

For information  
March 2017

## **Legislative Council Panel on Economic Development**

### **Staggering Arrangements for the Retendering of Petrol Filling Station Sites with Leases Expiring in 2018**

#### **Purpose**

--- This paper briefs Members on the staggering arrangements for the retendering of 28 petrol filling station (PFS) sites with land leases expiring in 2018 as detailed in **Annex 1**.

#### **Background**

2. Out of a total of 181 PFS in Hong Kong, the land leases of 28 PFS sites will expire in 2018 and be available for retendering for PFS. Of these 28 leases, one will expire on 2 April 2018 while the rest will all expire on 27 June 2018. A PFS will normally be closed for several months for retrofitting works upon commencing the new lease. Given the significant number of PFS involved, there is a need to stagger the tendering of these 28 sites to minimise service disruption to consumers during the period of station closure.

#### **Existing Tendering Arrangements**

--- 3. Currently, six oil companies are operating 181 PFS in Hong Kong (see **Annex 2**). Four<sup>1</sup> of them are operating the concerned 28 PFS. Since July 2000, the Government has retendered the existing PFS sites upon expiry of their leases, instead of renewing the leases to the existing lessees concerned. From 2003, as part of the Government's measures to enhance competition in the auto-fuel supply market, the Government has introduced the "batching" approach such that sites would be tendered in batches, consisting of about two to five sites per batch, to facilitate potential new entrants in achieving a critical mass of PFS sites and economy of scale (i.e. the "super-bid" arrangement). Since the introduction of the new tendering arrangements, two new operators have successfully entered the

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<sup>1</sup> Including Chervon Hong Kong Limited (Chervon), ExxonMobil Hong Kong Limited (EM), Feoso Oil Limited (Feoso) and Shell Hong Kong Limited (Shell).

market. The share of the three incumbent major operators in terms of the number of PFS has dropped from over 90% to about 70%. The change in market shares reflects that the tendering arrangement has effectively enhanced the competition in the auto-fuel market.

4. Under the existing practice, before expiration of the lease or the site being returned to the Government, Lands Department (LandsD) will in good time make preparations for the retendering of the PFS site if the site is not required for other planned use and remains suitable for serving as a PFS. In order to minimise the possibility of service disruption, the outgoing lessee might be allowed to stay and operate temporarily subject to payment of market rental and Government rent and compliance of the existing lease conditions and any additional conditions as necessary, to suit Government's tender programme (generally referred to as a "hold-over" arrangement). The outgoing lessee is required to carry out contamination assessment<sup>2</sup>, and if necessary, decontamination work of the site before it is returned to the Government.

5. After the tender for a new land lease is awarded, the successful bidder (irrespective of new or existing operator) will normally close the PFS for six to eight months to carry out retrofitting works to ensure that all the facilities and equipment could meet the latest safety standards and operational needs before commencing operation under the new lease. As some of the 28 PFS sites are clustered in the same service areas, temporary closure of all the 28 PFS sites simultaneously will seriously affect the auto-fuel supply and traffic flow of the areas. Besides, there might be potential shortage of qualified and accredited contractors for conducting the PFS retrofitting works if the retendering of 28 PFS sites is to take place at the same time.

### **Proposed Staggering Arrangements**

6. Given the significant number of PFS sites involved, the Environment Bureau (ENB) has discussed the issue with all the six oil companies and relevant Government bureaux/departments<sup>3</sup> (b/ds). They are mostly supportive to staggering the retendering of these 28 PFS sites to minimise the undesirable impact on the community. We have solicited their detailed inputs and comments, and have also sought advice from the Independent Commission Against Corruption (ICAC) and the Competition Commission from corruption prevention and competition perspectives respectively, in drawing up a staggering plan for the retendering of these PFS sites (the Plan).

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<sup>2</sup> It is the existing arrangement to request the outgoing PFS lessee to conduct contamination assessment (CA), and if necessary, decontamination work before expiration of the lease or handing over the site to LandsD for retendering. LandsD after consulting Environmental Protection Department (EPD) will give consent to the CA plan and assessment report from the outgoing lessee.

<sup>3</sup> Including LandsD, EPD, Electrical and Mechanical Services Department, Buildings Department, Fire Services Department, Planning Department, Transport Department and Financial Services and the Treasury Bureau.

7. We have adopted the following guiding principles in drawing up the Plan which should be able to –

- (a) Provide opportunity for market entry and ensure fair competition among existing and potential players;
- (b) Minimise the impact on consumers due to service disruption and reduction in choice of PFS during the retrofitting period of the PFS sites;
- (c) Ensure impartiality and avoid possible favouritism towards particular oil companies; and
- (d) Protect Government revenues.

Super-bid batching arrangements

8. We will maintain the current policy of “super-bid” arrangement to provide opportunity for market entry. We aim to handle around five PFS sites in one single tender with two tender exercises a year. Besides, taking into account the normal closure period of eight months for retrofitting works, we will stagger the retendering of the 28 sites in six batches with eight-month time gap between batches.

