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Panel on Economic Development of the Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Ms Shirley CHAN)
(Fax No.: 2840 0269)

Dear Ms Chan,

Retail Prices of Auto-fuels

Thank you for your e-mail dated 22 April 2020. Regarding the concerns expressed by Hon Holden CHOW and Hon Andrew WAN about the retail prices of auto-fuels, I am authorised to reply as follows.

Hong Kong being a free market economy, the retail prices of auto-fuels are determined by oil companies having regard to commercial principles and their operating costs. The Government would refrain from interfering as far as possible. The role of the Government is to make its best effort to ensure a stable fuel supply, maintain an open market and remove barriers to market entry, and at the same time improve the transparency of the prices of auto-fuel products, so that consumers can make choices, thereby promoting competition.

Nonetheless, the Government appreciates the impact of auto-fuel prices on the public, and 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 prices, i.e. Means of Platts Singapore (MOPS), for unleaded petrol and motor vehicle diesel). We have also been in close contact with the oil companies, urging them to reduce prices promptly when international oil prices drop, in order to lessen the burden on the public.

In fact, since January 2020, the oil companies have already lowered their prices 11 times, by a cumulative \$1.5 per litre. We also observed that, with the significant fluctuations in international oil prices, they have made adjustments 8 times since March 2020, which are more frequent than before.

As Hong Kong has no oil refinery, all auto-fuels sold locally are imported refined oil products instead of crude oil. Crude oil and refined oil (such as unleaded petrol and motor vehicle diesel) are different products. Therefore, changes in international crude oil price are not necessarily the same as changes in the prices of unleaded petrol and motor vehicle diesel. 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 our observation, the trend movements of local retail prices of auto-fuels and those of MOPS are generally in line over the past year, although the timing and magnitude of the changes may not be exactly the same, due to the following factors:

- (1) MOPS prices fluctuate day by day, but oil companies do not adjust their auto-fuel prices daily;
- (2) Local retail price of unleaded petrol includes tax and other operating costs of the oil companies, changes to the latter will also affect petrol prices; and
- (3) Oil companies generally offer various kinds of discounts and concessions to their customers. According to our understanding, the walk-in discount and the membership card discount offered by some oil companies have increased from \$0.9 per litre in 2018 to a maximum of \$3.0 per litre at present, and the number of days on which the special discount is offered has also increased from one day a week to two to four days a week. Since customers can obtain various discounts and offers in different ways, the actual price after discount is lower than the retail price, and is also not a uniform price, suggesting that price competition exists in the market.

The Competition Commission (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. The report pointed out that, the two features of which oil prices are higher in Hong Kong than anywhere else and that they are always the same across companies cannot be taken as hard evidence of anti-competitive conduct on their own. The study also indicates that there is no evidence that retailers are increasing their retail margins by passing-through increases in import costs more quickly than reductions, i.e. engaging in "rockets and feathers" pricing. Rather, the analysis undertaken by the Commission has shown that the timing of price changes in response to movements in input cost is broadly symmetric for both petrol and diesel.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Simon Chee', written over a horizontal line.

(Simon CHEE)
for Secretary for the Environment