

For Information

**Legislative Council Panel on Economic Services**

**SECTORAL ANALYSIS OF FUEL COST**

Annex A

At the request of Members at the meeting on 31 May 2004, an analysis of fuel cost as % of business operating cost by sector is at Annex A. The analysis supports the conclusion that fuel cost, for all sectors of the economy taken together, takes up less than 5% of the overall business operating cost (excluding labour cost).

Economic Analysis and Business Facilitation Unit  
Financial Secretary's Office  
July 2004

**Sectoral analysis of fuel cost as % of business operating cost**

<b>Economic sector</b>	<b>Fuel cost as a proportion of overall business operating cost (excluding labour cost)* (%)</b>
Fishery	52.5
Manufacturing	0.7
Electricity, gas and water	around 65 <sup>+</sup>
<i>Within which :</i>	
<i>Electricity</i>	<i>around 70<sup>+</sup></i>
<i>Gas</i>	<i>around 80<sup>+</sup></i>
Construction	2.6 <sup>#</sup>
Wholesale, retail and import/export trades, restaurants and hotels	1.4
<i>Within which :</i>	
<i>Restaurants and hotels</i>	<i>8.0</i>
Transport, storage and communications	9.1
<i>Within which :</i>	
<i>Transport</i>	<i>11.8</i>
Financing, insurance, real estate and business services	5.1 <sup>^</sup>
Community, social and personal services	4.8 <sup>^</sup>
All sectors in the economy taken together	4.1 <sup>@</sup>

Notes : (\*) By reference to 2002 as the benchmark year. The oil-related import cost content within the fuel cost content shown in this table varies amongst different economic sectors, depending on the type and amount of oil product consumed.

(+) Although fuel cost takes up a major part of the overall business operating cost (excluding labour cost) in the electricity, gas and water sector, oil-related imports are crudely estimated to account for only around 10% of the overall business operating cost. More specifically, the oil-related import cost content in the overall business operating cost (excluding labour cost) is crudely estimated at around 1% for electricity generation, but around two-thirds for gas production.

(#) Including the costs of fuels, electricity and water, for which further breakdown is not available. With the assumption that fuel cost accounts for around 90% of this cost component for the construction sector, fuel cost is reckoned to account for around 2% of the overall business operating cost (excluding labour cost).

(<sup>^</sup>) Including the costs of fuels, electricity and water, for which further breakdown is not available. For the two sectors concerned, electricity charge is reckoned to take up a predominant proportion of this cost component, and fuel cost is assumed to account for only 15%. As such, for both sectors, fuel cost is reckoned to be less than 1% of their respective total business operating cost(excluding labour cost).

(<sup>@</sup>) Given the assumptions of fuel cost in (#) and (<sup>^</sup>), total fuel cost is reckoned to be just around 3% of the overall business operating cost (excluding labour cost) for all sectors taken together.

For Information

## **Legislative Council Panel on Economic Services**

### **PUMP PRICES OF UNLEADED PETROL AND ULTRA LOW SULPHUR DIESEL**

This note informs Members of the outcome of the follow up to their enquiry on the cost components for the pump prices of unleaded petrol and ultra low sulphur diesel (ULSD) at local filling stations.

#### **Background**

2. At the meeting on 31 May 2004, Members requested the Administration to provide an analysis, similar to what we did in 2001, of the cost components for the pump prices of unleaded petrol and ULSD at local filling stations.

3. We pointed out at the meeting that the analysis done in 2001 was a special exercise launched to ensure that the full benefits of the concessionary duty on ULSD, which involved the use of public monies, were fully passed on to consumers by the oil companies. In a free market economy like Hong Kong, the oil companies have no obligations as it stands, to disclose commercially sensitive information to Government. Nevertheless, in view of Members' concern, we agreed to explore with the oil companies to see whether they could provide some similar data on a voluntary basis.

#### **Oil companies' responses**

4. The oil companies<sup>(1)</sup> are adamant that detailed cost information, being proprietary and commercially sensitive, should not be provided to the Government for analysis, not to say for publication. They are of the view that -

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<sup>(1)</sup> The two new companies, which won the tenders for 5 sites each recently, have not yet commenced business and therefore not been included.

- (i) Hong Kong is a free market economy and prices (including discounts and promotions for special patrons) should be governed by open competition and determined by the stakeholders;
- (ii) the cost information of their competitors could be deduced from the aggregated information, which, hence, is in essence an anti-competitive move; and
- (iii) this seemingly micro-management of their business operations might send a wrong signal to businesses in other sectors that this approach might be made to apply to them as well.

5. While the oil companies would not supply cost information, they provided some broad information and comments on their business operation as follows –

- (a) market demand for unleaded petrol and ULSD has declined continually in recent years due to various factors such as the recent downturn in the economy, development of mass transit infrastructure, and most importantly, the replacement of diesel by auto-LPG. The ongoing conversion from diesel to auto-LPG as fuels by taxi and minibuses has in particular led to significant decline in sales volume of ULSD;
- (b) with increased competition in a shrinking market vide (a) above, the number of customers who are buying fuels at discount in one form or another (such as loyalty points, rebates, discount coupons) is increasing and the discount levels for both unleaded petrol and ULSD have also increased significantly; and

- (c) following from (a) and (b) above, the fixed costs of the oil companies, including land premium and rent, advertising and promotional costs and safety and environmental costs, have increased considerably in the last few years, while economy of scale is being eroded with the significant decline in sales volume.

### **Administration's view**

6. Retail oil prices in Hong Kong have always been the commercial decision of the oil companies, having regard to international oil prices and their operating costs. The Government should not intervene into business operations nor compel disclosure of commercial sensitive information.

7. We appreciate the impact of oil prices on the local economy and have been monitoring closely trends in international prices as well as local retail prices. As reported in the special meeting on 31 May 2004, we note that in terms of trend movements and magnitude, changes in local pump prices of unleaded petrol and ULSD have been broadly in line with and tailed behind movements of the monthly average Singapore FOB prices (the generally accepted regional benchmark for pricing in the Asia Pacific Region).

Economic Development and Labour Bureau  
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