

立法會
Legislative Council

LC Paper No. CB(1)326/02-03
(These minutes have been seen
by the Administration)

Ref: CB1/PL/ES/1

Panel on Economic Services

**Minutes of meeting held on
Monday, 28 October 2002, at 10:45 am
in the Chamber of the Legislative Council Building**

Members present : Hon James TIEN Pei-chun, GBS, JP (Chairman)
Dr Hon LUI Ming-wah, JP (Deputy Chairman)
Hon Kenneth TING Woo-shou, JP
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, GBS, JP
Hon Fred LI Wah-ming, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon CHEUNG Man-kwong
Hon HUI Cheung-ching, JP
Hon CHAN Kam-lam, JP
Hon SIN Chung-kai
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Howard YOUNG, JP
Hon LAU Chin-shek, JP
Hon Miriam LAU Kin-ye, JP
Hon CHOY So-yuk
Hon Abraham SHEK Lai-him, JP
Hon Henry WU King-cheong, BBS, JP
Hon LEUNG Fu-wah, MH, JP

Member absent : Dr Hon Philip WONG Yu-hong

**Public officers
attending** : **Agenda item IV**

Economic Development and Labour Bureau

Mr Stephen IP
Secretary for Economic Development and Labour

Ms Miranda CHIU
Acting Permanent Secretary for Economic Development
and Labour (Economic Development)

Mrs Rebecca LAI
Commissioner for Tourism

Miss Mary CHOW
Deputy Secretary for Economic Development
and Labour (Economic Development)

Ms Alice LAU
Acting Deputy Secretary for Economic Development
and Labour (Economic Development)

Miss Irene YOUNG
Administrative Assistant to
Secretary for Economic Development and Labour

Agenda item V

Economic Development and Labour Bureau

Mr Stephen IP
Secretary for Economic Development and Labour

Ms Miranda CHIU
Acting Permanent Secretary for Economic Development
and Labour (Economic Development)

Mr James WONG
Principal Assistant Secretary (Economic Development)
Financial Monitoring

Attendance by Invitation : Shell Hong Kong Limited

Mr Daniel LAU W S
General Manager - Shell Gas (LPG)

Mr Daniel NG N H
General Manager - Retail

Caltex Oil Hong Kong Limited

Mr Christopher HEFFNER
General Manager - Retail Hong Kong

Ms Eunice CHENG
Corporate Communications Manager

China Resources Petrochems (Group) Co., Ltd.

Mr ZHU Dan
President / Director

Clerk in attendance : Mr Andy LAU
Chief Assistant Secretary (1)2

Staff in attendance : Ms Pauline NG
Assistant Secretary General1

Ms Debbie YAU
Senior Assistant Secretary (1)1

Miss Winnie CHENG
Legislative Assistant 5

Action

I Confirmation of minutes and matters arising
(LC Paper No. CB(1)103/02-03- Minutes of meeting held on 10 October 2002)

The minutes of the meeting on 10 October 2002 were confirmed.

II Information papers issued since the meeting held on 29 July 2002

(LC Paper No. CB(1)2392/01-02(01) - Tables and graphs showing the import and retail prices of major oil products from July 2000 to June 2002 furnished by the Census and Statistics Department;

LC Paper No. CB(1)2505/01-02(01) - Tables and graphs showing the import and retail prices of major oil products from August 2000 to July 2002 furnished by the Census and Statistics Department;

LC Paper No. CB(1)2634/01-02(01) - Tables and graphs showing the import and retail prices of major oil products from September 2000 to August 2002 furnished by the Census and Statistics Department; and

LC Paper Nos. CB(1)2605/01-02(01) Referral from Eastern District Council

and CB(1)102/02-03(01) regarding development of logistics facilities and services and the Administration's reply)

2. Members noted the above information papers issued since the last meeting.

III Items for discussion at the next meeting scheduled for 25 November 2002

(LC Paper No. CB(1)104/02-03(01) - List of outstanding items for discussion; and

LC Paper No. CB(1)104/02-03(02) - List of follow-up actions)

3. Members agreed to discuss the following two items proposed by the Administration at the next regular meeting scheduled for 25 November 2002:

- (a) Tung Chung Cable Car Bill; and
- (b) Orders to be made by the Director-General of Civil Aviation to amend the maps for the "Airport Area" and "Restricted Area" of the Hong Kong International Airport.