9. The first batch will be scheduled for retendering in the third quarter (or Q3) of 2018 while the last batch in the fourth quarter of 2021. The whole exercise would be completed in about four years. To match the staggering schedule, the existing occupation of the 28 PFS sites will be extended temporarily by way of the “hold-over” arrangement as described in paragraph 4 above.

Batch allocation mechanism

10. To avoid favouring any particular oil companies, the allocation mechanism of the 28 PFS sites to different batches is as follows –

- (a) Allocate the sites serially according to their rateable values in descending order;
- (b) When a batch is filled up with five sites, the next site will be allocated to the next batch;
- (c) During the allocation, when a site does not meet any one of the three rules (i) to (iii) below, it will be allocated to the next batch -
  - (i) no more than two sites in the same district can be allocated to the same batch;

- (ii) no more than two sites operated by the same oil company can be allocated to the same batch; or
- (iii) no adjacent sites can be allocated to the same batch.

11. Based on the above mechanism and rules, the 28 PFS sites are allocated to six batches objectively.

### Special arrangements

#### *(A) Pok Fu Lam PFS*

12. According to the above allocation mechanism, the PFS in Pok Fu Lam (with lease expiry on 2 April 2018) would be allocated to Batch 4 (Q3 2020) for retendering. Since it is a PFS with auto-liquefied petroleum gas (auto-LPG) filling facilities<sup>4</sup>, the retrofitting works may take longer owing to the complexity and more stringent safety requirements associated with auto-LPG facilities. Hence, there is a possibility that the site may not be able to resume auto-LPG filling service before closure of the nearest auto-LPG filling station in Sheung Wan (outside the 28 PFS sites) for retendering in February 2021. The closure of both these two stations would seriously affect taxi and public light bus businesses in the district. To avoid this, we will allocate the Pok Fu Lam PFS to Batch 1 (Q3 2018, shortly after its original expiry) in order to allow sufficient time for its retrofitting and resumption of services before the Sheung Wan LPG filling station is closed for retendering.

#### *(B) Four other PFS sites (outside the 28 sites) with leases expiring during the staggering period*

13. During the whole staggering period commencing from Q3 2018 till the resumption of services of the last batch PFS in the second half of 2022, leases of four other PFS sites (two in Kowloon East and two in Hong Kong East outside the 28 PFS sites) will expire in the same period. In order to ensure the closure of all these 32 sites (i.e. 28 + 4 sites) upon lease expiry would not cause significant service disruption to consumers, we will also add these four sites into the Plan as appropriate with reference to their expiry dates, locations and services provided.

### Summary of the Plan

14. In accordance with the allocation mechanism and special arrangements as stated above, we have formulated the staggering schedule for the 32 PFS sites as detailed in **Annex 1** and summarised below -

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<sup>4</sup> Among the 28 PFS, two sites (including the Pok Fu Lam PFS) are currently equipped with auto-LPG filling facilities. Two other sites are identified for addition of auto-LPG filling facilities in the next lease term.

Batch	Existing Operators				<i>Sub-total for the 28 sites expiring in 2018</i>	4 other sites expiring in 2019 & 2020	Total
	EM	Shell	Chevron	Feoso			
<b>1 (Q3 2018)</b>	2	2	2	-	6	-	<b>6</b>
<b>2 (Q1 2019)</b>	1	2	2	-	5	-	<b>5</b>
<b>3 (Q4 2019)</b>	2	-	2	1	5	1 (Shell)	<b>6</b>
<b>4 (Q3 2020)</b>	1	2	1	-	4		<b>4</b>
<b>5 (Q1 2021)</b>	2	-	2	-	4	1 (Chevron)	<b>5</b>
<b>6 (Q4 2021)</b>	-	2	1	1	4	1 (Shell) 1 (EM)	<b>6</b>
<b>Total</b>	<b>8</b>	<b>8</b>	<b>10</b>	<b>2</b>	<b>28</b>	<b>4</b>	<b>32</b>

### Implementation

15. We have consulted the oil companies on the above staggering schedule. Although they mostly agreed with the relevant schedule, we could not rule out the possibility that the incumbent oil company decides not to continue to operate the PFS upon the scheduled lease expiry date or there is delay in completing the contamination assessment/decontamination works required, thereby deferring the timing for retendering the affected site. Therefore, the estimated time of site availability in the above table is subject to change. ENB will closely monitor the implementation of the Plan and work closely with LandsD on any exceptional circumstances in order to decide the necessary adjustment to the Plan.

16. As usual, LandsD will upload basic facts of coming PFS sites in the quarter and the tender documents on its website when these PFS sites are tendered out. ENB will also upload relevant information early onto ENB's website to inform the public and all oil companies of the Plan well in advance.

