will improve efficiency and productivity throughout the LPG industry given that LPG services operators are key energy providers in the industry and it benefits all stakeholders, from the regulated authorities to consumers, other users and wider economy.
- 1.8 The Commission was satisfied that LPG is supplied in a market in which competition is limited and it was necessary or desirable for the prices of those goods or services to be controlled in the interests of users, consumers or suppliers.
- 1.9 The Commission was satisfied that Section 39 of the Commerce Commission Decree 2010 is affected as a result of lack of competition in the LPG market in Fiji and it is necessary and desirable that price controls be introduced for LPG in Fiji.
- 1.10 The Commission made a recommendation to the Minister that an Order be issued declaring the Control of Prices for the Supply of LPG in Fiji.
- 1.11 The Minister accepted the recommendation from the Commission and issued the Commerce (Control of Prices for the Supply of LPG in Fiji) Order 2012, declaring that the prices for the supply of LPG in all quantities, qualities, grades and classes in Fiji be controlled on 12 July, 2012.
- 1.12 Following the receipt of the Order the Commission wrote to the LPG Companies notifying them that LPG is now under price control, and declared that the current prices are set as interim prices until the Commission determines and fixes the approved prices. The further requested them to make complete submission to the Commission.
- 1.13 Based on the submissions made and through Commission's independent research, analysis and computation, the Commission has made this determination.



## 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.

## 3.0 THE PROCESS

- 3.1 In March, 2012 the Commission initiated an investigation into the Level of Competition and Pricing Structure in Fiji's Liquefied Petroleum Gas ("LPG") Market.
- 3.2 The initiation of the investigation was due to recent price hikes and public outcry and request for the Commission to control the prices of LPG in the domestic market.
- 3.3 The Commission was satisfied that LPG is supplied in a market in which competition is limited and it was necessary or desirable for the prices of those goods or services to be controlled in the interests of users, consumers or suppliers.
- 3.4 The Commission was satisfied that Section 39 of the Commerce Commission Decree 2010 is affected as a result of lack of competition in the LPG market in Fiji and it is necessary and desirable that price controls be introduced for LPG in Fiji.
- 3.5 The Commission made a recommendation to the Minister that an Order be issued declaring the Control of Prices for the Supply of LPG in Fiji.
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- 3.7 Following the receipt of the Order the Commission wrote to the LPG Companies notifying them that LPG is now under price control, and declared that the current prices are set as interim prices until the Commission determines and fixes the approved prices. The further requested them to make complete submission to the Commission.
- 3.8 In the letter dated 13 July, 2012 to the two Gas Companies the Commission requested them to furnish copies of all the following information for the last six months by close of Business on 20 July, 2012:
1. Purchase orders;
  2. Commercial Invoices (Split of FOB , Insurance and Freight) including purchases and any other costs incurred;
  3. Bill of Lading;
  4. Customs entry;
  5. Suppliers' statements;
  6. Payment details, i.e. cheque # or TT forms ; and
  7. Proposed Wholesale and Retail Prices and Comparison with the Current Market prices
- 3.10 The information requested for by the Commission was received from the two companies and the Commission carried out an independent analysis of the submission and using the international benchmark and the least cost supplier in the domestic market to determine and fix the prices for LPG in all quantities, qualities, grades and classes in Fiji

