

For information
on 24 October 2000

Legislative Council Panel on Economic Services MAJOR FUEL PRICES AND COMPETITION IN THE MARKET

INTRODUCTION

This paper informs Members of the movement of the retail prices of three major fuels, namely, unleaded petrol, automotive diesel and cylinder Liquefied Petroleum Gas (LPG); and the measures taken by the Administration to enhance competition in the local fuel market.

BACKGROUND

2. The Administration conducts regular analysis of the prices of major fuels and we have presented our findings to the Legislative Council Economic Services Panel annually since 1999. In February this year, we set up a Competition Subcommittee under the Energy Advisory Committee (EnAC) to provide a forum to allow a more focused discussion on competition-related issues in the fuel market.

RETAIL PRICES OF MAJOR FUELS

3. Movements of the retail prices of major fuels are as set out below.

Unleaded Petrol

4. The movement of the retail prices together with the duty rates is shown in Annex 1.

Automotive Diesel - Conventional and Ultra Low Sulphur Diesel (ULSD)

5. The movement of the retail prices together with the duty rates is

shown in Annex 2.

6. There are two types of automotive diesel, i.e. conventional diesel and ultra low sulphur diesel (ULSD). The latter has almost replaced conventional diesel entirely since July 2000. The retail price of ULSD inclusive of tax has remained at \$6.35/litre since its introduction in July 2000. The duty rate for ULSD since 7 July 2000 has been \$1.11/litre and it will be reversed to \$2.00/litre on 1 January 2001 under the existing Dutiable Commodities Ordinance.

Domestic Liquefied Petroleum Gas (LPG)

7. The wholesale price movements since January 1996 are shown in Annex 3.

8. In the case of LPG, the oil companies sell cylinder LPG on a wholesale basis to their dealers who then retail to end-users. Each oil company determines its own wholesale prices and their discounts to dealers also vary. Retail prices of cylinder LPG are determined by the 300 or so dealers in the market. The oil companies also sell piped LPG directly to end-users at a list price. The channel of distribution of piped LPG is different from that of cylinder LPG, and there are also different sizes for the latter. The unit cost between piped LPG and cylinder LPG also differs. For consistency in comparison, the movement of the wholesale prices of cylinder LPG is annexed. Since January 1999, one major supplier has adopted a practice to review their wholesale prices once every 6 months.

COMPETITION IN THE FUEL MARKET

9. The EnAC's Competition Subcommittee was set up in February this year with the following terms of reference –

“To consider matters relating to competition in the energy sector in Hong Kong having regard to their cost-effectiveness and economic, social and environmental implications and to report as necessary to the EnAC.”

The Subcommittee has met with representatives from relevant Government bureaux/departments and oil companies. In response to the Subcommittee's recommendations, the Administration has facilitated

competition in the fuel market by –

- (a) removing competition barriers;
- (b) facilitating new entrants to the market; and
- (c) enhancing market transparency.

Details are set out below.

(a) Removing Competition Barriers

10. Previously, bidders for petrol filling station (PFS) were required to possess an import licence or be able to adduce evidence of a guaranteed supply from a licensed oil supplier. These restrictions have been removed with effect from July this year.

(b) Facilitating new entrants to the market

11. To facilitate new entry, all existing PFS sites would be put up for tender upon expiry of their current leases, instead of renewing the tenancies to the existing tenants. We have also enhanced our efforts in the search for suitable sites for PFS. To date, the Planning Department has identified 21 sites with the potential for setting up PFSs, and is liaising with the Fire Services Department and Environmental Protection Department on further feasibility study. The Administration will also adopt a more flexible approach in handling applications for the change of landuse to set up PFSs, subject to compliance with relevant public safety and planning standards.

(c) Enhancing market transparency

12. We will continue to monitor movements of major fuel prices. The EnAC and the Competition Subcommittee also examine the movement of the prices of major fuels. Both Committees comprise members with expertise in the energy sector, and the Consumer Council is represented on the latter. We have also been urging oil companies to increase their transparency and let the public know the rationale and basis for price adjustment.

WAY FORWARD

13. The Administration would continue to monitor major fuel prices closely and work together with the Consumer Council, the EnAC, its Competition Subcommittee, and all relevant parties to enhance competition in the local fuel market.

