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15 August 2018

By E-mail

Ms Shirley CHAN
Clerk to Panel on Economic Development
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Ms Chan,

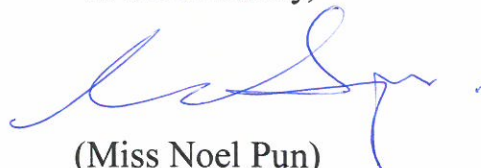
Panel on Economic Development

**Motion passed under agenda item II on
“Update on the tendering system for petrol filling station sites and
follow-up to the auto fuel study conducted by the Competition
Commission”**

at the meeting on 17 July 2018

Thank you for your letter to the Environment Bureau dated 18 July 2018. Our response to the captioned motion is set out at Annex.

Yours sincerely,



(Miss Noel Pun)
for Secretary for the Environment

Encl.

Panel on Economic Development

**Motion passed under agenda item II on
“Update on the tendering system for petrol filling station sites and
follow-up to the auto fuel study conducted by the Competition Commission”
at the meeting on 17 July 2018**

Wording of the Motion

This Panel urges that the Government must proactively increase the number of petrol filling stations (“PFS”) in Hong Kong, review the existing tendering system for PFS sites and study the re-introduction of 95 RON petrol products; at the same time, the authorities should examine practicable means to provide terminal storage facilities to enable new entrants to import fuel and explore alternative sources of fuel supply to ameliorate the situation of the auto-fuel market being highly concentrated, with a view to further promoting market competition, lowering product prices and, in turn, benefiting consumers.

The Administration’s Reply

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 justifications. 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.

2. Regarding the number of PFSs in Hong Kong, 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. Notwithstanding the above, we hope to increase the number of PFSs in Hong Kong through two measures with a view to enhancing competition as far as possible. Subject to the actual circumstances of individual PFS sites, we plan to split some of the suitable larger PFS sites into smaller ones to introduce competition as far as possible. When considering the feasibility of splitting individual PFS sites, we will conduct detailed study in collaboration with the relevant departments from

various perspectives including traffic, fire safety, gas safety and the number of PFSs already in the area, etc.. We also plan to provide one-stop service to facilitate the private sector to convert privately-held land to PFS use with a view to enhancing competition. The one-stop service 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 can 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.

3. On review of tendering system for PFS sites, the Government has been continuously improving 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. Through the introduction of the "super bid" tendering arrangement, two new operators have obtained 35 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. 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.

4. Regarding the suggestion on the re-introduction of 95 RON petrol, the existing legal requirements as well as lease conditions of PFS sites do not prohibit the supply of 95 RON petrol. We are very concerned that the mandatory supply of 95 RON petrol at PFSs may not necessarily bring about more and cheaper choices for drivers, rather it may bring about other possible adverse impacts:

- (a) On the petrol prices, with reference to the only prevailing pricing benchmark for oil products in the Asia-Pacific region (i.e. Mean of Platts Singapore (MOPS) petrol price), we estimate that the wholesale price difference between 95 RON and 98 RON petrol is likely to be around HKD 10 cents per liter, which is less than 1% of the average retail prices of the two prevailing 98 RON petrol products. On the other hand, since different storage tanks will be required for storing petrol products of different octane ratings, oil companies may need to construct additional petrol storage tanks

along the whole supply chain (i.e. from the terminal down to the PFSs), as well as modify other facilities (such as pipelines, nozzles and oil tankers, etc.) if oil companies supply 95 RON petrol in addition to the existing 98 RON petrol products. Even if the site condition permits and it is technically feasible to do so, the additional operating and capital costs to be incurred by such installations may likely offset or even outweigh the small wholesale price difference between 95 RON and 98 RON petrol. Therefore, our assessment is that requiring the supply of 95 RON petrol at PFSs may not bring about cheaper choices, and we cannot rule out the possibility that the petrol prices in Hong Kong may even be more expensive than they are at present with the abovementioned additional costs.

- (b) On the number of petrol choices, even if we mandate the supply of 95 RON petrol at PFSs, there is a possibility that oil companies may choose to replace one of the 98 RON petrol products with 95 RON petrol in view of the site constraints and additional costs to be incurred. As a result, the number of petrol choices may increase from a territory-wide perspective but that at individual PFSs may not increase, as it is simply a replacement of one of the 98 RON petrol products by 95 RON petrol.
- (c) On the number of market players in Hong Kong's auto-fuel market, the practical difficulties and additional costs to be incurred by the oil companies arising from the mandatory supply of 95 RON petrol at PFSs, coupled with the uncertainty over the demand for auto-fuel in the long 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 upcoming re-tendering exercise for PFSs. It is also envisaged that the mandatory 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.

Based on the above considerations, we have decided not to mandate the supply of 95 RON petrol at PFSs.

5. Regarding the suggestion on providing terminal storage facilities to enable new entrants to import fuel, 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. The suggestion will involve complex issues and incur substantial costs, and the costs to be incurred may outweigh the benefits. Since the existing terminal facilities are privately-owned properties, requiring oil companies to allow new entrants' access to their terminal facilities may give rise to substantial legal implications. Regarding the construction of a new storage facility, such option will require 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. Other considerations such as environment, public safety, level of acceptance by the local community, the substantial construction costs to be incurred and the cost-effectiveness of such facility, etc. should also be taken into account. On exploring alternative sources of fuel supply, it should be noted that oil companies currently source their auto-fuel based on their own commercial considerations, and at present there is no regulation on the import source of auto-fuel. In a free market economy, we consider that the Government should not interfere with the auto-fuel industry or regulate its source of product supply as far as possible just like other consumer goods industry.

Environment Bureau
August 2018