

For discussion  
on 27 April 2015

## **Legislative Council Panel on Economic Development**

### **Auto-fuels Retail Prices and Domestic Liquefied Petroleum Gas Prices**

#### **Purpose**

This paper briefs Members on Government's efforts in monitoring retail prices of auto-fuels and domestic liquefied petroleum gas (LPG) and sets out our observations on the recent trend movements of price adjustments of these oil products.

#### **Monitoring of Auto-fuels Prices**

2. Retail prices of auto-fuels in Hong Kong are determined by oil companies having regard to commercial practices and their operating costs. The Government appreciates the impact of the auto-fuels prices on the public and has been monitoring the changes in local retail prices of auto-fuels and comparing them with the trend movements of international oil prices (benchmarked against the Singapore free-on-board (FOB) prices for unleaded petrol and motor vehicle diesel). We have been in close contact with oil companies and in time of international oil price reduction, urge them to adjust prices promptly to lessen the burden on the public.

3. Hong Kong has no oil refinery. All auto-fuels sold locally are imported refined oil products instead of crude oil. Refined oil products (such as unleaded petrol and motor vehicle diesel) are products produced from crude oil after refinery processes and are different from crude oil. Therefore, changes in international crude oil price and prices of unleaded petrol and motor vehicle diesel are not necessarily the same. When comparing international oil prices and the local retail prices of auto-fuels, it is more appropriate to make reference to Singapore free-on-board (FOB) prices (i.e. Means of Platts Singapore (MOPS)) and the prices of importing oil products by oil companies.

## **Trend Movements of Local Auto-fuels Price Adjustments**

4. The Government observes that the trend movements of local retail prices of auto-fuels and MOPS are generally in line, although changes in prices are not exactly the same in terms of magnitude and frequency due to the following reasons –

- (a) MOPS prices fluctuate day to day, but oil companies do not adjust their auto-fuels price daily;
- (b) Import price of refined oil product is only one of the costs of local retail price. Retail price also includes tax (\$6.06/litre for unleaded petrol and tax free for diesel), and other operating costs, such as land costs, government rent, staff costs, transportation, promotion, operation of oil terminal, etc. When oil companies adjust their prices, apart from the import prices of oil products, they also take into account changes in these operating costs; and
- (c) Oil companies generally provide various kinds of discounts and promotions to customers and drivers. Therefore, the actual selling prices of auto-fuels are effectively lower than their listed pump prices.

5. The Government notes that the international oil prices have fluctuated in recent months. Since the beginning of July 2014 and up to the end of March 2015, international crude oil prices have accumulated a reduction of about 50%. The trend movements of MOPS for unleaded petrol and diesel are roughly the same during the period. In this period, oil companies, in response to falling import prices, have adjusted downwards the pump prices of unleaded petrol and diesel, with maximum accumulated reduction of over \$3.2/litre. We observe that this is generally in line with the trend movements of international oil prices over the same period, and represents around 50% of the import price of its refined oil products in July 2014 at \$6.34/litre. As a result of the rises in MOPS for unleaded petrol and diesel, oil companies have recently increased the pump prices of unleaded petrol and diesel. According to our observation, the magnitudes of increase in retail prices are lower than or the same as the rise in corresponding MOPS.

6. To sum up, in analysing whether the prices of local auto-fuels are adjusted in tandem with the changes in import prices of refined oil products, we should consider the portion of import price of refined oil product within the pump price, and should not take into account other components which do not have direct relationship with the international oil prices (that is, tax and other operating costs). Therefore, it is not appropriate to simply compare the percentage change of local auto-fuels pump prices with that of international oil prices. In addition, as oil companies offer various kinds of discounts and promotions to consumers, the actual prices paid by consumers are lower than the pump prices listed in petrol filling stations.

## **Competition in Local Auto-fuels Market**

7. In a free market economy, the retail prices of auto-fuels are determined by the market. The Government has been endeavoured to ensure a reliable supply of fuel, maintain an open market and enhance competition by removing barriers to enter into the fuel market. The Government has, since 2003, taken the following series of measures to facilitate 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) depending on the land supply situation, tendering PFS sites in batches consisting of 2 to 5 sites per batch. 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.

8. Since the introduction of the above tendering arrangements, two new operators have obtained 31 out of the 52 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 90% to about 70%. These figures have demonstrated that the above tendering arrangements have effectively enhanced the competition in auto-fuels retail market, in view of the size of Hong Kong market. In fact, consumers can obtain discounts through various means, and the amount of discounts from different oil companies are not the same. This also reflects that price competition exists in the market.