4. Members agreed to discuss the following issues relating to electricity supply at the meeting to be held on 16 December 2002:

- (a) technical study on increasing interconnection between the two power companies;
- (b) interim review of the Scheme of Control Agreements in 2003; and
- (c) post 2008 regulatory regime for the electricity supply sector.

Members also agreed that the Electricity Advisor should be invited to brief members on his work plan.

IV Briefing by the Secretary for Economic Development and Labour on issues relating to economic infrastructure

(LC Paper No. CB(1)104/02-03(03) - Information paper provided by the Administration; and

LC Paper No. CB(1)129/02-03(01) - Information paper on "Air Services Arrangements between Hong Kong and the United States ")

5. At the invitation of the Chairman, the Secretary for Economic Development and Labour (SEDL) briefed members on the progress of the work initiatives in economic infrastructure. He remarked that the Administration would continue to build on Hong Kong's strengths in relation to aviation, logistics and tourism infrastructures as well as port and maritime development. He highlighted that the total number of visitors to Hong Kong was expected to reach 15 million in 2002 while some 20 new hotels would be opened in the next three years to cater for the growing demand. The volume of international air cargo handled by the Hong Kong International Airport

(HKIA) had increased by 20% in September 2002 as compared with the figure of the preceding year. The total volumes of cargo handled by the aviation and logistic sectors also hit a new record in September 2002.

Air Transport Infrastructure

Air Services Arrangements between Hong Kong and the United States

6. SEDL said that on the basis of the Air Services Arrangements (ASAs) signed between Hong Kong and the United States (US), the two sides had conducted many rounds of negotiations during the past three years, and reached consensus on 19 October 2002 to further liberalize air services between Hong Kong and US. The new Memorandum of Understanding between the Hong Kong Special Administrative Region (HKSAR) Government and the US Government allowed for expansion of both all-cargo and passenger services and the introduction of code share services for both Hong Kong and US airlines. It would further expand Hong Kong's air services network, which was particularly important for the enhancement of Hong Kong's status as an aviation and logistics hub. The HKIA had ample capacity to handle growth in both passenger and cargo traffic as its ultimate annual capacity was 87 million passengers and 9 million tonnes of cargo. The Administration must create the opportunity for more cargo and passenger traffic to go through the HKIA and the new arrangements served this purpose. In response to the Chairman's enquiry about the potential benefit brought to consumers, SEDL pointed out that with the increases in frequency, capacity and points for both passenger services and all-cargo services, it would make air services more competitive which, in turn, would bring benefits to consumers.

7. Mr Fred LI expressed concern that the Administration had failed to brief Members on the new arrangements between the HKSAR Government and the US Government prior to announcement to the media. SEDL took note of Mr LI's view and pointed out that Hong Kong and the US reached agreement early in the morning on Saturday 19 October 2002 following four days of talks. An information paper was already issued to members on 22 October 2002.

8. Mr Henry WU enquired about the impacts of the new arrangements on local airlines. SEDL said that the new arrangements served the overall interest of Hong Kong and it was against this objective that agreement was reached. Whilst the overall interest of Hong Kong might not be identical to that of a particular company, the Administration had taken into account the interests of local airlines when concluding the agreement with the US Government.

9. In response to Mr Henry WU's question on new air services agreements between Hong Kong and Europe, SEDL explained that Hong Kong had bilateral air services agreements with some 50 aviation partners, including countries in Europe. The Administration reviewed the arrangements made under these ASAs as and when opportunities for expanding traffic rights to enable more airlines to introduce and expand services to Hong Kong arose. The Administration's target was to negotiate or review in 2002 new or existing arrangements with 15 aviation partners.

10. As the "one route, one airline" policy involved the question of competition between airlines in Hong Kong, as well as competition between Hong Kong's airlines and other national or regional airlines, Mr Fred LI asked if the "one route, one airline" policy still existed after the conclusion of the new air services arrangements between Hong Kong and the US.

11. SEDL said that the existing policy provided for flexibility to designate more than one Hong Kong airline on any route in circumstances such as where it was judged that more competition was needed in the public interest and the traffic was sufficient to sustain substantial operations by more than one Hong Kong airline in addition to the operations of foreign airlines. For instance, both Dragonair and Cathay Pacific were providing services between Hong Kong and Taipei. Dragonair had also applied to operate services to five other regional cities, including Sydney and Tokyo.

