For discussion on
17 July 2018

Legislative Council
Panel on Economic Development
Enhancing Competition in the Auto-fuel Market

Purpose

The Competition Commission (the Commission) published the "Report on Study into Hong Kong's Auto-fuel Market" (the Report)[1] in May 2017, setting out recommendations to enhance competition in Hong Kong's auto-fuel market. This paper sets out the Government's responses.

The Report

2. The Report sets out the following five recommendations on enhancing competition in Hong Kong's auto-fuel market -

(a) increase of petrol filling station (PFS) sites;
(b) review of tendering system for PFS sites;
(c) prominent display of pump prices and walk-in discounts;
(d) re-introduction of 95 RON petrol; and
(e) reduction of entry and expansion barriers.

3. As regards the common perceptions that auto-fuel prices in Hong Kong are high and consistent across oil companies, the Commission pointed out in the Report that these two features on their own cannot be taken as hard evidence of anti-competitive conduct. The Commission found no evidence that increases in import costs are passed on more quickly than reductions (i.e. "rockets and feathers" phenomenon).

Government's Responses to the Report and Follow-up Actions

4. Hong Kong is a free market economy. The Government does not interfere with the operation of individual industries or regulate their operational and pricing arrangements unless there are exceptionally strong

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[1] The Executive Summary of the Report can be downloaded from the Commission's website: https://www.compcomm.hk/en/media/press/files/Auto_fuel_Market_Study_Report_ExSummary_Eng.pdf

justifications. At present, six oil companies[2] operate about 180 PFSs in Hong Kong. The primary work of the Government in respect of auto-fuel market is to endeavour to maintain a stable fuel supply, enhance competition by maintaining an open market and removing barriers to enter into the market, as well as increasing the transparency of the prices of auto-fuel products to facilitate consumers in making informed choices. While the Government has no power to force the oil companies to reduce auto-fuel price, we monitor the retail price against international oil price movement. If there is a strong case for price reduction, we will urge the oil companies to make price adjustment.

5. The Government shares the same vision of the Commission to enhance competition of our auto-fuel market as far as possible which may help benefit consumers from more and / or cheaper petrol choices. In considering the Commission's recommendations in the Report, the Government has taken into account not only competition considerations, but also other important factors, including the likely impact of the recommendations on auto-fuel price, environment and traffic, as well as the priority between enhancing market competition and other competing needs of the community.

6. In relation to the five recommendations made in the Report, the Government's responses are set out below.

<u>Increase of PFS sites</u>

7. The Commission pointed out that demand for auto-fuel has grown considerably over the past decade with net imports of unleaded petrol up by more than 50%, yet there are only around 5% more PFS sites compared to 2005. The Commission is of the view that this suggests that the process by which land is earmarked for PFS sites is not functioning effectively and that it remains too difficult to convert privately-held land to PFS use. The Commission recommends that the Government should enable more sites for PFS use to be tendered and/or converted. The Commission considers that if more PFS sites could be made available when the overall demand for auto-fuel is increasing, this could reduce market barriers to entry and expansion.

8. While the increase in absolute number of PFSs is small as compared with the increase in the demand for auto-fuel in the past decade, we consider that the assessment of whether the existing number of PFSs is sufficient

[2] The six oil companies are ExxonMobil, Shell, Chevron (i.e. Caltex), Sinopec, PetroChina and Feoso.

cannot be made just by such comparison. There is no sign that the existing PFS sites cannot meet the market demand for auto-fuel. In fact, the ratio of the number of private cars to one PFS in Hong Kong is on par with that in Singapore and Tokyo and is better than that for Taipei. Given that the existing PFS sites can meet the current market demand for auto-fuel, we do not see a strong case for providing more new land for PFS use at this stage, particularly in view of the land shortage in Hong Kong and the Government's policy to encourage the public to make good use of the public transport network for travelling as far as possible and minimise their reliance on private cars.

9. Notwithstanding the above, in the light of the Commission's view about the existing difficulties in converting privately-held land to PFS use, we plan to introduce measures to facilitate the private sector to convert privately-held land to PFS use with a view to enhancing competition. To this end, the Environment Bureau (ENB) will provide one-stop service, which includes coordinating communications between applicants and the relevant government departments, as well as the provision of technical advice by government departments to the applicants during the process of planning permission / amendment of plan application (if applicable) of private land for PFS use and the relevant land procedures. We believe that such arrangement could save applicants' time and efforts in liaising with different government departments individually, and facilitate applicants to respond to the views of the relevant departments more effectively.

