立法會
Legislative Council

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Panel on Economic Services

Background brief on retail prices of oil products

Introduction

The Panel has all along been concerned about the competition aspects in the fuel market. The high retail prices of oil products in Hong Kong also affects the economy and the general public at large. From time to time, there are criticisms in the society that oil companies are quick in raising and slow in reducing when adjusting oil prices and that there seems to be some form of price fixing practices in the market. In view of wide public concern about the matter, the Panel decided to hold a closed session meeting on 16 December 2004 to meet with individual oil companies and the Administration to discuss the related issues.

Retail prices of oil products in Hong Kong

2. It is noted that the retail prices (exclusive of duty) of oil products in Hong Kong are relatively high when compared with other economies in the world. A comparison of the average retail prices (exclusive of duty) of unleaded petrol and auto-diesel between Hong Kong and some other countries in Asia, Europe and America is set out in **Annex A**.

3. In reply to a written question raised at the Council meeting on 13 October 2004, the Administration has explained that the retail price of oil products in a market is determined by various factors, including-

(a) whether crude oil is available locally, whether oil refining is done locally, whether refined products are imported;

(b) the structure and size of the market;

(c) the quality of the product;

(d) the mode of operation, marketing strategy and operating costs (including the costs of setting up filling stations) of individual companies; and

(e) the safety requirements of the concerned government.

4. The Administration advises that due to the above factors, the retail prices of oil products in Hong Kong are different from many places and it would be difficult to have direct comparison. For example, all oil products in Hong Kong are imported. For environmental and other reasons, the quality of auto-fuels used in Hong Kong is generally better than other places. For instance, the Ron value of unleaded petrol imported by Hong Kong is generally higher while the sulphur content of the ultra low sulphur diesel (ULSD) imported is generally lower. In addition, the operating costs of local petrol filling stations (PFSs) are also relatively high. For example, being a densely populated city, the safety requirements for storage, transportation and distribution of oil products in Hong Kong are more stringent.

Components making up the retail price of oil products

5. The components making up the retail price at the filling stations could be broadly classified into three categories, namely Government duty, costs and profit before tax. The components in greater detail are set out in **Annex B**.

Government duty

6. Duty for unleaded petrol has essentially remained at $6.06/litre since March 1997. Regarding automotive diesel, the Government reduced the duty rate from $2.89 to $2 per litre as a temporary measure in June 1998. Later in July 2000, ULSD was introduced at a concessionary duty rate of $1.1 per litre on environmental grounds. At the meeting on 1 December 2004, the Council passed a resolution to extend the concessionary duty rate for ULSD to 31 December 2005.

Costs

7. Costs could be classified as variable or fixed costs. Variable costs could be directly attributable to each litre of the oil product, e.g. imported product, dealers' margin, fleet/card/coupon/discounts, promotional giveaways. Fixed costs could not be so directly attributable and they are generally required

irrespective of the quantity of sales, e.g. land premium or rent, and other fixed operating costs.

Profit

8. The residual balance of the retail price after meeting Government duty and the costs represents the profit.

Breakdown of the components

9. In July 2001, the Administration provided a paper [LC Paper No. CB(1) 1760/00-01(01)] to the Panel, setting out the findings from analysis of the costs and profitability data of oil companies on the retail of unleaded petrol, automotive diesel and wholesale of cylinder Liquefied Petroleum Gas. In order to preserve the confidentiality of the data whilst enabling the general public to have a better understanding of the cost structure, pricing practices and profitability levels of oil companies, the Administration advised that oil companies only agreed to their data being presented on an aggregated and non-attributable basis, and in relative terms.

10. Two tables showing a breakdown at the broad level of the components of the average retail price per litre from 1998 to 2000 for unleaded petrol and automotive diesel respectively, the differentials between the highest and lowest value of the unit cost of the major components reported among the oil companies, and changes in the average unit cost of the major components from 1998 to 2000 are in **Annex C** and **Annex D**.

11. The Administration's observations based on the data for the year 2000 are as follows:

(a) Changes in the retail price of unleaded petrol/automotive diesel tended to be led mainly by changes in the imported product cost.

(b) Reduction in operating costs and increase in sales of unleaded petrol and automotive diesel might have contributed to the increase in profit element for the individual business lines.

(c) There were inherent differences in cost structure and profit level among oil companies.

