



Mr. A.H.M. Mustafa Kamal
Minister of Finance
Government of the People's Republic of Bangladesh

Date 11/10/2019

JET FUEL PRICE IN BANGLADESH

Dear Honourable Minister,

On behalf of the International Air Transport Association (IATA) and its member airlines, I would like to thank you for taking the time to meet with industry representatives on Thursday, 12 September 2019 at your office to discuss key financial priorities for aviation in Bangladesh.

As a follow up correspondence from this meeting and as requested, we are enclosing information to highlight the jet fuel prices in Bangladesh that are not conducive to the growth of the aviation industry and to recommend measures to address the underlying issues.

Attached is our recent study and proposal for the jet fuel price in Bangladesh for your kind consideration.

And to address the unfavourable situation of jet fuel prices in Bangladesh, IATA urges the Bangladesh government to intervene in the following ways.

- Padma Oil should be required to adopt transparent formula pricing according to global best practice. This is in the form of an international jet fuel price benchmark (such as MOPS) plus a fixed add-on. In the absence of competition currently, the fixed add-on should be capped at a reasonable level that is better aligned with the average add-ons in the Asia Pacific region.
- As a strategic direction, competition in jet fuel supply should be introduced. Once competition exists in the market, the cap on add-on could be removed as the market will be able to find its own efficient price level.

These measures when taken, will significantly support the growth of the Bangladesh aviation industry and bring Bangladesh a step closer to the government's ambition to develop Dhaka into a vibrant aviation hub.

We look forward to working with you, particularly as we face the challenges of growing the aviation industry in Bangladesh. Meanwhile please do not hesitate to contact me or our Asia Pacific Business Development and Area Manager, Azhar Azahari at azaharia@iata.org should you require any further information or assistance.

Yours sincerely,

Conrad Clifford
Regional Vice President
Asia Pacific

- cc. Mr. Mohammad Mahub Ali, Minister of Civil Aviation and Tourism, People's Republic of Bangladesh
Air Vice Marshal M Mafidur Rahman, Chairman Civil Aviation Authority of Bangladesh
Board of Airline Representatives, Bangladesh
Mr. Vinoop Goel, Regional Director, Airport, Passenger, Cargo and Security, and Member and External Relations, IATA
Mr. Malvyn Tan, Head Commercial Fuel, IATA
Mr. Azhar Azahari, Asia Pacific Business Development and Area Manager, IATA

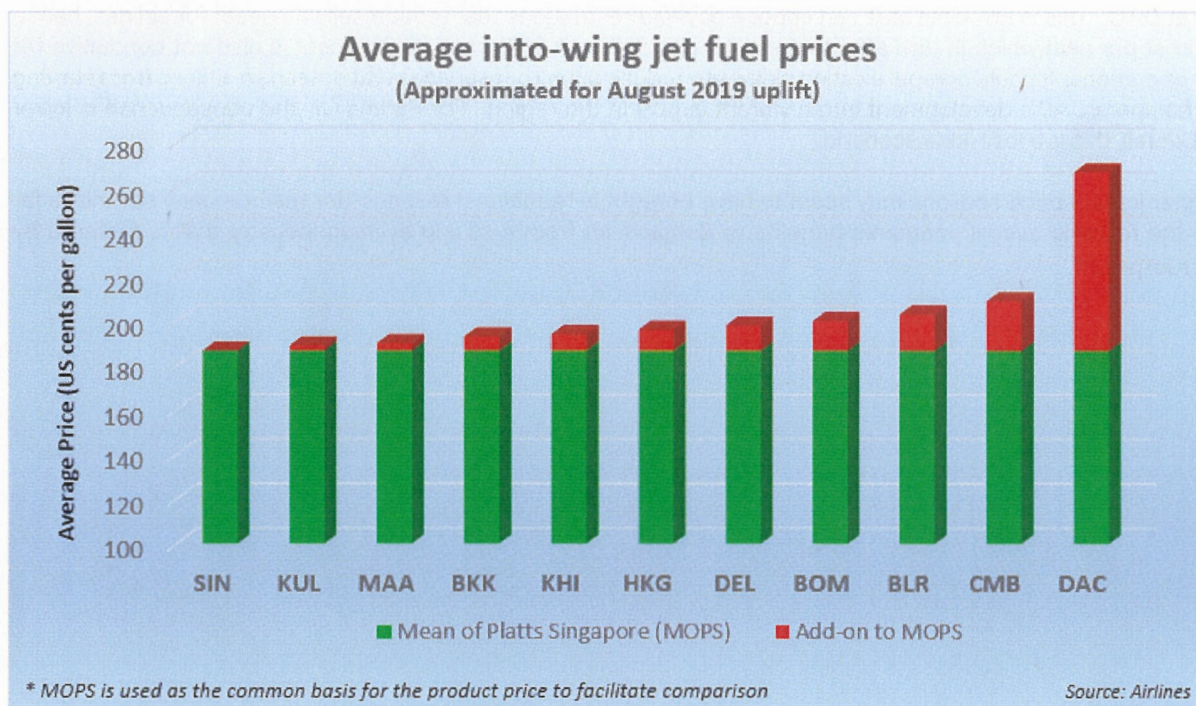
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An IATA commissioned study titled "Value of Aviation" projected that aviation could support 3.7 million jobs for Bangladesh and \$12.2 billion in economic activity in 2036, more than triple the number of today. The number of air passengers in Bangladesh is also expected to reach 32.1 million in the year 2036, also triple that of today. These growth numbers are put at risk by the current high cost of fuel.

