For discussion
on 28 June 2021

Legislative Council Panel on Economic Development

Auto-fuel Prices in Hong Kong

Purpose

This paper briefs Members on the results of the Government's review of the local auto-fuel market and related follow-up work.

Background

2. In a free market economy, retail prices of auto-fuels in Hong Kong are determined by oil companies having regard to commercial principles and their operating costs, and the Government would not intervene. 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.

3. The retail prices of auto-fuels depend on a host of factors, including the costs of purchasing imported refined oil products and operating petrol filling stations (PFSs) such as land costs, government rent, tax, staff costs, transportation, operation of oil terminal, etc., and hence their adjustments cannot be deduced solely based on international crude oil prices. The Government 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), and publishes these data online on a weekly basis to increase price transparency.

4. 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. In addition, oil companies generally provide various kinds of discounts and concessions to 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 2019 to a maximum of $4.3 per litre at present; 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. Therefore, the actual price paid by customers will be lower than the pump prices listed at PFSs.

5. In the past, in order to enhance competition in Hong Kong's auto-fuel market, the Government has adopted a series of measures to encourage and facilitate new operators entering into the market, such as removing the requirement for bidders of PFS sites to hold import licence or supply contract; re-tendering all existing PFS sites upon expiry of their leases instead of renewing the leases of the existing operators; and introducing the "super-bid" tendering arrangement to facilitate potential new entrants in obtaining a critical mass of PFS sites for economy of scale. Since the introduction of the "super-bid" arrangements, two new operators have successfully entered the market. The share of the three original major operators in terms of the number of PFS has dropped from over 90% to less than 70%, improving market competition and operation.

Policy Review

6. In view of the Panel's concern about local auto-fuel prices and whether the Government should intervene in the auto-fuel market to regulate its prices, the Environment Bureau has reviewed the related policies with relevant policy bureaux and departments. The results are summarised below.

7. Hong Kong being a free market economy, unless the Government has very strong justifications, it should not interfere with commercial operations, nor should it regulate business models and the pricing of products. At present, there are six oil companies[1] operating about 180 PFSs in Hong Kong. The number of oil companies in Hong Kong is comparable to those in neighbouring Singapore and Seoul, and larger than those in Taipei and Tokyo. Although there are still comments that the number of market players is small and their retail prices on the surface are relatively close, this does not mean that there is collusive pricing or other anti-competitive conduct among the oil companies. The Competition 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 while oil prices were higher in Hong Kong than other places and always the same across companies, these two features could not on their own be taken as hard evidence of anti-competitive conduct.

8. In theory, market competition can result in almost homogeneous products (e.g. oil product) having similar prices. As regards the fact that Hong Kong's auto-fuel prices are higher than those of neighbouring places, in addition to fuel duty, capital investments and operating costs, higher costs are also the result of Hong Kong having a small market and no oil refinery, and having to import all its oil products from other places. With the increasing popularity of electric vehicles

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

(EVs), the sales volume of auto-fuels is expected to decline, which would also put pressure on the unit costs in the medium to long term. However, because local oil companies generally offer various kinds of discounts and concessions to attract customers, the actual price paid by customers is often lower than the retail price and is also often not the same, suggesting that competition exists in the market. Oil companies pointed out that, the increase in operating expenditures (including land prices and the aforementioned discounts) is the main reason for the widening spread between import prices and retail prices. Therefore, simply comparing the change of retail prices against that of international oil prices may give the public an over-simplified perception that there is “rockets and feathers” pricing or “more going up, less coming down” in auto-fuel prices.

9. All along, the retail prices of local auto-fuels are determined by the market itself according to free market economy principles. If we cast our eyes across major cities in the world such as London, New York, Tokyo and Singapore, their fuel markets also operate on free economy principles. In fact, whether in the energy or other policy areas, the Government has no reason to lower the prices of auto-fuels as a policy goal. On the energy policy front, as announced in the 2020 Policy Address, Hong Kong will strive to achieve carbon neutrality before 2050 in order to combat climate change. To reach this goal, the Government will examine various means to reduce carbon emissions, which include exploring different types of zero-carbon energy and decarbonisation technology, gradually reducing and ceasing the use of fossil fuels, promoting zero-carbon vehicles and other green transportation, etc. Transportation is one of the major emission sources in Hong Kong, accounting for nearly 20% of Hong Kong’s total carbon emissions. We must reduce transport-related carbon emissions. The general consensus of the international community is also the same, that is, to increase the use of clean energy and develop various kinds of green transportation, and to move towards zero carbon emissions to combat climate change. Our country has even included carbon peaking and carbon neutrality in its overall plan for ecological conservation, gradually reducing fossil energy consumption, and promoting the development of green transport. In order to increase the costs of using non-clean energy for enterprises and consumers, thereby promoting the development of clean energy, many overseas places have imposed carbon taxes in recent years, and some places have also increased fuel taxes. As such, the Government currently has no reason to lower the prices of auto-fuels by way of intervention measures, such as reducing or removing fuel duty, exempting or reducing land premium or tender prices for PFSs. If lowering the cost of driving, it may also stimulate growth in the total number of private cars. This will not help improve traffic congestion as well as roadside air pollution and regional smog problems. It also runs counter to the Government’s long-established transport policy of implementing a public transport-oriented system with railway as the backbone. Based on the above-mentioned reasons, the Government has no ground to lower the prices of auto-fuels as a policy goal.