(d) Due to the close proximity of petrol filling stations in the urban areas and the general homogeneity of the product, there could be market pressure for oil companies to follow the lead of others in reducing retail prices of unleaded petrol and automotive diesel in order to maintain market share.

By the same token, the fact that pump prices were observable among competitors could also mean that price increases could move uniformly. It would appear that the oil companies mainly competed through varying their discounts and promotional costs whilst tracking each other closely on the retail price. Discounts varied considerably among the oil companies

(e) Profit after tax represented 6% and 4% of the average retail price *including duty* for unleaded petrol and automotive diesel respectively in the year 2000 (compared with 3% for both of them in 1998; 3% and 2% respectively in 1999). It represented 14% and 5% of the average retail price *excluding duty* for unleaded petrol and automotive diesel respectively in the year 2000 (compared with 7% and 4% respectively in 1998; 6% and 3% respectively in 1999);

(f) The weighted average rate of return in the year 2000 of three oil companies in respect of their whole Hong Kong operations was 7%, as against 11% and 6% in 1998 and 1999 respectively.

12. Further details of the Administration's analysis can be found in LC Paper No. CB(1) 1760/00-01 (01)

13. At the Panel meeting on 31 May 2004, members requested the Administration to conduct a similar analysis of the cost components for the pump prices of unleaded petrol and ULSD at local filling stations.

14. According to the Administration, 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. The oil companies 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. The oil companies are of the view that -

(a) 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;

(b) the cost information of their competitors could be deduced from the aggregated information, which, hence, is in essence an anti-competitive move; and

(c) 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.

15. While the oil companies would not supply cost information, they provided some broad information and comments on their business operation to the Administration. Further details are set out in **Annex E**.

Measures to promote competition

16. Since July 2000, the Government has taken the following measures to enhance competition in the fuel supply market:

(a) remove import licence and supply contract restrictions (seen as possible hurdle to entry) on bidders for PFS sites;

(b) re-tender all existing PFS sites upon expiry of their leases, instead of renewing the leases to the existing operators;

(c) publicize widely the Government's willingness to consider applications for PFS to offer other retail services, and for change in land use to permit PFS development;

(d) add a new land grant condition for new PFS or on retendering of existing PFS sites that the operator must set up price information boards;

(e) put more new PFS sites on sale as far as possible; and

(f) introduce new arrangements for tendering of PFS sites since June 2003 so as to facilitate potential new entrants in achieving a “critical mass”, economy of scale to sustain a competitive market position. Two new players, Sinopec and Chinaoil have since each successfully obtained five sites tendered under the new arrangements. Three PFSs under the management of the two new players have commenced operation.

17. On the suggestion of providing premium waiver in granting new land leases for PFS sites as a means of lowering the fuel prices for motor vehicles, the Administration’s view is that PFS sites have all along been awarded through open tender with premium determined by the market. It would not be fair to operators who have obtained PFS sites in previous tenders, if premium waiver is granted for new sites.

Trend movement of oil prices and competition aspects

18. In view of the fluctuations in oil prices, a Council question was raised in April 2003 as to whether the Government had formulated policies on oil reserves in order to ensure sufficient oil supply and prevent oil companies from making excessive profits.

19. According to the Administration, there are legislation and an industry code of practice in place to set out minimum reserves level of essential fuels and to deal with situations arising from disruption of oil supply. To ensure that sufficient reserves of essential fuels are available to meet local demand, the Director of Oil Supplies (i.e. the Director of Electrical and Mechanical Services) together with the major oil companies and the Hong Kong and China Gas Company Limited have drawn up a code of practice requiring these companies to maintain a minimum of 30 days' supply of gas oil and naphtha. The Director of Oil Supplies also monitors the oil stock and supply situation in Hong Kong on a weekly basis. Over the years, this arrangement has served the purpose of ensuring that sufficient reserves of essential fuels are available to tide Hong Kong over in case of a temporary disruption of oil supply.

20. On monitoring of trend movements in oil prices, the Administration has advised that it has been monitoring trend movements in prices for Brent Crude oil and Singapore FOB prices for unleaded petrol and diesel to review whether the adjustments in local retail prices are in line with these trend movements. According to the Administration’s reply to a question raised at the Council meeting 3 November 2004, the price data since January 2002 show that, in terms of trend movements and magnitude, changes in local pump prices have been broadly in line with the monthly average Singapore FOB prices. With the relatively large fluctuations in international prices and import prices of unleaded petrol and auto-diesel in recent months, there have been minor variations between changes in these monthly average Singapore FOB prices and local pump prices. The Administration’s analysis of the changes in local retail oil prices in recent months is set out in LC Paper No. CB(1)439(04-05(01)) provided for the coming meeting on 16 December 2004.

