

**For information
on 5 November 2004**

**Paper for Subcommittee on the
Resolution to Extend the Concessionary Duty Rate for
Ultra Low Sulphur Diesel**

Purpose

This paper provides information on the Administration's proposed resolution to extend the concessionary duty rate for ultra low sulphur diesel (ULSD) for one year to 31 December 2005.

Background

2. In the past six years or so, the Government has granted a concessionary duty rate on regular motor diesel and ULSD. In June 1998, we reduced the duty rate for regular motor diesel from \$2.89 to \$2 per litre as a temporary measure in the light of the economic climate at that time. Later, in July 2000, ULSD was introduced at a concessionary rate of \$1.11 per litre on environmental grounds. The concessionary duty rate was scheduled to be adjusted to \$2 per litre on 1 January 2001 and was to revert to \$2.89 per litre on 1 January 2002. By 2001, regular motor diesel had been completely replaced by ULSD at petrol filling stations in the territory. Nevertheless, in order to relieve the pressure on the industry during the economic downturn, the Government has postponed the reversion of the ULSD duty rate on five occasions in December 2000, June 2001, March 2002, March 2003 and March 2004.

3. According to the resolution passed by the Legislative Council in March this year, the duty rate for ULSD is scheduled to revert to \$2.89 per litre on 1 January 2005.

Duty on hydrocarbon oil

4. The duty on diesel and other vehicular fuels is a very important and stable source of recurrent revenue for the Government. In 2003-04, the duty on ULSD brought in \$690 million to the Government's coffer. Levying duty

on vehicular fuels is also an international practice. Our duty rate on ULSD is not particularly high compared with other developed economies, such as Australia, Belgium, Germany and the UK where ULSD is sold. Furthermore, these economies impose other taxes such as sales tax, while Hong Kong levies only a single duty on ULSD. It is nevertheless acknowledged that in developing economies in the region, where lower quality diesel is in use, the overall taxes are lower.

Proposed resolution to extend the concessionary duty

5. The Government is concerned about the recent surge in oil prices. We consider that although Hong Kong's economic activities as a whole have a relatively low reliance on oil, individual sectors will be hit harder by high oil prices. Taking into account our fiscal situation, the overall economic conditions and the pressure faced by the transport industry, we propose to further extend the concessionary rate for ULSD by another year to 31 December 2005. Upon expiry of the concession, the duty rate for ULSD will revert to \$2.89 per litre.

6. The Government has also announced that it will help the transport industry further enhance its competitiveness through other initiatives.

7. The proposed extension of duty concession for ULSD will cost the Government about \$1.1 billion in 2005. The duty concessions provided for regular motor diesel and ULSD since June 1998 would cost the Government a total of about \$7.9 billion up to end-2005.

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