10. The Environment Bureau published the first “Hong Kong Roadmap on Popularisation of Electric Vehicles” (the EV Roadmap) in March this year. One of the key measures in the EV Roadmap is to cease the new registration of fuel-

propelled private cars including hybrid vehicles in 2035 or earlier. Therefore, we expect that the demand for auto-fuels will decrease gradually, or the auto-fuel market will even decline after a few decades. In facing significant changes to the auto-fuel market, the Government should continue its best efforts to ensure stable fuel supply, enhance the transparency of the prices of fuel products, remove barriers to market entry thereby promoting competition, and follow up the following two areas of work.

Review PFS Sites

11. To support the popularisation of the use of EVs, corresponding charging facilities would become part of the infrastructure of Hong Kong. The Government has set a target in the EV Roadmap to have at least 5 000 public chargers provided by 2025, and plans to double the number in future. Considering the rapid development and popularisation of EVs will reduce the demand for refueling of petrol vehicles, the Environment Bureau has recently stopped studying the splitting of larger PFS sites to increase more PFS sites. We will review the situation of the PFS land use and study the feasibility of gradually converting some existing petrol or liquefied petroleum gas filling stations to quick charging stations in the medium to long term.

Enhance Transparency of Prices of Auto-fuel Products

12. The Government recognises that it is important to enhance the transparency of prices of auto-fuel products. As different oil companies have different retail prices for their products, and oil companies will generally offer a variety of discounts to their customers, even the same product of the same company, its prices could be different at different PFSs. In view of this, the Environment Bureau has commissioned the Consumer Council to launch the new "Oil Price Watch" website and mobile application (App), so that consumers can obtain more comprehensive discount information more easily and compare the net retail prices (i.e. retail prices net of walk-in discounts) among different retailers to make informed choices that suit their needs. Also, it can enhance price competition, thereby providing positive impact on the development of the fuel market.

13. Since the launch of the "Oil Price Watch" in November 2020 until now[2], which is about half a year, the number of page views of the website and number of downloads of the App are 401 000 and 25 500 respectively. Recently, the Consumer Council has conducted a user opinion survey on the "Oil Price Watch" and collected feedback of about 1 700 users by means of questionnaires. The survey reveals that around 80% of the respondents are generally satisfied or very satisfied with the new "Oil Price Watch" website and the App. They are also satisfied or very satisfied with the layout design, ease of use, frequency of

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[2] As at 31 May 2021.

information update, as well as the information provided. In addition, the most popular feature is "Today's Discount and Promotion". The survey also finds that more than 70% of the respondents have the habit of switching oil companies for fueling up in the past one year in order to seek for cheaper price or more concessions and discounts. According to our rough estimate, if drivers using unleaded petrol and diesel use the information provided by the "Oil Price Watch", they can save on average about $2.7 per litre and $2.6 per litre respectively upon each refueling[3], which are equivalent to 15% and 17% of their respective average pump prices. In order to make further improvements, the Consumer Council also collected written comments from users on improving the website and the App through this opinion survey. The Environment Bureau, together with the Consumer Council, will continue to strengthen the publicity work on the "Oil Price Watch" to further enhance the transparency of auto-fuel prices and promote competition.

Local Vessel Bunkering Facilities

14. Regarding a Member's concern about local vessel bunkering facilities, we have consulted the Transport and Housing Bureau. In order to regulate the bunkering activities of local vessels, the Marine Department (MD) has specified eight Designated Bunkering Areas (DBAs) in the Hong Kong waters for oil carriers to deliver bunker to local vessels. The eight DBAs are strategically located near the major berthing places of local vessels (including fishing vessels) to suit their needs, including Yau Tong, Cheung Sha Wan, Outside Aberdeen West Typhoon Shelter, Outside Cheung Chau Typhoon Shelter, Outside Tuen Mun Typhoon Shelter, South of Tuen Mun Immigration Anchorage, North of Yau Ma Tei Anchorage and Sai Kung Harbour. The Government currently has no plan to establish new DBAs in the near future. MD will continue to maintain communication with the industry to ensure that there are sufficient DBAs to meet the industry's demand.

15. Members are invited to note the contents of this paper.

Environment Bureau
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[3] The calculation is based on the last day of each month since the launch of the "Oil Price Watch" until now. The related discounts do not include designated membership discounts, credit card discounts, membership card discounts, etc. as offered by each oil company.