21. On the issue of competition, the Administration appreciates the public’s concern over the relatively uniform prices offered by different oil companies and possible collusive practice. The Competition Policy Advisory Group chaired by the Financial Secretary will commission an independent and comprehensive study on the competition situation in the local retail market, and see whether the oil companies have engaged in anti-competitive practices and whether there might be

a need for legislative or other measures to promote competition specific to this market. In conducting the review, the Administration will make reference to the experiences and measures adopted by other economies in tackling anti-competitive practices by oil companies, and provisions governing anti-competitive behaviours in the Telecommunications Ordinance.

Impact of high oil prices on economy and the general public at large

22. In view of the impact of high oil prices on the business sectors, members have called on the Government to consider lowering the fuel tax to relieve the burden of the affected economic sectors.

23. In this respect, the Council also passed a motion on 3 November 2004 urging the Government to expeditiously review the current rate of duty on ULSD with a view to easing the hardship caused by the high cost of ULSD to the affected industries, especially the transport industry which is the hardest hit, and to ensure that end-users of ULSD can really benefit from any reduction of the duty rate.

24. An analysis of the impact of rising oil prices on different sectors of the economy is available in Annex C to LC Paper No. CB(1)439(04-05(01)) provided by the Administration for the coming meeting on 16 December 2004.

Council Business Division 1
Legislative Council Secretariat
14 December 2004

Source: The Administration's reply to a written question raised by member at the Council Meeting on 13 October 2004.

Table 1 : Average Retail Prices (exclusive of duty) of unleaded petrol and auto-diesel in certain countries in Asia, Europe and America in August 2004 (Note 1)

Country	**Unleaded Petrol** (Note 2) HK$/Litre	**Auto-Diesel** (Note 3) HK$/Litre
Japan	4.26	4.10
Italy	3.86	3.73
Spain	3.62	3.56
Germany	3.48	3.47
UK	3.13	3.25
Canada	3.10	3.20
U.S.A.	3.07	2.84
France	3.02	3.24

Note :

(1) Source : International Energy Agency (IEA). All countries covered by the IEA report are included.

(2) Unleaded petrol :
- 95 Ron is used in France, Germany, Italy, Spain and UK.
- Regular unleaded petrol is used in Canada, Japan and U.S.A.

(3) The sulphur content of auto-diesel used in most of these countries is generally higher than 0.005%.

Table 2 : Retail price (exclusive of duty) of regular unleaded petrol and ultra low sulphur diesel (ULSD) in Hong Kong

	Unleaded Petrol (98 Ron) HK$/Litre	**ULSD** (Sulphur content of0.005%) HK$/Litre
August 2004	5.95	5.94
October 2004	5.95	6.14

There are minor variations in the retail prices of different oil companies. The figures represent the highest retail prices of the respective product at the point in time.

Source: Information paper provided by the Administration in July 2001
(LC Paper No. CB(1)1760/00-01(01))

