

For Information
On 31 March 2003

Legislative Council Panel on Economic Services
ADJUSTMENTS IN OIL PRICES

Introduction

At the request of Members, this paper outlines the trend movements of oil prices from January 2002 to 20 March 2003 and the impact of high oil prices on the economy and the general public at large.

Trend movements of oil prices

Background

2. With no indigenous supply, Hong Kong has to rely on oil import. Import prices of oil are influenced by various external factors beyond the control of the local market and the Government. In view of public concern about oil prices, we have been monitoring the local pump prices of unleaded petrol and ULSD against monthly average Singapore FOB prices (the generally accepted regional benchmark for pricing in the Asia Pacific Region). Data on import costs compiled by C&SD are used for reference only, as there is a time lag of at least 4 weeks before such data are available. Members were last informed of the price movements of unleaded petrol and ULSD from January 2002 to mid October 2002 vide an information paper for the meeting on 28 October 2002.

Observations

Unleaded petrol

3. Annex A outlines the monthly price movements of unleaded petrol since January 2002, which indicates that up to 20 March 2003 -

- (i) pump prices at local petrol filling stations (PFS) had been increased six times and lowered twice;
- (ii) in terms of trend movements and magnitude, changes in local pump prices were broadly in line with those in the monthly average Singapore FOB prices; and

- (iii) the increase and decrease in pump prices tailed behind the respective increase or decrease in the monthly average Singapore FOB prices.

ULSD

4. Annex B outlines the monthly price movements of ULSD since January 2002, which indicates that up to 20 March 2003 -

- (i) pump prices at local PFS had been increased six times;
- (ii) in terms of trend movements and magnitude, changes in local pump prices were broadly in line with those in the monthly average Singapore FOB prices; and
- (iii) the increase in pump prices also tailed behind the respective increase in the monthly average Singapore FOB prices.

5. We note that international prices of unleaded petrol and diesel have stayed high since November 2002. The changes in pump prices and the monthly average Singapore FOB prices since November 2002 up to 20 March 2003 were also in line with our observation in paragraphs 3 and 4 above.

Recent day-to-day oil price movements

6. Since mid-March 2003, international oil prices have started to fall amidst expectations that a U.S. war against Iraq would start soon. After the war started on 20 March, international oil prices continue to fall despite intermittent rebound. Since there are many uncertainties on the horizon, the impact of the war on oil prices has yet to be seen. Hence, we will continue to closely monitor the local pump prices against the changes in international oil prices.

The impact of high oil prices on the economy and the general public at large as a result of the recent tensions between the United States and Iraq

Observations

7. The impact of a war on Iraq on the international oil market

depends on the duration and extensiveness of the war. But in any case, Iraq is not a major oil supplier in the global context.

8. If crude oil price were to rise by 10% for a quarter or so as is assumed under a “quick battle” scenario, it is estimated that the Composite CPI would be lifted by an average of just around 0.01 of a percentage point over four quarters, taking into account both the direct effect from higher retail prices of oil products and the indirect effect from the ensuing lift on overall business costs.

9. If crude oil price were to rise by 10% for one year as is assumed under a “protracted battle” scenario, its direct and indirect effects taken together would raise the Composite CPI by an average of around 0.05 of a percentage point over four quarters.

10. The rather insignificant impact in both cases is a reflection of the fact that the Hong Kong economy is not very oil-dependent in overall terms. Hong Kong’s oil dependency has actually come down substantially over the years, chiefly upon the switch-over to mainly coal-fired and gas-fired electricity generation.

11. The impact of an oil price hike on business operating cost would vary amongst different economic sectors according to their specific degree of oil dependency. The impact would be greater for the more energy-intensive sectors like electricity and gas production, fishery, transport, and restaurants and hotels. For all sectors in the economy taken together, the lift on overall business operating cost is estimated at around 0.07 and 0.18 of a percentage point respectively under the two postulated scenarios.

12. The broader impact of the war on the Hong Kong economy would work through its trade linkages with the rest of the world, with consequential feed-on effect on consumption and investment in the domestic sector.

13. Amidst Hong Kong’s current deflation situation, the inflationary impact caused by the oil price hike would be superficial.

Movement of Pump Prices of Unleaded Petrol Vs Other Indicators

<u>Month</u>	<u>Pump Price of Unleaded Petrol (Note 1)</u> <i>HK\$/litre</i>	<u>Monthly Average Singapore FOB Unleaded Petrol Price</u> <i>HK\$/litre</i>	<u>Weighted Average Import Cost (for reference)</u> <i>HK\$/litre</i>	<u>Monthly Average Closing Mid Price of Brent Crude (for reference)</u> <i>HK\$/litre</i>
Jan 2002	10.40	1.05	1.31	0.96
Feb 2002	10.40	1.23	1.50	0.99
Mar 2002	10.55	1.42	1.66	1.17
Apr 2002	10.70	1.54	1.81	1.26
May 2002	10.85	1.50	1.75	1.25
Jun 2002	10.85	1.44	1.76	1.18
Jul 2002	10.75	1.43	1.67	1.26
Aug 2002	10.75	1.43	1.67	1.31
Sep 2002	10.83	1.54	1.75	1.39
Oct 2002	10.83	1.50	1.78	1.35
Nov 2002	10.73	1.42	1.66	1.19
Dec 2002	10.73	1.52	1.75	1.41
Jan 2003	10.93	1.72	1.91	1.53
Feb 2003	11.21	2.02	Not yet available	1.60
Mar 2003 (up to 20.3.2003)	11.21	1.99	Not yet available	1.58
Net movement since Jan 2002	+0.81	+0.94		+0.62

Note 1 : The pump prices shown represent those of Shell, Caltex and CRC whereas that of Exxon Mobil is HK\$0.01/litre lower.

Note 2 : Caltex increased its pump price by HK\$0.15/litre from HK\$10.70/litre to HK\$10.85/litre on 18.4.2002 and subsequently called off its increase on 27.4.2002.

Movement of Pump Prices of ULSD Vs Other Indicators

<u>Month</u>	Pump Price of ULSD (Note 1) HK\$/litre	Monthly Average Singapore FOB Diesel Price HK\$/litre	Weighted Average Import Cost (for reference) HK\$/litre	Monthly Average Closing Mid Price of Brent Crude (for reference) HK\$/litre
Jan 2002	5.54	1.02	1.23	0.96
Feb 2002	5.54	1.06	1.25	0.99
Mar 2002	5.64	1.22	1.42	1.17
Apr 2002	5.79	1.36	1.56	1.26
May 2002	5.87	1.37	1.54	1.25
Jun 2002	5.87	1.34	1.59	1.18
Jul 2002	5.87	1.35	1.58	1.26
Aug 2002	5.87	1.38	1.55	1.31
Sep 2002	5.99	1.51	1.70	1.39
Oct 2002	5.99	1.59	1.75	1.35
Nov 2002	5.99	1.42	1.62	1.19
Dec 2002	5.99	1.52	1.69	1.41
Jan 2003	6.07	1.64	1.82	1.53
Feb 2003	6.32	1.89	Not yet available	1.60
Mar 2003 (up to 20.3.2003)	6.32	1.92	Not yet available	1.58
Net movement since Jan 2002	+0.78	+0.90		+0.62

Note 1 : The pump prices shown represent those of Shell, Caltex and CRC whereas that of Exxon Mobil is HK\$0.01/litre higher.

Note 2 : Caltex increased its pump price by HK\$0.1/litre from HK\$5.79/litre to HK\$5.89/litre on 18.4.2002 and subsequently called off its increase on 27.4.2002.