

**For discussion  
on 24 October 2008**

**Legislative Council  
Panel on Economic Development**

**Auto-fuel Prices**

**Introduction**

This paper outlines the recent trend movements in oil prices, and Government's efforts in monitoring local auto-fuel prices.

**Background**

2. Retails prices of auto-fuel in Hong Kong are determined by oil companies having regard to commercial practices and their operating costs. We appreciated the impact of the auto-fuel prices on the local economy. We have been monitoring whether changes in local retail prices of auto-fuel are in line with the trend movements of international oil price (benchmarked against the Singapore free-on-board (FOB) prices for unleaded petrol and motor vehicle diesel). We note that the international oil price has come down continuously since July 2008. We have been in close contact with oil companies and urged them to promptly adjust prices in tandem with international oil price movements to lessen the burden on the public.

**Enhancing Competition**

3. In a free market economy, the Government does not have the power to dictate the retail prices of auto-fuels. The Government will endeavour to maintain a stable fuel supply, encourage transparency and enhance competition by removing barriers to entry into the fuel market. To enhance competition in the auto-fuel retail market, the Government has taken a series of measures to facilitate the new market entrants including -

- (a) removing the requirement for bidders of petrol filling station (PFS) sites to hold import licence and supply contract;
- (b) re-tendering all existing PFS sites upon expiry of their leases,

instead of renewing the leases to the existing operators; and

- (c) since June 2003, the Government has tendered PFS sites in batches consisting of 2 to 5 sites per batch, depending on the land supply situation. The new tendering arrangement facilitates the new entrants in acquiring a critical mass of PFS to achieve economy of scale for an effective competition in the auto-fuel retail market.

4. Since the introduction of the new tendering arrangements, two new operators have obtained 21 out of the 30 PFS sites put up for tender and successfully entered the market. The share of the three biggest operators in terms of the number of PFS has dropped from over 93% to 76%. These figures have demonstrated that the new tendering arrangements have effectively enhanced the competition in auto-fuel retail market.

### **Monitoring of Local Auto-fuel Retail Prices**

5. To assess whether the extent and schedule of adjustments of local auto-fuel retail prices have been reasonable, the following factors should be taken into account:

- (a) Hong Kong has no oil refinery. All auto-fuels sold locally are imported, and they are refined oil products instead of crude oil. It is not appropriate to simply compare the difference between the international crude oil price and local retail prices;
- (b) the comparison between the import prices of auto-fuel (instead of international crude oil price) and local auto-fuel retail prices is an appropriate indicator to accurately assess whether there has been any deviation from the trend movements of international oil price;
- (c) apart from the import cost and Government duties, the local auto-fuel retail price also covers other operating costs such as labour, land, transportation and promotion costs. Adjustments in these operating costs may not be in tandem with international oil price movements; and
- (d) local oil companies in general replenish their oil stock once to three times a month. They usually maintain an oil stock of around 30 days. According to the analysis on the replenishment

frequency data, the actual import cost of auto-fuel currently sold reflects the average import prices of the past few weeks. Hence, there is a time lag for the adjustment of international oil price to be filtered through and be reflected in local auto-fuel retail prices.

6. Regarding the trend movements of retail prices of auto-fuel in the past few months, we have compared the changes in local retail prices of auto-fuel and the average monthly import prices since January 2003 (related data and graphs for unleaded petrol and diesel are at **Annex 1** and **Annex 2** respectively). In view of the import and stock-piling pattern of oil companies, there is a time lag for the adjustment of the auto-fuel import prices to be reflected in local retail prices. Therefore, the comparison has been made between the average import prices of the previous month and the local retail prices in the current month. It is noted from the graphs in the annexes that, the trend movements and the extent of adjustments in local retail prices have been broadly in line with the average import prices in the previous month.

### **Measures to Enhance Transparency in Auto-fuel Prices**

7. We will continue to closely monitor the adjustments of local retail prices of auto-fuel. As mentioned in this year's Policy Address, we have asked the oil companies to promptly adjust prices in tandem with international oil price movements, and be more transparent in price setting so the public can monitor their retail prices. To enhance the transparency of retail prices of auto-fuel, we will regularly publish the local import prices and retail prices of auto-fuel in comparison with the trend movements of Singapore FOB prices for unleaded petrol and motor vehicle diesel. In addition, Consumer Council will also publish weekly the local retail prices of auto-fuel and various cash/non-cash discounts. Consumers can have a better grasp on the market situation and make a smart choice in consumption.

