

LCQ6: Retail prices of auto-fuels

Following is a question by the Hon Chan Kin-por and a reply by the Secretary for the Environment, Mr Wong Kam-sing, in the Legislative Council today (January 15):

Question:

It has been reported that while international crude oil prices have dropped by nearly half from the peak in 2014, local petrol pump prices have gone up instead of going down over the same period and even hit record high time and again. A website which monitors global oil prices has pointed out that, taking the end of last year as an example, the petrol pump prices in Hong Kong was the highest in the world and even far higher than the relevant prices in neighbouring places (e.g. Singapore, South Korea and Japan). In this connection, will the Government inform this Council:

(1) whether it has studied why the local petrol pump prices did not go down in line with the trend of international crude oil prices; if so, of the details; if not, the reasons for that;

(2) given that despite the Government's policy to let the prices of auto-fuel products be determined by the market and to let consumers make their own choices through improving price transparency, some members of the public have queried the effectiveness of such policy, whether the Government will consider adopting measures to stabilise petrol pump prices; and

(3) as Hong Kong's economy has slid into a recession, whether it has studied the impacts of the persistently high petrol pump prices on people's livelihood, the economy and inflation rate, and how it prevents the persistently high petrol pump prices from exacerbating public grievances?

Reply:

President,

The Environment Bureau's consolidated reply to the three parts of the question is as follows:

In a free market economy, retail prices of auto-fuels in Hong Kong are all along determined by oil companies having regard to commercial principles and their operating costs. However, 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 also urge oil companies to adjust prices promptly when international oil prices drop, in order to lessen the burden on the public.

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 and changes in prices of unleaded petrol and motor vehicle diesel are not necessarily the same. 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 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 changes may not be exactly the same due to the following factors:

(a) MOPS prices fluctuate day to day, but oil companies do not adjust their auto-fuel prices daily;

(b) import price of refined oil is only one of the costs making up the local retail price of auto-fuels. Retail price also includes tax (\$6.06 per litre for unleaded petrol and tax free for diesel) and other operating costs, such as land costs, government rent, staff costs, transportation, advertising, operation of oil terminal, etc. When oil companies adjust their prices, they would take into account not only the import prices of oil products, but also changes in these operating costs; and

(c) oil companies generally provide various kinds of discounts and concessions to customers. According to our understanding, the walk-in discount provided by some oil companies has increased from \$0.9 per litre in 2018 to \$1.5 to \$2.1 per litre at present; the membership card discount has increased from \$2.2 per litre to \$2.4 per litre, 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. Therefore, the actual price paid by customers will be lower than the pump prices listed at petrol filling stations.

The retail prices of auto-fuels in each region or country are determined by various factors, and therefore it is not suitable to make direct comparison. These factors include:

- (1) whether crude oil is available and refined locally or whether auto-fuel products are imported from overseas;
- (2) the market size and structure;
- (3) the quality of the products;
- (4) the mode of operation, marketing strategy and operating costs of individual oil companies; and
- (5) whether the local government has provided subsidies and set safety requirements for transportation and fuel products having regard to environmental protection and other government policies, etc.

In a free market economy, the Government would refrain from interfering with the auto-fuel industry or setting their price level 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.

The Government certainly understands the impact of rising auto-fuel

prices on the expenses of the public and the transport trades. To further alleviate the public's burden of travelling expenses, the Government has enhanced the Public Transport Fare Subsidy Scheme from January 1 this year. To assist the transport and logistics trades in coping with the operating pressure brought by the current economic environment, the Financial Secretary also announced on October 22 last year the introduction of a six-month fuel subsidy or one-off subsidy for the transport and logistics trades. On January 17, the Government will consult the Panel on Transport of the Legislative Council on the details.

Thank you, President.