Development of HKIA

12. In response to Mr Howard YOUNG, the Deputy Secretary for Economic Development and Labour (Economic Development) pointed out that to extend the HKIA's passenger and cargo catchment area and to strengthen its competitiveness, the Airport Authority had formulated measures to increase the HKIA's connectivity by developing multi-modal transportation links and cooperating with other airports in the Pearl River Delta (PRD). In addition to the marine cargo terminal, ferry services were also being planned for transit passengers between the airport and river ports in the PRD.

Logistics

13. Noting that Shenzhen planned to invest about \$65 billion to develop a logistic park which claimed to be the biggest in Southern China, Mr HUI Cheung-ching was concerned that Hong Kong might lag behind in developing logistics infrastructure. As such, he enquired about the progress of the joint study with the State Development and Planning Commission in the development of "logistics pipelines" and "inland freight villages", and the level of investment to be made by the Government in logistics development.

14. SEDL acknowledged that major cities in the Mainland such as Beijing, Shanghai and Shenzhen had identified logistics as a key sector for development. He pointed out that the HKSAR Government would also accord priority to promoting logistics development. He went on to point out that there would be a huge surge in cargo volume following China's accession to the World Trade Organization, and Hong Kong could achieve synergistic benefits by maximizing the scope for coordination with other parts of the PRD in developing inter-modal transportation links. On logistics infrastructure, SEDL said that the Government would focus on the development of a value added logistics park (VALP) and a Digital Trade and Transportation Network System. Ms Miriam LAU also opined that logistics development in the Mainland would bring about both competition and cooperation.

15. The Acting Deputy Secretary for Economic Development and Labour (Economic Development) (Atg DSEDL(ED)) supplemented that following the meeting of the Mainland/HKSAR Conference on Coordination of Major Infrastructure Projects in Shanghai on 20 September 2002, the Administration would work out with the State Development and Planning Commission the overall framework and scope of the study as well as the working details in taking forward the projects. For this purpose, a study group meeting would be arranged early next month.

16. Apart from the development of a VALP to provide a designated facility for handling high value, time critical air cargoes, Ms Miriam LAU enquired whether similar facilities would be put in place to enhance the value of merchandises shipped by sea.

17. SEDL stressed that the Administration would build on Hong Kong's existing strengths in developing multi-modal transportation links, including links by sea. Given the facilities in Hong Kong, it had attracted some international corporations to set up their regional centres in Hong Kong. He was confident that the development of value added services would strengthen Hong Kong's position as the preferred international transportation and logistics hub in Asia.

18. Atg DSEDL(ED) pointed out that developing multi-modal transportation links was an international trend. Whilst the VALP envisaged in the paper was expected to handle high value, time-critical merchandizes, sea cargo would also benefit, because with value adding services they could be turned into high value goods for re-export by air. As such, the development of the VALP would also help promote sea-air inter-modal transportation services.

19. Referring to the motion passed by the Legislative Council on 16 October 2002 urging the Government to expeditiously study the specific impact of the persistently high terminal handling charges (THC) on the local economy, and to strive to have those charges reduced to a reasonable level, Mr Kenneth TING clarified that such reductions should not be achieved through legislation or Government's directives. Rather, the Administration should mediate with the parties concerned with a view to achieving a charge reduction.

20. SEDL replied that the Economic Development and Labour Bureau would continue to liaise with the parties concerned to facilitate resolution of disagreements on THC and improve on the consultation process.

Tourism infrastructure

21. Mr Howard YOUNG enquired whether the implementation of MTR's Penny Bay Rail Link and other essential public infrastructure works for Hong Kong Disneyland (HKD) would be unduly affected as a result of the Administration's plan to review the priority of public works projects as announced by the Financial Secretary.

22. SEDL said that HKD project would contribute to Hong Kong's economy and provide some 18,000 jobs plus additional employment opportunities in related sectors.

The Administration was closely monitoring the progress of the project. All essential infrastructure including the Penny Bay Rail Link were progressing smoothly.

23. Mr Henry WU declared his interest as a Board member of Ocean Park. He sought information on the implementation programme of the tourism projects depicted in the Administration's paper and enquired whether there would be sufficient tourist attractions to tie in with the opening of HKD in 2005.

