

LCQ13: Fuel prices

Following is a question by the Hon Chan Hak-kan and a written reply by the Secretary for the Environment, Mr Wong Kam-sing, in the Legislative Council today (April 29):

Question:

Although international oil prices plummeted over the past two months, there has not been any significant drop in local retail prices of auto-fuels (local pump prices). In view of the business difficulties of the transport trades, the Government has earlier announced the provision of support to the transport trades under the Anti-epidemic Fund, including: offering a \$1 discount per litre of liquefied petroleum gas (LPG) (i.e. approximately a one-third discount) for 12 months for LPG taxis and public light buses (PLBs), and reimbursing one-third of the actual fuel cost for 12 months for petrol taxis and diesel PLBs. In this connection, will the Government inform this Council:

(1) as some members of the transport trades have pointed out that local pump prices are often "quick to rise and slow to drop", which has undermined the interests of motorists, of the Government's counter-measures;

(2) whether it knows if the Competition Commission will commence an investigation again on issues concerning local pump prices;

(3) as some professional drivers have relayed that since the reduction in local pump prices is much smaller than the drop in international oil prices over the same period, the subsidies on fuel expenses provided by the Government may ultimately be nibbled up by the oil companies, whether the Government had considered ways to prevent such a situation from occurring when it formulated the relevant measures; and

(4) given that international oil prices are currently on the low side, whether the Government will suggest that the oil companies increase their local oil reserves so as to hedge against part of the future rise in oil prices?

Reply:

President,

The consolidated replies of the Environment Bureau, the Commerce and Economic Development Bureau and the Transport and Housing Bureau to the above four questions are as follows:

(1) 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. 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 Means of Platts Singapore (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:

- (i) MOPS prices fluctuate day by day, but oil companies do not adjust their auto-fuel prices daily;
- (ii) 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
- (iii) 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 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.

In view of the public's concerns about auto-fuel prices, the Competition Commission (Commission) had studied the local auto-fuel market. The study looked into petrol prices and costs from 2012 to 2015. The report was released in May 2017. 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.

Nonetheless, the Government appreciates the impact of auto-fuel prices on the public, and hence 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. MOPS, for unleaded petrol and motor vehicle diesel). The Government has 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. The Government also observed that, with the significant fluctuations in international oil prices, they have made adjustments eight times since March 2020, which are more frequent than before.

(2) The Commission would investigate a case if it has reasonable cause to suspect that a contravention of a competition rule under the Competition Ordinance (Ordinance) has taken place, is taking place or is about to take place. However, for effective investigation and to protect the interests of all parties involved, the Commission would generally not comment on whether or not to investigate a particular matter. 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.

(3) Most of the public light buses and taxis that can benefit from the fuel subsidy under the Anti-epidemic Fund (i.e. more than 3 500 public light buses and more than 18 000 taxis) use liquefied petroleum gas (LPG) as fuel. Currently, the market share of the 12 dedicated LPG filling stations in Hong Kong is about 65 per cent. The price of LPG at all these dedicated stations is regulated by the operation contracts, and the price ceiling is adjusted monthly according to a specified pricing formula. As the pricing formula factors include the international LPG price of the previous month, it is not possible for the dedicated stations to raise their gas price inappropriately to take advantage of the support measure. As regards the non-dedicated stations, the Government will keep a close watch over their adjustment of gas prices, to ensure that the relevant support measure can effectively assist the drivers and operators of taxis and minibuses.

As for diesel light buses and petrol taxis, there are only some 800 and some 100 of them respectively (the latter are mostly LPG/petrol bi-fuel taxis). These numbers are negligible out of the total number of diesel and petrol vehicles in Hong Kong. We consider that oil companies would have no incentive to inappropriately adjust the retail prices of diesel and petrol, even with the support measure in place.

(4) Since 1982, the various oil companies in Hong Kong and the Hong Kong and China Gas Company Limited have been maintaining strategic reserves of gas oil and naphtha in Hong Kong in accordance with a voluntary code of practice, at a level equivalent to 30 days' retained imports of gas oil and naphtha in the previous year. This arrangement serves to safeguard the sufficient supply of oil products in Hong Kong. As to how or when to procure oil products, that is the commercial decision of the oil companies, and the Government should not intervene.