

Legislative Council Panel on Transport Duty on Ultra Low Sulphur Diesel

Purpose

This paper responds to the request of some representatives of the transport industry and the Transport Panel for a reduction of/waiver on the duty on ultra low sulphur diesel (ULSD) as an urgent relief measure to ease the hardship caused by the high cost of ULSD to the transport industry.

Current concessionary duty on ULSD

2. For the past seven years, the Government has been granting a concessionary duty rate on regular motor diesel/ULSD. In June 1998, we reduced the duty rate for regular motor diesel from \$2.89 to \$2 per litre as a temporary measure during the Asian Financial Crisis. Later in July 2000, ULSD was introduced at a concessionary rate of \$1.11 per litre for environmental reasons in order to facilitate a cost-neutral switch from regular diesel to this cleaner, but more costly fuel. 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 operating pressure on the industry during the economic downturn, the Government has postponed the reversion of the ULSD duty rate on six occasions.¹

3. The current concessionary period is due to expire at the end of 2005. The duty rate will revert to the level of \$2.89 per litre on 1 January 2006, according to the resolution passed by the Legislative Council last year.

The Administration's decision to propose a further extension

4. Having considered the pressure faced by the transport industry, the overall economic conditions of Hong Kong and our fiscal situation, the Financial Secretary has decided to propose a further extension of the concessionary period for ULSD duty for another year. The Administration will move a resolution under the Dutiable

¹ The past six extensions were made in December 2000, June 2001, March 2002, March 2003, March 2004 and December 2004.

Commodities Ordinance in the Legislative Council around early December. If the resolution is passed, the duty on ULSD will remain at the level of \$1.11 per litre until the end of December 2006².

5. This is the seventh time the Government has proposed to extend the concessionary rate on ULSD in the light of Hong Kong's economic and overall situation. The proposed extension of the duty concession is estimated to cost the Government about \$1.1 billion in 2006. The concession for diesel/ULSD duty for the past seven years and the proposed extension for 2006 would have cost the revenue \$8.9 billion on an accumulative basis.

Suggestions to reduce further or remove the ULSD duty

6. Certain representatives of the transport industry, mainly public light bus and taxi associations have requested the Government to reduce the ULSD duty further (to a level below the current concessionary rate) or even to remove the duty altogether as an urgent relief measure to ease the hardship caused by the high cost of ULSD to the transport industry.

7. The Administration does not consider that this suggestion should be adopted as the solution to the problem of high oil prices. We appreciate the impact of the recent changes in oil prices on the transport industry, and the Environment, Transport and Works Bureau has been working closely with public transport operators to identify ways to reduce operating cost and increase revenue, with a view to alleviating the impact of oil price changes on the operators.

8. The duty on ULSD, bringing in about \$700 million a year, is an important and stable source of recurrent revenue for the Government. Levying duty on vehicular fuels is also an international practice. Hong Kong's duty rate on ULSD is not particularly high compared with other developed economies.

**Treasury Branch
Financial Services and the Treasury Bureau
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² Under the proposal, the duty rate will revert to \$2.89 per litre on 1 January 2007.