24. The Commissioner for Tourism (C for Tourism) said that by year 2005, the HKD, Hong Kong Wetland Park, as well as the Tung Chung Cable Car and development of complementary tourist facilities at Ngong Ping would be opened. The Administration would also invite private sector proposals for preserving and developing the former Marine Police Headquarters at Tsim Sha Tsui into a tourism-themed commercial development. The target completion date was 2007. A new tourism node with a new modern cruise terminal would be built at the tip of the former Kai Tak runway. The target completion date was 2008. Apart from the development of new attractions, there had been an on-going plan since 2000 to enhance and repackage existing attractions in various districts. The enhancement projects in the Central and Western District, Lei Yue Mun waterfront and Sai Kung waterfront were in progress. These enhancement projects would gradually be completed within the next 6 to 18 months. Plans for enhancement programmes at Tsim Sha Tsui Promenade, Stanley waterfront and the Peak were now underway. Ocean Park was currently working out its long term strategic plan. The Administration would work closely with the Park as it mapped out its strategy.

25. Referring to the development of a modern cruise terminal at Southeast Kowloon, Mr CHEUNG Man-kwong sought clarification on whether the choice of site was already final. C for Tourism advised that various studies had been commissioned in relation to the development of a new cruise terminal in Hong Kong. The choice of Kai Tak as the preferred location was the outcome of one of the earlier studies. In the context of the Comprehensive Feasibility Study for the Revised Scheme of South East Kowloon Development, a site of around 20 hectares at the tip of the former Kai Tak runway had been earmarked for the development of a new tourism node. The developments at the node included a new cruise terminal designed to meet the needs of the new generation of mega cruise ships. She said that the Administration was drawing up the development framework and implementation programme before seeking funding support from the Legislative Council.

26. Noting that a refuse transfer station and landfills transfer station were proposed in the vicinity of the new tourism node in Southeast Kowloon, Mr CHAN Kam-lam expressed concern about the incompatibility of land use in the area. He called on the Administration to address the matter promptly. C for Tourism advised that an interdepartmental working group was set up to coordinate the development works of the Southeast Kowloon Tourism node. She would relay the member's concern to the working group for follow-up.

27. Mr CHAN Kam-lam urged the Administration to strengthen cooperation with the Mainland tourism authorities with a view to promoting Hong Kong-Shenzhen tourism packages. He also said that measures should be taken to facilitate overseas visitors entering the Mainland from HKSAR or visiting places such as Sha Tau Kok.

28. SEDL fully supported the idea and believed that multi-destination itineraries, packaging Hong Kong with Shenzhen or PRD would be appealing to both overseas visitors and Mainland tourists outside PRD. He also appreciated the need in shortening clearance times for tourists during boundary crossings particularly in anticipation of the expected increases of passenger flow in boundary points upon the opening of HKD in 2005. He said that this was being looked at by the Hong Kong-Guangdong Co-operation Co-ordination Unit and the relevant working groups. C for Tourism supplemented that the Administration had been working with the Guangdong Provincial Tourism Administration in promoting multi-destination itineraries in Hong Kong PRD. She expected that the industry would launch more of these in the market.

29. Mr LEUNG Fu-wah said that he was preparing a proposal on how to promote cycling tourism/industry in Hong Kong and asked which Government bureaux was responsible for the initiative. SEDL pointed out that the Administration would coordinate among themselves to follow up proposals forwarded to any bureau. Given that cycling industry was related to tourism, SEDL was pleased to review the proposal and to forward it to relevant bureaux for consideration, if necessary.

30. Members noted that the Secretary for Housing, Planning and Lands (SHPL) had entered into negotiation with Po Lin Monastery on the development plan of the Tung Chung Cable Car Project. In case an agreement was reached to revise the use of land in Po Lin Monastery, Mr CHEUNG Man-kwong was concerned whether it would affect the design and implementation of the Project. He also sought clarification on the line of responsibilities between SHPL and SEDL in relation to the Project. The Chairman also said that the Administration should regularly update members on the latest development of projects followed up by the Panel.

31. As the main points of the month-long dispute were related to micro issues such as the management rights over open space outside the monastery and the relocation of the bus terminus at Ngong Ping, C for Tourism believed that any changes to be made after negotiation would unlikely affect the overall design and implementation of the Tung Chung Cable Car Project. SEDL assured members that the Administration would update the Panel should there be a change to the design or implementation of the Project. He further said that as was the common practice for the Administration to set up an interdepartmental group involving different bureau directors to oversee large-scale development projects, the Tung Chung Cable Car and Ngong Ping Development projects were also overseen by an inter-departmental group. As such, there was no question of poor co-ordination.