Unleaded Petrol and Automotive Diesel
Components of the average retail price

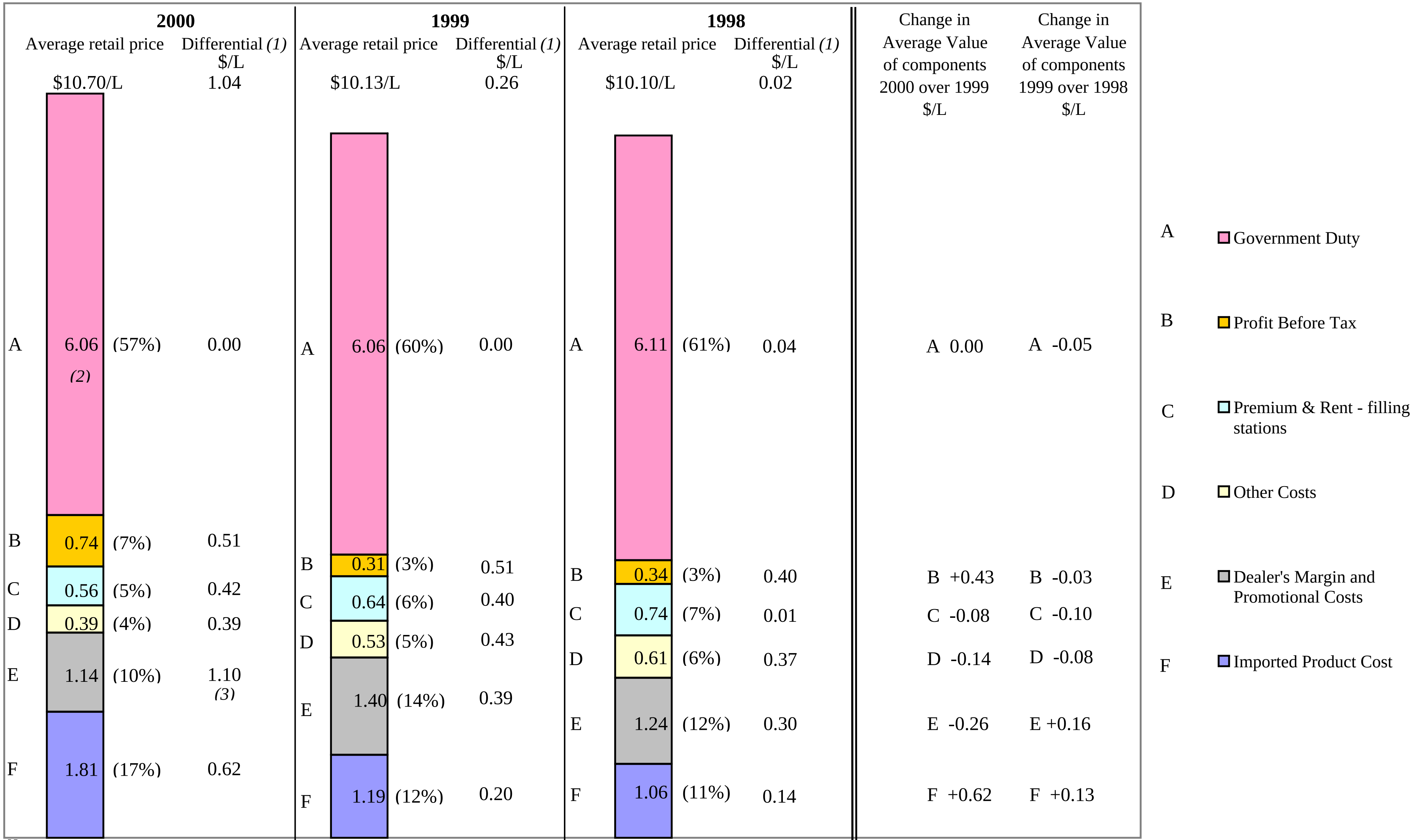
Imported product
Storage/distribution
Land premium & Rent*
Infrastructure and equipment*
Distribution*
Other operating costs*
Filling stations
Land premium & Rent
Infrastructure and equipment*
Other operating costs*
Dealers’ margin
Promotion
Fleet/card/coupon/discounts
Promotional giveaways
Advertising and other costs
Profit (before tax)
Government duty

* Grouped under "other costs" in Annex C and Annex D.

Source: Information paper provided by the Administration in July 2001.
(LC Paper No. CB(1)1760/00-01(01))

Annex C

Components making up the average retail price of unleaded petrol in 1998, 1999 and 2000



Note :

