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Panel on Housing

Meeting on 1 June 2009

Information note

The subject of "Supply and cost of liquefied petroleum gas in public housing estates" has not been discussed by the Panel on Housing. However, the question on regulation of price adjustments of domestic Liquefied Petroleum Gas raised by Hon CHEUNG Hok-ming at the Council meeting on 29 October 2008 may be relevant to the subject under discussion. The press release containing the question and the Administration's reply is attached for members' reference.

Legislative Council Secretariat
Council Business Division 1
26 May 2009

Press Releases

LCQ5: Regulation of price adjustments of domestic LPG

Following is a question by the Hon Cheung Hok-ming and a written reply by the Secretary for the Environment, Mr Edward Yau, in the Legislative Council today (October 29):

Question:

At present, quite a number of large housing estates use centralised liquefied petroleum gas (LPG) and many households in old buildings and remote areas use cylinder LPG. Despite the sharp fall in crude oil price in recent months, there is still a substantial gap between the import and retail prices of domestic LPG. Moreover, it has been reported that the LPG price adjustment mechanism also lacks transparency and price adjustments are not clearly indicated on the bills for centralised LPG customers. In this connection, will the Government inform this Council whether:

(a) it knows the number of households using LPG at present, and its percentage among all households using gas fuels;

(b) it will consider formulating measures to regulate price adjustments of domestic LPG; and

(c) it has assessed whether the Competition Bill to be introduced to this Council in this legislative session will effectively introduce more competition, whether the Bill can prevent monopoly in the retail market of cylinder LPG, and whether households using domestic LPG will have more choices of suppliers; if it cannot prevent monopoly, whether other measures will be adopted?

Reply:

President,

(a) Based on the information provided by the LPG industry, there were about 690,000 cylinder and piped LPG users in 2007, which accounted for about 29% of the total number of gas users. As comprehensive breakdown data by the type of LPG users (domestic, commercial or industry) is not available from the industry, we do not have available data on the number of domestic LPG users.

(b) Fuel prices in Hong Kong are determined by individual companies having regard to commercial practices and their operating costs. In a free market economy, the Government does not have the power to dictate the fuel prices. Nevertheless, the Government appreciated the impact of high LPG prices on the local economy, and encouraged the industry to increase transparency in their pricing.

Shell Hong Kong Limited (Shell), one of the major LPG suppliers in Hong Kong, has voluntarily adopted a pricing mechanism since 1999 to review their prices regularly so as to enhance transparency in their pricing. To reflect more closely LPG price movements in international market, Shell currently reviews their prices every three months (i.e. around the end of January, April, July and October), and reviews their operational costs every 12 months. In each review of LPG price, the company will forecast the import prices of the coming three months, and in the subsequent review three months later, if there is any variation between the actual import prices and the import prices forecasted in the previous review, the variance will be taken into account in the subsequent review. Under this mechanism,

the Government also monitors whether the adjustment in local price of domestic LPG is reasonable in light of the movements in international LPG prices and local import prices. After each price review, Shell will announce and explain to public the outcome of the review. Although other oil companies have not established any mechanism to regularly and openly review LPG price and release relevant information, according to our information, the adjustments made by other oil companies in the price of piped LPG and the wholesale price of cylinder LPG is close to those of Shell.

(c) The Government's main objective in introducing the competition law is to combat anti-competitive conduct in all economic sectors and provide a level playing field for business. It is not our intention to target market structures of specific sectors, nor to introduce competition artificially. The question of whether companies in any sector might have abused their substantial market power or engaged in anti-competitive conduct could only be determined after investigation. Under the proposed competition law, the independent Competition Commission would be able to commence an investigation as long as it had reasonable cause to believe that any form of anti-competitive conduct had taken place in any market. If it could be proven that anti-competitive conduct had occurred, the Commission or the Tribunal could then apply appropriate remedies, including fines and issuance of a "cease and desist" order.

Ends/Wednesday, October 29, 2008
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