32. Apart from tourism hardware, Mr SIN Chung-kai considered it necessary to introduce measures to increase visitors' confidence in spending in Hong Kong. Given the existence of "black shops" which had seriously damaged Hong Kong's reputation as a "Shoppers' Paradise", he asked whether the Administration had reviewed the

effectiveness of current measures to counteract such black shops and to safeguard tourists' interest.

33. SEDL pointed out that various measures had been put in place to safeguard tourists' interest. Under a "100 per cent refund policy" introduced by the Travel Industry Council of Hong Kong since February 2002, travellers whose shopping activities were arranged by their travel agent were entitled to a full refund within 14 days if they were not satisfied with their purchases. In addition, the Quality Tourism Services scheme under Hong Kong Tourism Board was an assurance scheme aiming to provide high standards of service to tourists. He highlighted that only 11 complaints were received during the holiday week of National Day when more than 200 000 Mainland tourists had visited Hong Kong. He was also pleased to note about an impressive report published in the Asia Magazine on the positive feedbacks made by tourists to Hong Kong.

34. To enhance Hong Kong's role as a "Shoppers' Paradise", Mr SIN Chung-kai proposed the development of factory outlets as was the case in the US. SEDL said that in addition to existing small-scale factory outlets, the Administration was exploring for suitable sites to build a cluster of factory outlets to attract tourists. Mrs Selina CHOW supplemented that booklets on the location of factory outlets were available in the market.

35. Referring to the plan to demolish Kom Tong Hall by private sector, Mrs Selina CHOW urged the Administration to expedite the process in setting out land exchanges policy for property owners in preserving private historic buildings which could be turned into major attractions to tourists. SEDL undertook to refer the matter to Secretary for Home Affairs.

Electricity supply

36. Mr Fred LI enquired about the progress of work relating to the post 2008 regulatory regime for the electricity supply sector. The Acting Permanent Secretary for Economic Development and Labour (Economic Development) (Atg PSED) said it was an important exercise involving highly complex issues. The Administration aimed to draw up in good time the broad framework for the development of the sector, covering inter alia, technical, economic and legal issues. The Administration would consult the Panel in due course.

37. Recalling that the Chief Secretary for Administration had responded positively to her motion on "Local Agenda 21" and Sustainable Development at the Council meeting on 23 October 2002, Ms CHOY So-yuk urged the Administration to include new initiatives such as renewable energy in the review of the post 2008 electricity market and to set out a policy on renewable energy.

38. Atg PSED confirmed that environmental issues, such as the application of renewable energy, could be considered in the post 2008 electricity market review, but supply reliability, cost effectiveness and cost implications for consumers would remain

the overriding considerations.

V Retail prices of major fuels

(LC Paper No. CB(1)104/02-03(04) - Information paper provided by the Administration)

39. The Chairman informed members that ExxonMobil Hong Kong Limited had indicated that they were unable to attend the Panel meeting as it was the company's policy not to discuss pricing issues in a public forum or in the presence of its competitors.

40. Atg PSED(ED) outlined the retail price movements of major fuels, including unleaded petrol, ultra low sulphur diesel (ULSD), domestic Liquefied Petroleum Gas (LPG) and auto LPG. She also outlined the actions taken by the Administration in encouraging competition in the fuel market and the achievements so far. She said that promotion of competition was a continuous process and the Administration would continue to work on the initiative.

41. SEDL added that the Administration had conducted studies on the feasibility of setting up petrol filling stations (PFS) in Government car parks and initiated positive actions to encourage competition in the fuel market, which included, inter alia, (a) waiving the requirement that a tenderer bidding for PFS sites must hold a Special Import Licence or a fuel supply contract, and (b) putting up for open tender existing PFS upon expiry of their leases.

42. While appreciating that local pump prices were mostly affected by external factors beyond the control of the local market and the government, SEDL stressed that the Administration had been monitoring pump prices closely to ensure that oil companies would not increase promptly but decrease slowly the pump prices following the respective increase or decrease in international benchmark prices. As import prices and operating costs of individual companies varied and were the proprietary information of the oil companies, the Administration would monitor fuel prices on the basis of trend movements of local pump prices and international benchmark prices. Data on monthly weighted average local import prices compiled by the Census and Statistics Department (C&SD) were also used as a reference when they were available after a time lag of 4 weeks.

