

**For discussion on
23 June 2008**

Legislative Council Panel on Economic Development

Rising Fuel Cost

Purpose

In view of global surge in oil prices, the transport and logistics industry has put forward to the Government and the Legislative Council (“LegCo”) various measures to help alleviate the impact of rising costs on the sector. This paper summarizes the requests of the industry and the Government’s consideration.

Abolition of fuel tax

2. At present, the Government levies HK\$0.56 per litre on Euro V diesel and HK\$1.1 per litre on Ultra Low Sulphur Diesel (“ULSD”). The duty for Euro V diesel has been halved from HK\$1.1 per litre since December 2007 to encourage the use of the cleaner fuel. Despite the reduction, the price of Euro V diesel has risen from HK\$9.37 on 1 December 2007 to HK\$11.76 on 19 June 2008 due to the global surge in oil prices. The Government is aware that the transport and logistics industry has faced tremendous operating difficulties due to the rising fuel cost which takes up a substantial part of their operating cost. The Government considered that the duty on diesel is a stable source of revenue and comprises only a small portion of the retail price of diesel. That said, to help alleviate the impact on the industry, the Government is prepared to exempt the duty by way of moving a resolution to amend Schedule 1 to the Dutiable Commodities Ordinance (Cap. 109) as soon as possible, with a view to effect the exemption within this legislative session, notwithstanding that the duty does not contribute a lot to the operating cost of the industry. The Government would keep in view the economic environment and consider the imposition of the duty again as appropriate. In addition, there is a request for fuel subsidy. We have to reiterate that there is no question of Government fuel subsidy, as this is inconsistent with the free market principle and level playing field championed in Hong Kong and would put a heavy burden on tax payers and public finance, with far reaching impacts.

Ultra Low Sulphur Diesel

3. Some in the transport industry viewed that Euro V diesel is more expensive than ULSD despite the lowering of the duty on the former by half. Also, oil companies have switched to the provision of Euro V only at petrol filling stations (“PFS”), leaving the transport sector no choice in terms of using more economical fuel types. Others suggested the introduction of similar tax relief for ULSD and for ULSD to also be sold at PFS. The Government understood the concern of the industry, but considered it not appropriate to lower the duty for ULSD on environmental ground because Euro V diesel is more effective than ULSD in reducing diesel vehicle emissions and improving roadside air quality. Hence, the Government ought to provide a higher tax concession to Euro V diesel than ULSD to encourage the trade to use this cleaner fuel.

Waiving of land premium for petrol filling stations and setting up a duty-free petrol filling station at the border area

4. The industry considered the high land premium for the PFS one of the causes for the high oil prices in Hong Kong and suggested the removal of this premium. The industry also suggested setting up a duty-free PFS at the boundary to facilitate the use of cleaner fuel by cross-boundary vehicles. Normally, the Government disposes of sites for PFS purposes by public tender. Thus, the land prices of such sites are determined by the market. Under the free market economy, the government would not subsidize the commercial operation of individual trade through waiving land premium or concessionary land premium. Furthermore, the trade has requested the Government to strengthen the monitoring over oil companies to prevent any off-setting of the savings from the reduction of diesel duty by raising oil prices. In this connection, the Environment Bureau has been closely monitoring trends in international oil prices and the retail prices of local vehicular fuel. In a free market economy, the Government does not have the power to dictate the retail prices of vehicular fuel. But the Government will endeavour to ensure a stable fuel supply, and enhance competition by maintaining market openness and removing entry barriers. The Government is drawing up a competition law to ensure a more effective implementation of our existing competition policy. This would ensure that there would be a level playing field for the business sector.

Background

5. The recent surge in oil prices has led to widespread public concern on its impact on transport cost. LegCo also had a motion debate on the subject and passed a motion to reducing the duties on motor vehicle fuels on 19 June 2008.

Public Consultation

6. In response to industry concern, the Government has been maintaining close liaison with the industry and met some LegCo Members and representatives of the transport and logistics trade associations to listen to their views.

Transport Branch
Transport and Housing Bureau
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