

# **立法會**

## ***Legislative Council***

LC Paper No. CB(4)1032/16-17(05)

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### **Panel on Economic Development Meeting on 22 May 2017**

#### **Background brief on Competition Commission's study on the auto-fuel market**

#### **Purpose**

This paper provides background information on the auto-fuel market in Hong Kong, and summarizes the views and concerns expressed by members of the Panel on Economic Development ("the Panel") in previous discussions.

#### **Background**

##### *Pricing and monitoring of auto-fuels*

2. Hong Kong has no oil refinery. All auto-fuels sold locally are imported refined oil products (such as unleaded petrol and motor vehicle diesel). According to the Administration, in a free market economy, the retail prices of auto-fuels in Hong Kong are determined by oil companies having regard to commercial practices and their operating costs. The oil companies generally take into account the following factors when determining their prices –

- (a) import prices of refined oil products;
- (b) operating costs (including land costs, government rent, staff costs, transportation, promotion, operation of oil terminals, etc.); and
- (c) Government duty (\$6.06 per litre for unleaded petrol and tax free for environmental diesel oil (Euro V diesel)).

3. The Administration has advised that the role of the Government is to endeavour to ensure a stable fuel supply, maintain market openness, and remove barriers for entry into the fuel market to enhance competition. It 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 (i.e. Means of Platts Singapore) for unleaded petrol and motor vehicle diesel).

4. The Administration has also advised that in assessing whether the prices of local auto-fuels are adjusted in tandem with the changes in import prices of auto-fuels, consideration should be given to the portion of import price of auto-fuels in the pump price<sup>1</sup>, 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 ("PFS").

5. The Administration has compared the changes in local retail prices of auto-fuels and the average monthly import prices since January 2003. 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. Result of the comparison shows 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.

6. To improve the transparency of prices of fuel products, the Administration posts onto the website the movements in local import prices and retail prices of auto-fuel in comparison with movements in Singapore FOB prices on a weekly basis. It has also commissioned the Consumer Council to post onto its website the local auto-fuel retail prices and information on various types of cash and non-cash discounts offered by oil companies weekly, and to launch the "Auto-fuel Price Calculator" as well as relevant smartphone applications to promote price competition among oil companies and to facilitate consumers to make choices.

7. The Census and Statistics Department also provides statistics on import and retail prices of major oil products to the Panel on a regular basis. The latest update was issued on 2 May 2017 vide LC Paper No. CB(4)960/16-17(01).

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<sup>1</sup> Pump price is the retail price of auto-fuel after tax and before cash discount.

### *Retendering arrangements of PFS sites*

8. To enhance market competition, since 2003, the Government has re-tendered all existing PFS sites upon expiry of their leases, instead of renewing the leases to the existing operators. At the same time, the requirement for bidders of PFS sites to hold import licence and supply contract have been removed. Since the introduction of the new tendering arrangements, two new operators have successfully entered the market. The share of the three incumbent major operators in terms of the number of PFS has dropped from over 90% to about 70%. At present, there are six oil companies operating 181 PFS in Hong Kong. The market share of the six oil companies in Hong Kong as at January 2017 is at **Appendix I**.

9. The Administration has recently informed the Panel that out of a total of 181 PFS in Hong Kong, the land leases of 28 PFS sites will expire in 2018 and be available for retendering for PFS. Of these 28 leases, one will expire on 2 April 2018 while the rest will all expire on 27 June 2018. A PFS will normally be closed for several months for retrofitting works upon commencing the new lease. Given the significant number of PFS involved, there is a need to stagger the tendering of these 28 sites to minimize service disruption to consumers during the period of station closure. An information paper on the staggering arrangements for the retendering of these 28 PFS sites was issued to Panel members on 28 March 2017 vide LC Paper No. CB(4)767/16-17(01).

### **Previous discussions of the Panel**

10. The Panel last discussed the prices of auto-fuels at its meeting on 27 April 2015. The Panel touched on the subject of the Competition Commission ("the Commission")'s study on the auto-fuel market when discussing the work of the Commission at the meeting on 27 March 2017. Members were generally concerned about the pricing mechanism of auto-fuels and how the Administration monitored the work of oil companies to ensure that they would not take advantage of the trend movements of international oil prices. A member suggested that the Administration could consider introducing a pricing adjustment mechanism similar to the ceiling prices adjustment mechanism adopted for liquefied petroleum gas ("LPG") at dedicated taxi LPG filling stations.

