LCQ22: Retail prices of auto-fuels

Following is a question by the Hon Elizabeth Quat and a written reply by the Secretary for the Environment, Mr Wong Kam-sing, in the Legislative Council today (May 4):

Question:

There are views that the continuous rise in the retail prices of auto-fuels (pump prices) in Hong Kong in recent months, coupled with the fluctuating epidemic situation, has caused business difficulties to many trades and industries, and has aggravated the financial burden of members of the public. In this connection, will the Government inform this Council:

(1) given that pump prices include (i) land costs of petrol filling station (PFS) sites and (ii) taxes, among other operating costs of oil companies, whether it knows the respective average percentages of these two items in the pump prices in each of the past five years;

(2) as the Consumer Council pointed out in 2020 that although the Government had adjusted its tendering rules for PFS sites and brought in more oil companies since 2000, the conformity of pump prices had increased rather than decreased, and that pump prices in Hong Kong were said to be the highest in the world, whether the Government has examined the causes for such a phenomenon; whether it will commission the Competition Commission to conduct another study on Hong Kong's auto-fuel market, so as to find out if oil companies have set pump prices to be "more going up, less coming down" and "quick going up, slow going down", as well as engaged in "price fixing";

(3) whether it will review the existing tendering system for PFS sites, and examine the re-introduction of lower-priced products of 95 RON petrol;

(4) given that since 2018, the Government has published the tender amounts submitted by unsuccessful tenderers on an anonymous basis after the completion of the transaction procedures in relation to the successful bid under the Land Sale Programme, whether the Government will actively explore adopting such practice in the tendering exercises for PFS sites, with a view to lowering the tender prices of PFS sites and reducing the operating costs of oil companies;

(5) whether it will require oil companies to disclose more data on their costs and sales, so as to enhance the transparency of the market; whether, in the long run, it will examine the profit structures of oil companies and compare them with those in similar overseas markets, so as to review if the profits of Hong Kong's oil companies are reasonable; and

(6) whether it will consider shifting the policy area of monitoring the auto-fuel market to be under the responsibility of the Commerce and Economic Development Bureau, so as to step up protection for consumers' rights and

interests?

Reply:

President,

In a free market economy, the 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 enhance the transparency of the prices of auto-fuel products so that consumers can make informed choices that suit their needs.

Under the National 14th Five-Year Plan, our country will accelerate the green and low-carbon transformation of the energy structure, increase the proportion of new energy vehicles, and promote electric vehicles and other means of green transport. The Environment Bureau (ENB) published the first Hong Kong Roadmap on Popularisation of Electric Vehicles in March last year. It has set a goal for ending the sale of conventional fuel-propelled private cars, which is to cease the new registration of fuel-propelled private cars covering hybrid vehicles in 2035 or earlier, and at the same time to promote electric vehicles and their associated supporting facilities as a whole.

Our responses to the various parts of the question raised by Hon Elizabeth Quat are set out below:

(1) & (5) 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, hence their adjustments cannot be deduced solely based on international crude oil prices. Generally speaking, in terms of land sale arrangements, PFS sites are largely the same as government land in general as they are also put up for sale through open tender or auction. The successful bid prices reflect the market prices of the PFS sites granted, i.e. the values of these sites and their land use so determined by the market. Records revealed that the average successful bid price of PFS sites increased by around 170 per cent over five years from 2016 to 2020. As for petrol duty, the Government currently does not levy any duty on Euro V diesel, and our fuel duty on unleaded petrol has been maintained at $6.06 per litre since 1998. To achieve the goal of carbon neutrality, many overseas places have imposed carbon taxes in recent years, and some places have also increased fuel taxes with a view to reducing the use and number of fuel-propelled vehicles. According to the oil companies, information on their operating costs as well as sales and profits data is considered commercially sensitive and hence not appropriate for disclosure.

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. 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 $4.6 per litre recently; 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 usually lower than the pump prices listed at PFSs.

In order to enhance the transparency of prices of auto-fuel products, the ENB has commissioned the Consumer Council to launch the Oil Price Watch website and mobile application for the convenience of customers to obtain more comprehensive discount information and compare prices for making informed choices that suit their needs, thereby enhancing price competition. According to our rough estimate, by leveraging the information available in the Oil Price Watch, drivers using unleaded petrol and diesel could enjoy extra fuel discounts of about $3.2 per litre and $2.6 per litre respectively upon each refuelling (see Note 1) in last year, which are equivalent to savings of about 15 per cent of their fuel costs.