The aviation industry generates and facilitates economic growth. A vibrant aviation industry creates employment directly and indirectly, and supports tourism, trade, investments and productivity growth. To reap the benefits, it is important that government policies promote the sustainable growth of the aviation industry. The cost environment for the aviation industry is one critical area that, if not tended properly, can have a stifling effect on aviation growth.

One critical cost component for an airline to operate a flight is fuel cost. The fuel cost at a location is often a key consideration for whether an airline decides to allocate its limited aircraft resource to operate a flight there. In 2018, fuel cost makes up an average of 23.5% of airlines' operating cost globally. Comparatively, for Biman Bangladesh Airlines, fuel cost is 31 % of its operating costs. This is symptomatic of the high jet fuel price environment in Bangladesh where the airline uplifted a major portion of its fuel requirements.

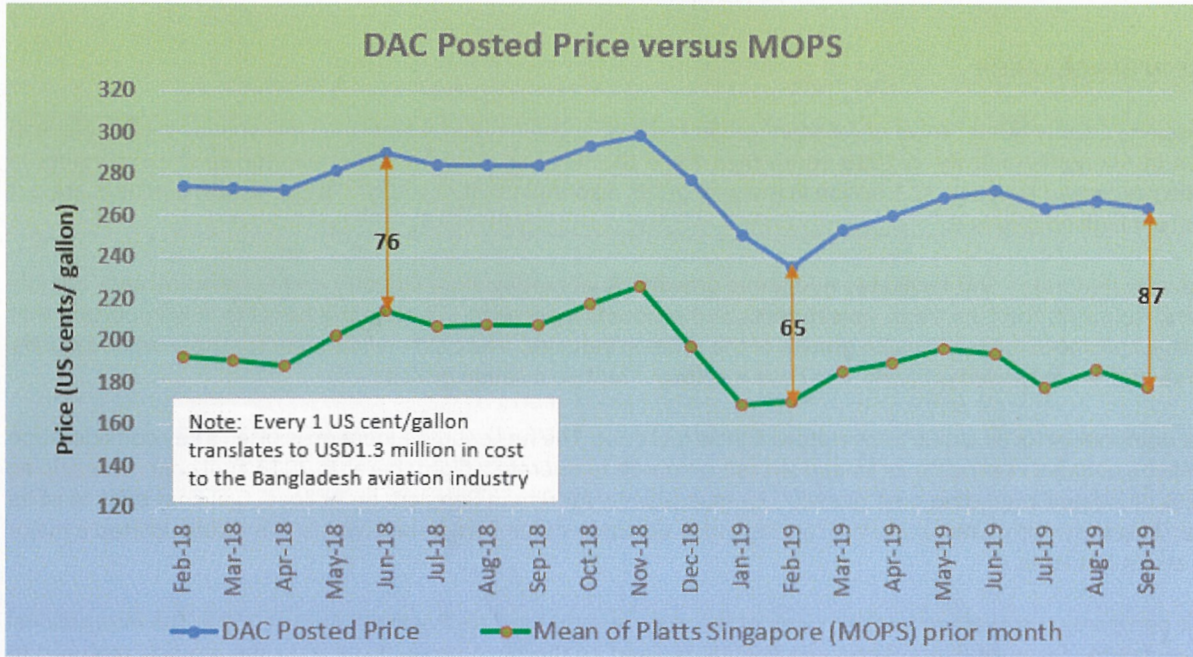
The chart below compares the average jet fuel prices of the major airports in Asia Pacific in August 2019. The international market price benchmark, Mean of Platts Singapore (MOPS) is used as the base product price for the airports featured to facilitate comparison.



Among these airports, DAC has the highest add-on to MOPS. When compared with Singapore (SIN), DAC's price is 80 US cents per gallon higher. Based on reported annual consumption of jet fuel in Bangladesh in 2017-18, this price gap with Singapore translates to additional cost to the industry of over USD 100 million a year.

The reason for the high jet fuel prices in Bangladesh has to do with the absence of jet fuel supply competition whereby Padma Oil Company is allowed to monopolize the market. In the case of CMB, a monopoly supply situation exists as well and although prices are high, they are far lower than at DAC. Other than that, for the remaining airports featured in the chart where prices are significantly lower than at DAC, competition in jet fuel supply exists to varying degrees i.e. these airports are supplied by two or more suppliers.

The next chart shows the add-on imposed by Padma Oil for each month from February 2018 to September 2019. In competitive jet fuel supply markets, the add-on would be a fixed value above the international product price (formula-based pricing). However, in Bangladesh, the add-on fluctuates every month for the period shown in the chart. Within that period, the fluctuations ranged from 65 US cents per gallon in February 2019 to 87 US cents per gallon in September 2019. Besides a high cost burden to airlines, these significant fluctuations make business planning difficult and increase business risk.



High jet fuel prices at DAC and other Bangladesh airports is bad for aviation and impacts the benefits that the country can derive from a strong aviation industry. Where possible, airlines currently tanker fuel from the origin airport overseas to avoid uplifting fuel at at DAC. This is not ideal as it can impose payload restrictions that reduce sellable seats for airlines, hence increasing the cost per seat which in turn affects operational viability. A high cost environment is also not conducive for airlines to grow operations. It could compel existing airlines to reduce or pull out services and deter new airlines from starting services. This hampers DAC’s development into a vibrant airport in the region. For Padma Oil, the consequence is lower sales volume. Overall, this is a lose-lose scenario.

Padma Oil’s higher jet fuel price add-ons may seem to have brought in “additional revenue” for the company but this is far outweighed by the forgone overall economic benefits to Bangladesh from a strong aviation industry that is fostered by competitive jet fuel prices.