

政府總部
環境局
香港添馬添美道2號
政府總部東翼15至16樓



ENVIRONMENT BUREAU
GOVERNMENT SECRETARIAT
15/F & 16/F, East Wing,
Central Government Offices
2 Tim Mei Avenue, Tamar, Hong Kong

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電話號碼 Tel : (852) 3509 8638
傳真號碼 Fax : (852) 2537 1002

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

Dear Ms Chan,

Responses to a Media Report Relating to Local Oil Prices

Thank you for your letter of 19 April. Regarding the enquiry from Hon. Tang Ka-piu on a media report relating to local auto-fuels prices, we provide our reply below with inputs from the oil companies.

(1) Difference between the prices of international crude oil and refined oil products

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 in terms of timing and magnitude. 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.

(2) Trend movements of local auto-fuels prices

In assessing whether the prices of local auto-fuels are adjusted in tandem with the changes in import prices of auto-fuels, we should consider the portion of import price of auto-fuels in the pump price, and should not take into account other components (that is, tax and other operating costs) in the pump price. When the import prices drop, if tax and other operating costs are unchanged, the percentage change of pump price must be lower than that of import price. On the contrary, when the import prices rise, the percentage increase in pump price will be lower than that of import prices. Therefore, it is not appropriate to simply compare the percentage change of auto-fuels pump prices with that of import prices. Besides, as oil companies generally provide various kinds of discounts and promotions to consumers, the actual prices paid by consumers are effectively lower than the pump prices listed at petrol filling stations. Hence, the actual prices they paid are not the same.

International oil price has fluctuated notably since mid-2014. According to our analysis, the import prices of auto-fuels in February 2016 have dropped by around \$3.7/litre (around 60%) from their peak levels in June 2014. During this period, oil companies, in response to falling import prices, have adjusted the pump prices of auto-fuels downwards, with accumulated reduction of around \$3.7/litre, which represents around 60% of the peak level import prices of auto-fuels (the peak level import prices of unleaded petrol was \$6.47/litre in June 2014). Therefore, the magnitude of the pump prices adjustments is generally in line with the trend movements of import prices. Similarly, according to our observation, the adjustments in retail price of auto-fuels are generally in line with the trend movements of MOPS over the same period.

(3) Oil companies' responses to the media report

We have forwarded Hon. Tang's letter to the five oil companies and requested them to respond to the media report. Their replies are summarised as follows-

Oil companies express that in analysing the prices of local auto-fuels, apart from the changes in import prices of refined oil products, other factors, including demand and supply condition in the international market, the local market condition, such as competition environment, geographical location, market dynamic and the changes in operating costs (e.g. transportation costs, land premium, staff costs, promotions and discounts, etc.) will also need to be taken into account. In fact, in the light of the local geographical environment, there exists an intensive market competition given the close proximity of petrol filling stations. Regarding the media report stating that the “Pearson Correlation Coefficient” has reflected the retail prices in local auto-fuels market are “highly related”, oil companies consider it reflects the essences and results of market and fair competition. Market participants have to closely follow the changes in the market in order to retain their consumers and maintain their competitive edges.

Oil companies express that apart from following law and business ethics, they are also bound by their stringent internal regulations which prohibit any possible anti-competitive behaviour. Their marketing strategies and prices are formulated independently based on their customer needs, product positioning, company policies and development direction, as well as other commercial considerations.

(4) The role of the Government and monitoring

In a free market economy, retail prices of auto-fuels in Hong Kong are determined by oil companies having regard to commercial practices and their operating costs. When oil companies determine their prices, apart from the import prices of oil products, tax and the changes in operating costs (such as staff costs, transportation costs, costs of operating oil terminal, land premium, etc.) will also be taken into account. Since the relevant data are commercially sensitive information of oil companies, in a free market economy, the Government does not have the power to request the oil companies to provide such detailed information.

The role of the Government is to endeavour to ensure a stable fuel supply, maintain market openness, and remove barriers to enter into the market to enhance competition. We also endeavour to improve the

transparency of the prices of auto-fuels products to facilitate consumers to make choices. 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 FOB prices (i.e. MOPS) for unleaded petrol and motor vehicle diesel). We will urge the oil companies to promptly reduce their retail prices whenever there is room to do so in order to lessen the burden of the general public.

The Competition Ordinance came into full effect from 14 December 2015. The Competition Commission, as the independent statutory body to implement the Ordinance, will handle matters relating to price fixing as appropriate. According to our understanding, the Competition Commission is conducting study on whether the oil companies are engaged in anti-competitive behaviour in setting the prices of auto-fuels. We will collaborate with the Competition Commission to facilitate their work in this regard as appropriate.

Yours sincerely,



(Ms Esther Wang)
for Secretary for the Environment