

For information
June 2003

Legislative Council Panel on Economic Services

COMPETITION IN THE FUEL SUPPLY MARKET AND NEW TENDERING ARRANGEMENTS FOR PETROL FILLING STATION SITES

Purpose

This note informs Members of Government's considerations in encouraging more competition in the fuel supply market and the new arrangements for tendering of petrol filling station (PFS) sites.

Background

2. The Government has examined measures to enhance competition in the fuel supply market and to facilitate new market entrants, including how the tendering of PFS sites may facilitate new entrants.

Measures in place to enhance competition

3. Since July 2000, the Government has taken the following proactive measures to enhance competition in the fuel supply market:

- (a) remove import licence and supply contract restrictions (seen as possible hurdle to entry) on bidders for PFS sites;
- (b) re-tender all existing PFS sites upon expiry of their leases, instead of renewing the leases to the existing operators;
- (c) publicize widely the Government's willingness to consider applications for PFS to offer other retail services, and for change in land use to permit PFS development;

- (d) add a new land grant condition for new PFS or on re-tendering of existing PFS sites that the operator must set up price information boards; and
- (e) put more new PFS sites on sale as far as possible.

Storage facilities

4. Storage is crucial to the fuel retail industry. The supply of local storage sites is subject to constraints such as availability as well as planning and environmental considerations.

5. Storage facilities of the existing oil companies are under-utilised. New players could enter the market by renting storage space from other market players. However, there is no obligation for the existing players to lease their storage space to another supplier.

6. Separately, there is no stipulation, statutory or otherwise, which requires oil to be stored locally. Apart from having their own facilities, or renting such facilities from existing oil companies, new entrants to the market can have their fuel storage facilities located off-shore, such as in the Mainland.

Petrol filling station (PFS) sites

7. PFSs are also crucial to the operation of retail petrol business. Facilitating new entrants in obtaining PFS sites is an important consideration to encourage more competition in the fuel supply market. In addition to the measures already introduced, vide paragraph 3 above, the Government has been considering whether and if so how further measures might be introduced with regard to PFS sites.

Existing tendering arrangements

8. Hitherto, PFS sites have been put up for tender one by one, with the site offered for tender in a particular exercise awarded before the

tender invitation period for the next tender exercise closes. Tenderers who wish to acquire multiple sites can bid for each and every available site in successive tender exercises. This arrangement does not, however, provide certainty to tenderers who are successful in obtaining one site in a particular tender exercise that they will be successful in subsequent tenders. This uncertainty in acquiring a "critical mass" of PFS, thereby achieving economy of scale, is perceived as a potential drawback which discourages newcomers from entering the fuel supply market.

New tendering arrangements

9. The Government has earmarked 15 PFS sites for tender in 2003/04 and invitations will be issued in June 2003, October 2003 and February 2004. The tender programme is attached at **Annex** for reference. To further promote competition in the fuel supply market, new arrangements will be introduced for the tendering of these 15 sites as follows –

- (i) ***The sites will be tendered in batches*** – The 15 sites will be tendered in three batches, each consisting of five sites. This "batching" approach should facilitate potential new entrants in achieving a 'critical mass', economy of scale, more impact on the market and, may therefore encourage them to come forward more readily;
- (ii) ***Tenderers can submit a single 'super bid' for all the sites in the batch*** – Tenderers submitting 'super bids' will either get all or none of the PFS sites for tender. This approach facilitates new entrants in acquiring a 'critical mass' of PFS sites to sustain a competitive market position;
- (iii) ***Tenderers can submit individual bids for each of PFS sites in the batch*** – Tenderers can submit separate bids for any number of the sites offered, and state in the bid the actual number of sites they wish to acquire. That is to say, a tenderer will be obliged to take up sites he has been successful in the tender exercise, up to the maximum number

of sites indicated in his tender, e.g. if he has stated that he wishes to obtain up to three of the five sites offered and is successful in his bids for three, he cannot take up less than three sites. This approach preserves the opportunity of the tenderer to bid individually for all the sites on offer and, at the same time, enables him to concentrate his financial resources on the actual number of sites he wishes to acquire; or

- (iv) ***Tenderers can submit both 'super bid' and individual bids*** – 'Super bids' and individual bids are not mutually exclusive : tenderers are free to submit 'super bids', or any number of individual bids, or a combination of both.

