

For Information
on 28 October 2002

Legislative Council Panel on Economic Services
RETAIL PRICES OF MAJOR FUELS

Introduction

At the request of Members, this paper outlines the retail prices of major fuels, including unleaded petrol, ultra low sulphur diesel (ULSD), domestic Liquefied Petroleum Gas (LPG) and auto LPG from January to mid October 2002.

Background

2. With no indigenous supply, Hong Kong has to rely on import for oil. Import prices of oil are influenced by various external factors beyond the control of the local market and the Government. In view of public concern about oil prices, we have been monitoring local pump prices of unleaded petrol and ULSD against monthly average Singapore FOB prices (the generally accepted regional benchmark for pricing in the Asia Pacific Region). We have also been monitoring local wholesale prices of cylinder LPG against monthly Saudi Arabia Contract Prices (the generally accepted benchmark for international pricing). Data on import costs compiled by C&SD are used for reference only, as there is a time lag of at least 4 weeks before such data are available.

Observations

Unleaded Petrol

3. Annex A outlines the price movements of unleaded petrol since January 2002, which indicates that to date -
- (i) pump prices at local petrol filling stations (PFS) had been increased four times and lowered once;
 - (ii) in terms of trend movements and magnitude, changes in local pump prices were broadly in line with those in the Singapore FOB prices; and

- (iii) the increase and decrease in pump prices tailed behind the respective increase or decrease in Singapore FOB prices.

ULSD

4. Annex B outlines the price movements of ULSD since January 2002, which indicates that to date -

- (i) pump prices at local PFS had been increased four times; and
- (ii) in terms of trend movements and magnitude, changes in local pump prices were broadly in line with those in the Singapore FOB prices; and
- (iii) the increase and decrease in pump prices also tailed behind the respective increase or decrease in Singapore FOB prices.

Domestic LPG

5. Oil companies sell domestic cylinder LPG on a wholesale basis to their dealers who then retail to end-users. Each oil company determines its own wholesale prices and discounts to dealers also vary.

6. To enhance transparency in its pricing, Shell Hong Kong Limited (Shell) established a formula in January 1999, on which basis cylinder LPG wholesale prices were reviewed every six months since then. The formula takes into account the actual import prices of LPG in the preceding six months and the forecast prices in the coming six months. In consideration of the prevailing volatility of LPG prices, Shell has 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.

7. Annex C sets out the price movement of domestic cylinder LPG since January 2002. There was a downward adjustment of \$0.50/kg in local wholesale price in February after the January review, no adjustment after the May review, and an upward adjustment of \$0.74/kg in October after the September review. In the period from February to October, the Saudi Arabia Contract Price has increased cumulatively by \$0.78/kg. Retail prices of domestic cylinder LPG are determined by the 300 or so dealers in the market, which may or may not reflect the extent

of the adjustments in wholesale prices.

8. The oil companies also sell domestic piped LPG directly to end-users at a list price. As the adjustment of piped LPG list price is linked to the wholesale price of cylinder LPG, only the movement of the wholesale prices of cylinder LPG is annexed for comparison.

Auto-LPG

9. The Government introduced in 2000 and 2002 the LPG taxi and light bus programmes respectively for the purpose of improving air quality. To ensure that a reasonable number of LPG filling stations could be made available in time, the Government tendered, in three batches, 12 government sites at nil premium for development into large scale dedicated LPG filling stations under 21-year design, build and operate contracts. Operators of these dedicated stations are bound by the respective contracts to cap their LPG pump prices, according to a formula that sets the ceiling price of auto-LPG during the whole operating period. The formula comprises two elements - international price of LPG and operating cost in running the station. The first element is adjusted twice a year (in February and August) by the average LPG international price in the preceding six months. The second element is adjusted yearly (in February) in accordance with movements in the Composite Consumer Price Index in the preceding year. Annex D sets out the ceiling prices of the 12 dedicated LPG filling stations.

10. Apart from the 12 dedicated stations, there are 29 stations, retrofitted with LPG filling facilities, which are not subject to any price regulation. Selling prices at these stations are mainly influenced by market forces.

Enhancing Competition

11. Being a free market economy, we believe that supply and demand as well as prices are best determined by market forces. Oil prices have all along been the decision of oil companies, having regard to commercial principles and operating costs. The role of the Government is to ensure reliable supply, enhance competition by maintaining an open market and by removing barriers to entry, and encourage transparency as far as practicable in the determination of oil prices. In encouraging price transparency, we have been urging oil companies to make

announcement of each intended price adjustment and to account for the rationale and basis for the adjustment.

12. To encourage competition in the fuel market, we have initiated positive action which includes -

- (1) waiving, as from July 2000, the requirement that a tenderer bidding for PFS sites must hold a Special Import Licence or a fuel supply contract;
- (2) putting up for open tender existing PFS upon expiry of their leases;
- (3) publicising the fact that the Government is willing to consider applications for combined development of PFS with other retail uses and for modifying land use for the development of PFS; and
- (4) specifying in new land leases that operators are required to put up oil price information boards, to enhance transparency of competition on oil prices.