#### 4.0 COMMISSION'S ANALYSIS

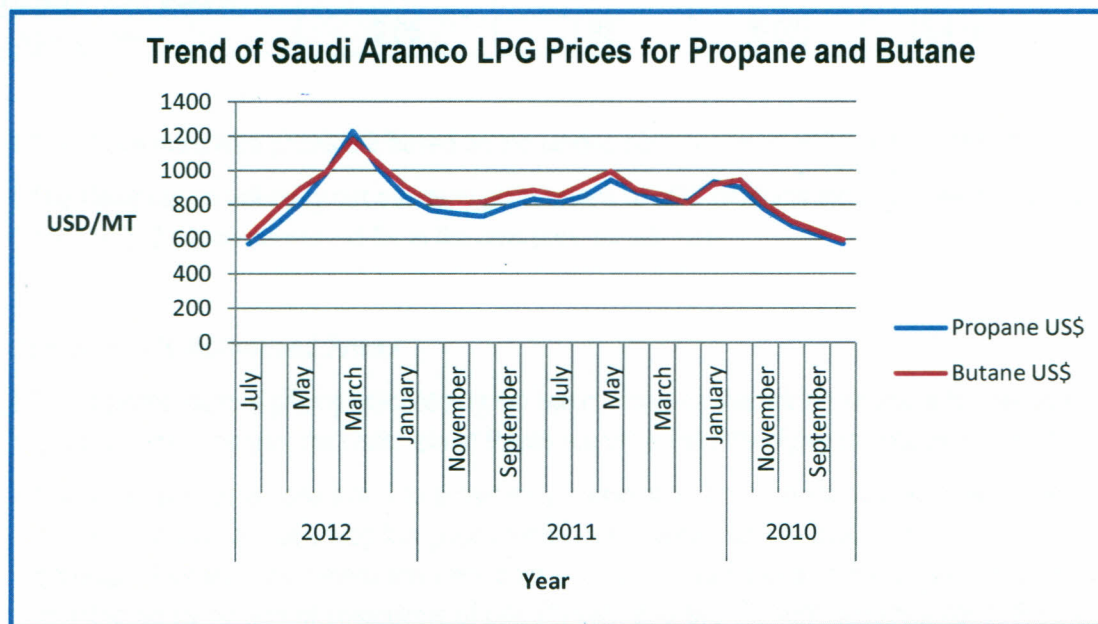
##### 4.1 ANALYSIS OF INFORMATION SUBMITTED BY FIJI GAS AND BLUE GAS

- 4.1.1 Upon receipt of the submission from the two Gas Companies, the Commission carried out an independent analysis of the documents and also carried out visit on site to verify the costs. The summary of the analysis of the submissions from the two companies and Commission's Independent benchmark data is summarized in what follows.
- 4.1.2 From the analysis of the submissions received, it was inferred that the pricing structure for Vanua Levu and Viti Levu is same, whereas the Outer Island Prices are priced slightly highly to account for increased freight costs.
- 4.1.3 For the purpose of this determination and for all future determinations, the Commission has (will) use the costing and pricing structure of the least cost player in the market to determine and fix the Maximum Wholesale Prices ("MWP") and the Maximum Retail Prices("MRP")for the supply of LPG in all quantities, qualities, grades and classes in Fiji.

##### 4.2 INTERNATIONAL PRICE TREND

- 4.2.1 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 the Fiji price fluctuation should reflect these.

**Graph 1: Saudi Aramco Contract Price from 2010 to 2012**



- 4.2.2 The above diagram clearly demonstrates that the global ingredient prices for LPG are falling and as such the same needs to be reflected in domestic prices.



## 5.0 COMMISSION' S DETERMINATION

### 5.1 Maximum Wholesale and Retails Prices

5.1.1 For the purpose of this determination the Commission has allowed for the Wholesale and Retail Mark-Ups for each of the three products, namely the Cylinder, Bulk and Autogas:

**Table 1: Wholesale and Retail Mark-Up**

Product	Cylinder	Bulk	Auto Gas
Wholesale Mark-Up	10%	10%	10%
Retail Mark-Up	8%	Not Retailed	7%

### 5.2 PRICE CHANGE ANALYSIS

**Table 5: Price Changes-Pre-Determination Vs Post Determination**

Product Type	Current Retail Prices (VIP) (\$)	Proposed Retail Prices (VIP) (\$)	Price Change (\$)	Price Change (%)
4.5KG Cylinder	21.50	16.99	(4.51)	(20.98)%
12KG Cylinder	54.00	45.31	(8.69)	(16.09)%
Bulk(KG)– {Ex-Factory}	4.13	3.03	(1.10)	(26.63)%
Autogas (Litre)	2.05	1.98	(0.07)	(3.41)%

5.2.1 The above maximum prices are based on the landed costs for the months of April, May and June 2012.

5.2.1 The Commission will carry out quarterly price review of LPG products moving forward and the procurement for July 212 will be accounted for in the next price restatement.

### 5.3 Commission's Authorized Prices

5.3.1 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 highly to account for freight costs.

5.3.2 The prices set out in schedule 1 to schedule 2 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) sent denominations, the consequential increase in the price of that item does not constitute a contravention of this determination.

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

5.3.4 The Maximum authorised 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)
<b>Cylinder [Residential]</b>	<b>(\$)</b>	<b>(\$)</b>
Per KG	3.04	3.78
4.5KG Cylinder	13.68	16.99
12 KG Cylinder	36.48	45.31
<b>Bulk- {Ex-Factory}</b>		
Per KG	3.03	Not Retailled
<b>Automotive Gas</b>		
Per Litre	1.61	1.98

**Schedule 2**

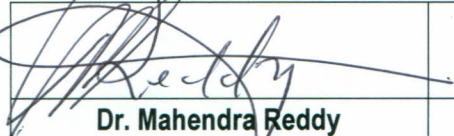

The prices set out in Schedule 1 are the maximum retail or wholesale prices, as the case may be, at which the goods specified in it may be sold on the Outer Islands and any area not mentioned in Schedule 1.

	Wholesale Price (VEP)	Retail Price (VIP)
<b>Cylinder [Residential]</b>	<b>(\$)</b>	<b>(\$)</b>
Per KG	3.11	3.86
4.5KG Cylinder	14.00	17.38
12 KG Cylinder	37.32	46.35
<b>Bulk - {Ex-Factory}</b>		
Per KG	3.03	
<b>Automotive Gas</b>		
Per Litre	1.65	2.03

5.3.5 The prices in schedule 1 and 2 are inclusive of all delivery and packaging costs and no new charges should be introduced for Cylinder and Auto Gas unless authorised by the Commission. For Bulk Gas, the prices have been set as Ex-Factory prices and the suppliers can add a reasonable (market determined) freight charges

5.3.6 The above authorized Maximum Wholesale and Retail prices are to be effective from 4 August 2012.

**Commissioners:**

	
<b>Dr. Mahendra Reddy</b>	<b>Mr. Sepeti Tagilala</b>
<b>Chairman</b>	<b>Commissioner</b>
<b>02/08/2012</b>	<b>02/08/2012</b>

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