43. The Chairman invited the deputations to give their views.

Deputations' views

44. Mr Daniel LAU, General Manager - Shell Gas (LPG) of the Shell Hong Kong Limited (Shell) said that cost structures and pricing practices were proprietary and commercially sensitive information and could not be disclosed in public. Shell would continue to uphold the principle of free market competition and conduct business in an ethical manner. To ensure transparency in the pricing of domestic cylinder LPG,

Shell had established a formula in January 1999, on which basis cylinder LPG wholesale prices were reviewed every six months. In consideration of the prevailing volatility of LPG prices, Shell had adjusted the review period to every four months since January 2002, so that the wholesale price could reflect more closely price movements in the international market. The formula took into account the actual import prices of LPG in the preceding four months and the forecast prices in the coming four months. Since the adoption of the said mechanism for adjusting LPG prices, there were three downward adjustments, three upward adjustments and no adjustment after three reviews in local wholesale price of cylinder LPG. Despite the higher import prices of cylinder LPG than forecast on two occasions, Shell had striven to absorb part of the increase in import prices and deferred the adjustments to minimize the impact to the public. As such, there was no question of increasing promptly but decreasing slowly the local prices following a respective increase or decrease in international fuel prices. He added that as there were 300 or so dealers of domestic cylinder LPG in the market, the pricing of cylinder LPG was already determined by market force.

45. Mr Daniel NG, General Manager - Retail of Shell pointed out that with no indigenous supply, Hong Kong had to rely on import for fuel products. As individual companies might usually keep stock that could last for 3 – 4 weeks, changes in local pump prices to reflect the trend movements of import prices would take time to occur. In determining the retail prices of fuels, there was a need to consider the import prices, discounts, market condition etc. As such, it was inappropriate to analyze the trend movements of fuel prices purely based on import prices at a particular point of time. Further, the magnitude of increase of unleaded petrol and ULSD since January 2002 were only \$0.43 and \$0.45 per litre respectively, which were lower than the corresponding increase in Singapore FOB prices of \$0.5 and \$0.59 per litre. In addition, 90% of Shell's customers had been enjoying further discounts through the use of oil cards.

46. Mr ZHU Dan, President/Director of China Resources Petrochemicals (Group) Co Ltd (CRC) remarked that CRC had fully supported the Government's introduction of the LPG taxi and light bus schemes for the purpose of improving air quality. CRC had successfully bid for 7 out of the total 12 dedicated LPG filling stations.

47. Referring to his written submission, Mr Christopher HEFFNER, General Manager - Retail Hong Kong of Caltex Oil Hong Kong Limited (Caltex) highlighted that Caltex fully supported the principle of free market economy. It was also necessary to maintain a level playing field for players in the market. He further said that the oil industry was facing a difficult environment in 2002 with shrinking demand and growing competition in the market.

Members' deliberation

Data available to the public

48. Mr Fred LI said that there was a cumulative 52% increase in pump prices of unleaded petrol since August 2000. He queried whether the Administration had

obtained the necessary data from the oil companies for analysis before arriving at the conclusion that changes in local pump prices were broadly in line with those in the Singapore FOB prices, and the increase and decrease in pump prices tailed behind the respective increase or decrease in Singapore FOB prices. He also urged the oil companies to enhance transparency in its pricing policy by releasing more information on import prices and inventory levels to the public.

49. In response, Atg PSEDL(ED) stressed that the observation, in terms of trend movements and magnitude, about changes in local pump prices of unleaded petrol and ULSD being broadly in line with those in the Singapore FOB prices was still valid even if the period were pushed back to 1998. Whilst the oil companies had not been requested to provide specific information to the Bureau on import costs and inventory levels which were proprietary and commercially sensitive, the Administration had been monitoring local pump prices of unleaded petrol and ULSD against monthly average Singapore FOB prices.

