

LEGCO PANEL ON ECONOMIC SERVICES

Price of Industrial Diesel

Introduction

In response to Members' request, this paper informs members of the pricing mechanism and state of competition in the supply of industrial diesel. It also sets out the import and storage requirements for light diesel oil.

Background

2. Members have requested for information on the retail price of industrial diesel as opposed to its import price, and would like to know whether there is sufficient competition in the market to safeguard consumer interest. Members of the LegCo Panel on Trade and Industry have proposed that industries should be allowed to have parallel importation of industrial diesel and install their own storage facilities.

Industrial Diesel

3. Industrial diesel (or marked oil) is exempted from duty. There is no direct import of marked oil as such. It is in fact light diesel oil to which a prescribed marker and colouring substance have been added to make it red in colour and distinguishable from ordinary diesel oil, which is subject to duty. Industrial diesel oil has a high sulphur content of 0.5% and is mainly for marine and industrial uses. Bulk purchase is arranged directly between the oil companies and the users. There is also a network of dealers which normally supply to the smaller clients.

Price of Industrial Diesel

4. The oil companies publish a list price for industrial diesel to their customers. The list price is determined by the price of world crude oil and import price. The table at Annex shows the various price trends since 1998.

Pricing Mechanism for Industrial Diesel

5. The list price is only a rough indicator of the market price of industrial diesel, as the actual contract price is negotiated between the oil company and the individual user. Oil companies will normally offer a discount off the list price. The amount of discount will depend on a host of factors, including the size of the order, credit terms and risks, cost of supply (in drums or by tank truck or barge), installation cost at customers' premises, technical support and other sales services offered. The discount varies from customer to customer. Information on the discounts offered by oil companies is not readily available given its commercially sensitive nature. Our general understanding is that the discount could be very substantial. According to the oil companies, the market is so competitive that they may sometimes sell at a loss in order to maintain their market share.

International Practice

6. We understand that it is a common international practice for the market price of industrial diesel to be negotiated between the supplier and the user on an individual basis. In some places like Hong Kong the suppliers publish a list price to their customers, whilst in other places they do not.

Competition in the Industrial Diesel Market

7. The contract price for industrial diesel is agreed between individual users and the oil companies through negotiations or open tender. Apart from the oil companies, there is a network of some 30 dealers who also negotiate the wholesale price of industrial diesel on the same basis. Hence, users are not deprived of choice and should be in a position to bargain the price with the suppliers.

8. Under the Dutiable Commodities Ordinance (Cap 109), light diesel oil could be imported by holders of Special Import License or their associates. At present, there are six Special Import License Holders in

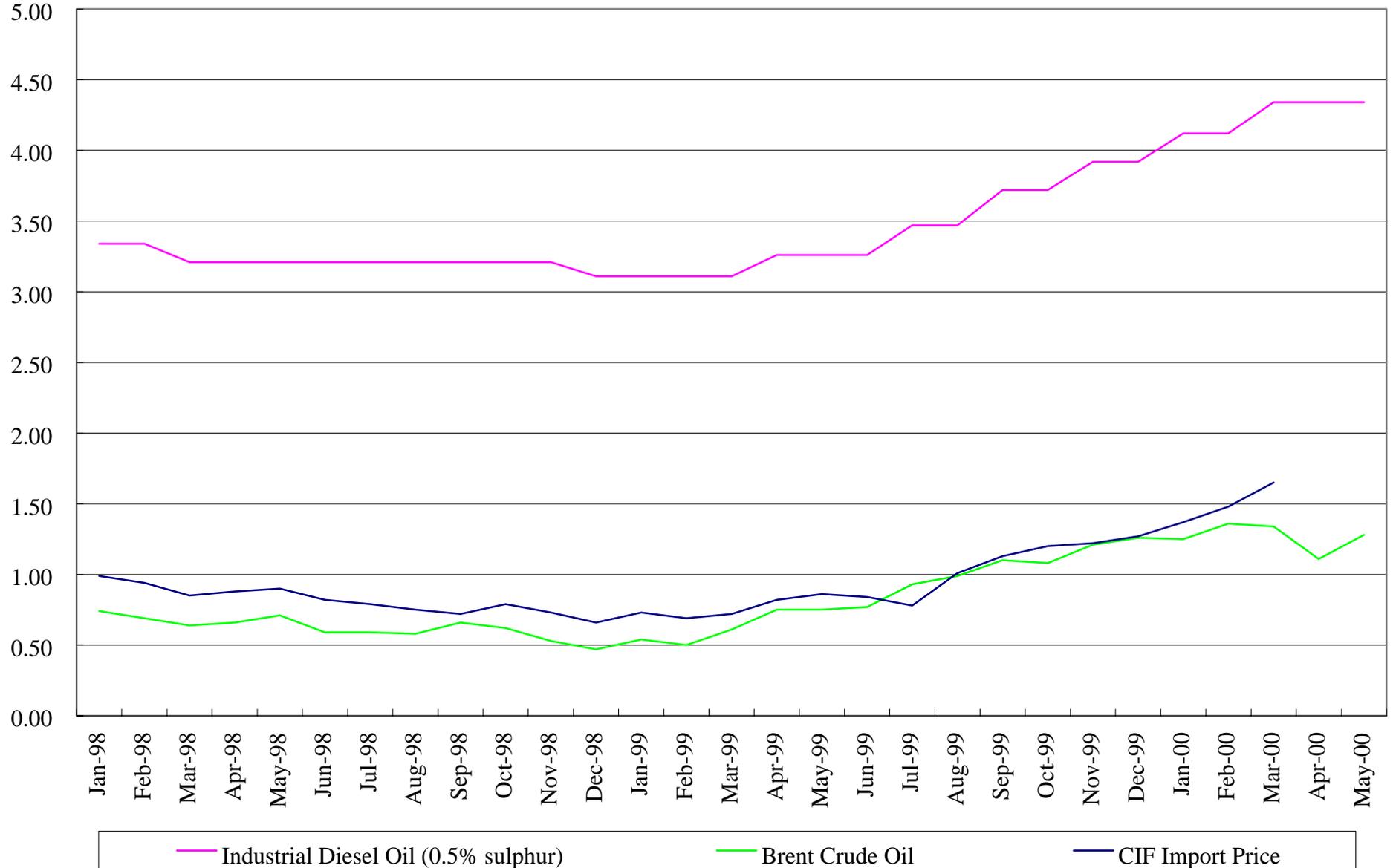
Hong Kong*. To apply for such a license from the Customs and Excise Department, the applicant should be a keeper of a licensed warehouse capable of storing not less than 500 kilolitres of oil, and fulfilling the specified fire safety and land use requirements. In practice, the Customs and Excise Department will examine the application for a Special Import License and that for a licensed warehouse in consultation with the Fire Services Department and the Planning/Lands Departments. The issue of parallel importation of light diesel oil should not arise, as there is no authorised agent of oil supply as such. Any prospective importer could enter the market, subject to compliance with the specified licensing requirements.

Economic Services Bureau
May 2000

* One only deals with aviation fuels.

List Price of Industrial Diesel Oil since 1998

HK\$/Litre



Note : (1) The list price is based on the information supplied by two oil companies.

(2) The list price is only a rough indicator of the market price of industrial diesel. Oil companies normally offer a discount off the list price.

(3) The CIF import prices for April - May 2000 are not yet available.