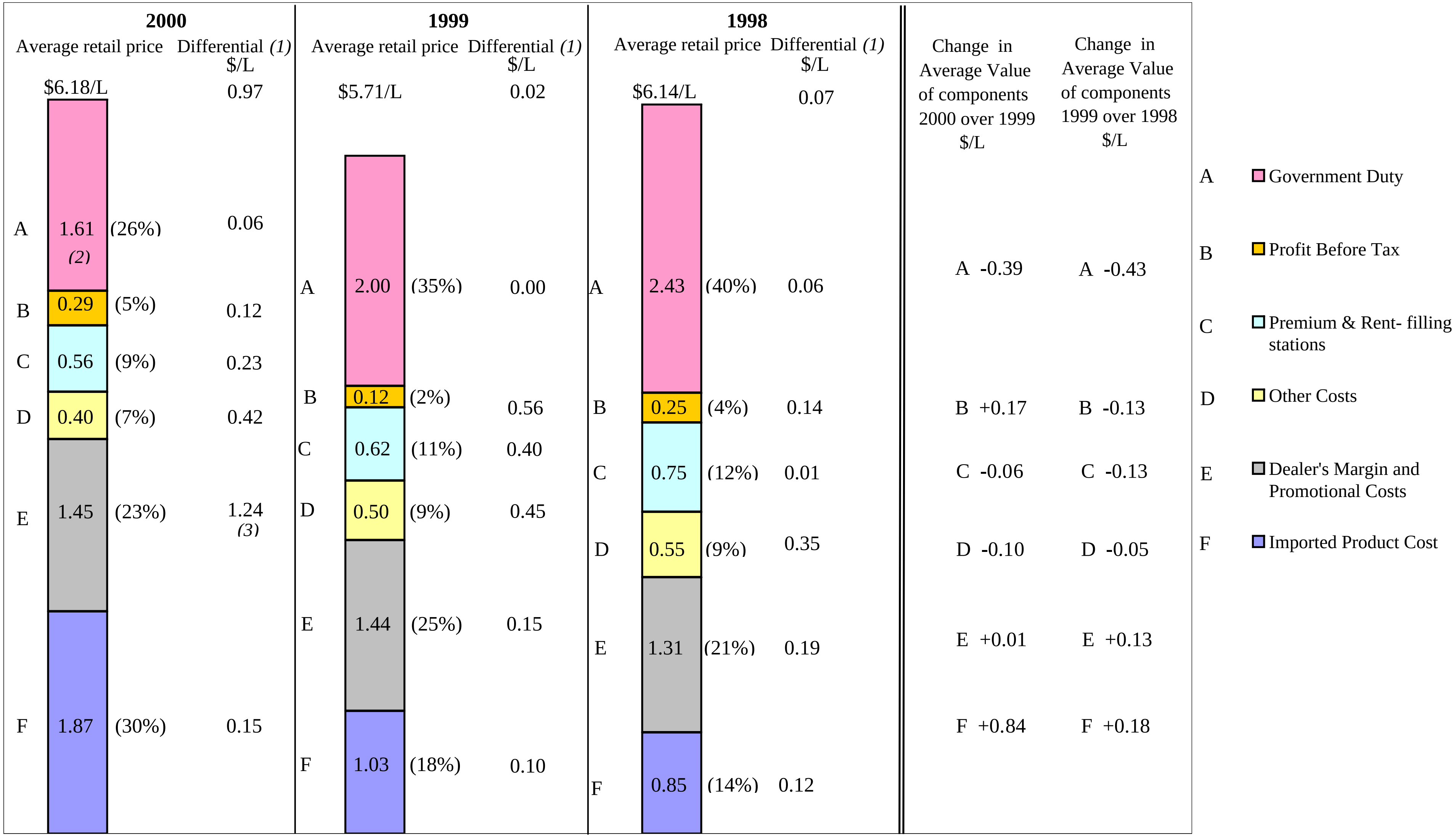
(1) Representing the differential between the highest and lowest unit value reported.

(2) One company has grouped the relevant government duty with the relevant imported product cost. Minor reclassifications have been made.

(3) The cost component of Dealer's Margin and Promotional Costs of an oil company is different from the others leading to this substantial differential. If the data of that oil company is excluded, the differential will become $0.34/litre.

Source: Information paper provided by the Administration in July 2001
(LC Paper No. CB(1)1760/00-01(01))

Components making up the average retail price of automotive diesel in 1998, 1999 and 2000



Note :

(1) Representing the differential between the highest and lowest unit value reported.

(2) One company has grouped the relevant government duty with the relevant imported product cost. Minor reclassifications have been made.

(3) The cost component of Dealer's Margin and Promotional Costs of an oil company is different from the others leading to this substantial differential. If the data of that oil company is excluded, the differential will become $0.11/litre.

Source: Information paper provided by the Administration in July 2004.
(LC Paper No. CB(1)2315/03-04(01))

Annex E

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[(1)] are adamant that detailed cost information, being proprietary and commercially sensitive, should not

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

be provided to the Government for analysis, not to say for publication. They are of the view that -

(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
July 2004