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20 July 2020

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
Follow-up to meeting on 27 April 2020**

**Agenda item IV on “Report on the work of
the Competition Commission”**

Thank you for your letter to the Environment Bureau dated 29 April 2020. The Panel on Economic Development has requested the Environment Bureau to follow-up and provide written response to the questions raised at its meeting. Our response is set out at Annex.

Yours sincerely,



(Ms Esther WANG)
for Secretary for the Environment

Encl.

Panel on Economic Development

**List of follow-up actions arising from the discussion
at the Panel meeting on 27 April 2020**

At the Panel meeting on 27 April 2020, the Administration was requested to provide the following information –

- (a) detailed analysis of the Government's energy policy under which the Government should provide reliable supplies of energy at reasonable prices on one hand, but on the other hand should minimise the environmental impact in the use of energy. Please include in the analysis the specific measures (e.g. tax measures) and policy adjustments to achieve a balance in maintaining the retail prices of auto-fuel products at a reasonable level and curbing the growth of private vehicles;
- (b) analysis tool to deduce the changes in retail prices of refined oil products in Hong Kong due to the fluctuation of international prices of crude oil and the expected time intervals of the changes; and
- (c) response to the following motion which was not dealt with at the meeting due to time constraint -

Given that the reduction in prices of auto-fuel products in Hong Kong has obviously been slow, with an accumulated reduction of less than 10% despite an over 80% tumble in the international oil prices since this year, this Panel urges the Government and the Competition Commission to jointly step up monitoring of oil prices of the oil companies, and face up to the problem of “quick going up and slow going down” in prices of local oil products, so as not to adversely affect people's livelihood in the heat of the current economic downturn.

The Administration's Response

- (a) The retail prices of local auto-fuel have all along been determined by the market itself. Be it in the energy or other policy areas, the Government has no reason to make it a policy objective to lower the prices of auto-fuel. This is because lowering the cost of driving private cars will stimulate

private car growth, which will not help alleviate traffic congestion, roadside air pollution and regional smog problems; and if the price of unleaded petrol is lowered by way of reducing or removing the petrol duty, there will also be a negative impact on public finance.

The local auto-fuel market operates according to free market economy principles, and its retail prices are determined by the market itself. The Government should not set a so-called appropriate retail price or interfere in the market operations of the auto-fuel industry. The role of the Government is to make its best effort to ensure a stable fuel supply, improve the transparency of the prices of auto-fuel products, and to remove barriers to market entry thereby promoting competition. This guiding principle has fully balanced the objectives of various policies including environmental protection, transport, tax, land use and economic development policies, and has also taken into account the level of public acceptance.

- (b) The retail prices of auto-fuels depend on a host of factors, including the costs of procuring refined oil products and operating petrol filling stations, and their adjustments cannot be deduced simply by the international crude oil prices. The Government has been monitoring and comparing the trend movements and changes in the import prices of local auto-fuels, retail prices and the Singapore free-on-board prices for unleaded petrol and diesel (i.e. Means of Platts Singapore (MOPS)), and publishes these data online on a weekly basis to increase transparency of the prices.
- (c) Crude oil and refined oil (such as unleaded petrol and motor vehicle diesel) are different products. In analysing the adjustments of local auto-fuel prices, it is more appropriate to make reference to the trend movements of MOPS and the import prices that oil companies pay. According to the Environment Bureau's observation, the trend movements of local retail prices of auto-fuels and those of MOPS are generally in line over the past year. Besides, 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 (i.e. tax and other operating costs) in the pump price. When import prices drop, if tax and other operating costs remain unchanged, the percentage change of pump price must be lower than that of import price. On the contrary, when import prices rise, the percentage increase in pump price will be smaller than that in import prices. Therefore, it is not appropriate to simply compare the percentage change of auto-fuels pump prices with that of import prices.

The Competition Commission (the Commission) published a study report on Hong Kong's auto-fuel market in May 2017. The study looked into petrol prices and costs from 2012 to 2015. As the report pointed out, there was no evidence that retailers were increasing their retail margins by passing through increases in import costs more quickly than passing through the reductions, i.e. engaging in "rockets and feathers" pricing. In accordance with the Competition Ordinance (the Ordinance), the Commission will conduct an investigation if it has reasonable cause to suspect that a contravention of a competition rule has taken place, is taking place or is about to take place. It is also worth noting that, while the First Conduct Rule of the Ordinance prohibits cartel conducts, including price-fixing, that harm competition in Hong Kong, the Ordinance does not regulate the price levels set by businesses in the market.

Environment Bureau
July 2020