### **Competition Law**

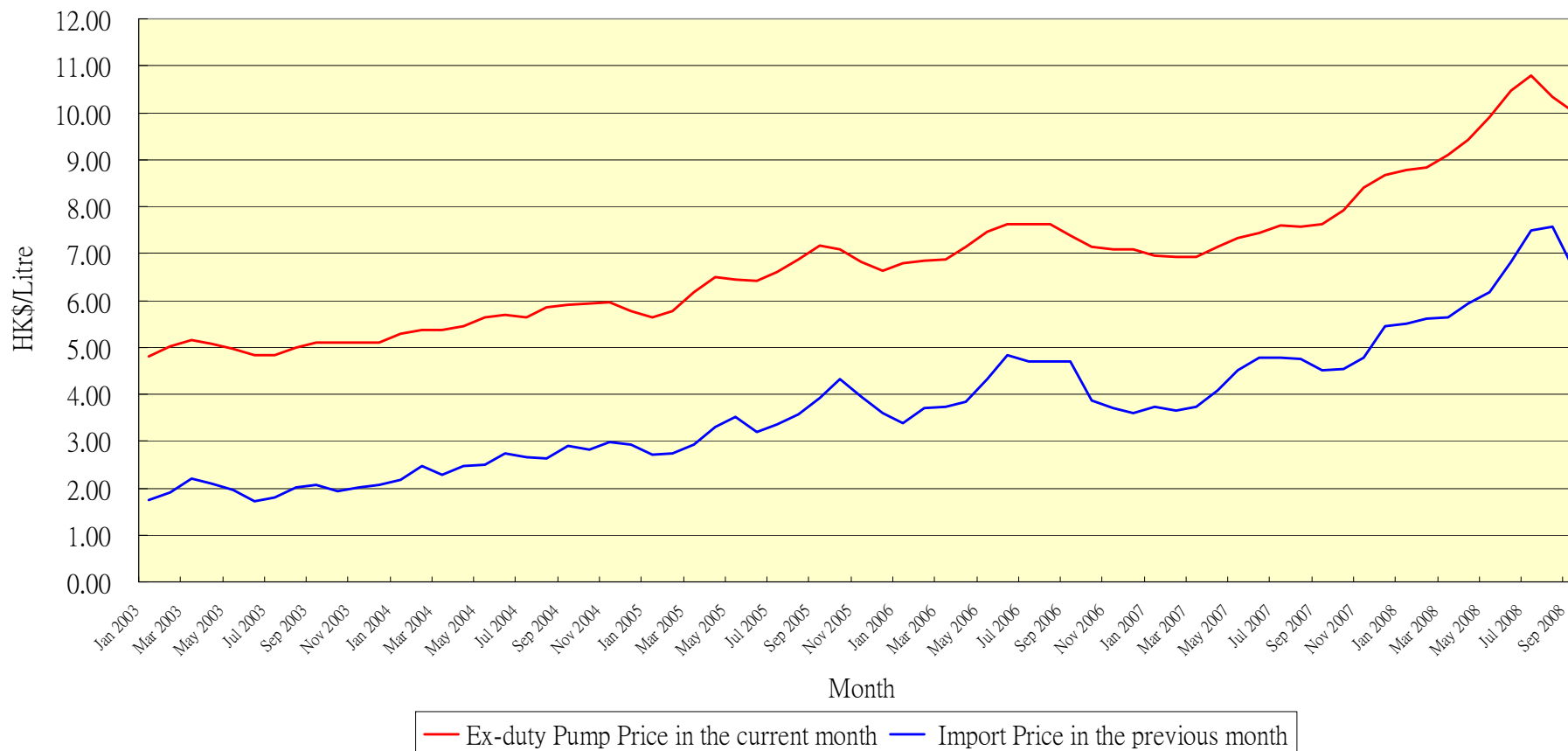
8. The Government aims to introduce a Competition Bill into the Legislative Council in the current legislative session. The main reason for the Government to introduce a competition law is to combat anti-competitive conduct in all economic sectors and provide a level playing field for business. The question of whether companies in any sector might have engaged in price-fixing could only be determined after investigation. Under the proposed competition law, the independent

Competition Commission would be able to commence an investigation as long as it had reasonable cause to believe that price-fixing or any other form of anti-competitive conduct had taken place in any market. If the Commission could prove that anti-competitive conduct had occurred, appropriate remedies could then be applied.