10. In addition, subject to the actual circumstances of individual PFS sites[3], we plan to split some of the larger PFS sites[4] into smaller ones to introduce competition as far as possible. We have conducted preliminary study on 51 PFS sites with leases expiring between 2018 and 2025, of which 21 are larger PFS sites. In collaboration with the relevant departments, we have examined these 21 PFS sites from various perspectives including traffic, fire safety, gas safety, the number of PFSs already in the area, etc.. The

3 In general, splitting of larger PFS sites into smaller ones has to be considered on a case-by-case basis since there may be insufficient underground space to install additional facilities / structures and higher safety risks owing to increased number of underground storage tanks and more frequent transportation and unloading of auto-fuel products at the PFS (as compared to the situation before splitting).

4 The Hong Kong Planning Standards and Guidelines (HKPSG) have stipulated that the minimum sizes for new PFS with and without liquefied petroleum gas (LPG) facilities are 750m^2 and 375m^2 respectively. Sites with floor area exceeding the minimum size for new PFS as stipulated in the HKPSG by more than 375m^2 are classified as "larger sites" for the purpose of considering whether they can be split into smaller ones.

result of the preliminary study suggests that 18 PFS sites, upon splitting, will not be able to meet some of the prescribed standards in the HKPSG[5], or they are considered not suitable for splitting owing to various site constraints (such as insufficient manoeuvring space for long vehicles within the PFSs), or there are already a few other PFSs in the vicinity and splitting the larger PFSs concerned may not help much in enhancing competition. As regards the remaining three PFS sites[6], we will conduct more detailed study to explore the feasibility of splitting them into smaller PFSs.

Review of tendering system for PFS sites

11. The Commission is of the view that there is room for further enhancements to the existing tendering system for PFS sites and recommends that the Government should engage different stakeholders to initiate a review of the relevant system.

12. Currently, PFS sites in Hong Kong are awarded to the tenderer which offers the highest tender amount on land premium. Retail prices of petrol and diesel in Hong Kong are determined by the oil companies having regard to commercial practices and operating costs.

13. We agree to the Commission's recommendation. In fact, we have been reviewing the tendering arrangement for PFS sites from time to time. Over the years, we have been continuously introducing improvement measures[7] to the tendering arrangement for PFS sites with a view to enhancing competition in the auto-fuel market, including the introduction of the "super bid" tendering arrangement in 2003. Since the introduction of the "super bid" tendering arrangement, two new operators have obtained 35

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[5] Under the HKPSG, the prescribed planning standards and guidelines for the design of PFS use include: (a) where container vehicle patronage is anticipated, the minimum frontage and depth of site are 40m and 15m respectively; (b) the minimum separation distance between LPG filling station and high-rise residential/low density residential is 55m/15m respectively; (c) within the site, a minimum of four waiting spaces should be provided to hold vehicles awaiting refuelling; (d) where stations are located on the same side of the road, they should be spaced at least 300m apart unless they are contiguous with a common entrance and exit.

[6] The leases of these three PFS sites will expire in 2023 or after.

[7] Improvement measures taken include (a) removing the requirement for bidders of PFS sites to hold import licence or 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) introducing the "super bid" tendering arrangement (whereby tenderers can submit a "super bid" for all the sites in the batch or individual bids for each of PFS sites in the batch) in order to facilitate new entrants in acquiring a critical mass of PFS sites. All these measures aim to remove barriers for new entrants to enter into the market.

out of the 61 PFS sites put up for tender and successfully entered the market. The share of the three biggest operators in terms of the number of PFSs has dropped from over 90% to about 70%. This demonstrates that the "super bid" tendering arrangement has effectively enhanced competition in Hong Kong's auto-fuel market.

14. The Commission mentioned in the Report that there had been views urging the Government to adopt for PFSs a tendering system similar to how liquefied petroleum gas (LPG) suppliers bid for dedicated LPG filling stations (DFSs). The adoption of the pricing formula and zero premium arrangement for the 12 DFSs was introduced owing to the need to set up a LPG filling network and keep the price for auto LPG at a competitive level, so as to encourage the replacement of diesel taxis and public light buses with LPG ones within a short period of time for improving roadside air quality[8]. The vehicles which benefit from lower LPG prices at DFSs at that time were mainly taxis and public light buses, both used for public transportation, in addition to being one of the major contributors of roadside emissions. This special policy consideration for DFSs does not apply to PFSs. As mentioned above, the Government's policy is to encourage the public to make good use of the public transport network for travelling as far as possible and minimise their reliance on private cars. Although land premium for PFSs is not one of the measures of the Government to control the growth of vehicles, if the price of auto-fuel products is substantially reduced owing to reduced land premium for PFSs, it may indirectly encourage more people to own vehicles and motorists to make more unnecessary trips. As a result, the traffic congestion may worsen and the effectiveness of roadside quality improvement measures may be offset. Also, it may attract criticisms that the Government is using tax-payers' money to subsidise private vehicle