### Members' Advice

17. Members are requested to note the staggering arrangements for the 28 PFS sites with leases expiring in 2018.

**Environment Bureau  
March 2017**

**Staggering Plan for the Retendering of Petrol Filling Stations (PFS) with Leases Expiring in 2018, 2019 and 2020**

Location	Expiry Date of the Existing Land Lease	Auto-LPG filling facilities existing on site	Staggering Batches	Tentative Retendering Schedule	Oil Company
<b>(A) PFS with land leases expiring in 2018</b>					
100 Pok Fu Lam Road, Pok Fu Lam	2.4.2018	Yes	Batch 1	Q3 2018	Chevron
731-737 Castle Peak Road – Kwai Chung, Kwai Chung	27.6.2018	No. Will impose the requirement for auto-LPG filling facilities in the tender conditions upon retender	Batch 1	Q3 2018	Shell
590 Prince Edward Road East, Wong Tai Sin	27.6.2018	No	Batch 1	Q3 2018	Shell
6 Kai Fuk Road, Kowloon Bay	27.6.2018	No	Batch 1	Q3 2018	Chevron
Chik Chuen Street, Tai Wai, Sha Tin	27.6.2018	No	Batch 1	Q3 2018	ExxonMobil
Castle Peak Road – San Tin, Yuen Long	27.6.2018	No	Batch 1	Q3 2018	ExxonMobil
Castle Peak Road – Kwai Chung, Kwai Chung	27.6.2018	No	Batch 2	Q1 2019	Chevron
592 Prince Edward Road East, Wong Tai Sin	27.6.2018	No	Batch 2	Q1 2019	Chevron
Jockey Club Road, Fanling	27.6.2018	No	Batch 2	Q1 2019	Shell
1P Kwong Fuk Road, Tai Po	27.6.2018	No	Batch 2	Q1 2019	Shell
373 Kwun Tong Road, Kwun Tong	27.6.2018	No	Batch 2	Q1 2019	ExxonMobil
371 Kwun Tong Road, Kwun Tong	27.6.2018	No	Batch 3	Q4 2019	Chevron
594 Prince Edward Road East, Wong Tai Sin	27.6.2018	No	Batch 3	Q4 2019	ExxonMobil
20 Kong Pui Street, Sha Tin	27.6.2018	No	Batch 3	Q4 2019	Chevron
90 Tai Tong Road, Yuen Long	27.6.2018	No	Batch 3	Q4 2019	ExxonMobil
332 Tai Po Road, Shek Kip Mei	27.6.2018	Yes	Batch 3	Q4 2019	Feoso
18 Kong Pui Street, Sha Tin	27.6.2018	No	Batch 4	Q3 2020	ExxonMobil
1N Kwong Fuk Road, Tai Po	27.6.2018	No	Batch 4	Q3 2020	Chevron
17 Tai Hang Tung Road, Shek Kip Mei	27.6.2018	No	Batch 4	Q3 2020	Shell
Pik Uk, Clear Water Bay Road, Sai Kung	27.6.2018	No	Batch 4	Q3 2020	Shell
1M Kwong Fuk Road, Tai Po	27.6.2018	No	Batch 5	Q1 2021	ExxonMobil
15 Tai Hang Tung Road, Shek Kip Mei	27.6.2018	No	Batch 5	Q1 2021	Chevron
Tai Po Road, Sham Shui Po	27.6.2018	No	Batch 5	Q1 2021	Chevron
Hiu Kwong Street, Sau Mau Ping	27.6.2018	No	Batch 5	Q1 2021	ExxonMobil
488 Tai Po Road, Sham Shui Po	27.6.2018	No. Will impose the requirement for auto-LPG filling facilities in the tender conditions upon retender	Batch 6	Q4 2021	Shell
Tai Po Road, Sham Shui Po	27.6.2018	No	Batch 6	Q4 2021	Shell
Hiu Kwong Street, Sau Mau Ping	27.6.2018	No	Batch 6	Q4 2021	Feoso
Mui Wo Ferry Pier Road, Mui Wo, Lantau Island	27.6.2018	No	Batch 6	Q4 2021	Chevron
<b>(B) PFS with land leases expiring in 2019</b>					
5 Kai Fuk Road, Kowloon Bay	29.5.2019	Yes	Batch 3	Q4 2019	Shell
8 Kai Fuk Road, Kowloon Bay	16.12.2019	Yes	Batch 6	Q4 2021	Shell
<b>(C) PFS with land leases expiring in 2020</b>					
Sing Woo Road, Happy Valley	4.9.2020	No	Batch 5	Q1 2021	Chevron
Sing Woo Road, Happy Valley	12.9.2020	No	Batch 6	Q4 2021	ExxonMobil

Special arrangements applied

Total PFS :

32

Note :

1. The addresses of PFS quoted above are for reference only. Site details will be included in the respective Conditions of Sale.
2. The estimated time of PFS retendering is subject to change.

**Market Share of Oil Companies in Hong Kong as at January 2017**

<b>Oil Companies</b>	<b>No. of PFS</b>	<b>Market Share</b>
ExxonMobil Hong Kong Limited	46	25.4%
Shell Hong Kong Limited	41	22.7%
Sinopec (Hong Kong) Petrol Filling Station Company Limited	41	22.7%
Chevron Hong Kong Limited	39	21.5%
PetroChina International (HK) Corporation Limited	10	5.5%
Feoso Oil Limited	4	2.2%
Total	181	100.0%