

Enhancing Competition in the Auto-fuel Market

Competition Commission (The Commission)'s Report

Five recommendations set out in the “Report on Study into Hong Kong’s Auto-fuel Market”:

1. Increase of petrol filling station (PFS) sites
2. Review of tendering system for PFS sites
3. Prominent display of pump prices and walk-in discounts
4. Re-introduction of 95 RON petrol
5. Reduction of entry and expansion barriers

Government's Responses and Follow-up Actions

- The Government does not interfere with the operation of individual industries or regulate their operational and pricing arrangements unless there are exceptionally strong justifications
- Primary work of the Government in respect of auto-fuel market:
 - (a) endeavour to maintain a stable fuel supply
 - (b) enhance competition

Government's Responses and Follow-up Actions

- The Government shares the same vision of the Commission to enhance competition of the auto-fuel market in Hong Kong as far as possible
- Also need to take into account the impact of the Commission's recommendations on auto-fuel prices, environment and traffic; and consider the priority between enhancing market competition and competing needs of the community

Government's Responses and Follow-up Actions

1. Increase of PFS sites

- **The Commission's recommendation:** The Government should enable more sites for PFS use to be tendered and / or converted
- **The Government will increase the number of PFS sites** through the following initiatives:
 - To split some larger PFS sites into smaller ones to introduce competition
 - To provide one-stop service to facilitate the private sector to convert privately-held land to PFS use

Government's Responses and Follow-up Actions

2. Review of tendering system for PFS sites

- **The Commission's recommendation:** The Government should engage different stakeholders to initiate a review of the tendering system
- **The Government agreed to the Commission's recommendation on reviewing the tendering system for PFS sites:**
 - Have been reviewing the tendering arrangement for PFS sites from time to time and continuously introducing improvement measures (including the “super bid” tendering arrangement)

Government's Responses and Follow-up Actions

- The Government does not consider it appropriate to apply a **system similar to that for dedicated LPG filling stations (DFSs)** for PFSs for the following reasons:
 - The special environmental policy consideration for DFSs does not apply to PFSs
 - May involve using tax-payers' money to subsidise car owners
 - The lower petrol price, if offered by those PFSs to be re-tendered, may risk attracting more vehicle owners to patronise these PFSs, leading to traffic management problems in their neighbourhoods
 - Traffic congestion may worsen and the effectiveness of roadside quality improvement measures may be offset

Government's Responses and Follow-up Actions

3. Prominent display of pump prices and walk-in discounts

- **The Commission's recommendation:** 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
- **The Government will implement the recommendation** through the following initiative:
 - For PFS sites to be tendered / re-tendered, making it a lease condition that a price information board as approved by the Environment Bureau shall be erected within the PFS

Government's Responses and Follow-up Actions

4. Re-introduction of 95 RON petrol

- **The Commission's recommendation:** 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

Government's Responses and Follow-up Actions

- **The Government has reservation on the recommendation:**
 - It is estimated that the wholesale price difference between 95 RON and 98 RON petrol is less than 1% of the retail price (around HKD 10 cents). The small wholesale price difference between 95 RON and 98 RON petrol may easily be offset or even outweighed by the additional operating and capital costs which may be incurred for supplying 95 RON petrol → **may not bring about cheaper petrol choices to motorists**
 - Oil companies may replace one of the 98 RON petrol products with 95 RON petrol instead of supplying 95 RON petrol as an additional product → **number of petrol choices at individual PFSs may not increase**
 - May adversely affect oil companies' response in future re-tendering exercises for PFSs → **number of market players in Hong Kong's auto-fuel market may be reduced**

Government's Responses and Follow-up Actions

5. Reduction of entry and expansion barriers

- **The Commission's recommendation:** In the longer term, the Government should explore whether potential “structural” reform options, such as 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
- **The Government will not implement the recommendation:**
 - The substantial costs incurred may outweigh the benefits
 - Involve the use of privately-owned properties which may give rise to substantial legal implications
 - Require substantial amount of land which should be weighed against other competing demands for land

Way Forward

- We will implement the recommendations which are considered appropriate and feasible by the Government when we re-tender the PFS sites
- Based on the present progress, we expect that the first batch of PFS sites will be scheduled for re-tendering in the first quarter of next year