[8] When the Government contemplated replacing diesel taxis and public light buses with LPG ones in the late 1990s, Hong Kong did not have any LPG filling network. To expedite the formation of a LPG filling network, the Government signed the design-build-operate contracts with operators to set up 12 DFSs at strategic locations at the initial stage of the LPG Vehicle Scheme. The Government therefore had to quickly set up a LPG filling network with a reasonable geographical coverage and keep the price of auto LPG at a competitive level in order to roll out the LPG vehicle programme. It has however been the Government's policy to rely on non-DFSs operating on full commercial principles to further expand the LPG filling network for the convenience of drivers of LPG vehicles. To this end, the Government has since June 2000 required suitable PFSs on the land sales programme to provide LPG filling facilities, subject to gas safety requirements being met and the risk level posed by the station being acceptable in accordance with the Government Risk Guidelines in HKPSG. To make a better use of available sites for providing LPG filling services, the existing policy was further strengthened by stipulating in the tender conditions of PFSs since 2011 a minimum requirement for LPG filling facilities at 25% of the total number of petrol / diesel / LPG filling nozzles at PFSs, subject to fulfilment of the necessary gas safety requirements. At present, there are a total of 67 LPG filling stations in Hong Kong's LPG filling network, comprising 12 DFSs and 55 non-DFSs (i.e. PFSs providing LPG filling nozzles have all along been awarded to the tenderer who offers the highest tender amount on land premium).

owners. In addition, if the pricing formula for DFSs is to be applied to individual PFSs to be re-tendered, any impact on the petrol price may only be on the re-tendered PFSs. The lower petrol price if offered by these PFSs may risk attracting more vehicle owners to patronise these PFSs and lead to traffic management problems in their neighbourhoods. In view of the above, we do not consider it appropriate to adopt the pricing formula and zero premium arrangement for PFSs.

15. Furthermore, the Commission suggested that consideration be given to according priority to new market players when awarding PFS sites though they might not be offering the highest tender amount of land premium so as to encourage entry of new players in the market to enhance competition. At present, revenue contracts should normally be assessed on price only and non-price factors will only be considered when there is strong justification. We do not see any strong justification to take into account any non-price factor in assessing tenders for PFS sites. The number of market players in the auto-fuel market is not particularly small in Hong Kong. Comparing with our neighbouring places, Hong Kong has similar number of oil companies as that of Tokyo; and more oil companies than that of Singapore and Taipei. The proposed change of tendering arrangement, if adopted, will have significant implications on the Government's land revenues and it will have read-across implications on the tendering arrangements for other sites not designated for PFS use, thereby requiring our careful consideration. Besides, there is currently no restriction on alienation of the lot as a whole to a third party after issuance of a certificate of compliance under the lease conditions. In other words, even if a new market player has successfully leased a PFS site, it may, after the issue of the certificate of compliance under the lease conditions, assign the whole lot to an existing market player. Therefore, there is no guarantee that adopting such a new tendering system will achieve the intended objective of introducing new market players. Since there is no restriction on who may submit a tender, and bidding by shell or subsidiary companies is allowed, it would also not be very meaningful practically to impose a restriction on alienation of the lot to a third party, bearing in mind the same effect could be achieved by transfer of ownership of the shell or subsidiary companies. In view of the above, we do not consider it appropriate to accord priority to new market players when awarding PFS sites.

16. We will continue to review the tendering arrangement for PFS sites from time to time with a view to enhancing competition in the auto-fuel market of Hong Kong.

Prominent display of pump prices and walk-in discounts

17. The Commission considers that, unlike other places, the prevalence of discounts and low visibility of pump prices in Hong Kong make it difficult for motorists to ascertain the price differentials across retailers. To help consumers compare the prices, the Commission suggests that the auto-fuel retailers should display the prevailing pump prices and walk-in discounts for their petrol and diesel products on prominent boards that can be read by passing motorists at every PFS site.

