

For information
on 24 January 2000

Legislative Council Panel on Economic Services

**Consumer Council's Study
Into Hong Kong Motor Gasoline, Diesel and LPG Markets**

Introduction

This paper informs members of the major findings and recommendations of a study into the Hong Kong motor gasoline, diesel and LPG markets conducted by the Consumer Council (the Study).

The Study

2. The Consumer Council has recently completed a study on the state of competition in the markets for three major petroleum products, namely, motor gasoline, diesel and LPG (as a vehicle fuel and as a domestic hot water and cooking fuel). The study mainly covers the industry structure and trends, the different functional levels from supply to retail, the state of competition in the various markets and regulation by Government.

3. The Consumer Council has made available copies of its report for reference by Members and would present the findings and recommendations at the meeting of the Panel on 24 January 2000. Relevant Government bureaux and departments as well as representatives of oil companies would also attend the meeting to respond to questions.

4. In gist, the Consumer Council noted in the report of the Study that Hong Kong's petroleum product market had the following characteristics:

- (a) It was highly concentrated and largely vertically integrated, with three oil companies holding a significant share of the markets (80% of the gasoline market, 90% of the diesel market and 70% of the piped and wholesale LPG cylinder

market respectively). The three products markets could be characterised as oligopolies.

- (b) Geographical price competition and non-price competition had existed, though the Consumer Council was of the view that the degree of competition was not adequate.
- (c) Government duty represented a high proportion of the total retail price of motor vehicle fuels (unleaded petrol and automotive diesel). This had the effect of suppressing any interest on the part of oil companies to use price as a means of attracting customers, as any price reduction that could be made by them would be relatively small compared to the overall price of the products.
- (d) Total demand for the three products was relatively small; growth opportunity was limited; and barriers to entry (such as the need to achieve economies of scale in storage and retail and the high cost of land) existed. For LPG, its use as a motor vehicle fuel would grow. Cylinder LPG would see diminishing demand in its use as hot water and cooking fuel. Piped LPG faced an uncertain future due to various restrictions on the construction of piping infrastructure.

5. The Consumer Council has put forward a number of recommendations with a view to promoting competition and enhancing consumer welfare. These recommendations cover a number of areas as follows-

- (a) Encouraging entry by new operators - removal of restrictions on persons who can bid for a petrol filling site, disqualifying certain bidders for a petrol filling station where competition may be compromised, encouraging diversity in retailing at filling sites and safeguarding adequate storage facilities for new entrants.
- (b) Inducing price competition - inserting condition in filling sites to prohibit collusive anti-competitive conduct, asking filling stations to display price information boards, encouraging common carrier arrangement for piped LPG supply for housing estates and standardization of cylinder LPG connecting equipment.

- (c) Improving Government oversight - setting up a competition Authority for competition oversight or failing that, an Energy Commission to take on this role as well as other planning role, monitoring of the industry's profitability trend by Government and establishing a mechanism to assess competition implications of regulatory intervention.

Way Forward

6. Government welcomes the report published by the Consumer Council. We support enhancing competition and transparency in the fuel markets. We will continue to work closely with the Consumer Council to urge oil companies to increase transparency by disclosing more information about their operations, costs and profit. We also agree that there should be more flexibility in making available filling station sites to facilitate market entry.

7. Some of the recommendations in the report reflect what the Government has been doing. Concerned Government bureaux and departments will study carefully the recommendations with a view to implementing those which are practicable.

8. To provide a forum for more focused discussion on competition-related issues in the energy sector, we will propose to the Energy Advisory Committee that a Competition Sub-committee be set up with participation of relevant Government bureaux and departments and the Consumer Council. The Consumer Council's report on major fuels could be taken forward in that forum and oil companies could be invited to attend meetings to this end.