(2) Theoretically, market competition can result in similar retail prices among products that are almost homogeneous (e.g. oil products). Auto-fuel prices in Hong Kong are higher than those in neighbouring places for a number of reasons. In addition to factors such as capital investments and operating costs, we have to bear higher costs given the fact that Hong Kong, being a relatively small market with no local oil refinery, has to import all its oil products from other places. With the increasing popularity of electric vehicles, the sales volume of auto-fuels is expected to decline, which would put pressure on the unit operating 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 does exist in the market. Oil companies have pointed out that, the increase in operating expenditures (including land premiums, the aforementioned discounts and unit cost escalation arising from the decline in sales volume) in recent years is the main reason for the widening spread between import prices and retail prices. Therefore, simply comparing the changes in retail prices against those in international oil prices may give the public an oversimplified perception that there is "rockets and feathers" pricing or "more going up, less coming down" in auto-fuel prices.

At present, there are six oil companies operating about 180 PFSs in Hong Kong. The number of oil companies in Hong Kong is comparable to those in other major cities in Asia such as 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 (the Commission) published a study report on Hong Kong's auto-fuel market in May 2017 to look into petrol prices and costs from 2012 to 2015. The findings of the report revealed 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.

According to the Competition Ordinance (Cap. 619) (the Ordinance), the Commission is fully empowered to investigate all kinds of anti-competitive conduct. The Commission may conduct an investigation if it has reasonable cause to suspect that a contravention of a competition rule has taken place, and may require, under the Ordinance, any person to provide information or documents and attend before the Commission, etc. The Government will continue to liaise closely with the Commission on the implementation of the Ordinance.

(3) & (4) 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 per cent to less than 70 per cent, enhancing market competition and operation.

At present, the practice of publishing the tender amounts of unsuccessful bidders on an anonymous basis after completion of the transaction procedures for land sale sites is applicable only to public tenders for residential, commercial and industrial sites. According to the prevailing public tendering arrangements applicable for PFS sites, the Lands Department (LandsD) would announce the details of the tendering results including the name of the successful tenderer and its submitted tender amount, as well as the names and number of other tenderers. Nevertheless, the LandsD would not disclose the tender amount of other tenderers except that of the successful tenderer. Tender documents in the past also did not permit the LandsD to disclose the tender amount unilaterally. Such arrangement has already taken into account the impact on the tenderers during the competition process. To support the popularisation of electric vehicles and in anticipation of the declining demand in the auto-fuel market, the Government is reviewing PFS sites and formulating the corresponding long-term strategy which includes, among others, to gradually convert some existing petrol or liquefied petroleum gas filling stations to quick charging stations. In arranging for future tendering of PFS sites, we will suitably consider including whether to incorporate the clause of publishing tender amounts of unsuccessful bids on an anonymous basis.

The Commission had recommended the re-introduction of 95 RON petrol with a view to enhancing competition in Hong Kong’s auto-fuel market. However, we have reservation on the benefits of the recommendation because the supply of 95 RON petrol, in addition to the existing 98 RON petrol products, by oil companies will make it necessary for them to construct and modify petrol storage tanks and other ancillary facilities at their oil terminals and PFSs, which will incur additional operating and capital costs and thus lead to higher petrol prices instead. Besides, it may not be technically feasible to install additional underground petrol storage tank(s) and ancillary facilities at some PFSs owing to site constraints (e.g. limited underground space), and hence the number of petrol products provided at individual PFSs may not increase. Taking into account the points mentioned above and the anticipated developments of electric vehicles and alternative fuel vehicles, the Government indicated in its response to the Commission’s report in 2018 that it would not introduce the requirement of supplying 95 RON petrol at PFSs.

(6) At present, ENB is responsible for energy policies, objectives of which are to ensure that energy needs of the community are met safely, reliably and efficiently at reasonable prices; minimise the environmental impact of energy production and use; and promote the efficient use and conservation of energy. In facing changes to the future development of the auto-fuel market, we will review the situation of existing PFS sites and closely monitor the progress of popularisation of electric vehicles as well as its impact on the auto-fuel market. Meanwhile, we will keep up our efforts in ensuring stable fuel supply, enhancing the transparency of the prices of fuel products and promoting competition.

Note 1: The calculation is based on the difference between the highest and the lowest walk-in discounts offered by respective oil companies on the last day of each month during April 2021 to March 2022. The difference as a percentage of the average retail price during the aforesaid period is then computed. The designated membership discounts, credit card discounts, membership card discounts, etc. offered by each oil company are not included.