Award criteria

10. Maximizing total revenue from the tender exercise remains the overall objective in the award of the PFS sites. Hence, the tender price of a 'super bid', if any, will be compared with the aggregate of the tender prices of individual bids to be accepted for each of the sites. If the latter turns out to be higher than that of the 'super bid', the PFS sites will be awarded to the successful individual bids. That is to say, 'super bids' will not take precedence over individual bids.

Assessment

11. Offering the 15 sites in batches of five at 4-monthly intervals, taken together with the 'super bid' and individual bid arrangement should facilitate entry of new market players on the one hand and maintain our time-honoured principles of free enterprise, free trade and a level playing field for all market participants on the other. And, the award criteria would ensure that Government revenue would not be compromised in the process.

Consultation

12. The Energy Advisory Committee has been consulted on the

new tendering arrangements for PFS sites. Members supported the new tendering arrangements which are intended to encourage competition in the fuel supply market.

Implementation

13. The new arrangements will be implemented for PFS sites offered in 2003/04. A review of the new arrangements, including the response of existing and new market player, and the impact on pump prices, will be made in considering arrangements for subsequent years.

Members' advice

14. Members are requested to note the new tendering arrangements for PFS sites.

Economic Development and Labour Bureau
Economic Development Branch
June 2003

June 2003

Tender Programme
Petrol Filling Station Sites
June 2003 ~ February 2004

- [Notes: (a) Sites are being offered for tenders in batches with 5 sites in each batch and interested parties should note that tenders can be submitted in either one or both of the following ways:-
- (i) individually, for any of the sites in a batch; and/or
 - (ii) on the basis of a single amount of tender premium for the purchase of all sites in a batch together as one package.
- (b) Interested parties should refer to the tender documents to be published for each of the sites for details of the tendering arrangement.]

Invitation Date	Lot No.	Location	Use	Area (Ha) (About)
June 2003	CWIL 171	Chai Wan Industrial Area, Chai Wan	Petrol Filling Station (see Remark 2 below)	0.3960
June 2003	NKIL 6409	Cornwall Street, Kowloon Tong	Petrol Filling Station (see Remark 2 below)	0.1025
June 2003	STTL 484	Site 28, Area 86B, Sha Tin	Petrol Filling Station	0.1068
June 2003	TCTL 9	Area 58, Tung Chung	Petrol Filling Station (see Remark 2 below)	0.1238
June 2003	TYTL 170	Tsing Yi Road West, Tsing Yi	Petrol Filling Station (see Remark 2 below)	0.1991
October 2003	IL 8984	MacDonnell Road, Central	Petrol Filling Station	0.0237
October 2003	IL 8988	Kennedy Road, Wan Chai	Petrol Filling Station	0.0837
October 2003	NKIL 6417	Wang Chin Street, Kowloon Bay	Petrol Filling Station (see Remark 2 below)	0.1423
October 2003	TPTL 151	Tai Po Kau, Tai Po	Petrol Filling Station (see Remark 2 below)	0.3167

Invitation Date	Lot No.	Location	Use	Area (Ha) (About)
October 2003	TWTL 408	169 - 175 Yeung Uk Road, Tsuen Wan	Petrol Filling Station	0.0812
February 2004	IL 8985	137 Tai Hang Road, Causeway Bay	Petrol Filling Station	0.0920
February 2004	IL 8986	80 Pokfulam Road, Pokfulam	Petrol Filling Station	0.0742
February 2004	TCTL 24	Area 26, Tung Chung	Petrol Filling Station (see Remark 2 below)	0.1125
February 2004	TKOTL 89	Po Hong Road, Tseung Kwan O	Petrol Filling Station (see Remark 2 below)	0.3600
February 2004	TYTL 173	Tsing Yi Reclamation	Petrol Filling Station (see Remark 2 below)	0.1240

Remarks :

1. Site areas quoted above are for reference only. Interested parties should refer to the respective Conditions of Sale for details.
2. Sites are likely to be subject to mandatory requirements for the provision of liquefied petroleum gas filling facilities. Interested parties should refer to the respective Conditions of Sale for details.