18. We share the Commission's observation and agree to the Commission's recommendation on improving the display of price information at PFSs. To this end, for PFS sites to be tendered / re-tendered, the ENB will require, by making it a lease condition, that a price information board as approved by ENB indicating the price of petrol, diesel, LPG and other petroleum products (if applicable) sold in the PFS shall be erected within the PFS.

19. We are working on the specific standards of the price information boards. According to our preliminary plan, the price information boards should display information including the prevailing pump prices and net prices after walk-in discounts of auto-fuel products supplied at the PFSs concerned. We will also set standards for the dimensions and design of the price information boards to facilitate passing motorists to read the information on the boards to be placed at / near the vehicular entrance and facing the entrance. Except for PFS sites with special circumstances (for example those subject to constraints on site area or site design rendering them not possible to comply with the requirements), such requirements will be used as the standards for approving proposals on the price information boards. In setting the standards for price information boards, the ENB will continue to consult the Commission.

Re-introduction of 95 RON petrol

20. The Commission stated that as shown by a consumer preference survey, 86.2% of the respondents in Hong Kong indicated that they are likely to switch to petrol with lower octane level than 98 RON if it is 10% cheaper. Furthermore, in another survey conducted on the car types in Hong Kong, over 99% of the petrol engine vehicles sampled could use 95 RON petrol, and only around 15% of the petrol engine vehicles are recommended to use

98 RON petrol. To promote greater choices for consumers, the Commission suggested that the Government should facilitate the re-introduction of 95 RON petrol by considering making it a lease condition for new PFS sites or those sites which are up for re-tender. The Commission is of the view that re-introducing 95 RON petrol will not only provide more and cheaper options to drivers, it may also put competitive pressure on the sales of existing 98 RON petrol, possibly leading to lower prices and benefiting those consumers who will choose to continue to use 98 RON petrol.

21. At present, three types of auto-fuel products are sold at PFSs, i.e. 98 RON standard petrol, 98 RON premium petrol and diesel. 95 RON unleaded petrol[9] was supplied at PFSs in Hong Kong from October 1991 to March 1992 but was subsequently withdrawn from the local market by all oil companies. According to the oil companies, the withdrawal was owing to consumers' preference towards 98 RON petrol.

22. We found that it is technically feasible to require oil companies to supply 95 RON petrol at PFSs to be tendered / re-tendered by making it a lease condition. However, we are very concerned that this may not necessarily bring about the intended benefits envisaged by the Commission. Rather, it may lead to higher petrol prices and may not be able to increase the number of choices of petrol products at individual PFSs. It may even affect the response to the upcoming re-tendering exercise for PFSs and there may be fewer number of market players in the long run in Hong Kong's auto-fuel market.

(a) Impact on Petrol Prices

23. According to the Mean of Platts Singapore (MOPS)[10] petrol price, the wholesale price difference between 95 RON and 97 RON petrol ranged from around HKD 4 cents to HKD 12 cents per liter in the past year. With reference to the MOPS price of 97 RON petrol, we estimate that the

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9 The existing legal requirements as well as lease conditions of the PFS sites do not prohibit the supply of 95 RON petrol. To avoid engine knocking and the resulting excessive emissions, the Air Pollution Control (Motor Vehicle Fuel) Regulation (Cap.311L) requires petrol for motor vehicles sold in Hong Kong to have a minimum 95 RON. Using petrol of a higher octane rating than that as required by the design of the motor engines will not bring forth additional emission merits.

10 Singapore is a major trading hub of oil products. MOPS is the only prevailing pricing benchmark for oil products in the Asia-Pacific region. According to MOPS' data, the MOPS price difference between 95 RON and 97 RON petrol ranged from around HKD 4 cents to HKD 12 cents per liter from June 2017 to May 2018 with the price difference being around HKD 6 cents per liter in May 2018.

wholesale price difference between 95 RON and 98 RON petrol is likely to be around HKD 10 cents per liter[11], which is less than 1% of the average retail prices of the two prevailing 98 RON petrol products.