11. Major views and concerns expressed by members of the Panel in the past include:

- (a) the oil companies were "quick going up, slow coming down" and "more going up, less going down" in the adjustment of the retail prices of auto-fuels in response to the corresponding changes in international oil prices;

- (b) the retail prices of auto-fuels sold at PFS sites operated by different oil companies at different locations had all along been the same, arousing suspicion of "collusive price-fixing";
- (c) to facilitate analysis on adjustments of the auto-fuels prices, oil companies should be urged to provide more information on inventory levels and sales figures of their oil products; and
- (d) the high land premium for PFS sites and high Government duty on auto fuels have add pressure on the retail prices of auto-fuels. The Government should reduce the duty on auto-fuels to relieve the burden of the affected sectors, in particular the transport sector.

### **Council questions**

12. At the Council meetings on 4 February, 27 May and 14 October 2015, 27 January and 4 May 2016, and 22 February 2017, Hon Emily LAU, Hon CHAN Hak-kan, Hon Frankie YICK and Hon Holden CHOW raised questions relating to the prices of auto-fuels and the alleged anti-competitive conduct of oil companies. Hyperlinks to the Council questions and the Administration's responses are provided in **Appendix II**.

### **Latest developments**

13. The Commission released a report outlining the findings of its study into the auto-fuel market in Hong Kong on 4 May 2017. The report identifies a number of issues which the Commission believes to be hindering competition and which would likely have contributed to high auto-fuel prices in the territory. The report also makes recommendations on how to address these issues with the aim of furthering competition in the market.

14. The Commission will brief the Panel on the report at the meeting on 22 May 2017.

### **Relevant papers**

15. A list of relevant papers which are available on the Legislative Council Website (<http://www.legco.gov.hk>) is in **Appendix II**.

## Appendix I

### Market Share of Oil Companies in Hong Kong as at January 2017

<b>Oil Companies</b>	<b>No. of PFS</b>	<b>Market Share</b>
ExxonMobil Hong Kong Limited	46	25.4%
Shell Hong Kong Limited	41	22.7%
Sinopec (Hong Kong) Petrol Filling Station Company Limited	41	22.7%
Chevron Hong Kong Limited	39	21.5%
PetroChina International (HK) Corporation Limited	10	5.5%
Feoso Oil Limited	4	2.2%
Total	181	100.0%

*Source: Annex 2 to LC Paper No. CB(4)767/16-17(01)*

**List of relevant papers**

Issued by	Meeting date/ Issue date	Paper
Panel on Economic Development	27 April 2015 (Item V)	<a href="#"><u>Administration's paper</u></a> <a href="#"><u>Background brief</u></a> <a href="#"><u>Minutes</u></a> <a href="#"><u>Letter from Hon TANG Ka-piu dated 30 March 2015 (Chinese version only)</u></a> <a href="#"><u>Administration's response to the letter from Hon TANG Ka-piu dated 30 March 2015</u></a>
	26 January 2016 (Item IV)	<a href="#"><u>Administration's paper</u></a> <a href="#"><u>Minutes</u></a>
	23 May 2016 (Item II)	<a href="#"><u>Letter from Hon TANG Ka-piu dated 13 April 2016 (Chinese version only)</u></a> <a href="#"><u>Administration's response to the letter from Hon TANG Ka-piu dated 13 April 2016</u></a>
	23 January 2017 (Item V)	<a href="#"><u>Administration's paper</u></a> <a href="#"><u>Minutes</u></a>
	24 April 2017 (Item II)	<a href="#"><u>Administration's paper</u></a>
Council Meeting	4 February 2015	<a href="#"><u>Council question on "Reduction in bus fares and retail prices of auto-fuel in response to the drop in oil prices" raised by Hon Emily LAU</u></a>
	27 May 2015	<a href="#"><u>Council question on "Retail prices of auto-fuel" raised by Hon Emily LAU</u></a>

Issued by	Meeting date/ Issue date	Paper
	14 October 2015	<a href="#"><u>Council question on "Retail prices of auto-fuel" raised by Hon Emily LAU</u></a>
	27 January 2016	<a href="#"><u>Council question on "Prices of auto-fuels and domestic liquefied petroleum gas" raised by Hon CHAN Hak-kan</u></a>
	4 May 2016	<a href="#"><u>Council question on "Fuel prices" raised by Hon Frankie YICK</u></a>
	22 February 2017	<a href="#"><u>Council question on "Alleged anti-competitive conduct of oil companies" raised by Hon Holden CHOW</u></a>