13. Since publicizing the pro-competition measures in 2000, the Town Planning Board had received about ten applications for development of PFS on land not zoned for such use, the majority of which had been approved, while the others are being processed. During the same period, the Lands Department had also received five applications for lease modifications, all of which are being processed. Furthermore, we expect to put up for tender 36 existing PFS sites with expiring leases in the next ten years. We are also identifying new PFS sites.

14. The promotion of competition is a continuous process : we will continue to explore as appropriate measures to further enhance competition in the fuel supply market.

Unleaded Petrol

<u>Month</u>	(Note 1) <u>Pump price of unleaded petrol</u> \$/litre	Monthly average Singapore FOB unleaded petrol price \$/litre	Weighted average import cost (for reference) \$/litre	Monthly average closing mid price of Brent Crude (for reference) \$/litre
Jan 2002	10.40	1.05	1.31	0.96
Feb 2002	10.40	1.23	1.50	0.99
Mar 2002	10.55	1.42	1.66	1.17
Apr 2002	(Note 2) 10.70	1.54	1.81	1.26
May 2002	10.85	1.50	1.75	1.25
Jun 2002	10.85	1.44	1.76	1.18
Jul 2002	10.75	1.43	1.67	1.26
Aug 2002	10.75	1.43	1.67	1.31
Sep 2002	10.83	1.54	Not yet available	1.39
Oct 2002 (up to 14.10.2002)	10.83	1.55	Not yet available	1.40
Net movement since Jan 2002	+0.43	+0.50		

Note 1 : The pump prices shown represent those of Shell, Caltex and CRC whereas that of ExxonMobil is \$0.01/litre lower.

Note 2 : Caltex increased its pump price by \$0.15/litre from \$10.70/litre to \$10.85/litre on 18.4.2002 and subsequently called off its increase on 27.4.2002.

Annex B

ULSD

<u>Month</u>	(Note 1) Pump price of <u>ULSD</u> \$/litre	Monthly average Singapore FOB <u>diesel price</u> \$/litre	Weighted average import cost (for reference) \$/litre	Monthly average closing mid price of Brent Crude (for reference) \$/litre
Jan 2002	5.54	1.02	1.23	0.96
Feb 2002	5.54	1.06	1.25	0.99
Mar 2002	5.64	1.22	1.42	1.17
Apr 2002	(Note 2) 5.79	1.36	1.56	1.26
May 2002	5.87	1.37	1.54	1.25
Jun 2002	5.87	1.34	1.59	1.18
Jul 2002	5.87	1.35	1.58	1.26
Aug 2002	5.87	1.38	1.55	1.31
Sep 2002	5.99	1.51	Not yet available	1.39
Oct 2002 (up to 14.10.2002)	5.99	1.61	Not yet available	1.40
Net movement since Jan 2002	+0.45	+0.59		

Note 1 : The pump prices shown represent those of Shell, Caltex and CRC whereas that of ExxonMobil is \$0.01/litre higher.

Note 2 : Caltex increased its pump price by \$0.1/litre from \$5.79/litre to \$5.89/litre on 18.4.2002 and subsequently called off its increase on 27.4.2002.

Domestic Cylinder LPG

<u>Month</u>	(Note 1) Wholesale price of <u>Cylinder LPG</u>	Monthly Saudi Arabia Contract Price (30% propane and 70% butane)	Weighted average import cost (for reference)
	\$/kg	\$/kg	\$/kg
Jan 2002	6.58	1.65	2.05
Feb 2002	6.08	1.52	1.93
Mar 2002	6.08	1.49	1.84
Apr 2002	6.08	1.51	1.91
May 2002	6.08	1.68	2.09
Jun 2002	6.08	1.70	2.07
Jul 2002	6.08	1.70	2.11
Aug 2002	6.08	1.78	2.17
Sep 2002	6.08	2.00	Not yet available
Oct 2002 (up to 14.10.2002)	6.82	2.30	Not yet available
Net movement since the last reduction in February 2002	+0.74	+0.78	

Note 1 : The wholesale prices shown represent those of Shell which has established a pricing formula for cylinder LPG in January 1999.

Ceiling Price of Dedicated LPG Filling Stations

Dedicated Stations at	Operator	Ceiling Price (\$/lit)	
		1.2.02 - 31.7.02	1.8.02 - 31.1.03
Chai Wan West Kowloon	ECO	2.15	2.05
Sheung Wan Kwun Tong Tai Po	CRC	1.85	1.76
Mei Foo Tuen Mun	ECO	1.91	1.81
Kowloon Bay Kwai Chung	CRC	1.89	1.79
Wan Chai	ECO	N/A	1.81
Ma On Shan Yuen Long	CRC	N/A	1.66

- Note :
- (1) The ceiling LPG prices at dedicated stations are adjusted according to the formula on 1st February and 1st August every year throughout the 21-year contracts.
 - (2) Operators are free to set their actual LPG selling prices as long as they do not exceed the ceiling prices.
 - (3) At present, dedicated stations take about 70% of the total auto LPG sale.
 - (4) Currently, retrofitted LPG stations sell LPG at the prices of \$1.68 to \$2.08 per litre.