**Environment Bureau**

**October 2008**

Unleaded petrol - Local pump price in the current month vs import price in the previous month

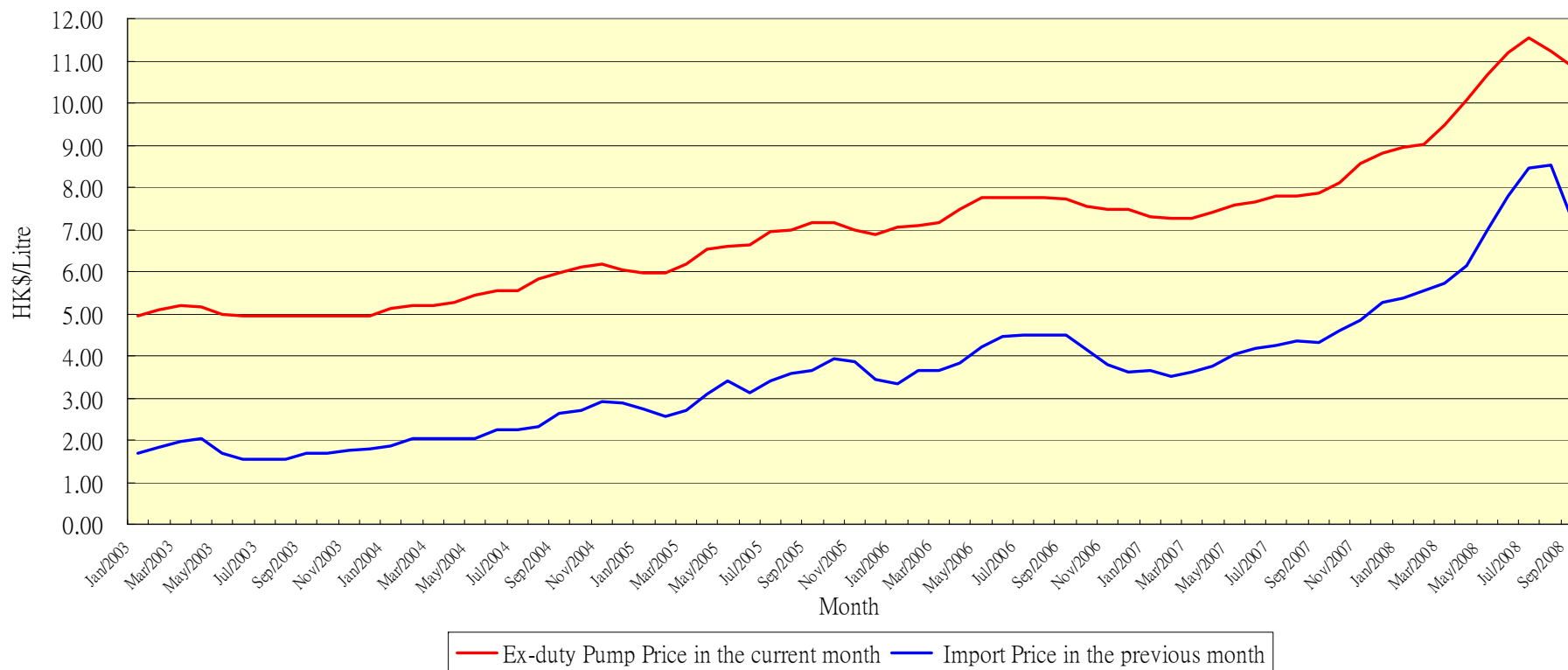


### Pump-Import price spread: Unleaded petrol\*

	Import prices (previous month)		Ex duty pump prices (current month)		Spread
		<u>Change</u>		<u>Change</u>	
	<u>(\$/Litre)</u>	<u>(\$/Litre)</u>	<u>(\$/Litre)</u>	<u>(\$/Litre)</u>	<u>(\$/Litre )</u>
2003	1.96		5.00		3.04
2004	2.63	0.67	5.66	0.65	3.02
2005	3.42	0.79	6.51	0.85	3.09
2006	4.09	0.67	7.22	0.71	3.13
2007					
Jan	3.73	0.12	6.96	-0.12	3.23
Feb	3.65	-0.08	6.93	-0.03	3.28
Mar	3.74	0.09	6.93	0.00	3.19
Apr	4.07	0.33	7.13	0.20	3.06
May	4.50	0.44	7.33	0.20	2.83
Jun	4.78	0.27	7.44	0.10	2.66
Jul	4.79	0.01	7.61	0.17	2.82
Aug	4.76	-0.03	7.57	-0.04	2.81
Sep	4.52	-0.24	7.62	0.05	3.10
Oct	4.54	0.01	7.93	0.30	3.39
Nov	4.78	0.24	8.41	0.48	3.63
Dec	5.44	0.66	8.66	0.25	3.22
2007 Full year	4.44	0.35	7.54	0.32	3.10
2008					
Jan	5.50	0.06	8.79	0.13	3.29
Feb	5.60	0.10	8.82	0.03	3.22
Mar	5.63	0.02	9.10	0.28	3.47
Apr	5.94	0.31	9.42	0.32	3.48
May	6.18	0.24	9.90	0.48	3.72
Jun	6.82	0.64	10.48	0.58	3.66
Jul	7.50	0.68	10.78	0.30	3.28
Aug	7.57	0.07	10.33	-0.45	2.76
Sep	6.67	-0.90	10.02	-0.31	3.35

\* For instance, the spread for September 2008 is calculated by subtracting the average pump price in September 2008 by the average import unit value in August 2008. The spread covers a whole host of factors including land price, construction cost, operating cost, credit card commissions, Government rent and rates, terminal storage, transportation cost and profits.