50. On enhancing transparency of oil pricing, Mr NG of Shell said that in determining the pump prices of fuels, the company would take into account a number of factors including the import prices, operating costs, discounts and market condition. Shell had been actively seeking to lower the operating costs in order to minimize the impact caused by the upsurge in import prices to consumers. This explained why Shell could maintain a lower magnitude in the rise of pump prices of unleaded petrol and ULSD following adjustment of the Singapore FOB prices in 2002. Given the volatility of oil prices in the international market, it was natural for pump prices to follow the trend movements in the changes of import prices.

51. Regarding pump prices over time, Mr HEFFNER of Caltex pointed out that many factors such as import prices, inventory levels, land premium and rent for the filling stations, etc. could trigger off an adjustment. In addition, market competition made it impossible to follow a simple formula in determining pump prices. He said that the local oil industry was in the middle of a serious price war in August 2000, it might be inappropriate to use August 2000 as a benchmark. He added that Caltex had reported the import prices to Customs and Excise Department (C&ED) for import declaration purpose and the monthly average data were made available to the public through the C&SD.

52. Mr ZHU of CRC pointed out that CRC had already offered discounts to retain customers who tended to use the cheaper petrol filling service in the Mainland.

53. Mr Fred LI remarked that in order to conduct a detailed analysis, the Administration could obtain and analyze the data on import costs provided by individual oil companies to the C&ED. Atg PSEDL(ED) pointed out that Department of Justice's advice was that data supplied by oil companies to C&ED pursuant to the Import and Export (Registration) Regulations could not be made available to other government agencies for purposes other than import declaration.

Enhancing competition

54. Referring to the claims of Shell and Caltex in absorbing part of the rising costs for Auto-LPG, Ms Miriam LAU pointed out that the operators were actually bounded by the respective contracts to cap their LPG pump prices when they had successfully bided the dedicated LPG filling stations at government sites at nil premium. In view of the success in maintaining a competitive pump prices of auto-LPG among dedicated and retrofitted LPG filling stations, she urged the Government to consider implementing similar measures, such as lowering the land premium, for the 36 existing PFS sites with expiring leases in the next ten years. The Administration could also request the bidders to specify pump price adjustment formulae during bidding.

55. In this regard, Atg PSEDL(ED) explained that the said measures were adopted for the specific policy objective of improving air quality. Unlike auto-LPG, the market for unleaded petrol and ULSD was developed and mature. She opined that these and other factors would have to be taken into account in the disposal of PFS sites. Nevertheless, she reassured members that the Administration would continue to explore measures to further enhance competition in the fuel supply market.

56. On the combined development of PFS with other retail uses and on modifying land use for the development of PFS, Mr CHAN Kam-lam was concerned about the level of premium charged, if any. He also sought the deputations' views on the measures.

57. Atg PSEDL(ED) pointed out that premium would vary from site to site depending on the actual situation.

58. Given the small sizes of PFS sites, Mr NG of Shell opined that combined development of PFS with other retail uses was not appealing. Whilst accepting that Government should put in place measures to enhance competition, it was not appropriate for them to alter the existing rule of the game as to do so would affect existing operators and bring about long-term impact to Hong Kong.

59. In view of shrinking demand, Mr HEFFNER of Caltex agreed that provision of retail services in PFS sites could generate extra revenue. He however remarked that the use of PFS sites was subject to very stringent conditions despite the payment of high land premiums.

60. Mr ZHU of CRC highlighted that any action initiated by the Administration to encourage competition must be fair to existing operators.

61. Mr Howard YOUNG noted that in Barcelona, oil pump heads, instead of PFS, were made available in delivering oil services. He sought information on the possibility of such development in Hong Kong. The Chairman commented that this would help lower the operating costs arising from land premiums and manpower. Atg PSEDL(ED) pointed out that public safety was of utmost importance and underground oil tanks would still be needed for supplying oil to these pump heads.

Pricing components

62. The Deputy Chairman remarked that Government duty for unleaded petrol represented a major portion (60%) of the components making up the retail price. Atg PSEDL(ED) noted that the matter related to the government's fiscal policy.

63. Mr Fred LI pointed out that despite individual companies might have remarkably different levels of operating costs in terms of land premiums, extent of discount etc, all oil companies had adjusted the pump prices in similar magnitudes following changes in the import prices. He urged the oil companies to enlighten the public on such a discrepancy. The Chairman drew attending deputations' attention to Mr LI's view.

VI Any other business

64. There being no other business, the meeting ended at 1:05 pm.

Council Business Division 1
Legislative Council Secretariat
22 November 2002