

For information
on 28 May 2001

Legislative Council Panel on Economic Services

ULTRA LOW SULPHUR DIESEL (ULSD)

INTRODUCTION

Members have asked to be briefed on the pricing of ULSD, the mechanism to monitor that oil companies pass on the benefit of the concessionary duty on ULSD to consumers and the duty rate for ULSD on or after 1 July 2001. The relevant information is set out below.

PRICING AND CONCESSIONARY DUTY FOR ULSD

2. The current duty concession of \$0.89 per litre for ULSD was formulated in June 2000, at the time when ULSD had yet to be introduced in Hong Kong. It was based on best information available then, which indicated that the incremental cost (i.e. price differential between ULSD and regular motor diesel plus associated costs) would be around \$0.80 per litre. Oil companies have committed to passing on the full benefit of the duty concession to consumers.

3. When ULSD was first launched in Hong Kong in late July 2000, its pump price was \$6.35 (including duty of \$1.11) per litre as against \$6.44 (including duty of \$2.00) per litre for regular motor diesel. At the time, \$0.09 per litre of the duty concession was passed on to consumers.

4. Between July and October 2000, according to data compiled by the Census and Statistics Department (C&SD), the price differential between the weighted average monthly import price of ULSD and regular motor diesel was around \$0.42 per litre. Between July and mid-December, the accumulated retail price reductions by oil companies were around \$0.40 per litre. The Administration considered that together with \$0.09 per litre passed on to the consumers at the outset, oil companies could by then be considered to have passed on all of the duty concession of \$0.89 per litre to consumers.

5. In coming to the above conclusion, the Administration also noted that there had been price changes including some increase in import price during the same period and that oil companies had incurred associated cost in the initial months in bringing ULSD for retail in Hong Kong. The latter had however been amortised.

6. As ULSD has replaced regular motor diesel in the retail market, the Administration decided to move away from tracking the import price differential between ULSD and regular motor diesel but continue to keep track of the import price trend of ULSD. LegCo Members and the public were informed of the above conclusion and decision last December (Annex A).

Annex A

Movement of Pump Price and Import Price of ULSD

7. In the absence of an international pricing benchmark for ULSD, the Administration has been tracking the daily movement of the Singapore FOB diesel price. It has also been watching the monthly weighted average import price of ULSD compiled by C&SD.

8. The movements of pump price and import price of ULSD since December 2000 are set out below :

	<u>Pump Price</u>	<u>Import Price</u> ⁽¹⁾
	\$/litre	\$/litre
December 2000	5.94	1.76
January 2001	5.84 ⁽²⁾	1.72
February 2001	5.84	1.68
March 2001	5.84	1.66
April 2001	5.84	not yet available

Note (1) : This is the monthly weighted average import price of ULSD compiled by Census and Statistics Department (C&SD).

(2) : Oil companies reduced the pump price by \$0.10 per litre in mid-January 2001.

It can be seen that the movement of the pump price of ULSD is broadly in line with the industry's average import price.

DUTY RATE FOR ULSD ON OR AFTER 1 JULY 2001

9. According to the existing Dutiable Commodities Ordinance, the duty rate will automatically be adjusted to \$2.00 per litre on 1 July 2001 and then to \$2.89 per litre on 1 January 2002.

10. The concessionary duty rate of ULSD at \$1.11 per litre was introduced in July 2000 for the purpose of encouraging the use of ULSD on environmental grounds. It was introduced at the time when the duty rate on regular motor diesel was \$2.00 per litre, so as to maintain a duty differential of \$0.89 per litre. The duty rate was originally scheduled to be revised to \$2.00 per litre on 1 January 2001, when the duty rate on regular motor diesel was revised to \$2.89 per litre. We announced in November 2000 our decision to defer the duty adjustment on ULSD by six months till 30 June 2001, as a special economic relief measure to the transport trade.

11. In view of the projected overall budget deficit in 2001-02 and successive operating deficits during the medium range forecast period until 2004-05, we have no plan to further defer the adjustment of the duty rate beyond 30 June 2001. We are nevertheless prepared to consider any concerns expressed by the transport trade on this issue and make a final decision in June 2001.

Economic Services Bureau/Finance Bureau/Environment & Food Bureau
May 2001



Duty concession in respect of ULSD

Government welcome Shell's, ExxonMobil's and Caltex's announcements today (December 14) that they will reduce the pump price for ultra low sulphur diesel (ULSD) by \$0.15 per litre, \$0.14 per litre and \$0.15 per litre respectively, both with effect from 0000 hours of December 15, 2000.

The Secretary for Economic Services, Ms Sandra Lee, stated that, "With these reductions, Shell, ExxonMobil and Caltex can be considered to have accounted for the duty concession of \$0.89 per litre for ULSD."

"We are not in a position to reveal information pertaining to the cost structure of individual oil companies for the retail of ULSD as they are proprietary information. However, using data compiled by the Census and Statistics Department, the price differential between the weighted average monthly import price of ULSD and regular diesel between July and October 2000 is around \$0.42 per litre. This together with an accumulated retail price reductions of around \$0.40 per litre, and the \$0.09 per litre passed on to the consumers at the outset, will account for the duty concession of \$0.89 per litre."

In examining the import and retail prices of ULSD in the months in question, the Economic Services Bureau noted that there had been price changes including an increase in import price of \$0.37 per litre during the same period. The Bureau also noted that oil companies had incurred associated cost in the initial months in bringing ULSD for retail in Hong Kong. But these costs have now been amortised.

"We consider that Shell, ExxonMobil and Caltex have honoured their commitment of passing on the full benefit of the duty concession to consumers", said Ms Lee.

"In explaining whether oil companies have fully accounted for the duty concession, we have used weighted average industry figures compiled by the Census and Statistics Department. However, I would point out that individual oil companies' import price may well be different and could be higher", she added.

In future, the Economic Services Bureau will move away from tracking import price differential between ULSD and regular motor diesel because there is no more retail of the latter.

"We believe that the import cost and other pricing factors of ULSD will continue to affect future pump prices. The Bureau will continue to keep track of import price trend in future."

"We have been discussing with individual companies on enhancing communication and greater transparency of price on ULSD in future."

End/Thursday, December 14, 2000
