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19 January 2015

Ms Debbie Yau
Clerk to Panel (Economic Development)
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Ms Yau,

**Concerns for Deviation in Reduction of
Retail Prices of Oil Companies from that of International Oil Prices**

Thank you for your letter of 6 January. Regarding the concerns of Hon Frankie YICK on local auto-fuel prices, we provide our reply below, and attach oil companies' response at **Annexes 1 to 3¹**.

Retail prices of auto-fuels in Hong Kong are determined by oil companies having regard to commercial practices and their operating costs. We appreciate the impact of the auto-fuels prices on the public and have 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.

Hong Kong has no oil refinery. All auto-fuels sold locally are imported refined oil products instead of crude oil. Crude oil and refined oil

¹ Sinopec's response available in Chinese only.

products (such as unleaded petrol and motor vehicle diesel) are different products. 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 FOB prices (i.e. Means of Platts Singapore (MOPS)) and the prices of importing oil products by oil companies.

According to our observation, 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 timing and magnitude -

- (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 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.

Since the beginning of July 2014, 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, each as many as seventeen times, with maximum accumulated reduction of over \$3.1/litre. According to our observation, 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.

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 % 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.

In a free market economy, the Hong Kong retail price of auto-fuels, same as the prices of other consumer products, should be determined by the market. We will continue to monitor the trend movement of the oil prices, and urge the oil companies to promptly reduce their retail prices whenever there is room to do so, to lessen the burden of the general public.

Yours sincerely,



(Ms Vyora Yau)

for Secretary for the Environment

Chevron Hong Kong Limited's reply

There seems to be a general perception by the public that percentage change in crude price should mean the same percentage change in gasoline retail pump price.

Gasoline retail pump price is made up of 3 major cost components:

- (1) Finished product import costs
- (2) Government fuel tax
- (3) Operating costs (examples of operating expenses: land cost, labour cost, transportation cost, marketing, tax, office rentals, Tsing Yi Terminal operating cost, utilities etc.)

Crude price does affect gasoline retail pump price but only the finished product import cost portion (i.e. component (1) above) of the gasoline retail pump price. Components (2) and (3) remain fairly constant when crude price changes.

Since second half of 2014, Chevron has adjusted gasoline retail pump price seventeen (17) times to reflect the drop in finished product import costs or HK\$2.94 per litre in aggregate. These price adjustments amount to more than 45% reduction of our finished product import costs.

Public perceived that there was only a 17% reduction in the gasoline retail pump price by applying the drop of HK\$2.94 per litre to the entire retail price of HK\$17.38 per litre without taking into consideration of the other cost components which are not directly affected by crude price.

The situation is fairly similar for diesel. Since June 2014, Chevron has reduced the diesel retail pump price fifteen (15) times or in aggregate HK\$2.18 per litre (more than 35% of the finished product import cost). In addition to reducing diesel retail pump price, we have also increased our discounts to our customers – fleet companies and commercial drivers. As a result, these customers are paying far less than the retail pump prices.

Chevron recognizes the impact of fuel prices have on our customers. We will continue to monitor price movements closely and make timely and appropriate adjustments so consumers can enjoy savings from oil price reduction accordingly.

9 January 2015

ExxonMobil Hong Kong Limited's reply

We appreciate the public's concern on fuel prices and the impact of the oil prices on people's livelihood. We closely monitor and review the market situation and make timely price adjustments when the market warrants such a move. In determining the pump price many cost factors are taken into consideration including product cost, business operating costs, service station land costs, government taxes and excise duty, discounts and market competition.

It should be noted that the widely reported comparison of pump price and product cost fluctuations merely in percentages of change over time should be treated with caution as it does not convey the full picture of their respective monetary movements. Product cost is only one of the major cost components of the pump price and as such product cost will always be a smaller number than the pump price. Therefore, even if the pump price moves in tandem with the product cost when expressed as a percentage change, the numbers will not be the same; the percentage change in product cost will always appear bigger than the pump price change. Furthermore apart from product cost, the pump price also includes other cost components such as operating costs, service station land costs, customer discounts and promotions, etc. These costs are not impacted by product price reductions and, on the contrary, have been increasing in recent years.

Between July 1, 2014 and January 14, 2015, Esso has made 33 downward price adjustments to gasoline or diesel in response to changes in product prices and the other factors already mentioned above. In that time interval the Esso petrol pump price dropped by HK\$3.14 per litre and Esso diesel pump price dropped by HK\$2.38 per litre. The pump price movements are trending in line with the product cost changes during the period.

We will continue to closely monitor the market and make timely adjustments when warranted.

15 January 2015

Shell Hong Kong Limited's reply

Our auto-fuel prices are affected by a number of factors, including land cost, duty, salary and wages, other operating expenses, and so on. As most automotive fuels used in Hong Kong are imported, our auto-fuel prices would change as a result of changes in the Singapore FOB prices. According to the current figures, the trend of local auto-fuel prices has been in line with the movement of Singapore FOB prices. In addition, crude oil prices, which most people mention, are not applicable to the local market.

Since Singapore FOB prices started to fall in July 2014, Shell's retail pump prices have been reduced by HK\$ 2.94/Litre and HK\$ 2.18/Litre for gasoline and diesel products respectively. During the same period, we have offered Bonus Card promotion to gasoline customers a HK\$50 Shell fuel coupon for every cumulative purchase of HK\$ 1,500 gasoline product throughout Shell retail network. The offer is approximately equivalent to a rebate of about HK\$0.50 /litre. At the same time, the discounts to some commercial fleet customers have been increasing to sustain our competitiveness in the market. On an overall basis, Shell's adjustment on fuel prices including retail pump price reduction and promotion rebate/ discount is in line with Singapore FOB price trend.

Shell has been monitoring the changes in market trend closely, and will adjust the retail prices when necessary.

15 January 2015