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13 July 2001

The Hon. Mrs Miriam LAU, JP
Member
Legislative Council Panel on Economic Services
Legislative Council
3/F Citibank Tower
3 Garden Road
HK

Dear the Hon. Mrs Miriam Lau,

At the meeting of the LegCo Panel on Economic Services on 28 May 2001, you tabled a chart showing, among other things, the retail/import price of regular diesel and ULSD in July 2000 and the retail/import price movement of ULSD from November 2000 to April 2001. You asked whether oil companies have increased their cost or profits and whether associated cost for introduction of ULSD into Hong Kong have been fully amortized.

We have forwarded your chart to the oil companies for comments. They indicated that previously they had already accounted for the duty concession of \$0.89/per litre. Some oil companies observed that given the very unstable import cost of oil products, their profitability changed daily, so to pick any single day or month as a benchmark and then calculate from that point what their prices should be in the future would not be appropriate. They further explained that there were many factors (including competitive discounts) that went into pricing other than the volatile import cost, so any suggestion that they had not passed on the entire benefit of the ULSD duty concession to the consumers based on a snapshot comparison would be misleading. Others feel that any attempt to compare or "influence" prices or

margin against a certain historical benchmark violates the principle of free market.

In our paper for the last Panel Meeting in May, we have explained the basis why in December 2000, the Administration considered that the oil companies had already passed on all of the duty concession of \$0.89 per litre to consumers. We have also provided Members with the movements of pump price and import price of ULSD since December 2000 which show that the former is broadly in line with the industry's average import price.

Yours sincerely,

(James Wong)
for Secretary for Economic Services

c.c. Hon James TIEN Pei-chun, JP
(Chairman, ES Panel)

Mr Andy LAU (Clerk to ES Panel)