

Consumer Council Submission to the LegCo Panel on Economic Development on the Issue of “Auto-fuel Prices” (October 24, 2008)

1. The Consumer Council ("CC") welcomes the opportunity to express views on measures to enhance price transparency in the auto-fuel market.

Price Monitoring

2. In CC's study on "Motor Gasoline, Diesel and LPG Markets in Hong Kong" released in 2000, it was found that the oil products industry was highly concentrated and largely vertically integrated. The market was characterized by relatively small total demand, limited growth opportunities, and barriers to entry such as the need to achieve economies of scale in storage and retail and the high cost of land.

3. Theoretically, this form of market structure can lead to tactical cooperative behaviour, in the sense that the few companies in the market recognize their mutual interdependence and realize that it is not in their interests to compete rigorously thereby driving prices down to reflect the underlying incremental cost. Nevertheless companies may still engage in limited price competition that is usually tied to promotion schemes.

4. In the said study, CC suggested that given the Government's pre-eminent role in respect of the location and availability of motor vehicle fuel filling sites, there will be competition implication if bidders are asked to bid for sites on a nil premium basis, with winning bids determined simply on offers of a price ceiling formula (as is some cases of auto LPG stations). CC is pleased to learn that the Government is considering means to monitor auto-fuel prices through the petrol station tendering process. The measures may enable the Government to grasp price setting in the market and CC supports the Government engaging public discussion on what and how the measures are to be taken to safeguard consumer interests.

Enhancing Price Transparency

5. CC has rolled out a series of initiatives to provide the public with information on the prices of various products at different outlets. As transportation impacts on commuters as well as product prices, the scope of CC's initiatives will be expanded to include auto-fuel. Apart from pump prices of gasoline and diesel, CC will provide information on promotional packages offered by oil companies to enable consumers to make informed choices and to enhance the price transparency in the marketplace.

6. With the information updated at weekly intervals, consumers will be better able to plan refueling to get the biggest bargain or to choose their preferred promotion package from amongst those offered. CC is discussing with oil companies to seek their support on the initiative and if feasible to launch it before the end of the year.

7. CC is aware of the concern that providing simple price information of oil products via the same platform may enhance communications amongst oil companies which might facilitate tactical cooperation in the retail auto-fuel market. CC will weigh the possible effect of price transparency on competition in the market place when designing the presentation of information on prices and promotion packages which consumers and the oil companies alike might make use of.

Consumer Council