24. On the other hand, if oil companies are to supply 95 RON petrol in addition to supplying the existing 98 RON petrol products, the handling of a wider type of auto-fuel products may be more complicated and costly for the following reasons –

(i) Hong Kong does not have its own refineries and all auto-fuel products sold in Hong Kong are imported through shipping. Upon arrival in Hong Kong, auto-fuel products are stored in storage tanks at the Tsing Yi terminal. While oil companies are currently supplying two types of 98 RON petrol products at PFSs, it is not necessary to have separate storage tanks for each of the products at the terminal[12]. If oil companies are required to supply petrol products of different octane ratings, different storage tanks will be required for storing petrol products of different octane ratings. Therefore, if oil companies have to supply both 95 RON and 98 RON petrol at the same time, they may have operational difficulties in utilising the existing storage tanks at the terminal[13]. Subject to site constraints at the terminal and technical feasibility, oil companies may have to incur additional time and costs to construct additional petrol storage tanks, or to modify the existing petrol/diesel storage tanks[14]. Other facilities at the terminal may also need to be modified by the oil companies, such as providing dedicated pipelines for 95 RON and 98 RON petrol for unloading

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[11] There is no MOPS price for 98 RON petrol as it is a specialty product whose transaction volume is extremely small for Platts (a global energy, petrochemicals, metals and agriculture information provider providing MOPS) to obtain an individual benchmark price. Therefore we can only make reference to the MOPS price of 97 RON petrol, being the nearest comparable petrol product, to provide an estimated wholesale price difference between 95 RON and 98 RON petrol.

[12] 98 RON petrol is the base oil product for producing 98 RON standard petrol and 98 RON premium petrol. 98 RON petrol is stored at the storage tanks at the terminal and additives are added to the base oil at a later stage (usually when the base oil product is unloaded from the storage tank at the terminal to the tanker trucks) to produce 98 RON standard petrol and 98 RON premium petrol.

[13] For example, for the oil company which only owns two petrol storage tanks, it will only have one tank for storing each petrol product (i.e. 95 RON and 98 RON petrol) should the Government require the supply of 95 RON petrol. When any of the two tanks it owns is to be cleaned (which is required to be done regularly by law), repaired or maintained, it will have difficulty in finding a spare storage tank to store its products, hence hindering its operational efficiency.

[14] For example, to split existing petrol storage tanks into smaller ones or convert existing diesel storage tanks into petrol storage tanks.

the petrol from the tankers to the storage tanks and from storage tanks to the trucks.

(ii) Assuming that an oil company supplies 95 RON petrol in addition to the existing two 98 RON petrol products at its PFSs, it may need to install additional underground storage tank(s) and to modify the ancillary facilities (e.g. dispensers, pipelines, nozzles, etc.), given that different types of petrol products are required to be stored at separate underground storage tanks. It may not be technically feasible to install additional storage tank(s) and the ancillary facilities at some of the PFSs owing to site constraints (e.g. limited underground space). Even if it is feasible, such installation would incur additional costs and take a longer time to implement.

25. Given that the estimated wholesale price difference between 95 RON and 98 RON petrol is less than 1% of the retail price (around HKD 10 cents), it may easily be offset or even outweighed by the additional operating and capital costs which may be incurred for supplying 95 RON petrol as described in paragraph 24 above. Hence, requiring the supply of 95 RON petrol at PFSs may not bring about cheaper petrol choices. Our assessment is that we could not rule out the possibility that the petrol prices in Hong Kong may even be more expensive than they are at present with the above-mentioned additional costs. It should also be noted that even though the requirement of supplying 95 RON petrol at PFSs, if adopted, will only be imposed on the PFS sites to be tendered / re-tendered, the oil companies may choose to supply 95 RON petrol at some or all of their existing PFSs to achieve economies of scale, after taking into account their assessment of the profitability of 95 RON petrol and site constraints at different PFSs. Therefore, the impact of requiring the supply of 95 RON petrol at PFSs on retail prices of petrol products may not just be confined to the PFS sites to be tendered / re-tendered.

26. We have also studied the markets of some other places in the region which supply both 95 RON and 98 RON petrol but no conclusion can be drawn that the supply of 95 RON petrol can necessarily bring about cheaper petrol choice. For example, while there is retail price difference between 95 RON and 98 RON petrol in Singapore and Taiwan, this is largely owing to government intervention or different tax rates.

27. In view of the above analysis, requiring the supply of 95 RON petrol may not necessarily bring about cheaper petrol choices to consumers.

(b) Impact on the Number of Petrol Choices

28. As mentioned in paragraph 24(ii) above, supplying 95 RON petrol by oil companies in addition to the existing two 98 RON petrol products is likely to require installation of additional underground storage tanks and modification of ancillary facilities at PFSs. However, replacing one of the two existing 98 RON petrol products with 95 RON petrol will only require limited alteration of the existing facilities at PFSs instead of installing any additional underground storage tank, and can be done much more quickly and at a lower cost. Therefore, there is a possibility that oil companies may choose to replace one of the two 98 RON petrol products with 95 RON petrol if we require the supply of 95 RON petrol at PFSs. As a result, the number of petrol choices may increase from a territory-wide perspective but the number of petrol choices at individual PFS may not increase (as it is simply a replacement of one of the 98 RON petrol products by 95 RON petrol).