## **Enhancing Transparency of Auto-fuels Products Prices**

9. The policy of the Government is to make its best effort to ensure a stable fuel supply, maintain market openness and remove barriers to entry into the market to enhance competition. We also endeavour to improve transparency of auto-fuels products prices to facilitate consumers to obtain sufficient information for making choices.

10. On improving transparency, we post onto our website, on a weekly basis, the movements in local import prices and retail prices of auto-fuels in comparison with movements in FOB prices of Singapore unleaded petrol and motor vehicle diesel. In addition, the Census and Statistics Department provides statistics on import and retail prices of major oil products to the Panel on Economic Development on a regular basis. We have recently added the linkage to this information on our website.

11. Furthermore, we have commissioned the Consumer Council (CC) to post onto its website on a weekly basis, the local auto-fuels retail prices and information on various types of cash and non-cash discounts offered by oil companies, and to launch the “Auto-fuel Price Calculator” to promote price competition among oil companies and to facilitate consumers to make choices among the various discounts and benefits offered by oil companies.

12. As smartphones become popular, we have also commissioned the CC to develop smartphone applications for the “Auto-fuel Price Calculator” to allow consumers, through their smartphone, to access to petrol filling station (PFS) information (e.g. address, telephone number, auto-fuels prices, etc. of PFS), track their current location for finding the route to a particular PFS, calculate auto-fuels prices, instant discount, special discount of different PFS, create personal account for keeping track of payment records and bonus points etc. Smartphone application for unleaded petrol was launched in 2012 while that for diesel was launched in the first quarter of this year.

### **Domestic LPG Price Adjustment Mechanism**

13. Same as other commodities in the market, the prices of domestic LPG are determined by oil companies having regard to commercial practices and their operating costs. The Government understands and is concerned about the impact of domestic LPG prices on the public and therefore encourages the industry to enhance transparency on price setting.

14. In this regard, a major local LPG supplier (the Company) has established, since 1999 and on its own initiative, a price adjustment mechanism of domestic LPG to enhance the transparency of price setting. In accordance with this mechanism, the Company, once every three months (i.e. at end of January, April, July and October), sets the prices for the coming three months by forecasting the import prices for the coming three months in light of the latest international LPG price, and making positive or negative adjustment for any difference between the actual import prices and the forecast import prices in the last review. In addition, according to this mechanism, the Company also reviews its operating costs once every twelve months.

15. According to our observation, the adjustments of listed prices of piped LPG and wholesale prices of cylinder LPG of other oil companies in the market generally follow those of the Company. Their price adjustments therefore also reflect the movements of international LPG prices.

### **Monitoring and Trend Movements of Domestic LPG Prices**

16. LPG, crude oil or auto-fuels are different products. Their price movements therefore would not necessarily be the same. In monitoring domestic LPG prices, the Government makes reference to the movements of international

LPG prices (calculated using Saudi Arabia monthly exporting Contract Price<sup>1</sup>) and local LPG import prices and assess whether the Company's price forecasts are reasonable. We will also follow up with the Company the positive or negative price adjustments due to actual and forecast price difference in the last review, and assess if the annual adjustment in operating cost is reasonable.

17. Under the above price adjustment mechanism, the Company has, since mid last year, adjusted the price of domestic LPG three times, in July and October 2014 as well as January 2015. The listed price of domestic piped LPG has reduced by around 20% from \$38/cubic metre at the beginning of July 2014 to the latest price of less than \$31/cubic metre. The wholesale price of cylinder LPG has been adjusted by the same magnitude. Comparing to the LPG import prices of the same period (\$7.29/kg for July 2014 and \$5.64/kg for January)<sup>2</sup>, the relevant adjustment magnitude is generally in tandem with the downward movement of the LPG import prices.

**Environment Bureau  
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<sup>1</sup> Please refer to [http://www.emsd.gov.hk/emsd/eng/sgi/lpg\\_pub\\_price.shtml](http://www.emsd.gov.hk/emsd/eng/sgi/lpg_pub_price.shtml)

<sup>2</sup> Please refer to LegCo Paper No. CB(4)605/14-15(01) at <http://www.legco.gov.hk/yr14-15/chinese/panels/edev/papers/edevcb4-605-1-ec.pdf>