Economic Services Bureau
18 October 2000

**Movement of the retail prices of regular unleaded petrol (Note 1)
together with the duty rates
(January 1996 - September 2000)**

<u>Date</u>	<u>Retail Price before Duty</u>			<u>Duty</u> (Note 2)	<u>Retail Price</u> <u>with Duty</u>
	<u>Pre-adjustment</u> \$/litre	<u>Adjustment</u> \$/litre	<u>Post-adjustment</u> \$/litre		
Jan 96	3.75	-	3.75	5.25	9.00
Mar 96	3.75	-	3.75	5.72	9.47
May 96	3.75	+0.20	3.95	5.72	9.67
Jul 96	3.95	-0.15	3.80	5.72	9.52
Oct 96	3.80	+0.25	4.05	5.72	9.77
Jan 97	4.05	+0.13	4.18	5.72	9.90
Mar 97	4.18	-	4.18	6.06	10.24
Jan 98	4.18	-0.10	4.08	6.06	10.14
Feb 98	4.08	-	4.08	6.42	10.50
Mar 98	4.08	-0.10	3.98	6.42	10.40
Apr 98	3.98	-	3.98	6.06	10.04
Dec 98	3.98	-0.20	3.78	6.06	9.84
Sep 99	3.78	+0.50	4.28	6.06	10.34
Jan 00	4.28	+0.16	4.44	6.06	10.50
Jul 00	4.44	+0.30	4.74	6.06	10.80

Note 1 : At present, there is a grade of premium unleaded petrol in Hong Kong the retail price of which is around \$0.70 higher than that of regular unleaded petrol.

Note 2 : Duty rate was \$5.25/litre in January 1996. It was increased to \$5.72/litre in March 1996 and then to \$6.06/litre in March 1997. The rate was further increased to \$6.42/litre in February 1998 and then reversed to \$6.06/litre in April 1998 which remains until now.

**Movements of the retail prices of automotive diesel
(Conventional & ULSD) together with the duty rates
(January 1996 - September 2000)**

<u>Date</u>	<u>Retail Price before Duty</u>			<u>Duty (Note 1)</u> \$/litre	<u>Retail Price with Duty</u> \$/litre
	<u>Pre-adjustment</u> \$/litre	<u>Adjustment</u> \$/litre	<u>Post-adjustment</u> \$/litre		
Jan 96	3.47	-	3.47	2.65	6.12
Feb 96	3.47	+0.20	3.67	2.65	6.32
Mar 96	3.67	-0.40	3.27	2.89	6.16
Jul 96	3.27	+0.30	3.57	2.89	6.46
Sep 96	3.57	+0.15	3.72	2.89	6.61
Oct 96	3.72	+0.15	3.87	2.89	6.76
Jan 97	3.87	+0.15	4.02	2.89	6.91
Mar 97	4.02	-	4.02	3.06	7.08
Apr 97	4.02	+0.15	4.17	3.06	7.23
Jun 97	4.17	-	4.17	2.89	7.06
Jul 97	4.17	-0.15	4.02	2.89	6.91
Jan 98	4.02	-0.20	3.82	2.89	6.71
Feb 98	3.82	-	3.82	3.06	6.88
Mar 98	3.82	-0.13	3.69	3.06	6.75
Apr 98	3.69	-	3.69	2.89	6.58
Jun 98	3.69	-	3.69	2.00	5.69
Dec 98	3.69	-0.10	3.59	2.00	5.59
Sep 99	3.59	+0.40	3.99	2.00	5.99
Jan 00	3.99	+0.30	4.29	2.00	6.29
Jul 00	4.29	+0.15	4.44	2.00	6.44
Jul 00 (w.e.f. 28.7.2000)	5.24	-	5.24	1.11	6.35

N.B. Data inside box denotes position of ULSD. Data outside box denotes position of conventional diesel.

Note 1 : Duty rate was \$2.65/litre in January 1996. It was revised upward to \$2.89/litre in March 1996 and \$3.06/litre in March 1997, downward to \$2.89/litre in June 1997, upward to \$3.06/litre in February 1998, and then downward to \$2.89/litre in April 1998. In June 1998, the duty rate was further reduced to \$2/litre as an economic relief measure, recently extended to 31 December 2000.

**Movements of the wholesale price of LPG
(January 1996 – September 2000)**

<u>Date</u>	<u>Wholesale Price Adjustment (\$/kg)</u>
January 1996	+0.40
November 1996	+0.60
January 1999	-0.40
January 2000	+ 0.65
September 2000	+ 0.98

Note : The average retail price of cylinder LPG was increased from around \$11.0/kg to \$12.0/kg after the price adjustment in September 2000. As a result, for a typical cylinder of 13.5 kg, the average retail price was increased from \$148.5 to \$162.0 by \$13.5.

The average list price of piped LPG was increased from around \$9.0/kg to \$10.0/kg after the price adjustment in September 2000.