

For discussion
on 27 June 2016

Legislative Council Panel on Economic Development

Price Adjustment Mechanism and Transparency of Domestic Liquefied Petroleum Gas (LPG) Prices

Purpose

This paper briefs Members on the price adjustment mechanism of domestic LPG, the Government's efforts in monitoring these prices, our observations on their recent trend movements and matters related to transparency on LPG prices.

Price Adjustment Mechanism and Monitoring of Domestic LPG Prices

2. Same as other commodities in the market, in a free market economy the prices of domestic LPG in Hong Kong 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.

3. Since 1999, a major local LPG supplier (the Company) has established a price adjustment mechanism of domestic LPG on its own initiative 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 the light of the latest international LPG prices, 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. Under this mechanism, the movements of international LPG prices could be reflected in the price adjustments.

4. Other LPG suppliers in the market express that they conduct regular reviews on the listed prices of domestic piped LPG and wholesale prices of cylinder LPG according to their respective pricing adjustment mechanisms and various factors (including LPG import prices). According to our observation, the price adjustments of these LPG suppliers are very close to those of the Company as mentioned above. As such, their prices could also reflect the movements of international LPG prices.

5. In monitoring domestic LPG prices, the Government makes reference to the movements of international LPG prices (calculated using Saudi Arabia monthly exporting Contract Price¹) 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.

6. Same as other commodities, the retail prices of domestic LPG comprises numerous elements, including import price, operating costs (such as transportation costs, salary, facility maintenance, etc.) and company profit. On the contrary, international LPG prices do not take into account the costs incurred by oil companies to import the domestic LPG to Hong Kong (such as transportation and insurance costs) and their costs to operate the business locally. Since these costs normally do not adjust correspondingly to the change in import prices of LPG, it is not appropriate to simply compare the percentage change of international LPG prices with domestic LPG retail prices.

7. It is more appropriate to make comparison by conducting an analysis with reference to the LPG import price data submitted by the Census and Statistics Department (C&SD) to the Legislative Council. According to data from C&SD, the LPG import price has dropped by around \$3.8/kg from July 2014 (i.e. \$7.29/kg) to April 2016 (i.e. \$3.45/kg). During this period, the Company has adjusted its listed price of domestic piped LPG in response to the falling import price, with a reduction of around \$9/cubic metre (i.e. around \$3.7/kg). Therefore, the magnitude of price adjustment of domestic piped LPG is generally in tandem with the trend movement of LPG import prices.

Enhancing Transparency of Domestic Piped LPG Prices

8. In response to the Member's earlier request, the Environment Bureau has written to all domestic piped LPG suppliers consulting them the feasibility of publishing their price information to the public. Two of them have published the updated domestic piped LPG prices on their websites since July of last year².

¹ Please refer to http://www.emsd.gov.hk/en/gas_safety/lpg_vehicle_scheme/auto_lpg_prices/index.html

² Shell: <http://www.shell.com.hk/en/products-services/lpg/all-about-lpg.html>
Sinopec: <http://www.sinopechk.com/>

The other supplier expresses that it supplies domestic piped LPG and cylinder LPG through operators and distributors, rather than supplying to domestic users directly. Due to company policy, this supplier considers that it is not appropriate to publish price information about its domestic piped LPG products as a wholesaler.

9. Also, the Environment Bureau has consulted the Competition Commission (the Commission) regarding the suggestion of publishing domestic piped LPG price information of respective oil companies centrally on the Government website. Given the highly concentrated nature of the domestic LPG market in Hong Kong, the Commission is of the view that publishing the price information on a designated platform so as to enhance price transparency could in fact facilitate price coordination and lead to an alignment of prices between suppliers. This arrangement may violate the Competition Ordinance or give rise to risks under competition policy. In the light of the Commission's opinion, we will not mandatorily request the oil companies to centrally publish their price information on the Government website.

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