(c) Impact on the Coming Re-tendering Exercise for PFSs

29. The practical difficulties and additional costs to be incurred by the oil companies arising from the mandatory supply of 95 RON petrol at PFSs, if made, coupled with the uncertainty over the demand for auto-fuel in the longer term in view of the development of alternative fuel vehicles (such as electric vehicles and hybrid vehicles), may adversely affect the oil companies' response to the coming re-tendering exercise for PFSs. It is also envisaged that requiring the supply of 95 RON petrol at PFSs may place those oil companies which own a larger number of storage tanks at the terminal in a more favourable position than those with smaller number of storage tanks and the potential new market players as the latter group is likely to face more practical difficulties in sourcing 95 RON petrol or managing petrol products of different octane ratings at the same time. Therefore, requiring the supply of 95 RON petrol at PFSs may adversely affect the oil companies' response to the coming re-tendering exercise for PFSs, and there is a chance that the number of market players in Hong Kong's auto-fuel market may be reduced.

30. Based on the above analysis, the Government is of the view that requiring the supply of 95 RON petrol at PFSs may not bring about more and cheaper choices for drivers, rather it may bring about other possible adverse impacts. Considering also the anticipated development of alternative fuel vehicles, we will not introduce the requirement of supplying 95 RON petrol at PFSs.

Reduction of entry and expansion barriers

31. The Commission is of the view that substantial enhancements in competition are unlikely unless smaller firms including new entrants can source imports and storage of auto-fuels at more competitive prices. As such, the Commission recommends that in the longer term, the Government should explore whether potential "structural" reform options, such as various interventions at the terminal storage and alternative source of auto-fuel supply, could deliver benefits through enhanced competition in the market that outweigh the attendant costs and risks.

32. We consider that the Government should not interfere with the auto-fuel industry or regulate its operation arrangement as far as possible unless there are very good public reasons to do so. As pointed out by the Commission in the Report, many of the suggested "structural" reform options involve complex issues and incur substantial costs which could well mean that the costs outweigh the benefits. The adoption of the structural reforms recommended by the Commission may not necessarily reduce barriers to entry. Even with the introduction of an access regime under which oil companies with existing terminal facilities are required to allow third party access to those facilities or construction of new terminal facilities for share use, new entrants will still have to secure supply of auto-fuel in the world market and transport the auto-fuel to Hong Kong through shipping. Shipping costs are highly sensitive to the size of tankers used and hence smaller operators will continue to be at a cost disadvantageous position as compared to large operators bearing in mind the former is unlikely to achieve economies of scale in shipping.

33. As regards the Commission's suggestion of introducing a mechanism whereby oil companies with existing terminal facilities are required to allow third party access to those facilities, complex questions about quality and liability arising from the co-mingling of oil products at a single storage facility will need careful deliberation. Since the existing terminal facilities are privately-owned properties, requiring oil companies to allow third party access to their terminal facilities may also give rise to substantial legal implications.

34. Regarding the Commission's suggestion of constructing a new storage facility and a pipeline for importing fuel from the Mainland, considerations such as environment and public safety should also be taken

into account. In addition, both options will involve substantial construction costs and the cost-effectiveness of such facilities is in doubt. It should be noted that oil companies currently source their auto-fuel from different places, mainly from Singapore and Korea, based on their own commercial considerations. Taking into account the substantial cost of constructing a new pipeline, it is doubtful whether it will be commercially attractive to oil companies to import auto-fuel from the Mainland in future. Moreover, both options will require substantial amount of new land and we should weigh in the balance whether the land should be made available for other land uses in higher demand in the community.

35. Based on the above considerations, we will not carry out the longer-term "structural" reform options as recommended by the Commission.

Way Forward

36. As stated in the information we provided to the Legislative Council Panel on Economic Development in March 2017, the leases of 32 PFS sites with a lease term of 21 years will expire between 2018 and 2020 and these sites are up for re-tendering. Based on the present progress, we expect that the first batch of the sites will be scheduled for re-tendering in the first quarter of next year. We will implement the aforementioned recommendations which are considered appropriate and feasible by the Government when we re-tender these PFS sites.

Environment Bureau
July 2018