Motor Vehicle Diesel - Local pump price in the current month vs import price in the previous month



### Pump-Import price spread: Diesel\*

	Import prices (previous month)		Ex duty pump prices (current month)		Spread
	<u>Change</u>		<u>Change</u>		
	<u>(\$/Litre)</u>	<u>(\$/Litre)</u>	<u>(\$/Litre)</u>	<u>(\$/Litre)</u>	<u>(\$/Litre)</u>
2003	1.73		5.01		3.27
2004	2.33	0.59	5.62	0.62	3.30
2005	3.29	0.96	6.66	1.04	3.37
2006	4.02	0.73	7.50	0.84	3.48
2007					
Jan	3.64	0.01	7.30	-0.16	3.66
Feb	3.51	-0.13	7.26	-0.04	3.75
Mar	3.60	0.10	7.26	0.00	3.66
Apr	3.75	0.14	7.42	0.16	3.67
May	4.05	0.30	7.57	0.15	3.52
Jun	4.19	0.14	7.64	0.07	3.45
Jul	4.26	0.08	7.78	0.14	3.52
Aug	4.36	0.10	7.79	0.01	3.43
Sep	4.32	-0.04	7.85	0.06	3.53
Oct	4.60	0.29	8.12	0.27	3.52
Nov	4.84	0.24	8.56	0.44	3.72
Dec	5.25	0.40	8.81	0.25	3.56
2007 Full year	4.20	0.18	7.78	0.28	3.58
2008					
Jan	5.38	0.14	8.94	0.13	3.56
Feb	5.55	0.16	9.03	0.09	3.48
Mar	5.71	0.17	9.47	0.44	3.76
Apr	6.14	0.43	10.06	0.59	3.92
May	6.98	0.84	10.68	0.61	3.70
Jun	7.80	0.82	11.18	0.50	3.38
Jul	8.44	0.64	11.55	0.37	3.11
Aug	8.51	0.07	11.22	-0.33	2.71
Sep	7.25	-1.26	10.89	-0.33	3.64

\* For instance, the spread for September 2008 is calculated by subtracting the average pump in September 2008 by the average import unit value in August 2008. The spread covers a whole host of factors including land price, construction cost, operating cost, credit card commissions, Government rent and rates, terminal storage, transportation cost and profits.