

For information on
4 November 2005

Legislative Council Panel on Transport

Consultancy Study on Auto-fuel Retail Market in Hong Kong and Review of Competition Policy

Purpose

As requested by Members, this paper updates Members on progress with regard to the consultancy study on auto-fuel retail market in Hong Kong and the work of the Competition Policy Review Committee.

Background

2. The Government is committed to promoting competition to enhance economic efficiency and free trade, thereby benefiting consumers. As far as the local auto-fuel retail market is concerned, since July 2000, the Government has adopted a series of measures to enhance competition in the auto-fuel retail market including –

- (a) putting up existing petrol filling station (PFS) sites for tender upon lease expiry instead of automatically renewing the tenancy; and
- (b) tendering PFS sites in batches and allowing tenderers to submit a single bid for all the sites or separate bids for individual sites included in a tender, to facilitate new market players in acquiring a “commercially viable mass” sites to achieve economies of scale. Two new players have successfully entered the market under the new tendering arrangements¹.

¹ Sinopec (Hong Kong) Limited and Chinaoil (Hong Kong) Corporation Limited

3. Further to the above, in view of the public's concern about competition in the local auto-fuel retail market and criticism about the oil companies being quick in increasing prices but slow in reducing, as well as the pace of their price adjustments being synchronized, the Competition Policy Advisory Group (COMPAG) decided in December 2004 to commission an independent consultant to assess the competition situation in the auto-fuel retail market in Hong Kong.

4. Separately, to ensure that the Government's competition policy caters for present day's circumstances and enables Hong Kong to maintain its competitive edge, COMPAG appointed on 1 June 2005 an independent committee, the Competition Policy Review Committee (CPRC), to review the existing competition policy and the composition, terms of reference and operations of COMPAG. The CPRC is chaired by a non-official, with members drawn from different sectors of the community, as well as representatives from bureaux and departments with responsibility for competition-related matters. Membership of the CPRC is at **Annex**.

Progress to date

Consultancy study on auto-fuel retail market in Hong Kong

5. The Government invited expression of interest from about 100 local and overseas consultancy firms in January 2005 and commissioned Arculli and Associates (A&A) in July 2005 to conduct the study. The Consulting Team, comprising legal experts and economists from A&A, Gilbert + Tobin, and NERA Economic Consulting, has extensive experience in competition law and enforcement; economic analysis of competition and regulatory matters; and analysis and assessment of the competition situation in various markets and industries (in particular the auto-fuel retail markets in various major economies). The Team has also provided expert advice to governments as well as competition regulatory agencies in other economies.

6. The Consultant is required to assess the competition situation in the

auto-fuel retail market in Hong Kong; examine whether local oil companies might have engaged in any anti-competitive practices; and make recommendations on whether measures, including legislation, might be required to ensure fair competition in the Hong Kong auto-fuel market. In this connection, the Consultant is required to examine and analyse the structure, including operating costs and retail pricing, of the local auto-fuel market; conduct interviews; make in-depth research including making reference to competition laws, policies and situations in the auto-fuel market in other economies such as the United States, European Union and Australia.

7. The Consultant has completed preliminary studies on the size and structure of the auto-fuel retail market in Hong Kong. The Consultant is looking into the competition situation in the market and will draw comparisons between the local market and those in other major cities, such as Singapore, Tokyo, Sydney, London and New York. The study is expected to be completed by the end of 2005.

Review of competition policy

8. The CPRC commenced work in June 2005 and has since held three meetings (the second meeting was held in the form of a seminar). It has studied background information relevant to the review including the background, objective and implementation of the existing competition policy; the work of COMPAG over the years; and the feedback from the public and the international community. To enhance understanding of the competition policies and practices in other major economies and their relevance to the Hong Kong situation, the CPRC also conducted a one-day seminar in August 2005 and invited experts in the field of competition law and enforcement from the United Kingdom, New Zealand, Australia, Singapore and Hong Kong to share their views and experience with CPRC members. The CPRC is examining the effectiveness of the existing competition policy and the composition, terms of reference and operations of COMPAG. The CPRC expects its review to be completed in mid-2006.

Next steps

9. The Government will report the findings of the consultancy study on auto-fuel retail market and the outcome of the review by the CPRC to the

Legislative Council and the public when the study and the review are completed.

Advice Sought

10. Members are invited to note the progress with regard to the consultancy study on auto-fuel retail market in Hong Kong and the review by the CPRC.

Economic Development Branch
Economic Development and Labour Bureau
October 2005

Membership of the Competition Policy Review Committee

Chairman

Mr Christopher CHENG, GBS, JP

Members

Mr Andrew BRANDLER

Prof Andrew CHAN

Prof CHAN Ka-keung

Dr William FUNG, JP

Mr John GRIFFITHS, SC, CMG, QC

Mr Peter HUNG

Mr IP Kwok-him, GBS, JP

Mr Larry KWOK, JP

Mr Frederick LAM, JP

The Hon Andrew LEUNG, SBS, JP

The Hon SIN Chung-kai, JP

Representatives from the following bureaux and departments :

Economic Development and Labour Bureau
(Economic Development Branch)

Commerce, Industry and Technology Bureau
(Commerce and Industry Branch)

The Telecommunications Authority

The Government Economist

Secretary

Principal Assistant Secretary for Economic Development
and Labour (Economic Development)