Import Parity Pricing for LPG in Bangladesh

An External Perspective on the Way Forward

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The Bangladesh government's move to regulate LPG prices as announced in April is aligned with regulations that have surfaced around the world in past years. Price regulation on domestic LPG markets is not a new idea, with some kind of structure in place in many countries from Latin America to Africa and Asia-Pacific. In Europe, there are still two countries – Spain and Belgium – that impose some kind of formula-based pricing that is directly linked to the value consumers pay for their LPG cylinders.

But the approach varies from country to country. Some countries, such as India and Indonesia, let the state take on the pricing burden and the consumer pays only a small part of the true cost of the LPG, with a subsidy mechanism covering the rest. More commonly, the price paid by the consumer is regulated through a direct linkage to the international price of the product plus a build-up of logistics cost. This seems to be in essence the approach that Bangladesh is looking to apply.

These formula-based pricing strategies are complex as recent experience from South Africa shows. Until this year, South Africa had applied a refinery gate calculation for residential sales of LPG, which priced LPG as a proportion of the local diesel price. This formula had been applied for some decades, since a time when most of South Africa's LPG was produced domestically. With increasing imports and a growing market, the government recently decided to move to an import parity formula, which directly connects the local price of LPG to the international price, and adds the relevant logistics costs to arrive at a delivered price to South African ports.

But the South African government does not have experience in the supply and transportation of LPG, and consequently needed to think very carefully about how to come up with such a formula. This is where Argus came in. After comprehensive discussions with the South African government, local importers and suppliers on the real-world cost factors, Argus came up with the logistics element to the South Africa formula, which is now applied to the retail price of LPG cylinders in the country. Argus publishes this price each month, updating the formula for the relevant department of the South African government, while publishing it in its daily Argus International LPG. On top of the delivered costs, South Africa then applies an internal logistics formula based on the location of sale within the country.

This approach has been successful. Importers and suppliers have clarity on the price, which moves in line with actual costs, and consumers are assured that the LPG purchased locally is costing them an amount which genuinely reflects its value. This "import parity" strategy is crucial for the development of LPG markets as it balances the needs and concerns of the consumers, while offering market participants some certainty on the validity of their investments

A lighter price strategy can then be applied once markets become more mature. In Thailand, which consumes more than 5mn t/yr of LPG, the government has moved from regulated prices to a free market but closely monitors both the international and local retail prices, retaining the right to step in to regulate in instances of price gouging.

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