LCQ 10: Impact of rising oil price

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Following is the question by the Hon Abraham Shek and a written reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council meeting today (December 1):

Question:

The price of oil has exceeded US$50 a barrel recently. The market expects that it may rise further, and is concerned that it will lead to an energy crisis. When the oil crisis occurred in 1973-74, the Government set up two committees to help Hong Kong meet the threat of an oil shortage, namely the Oil Policy Committee, which oversaw the general strategy towards oil supplies and considered broadly any necessary controls over consumption, and the Oil Distribution Committee, which proposed priorities and worked out detailed plans for economising on oil consumption and for ensuring that priorities were met. In this connection, will the Government inform this Council:

(a) of its latest estimation of the impact of the record-high oil prices on the local economic growth and inflation respectively; and

(b) whether it will consider setting up such committees this time?

Reply:

Madam President,

(a) As the Hong Kong economy is service-oriented and does not rely heavily on oil (with fuel cost accounting for less than 5% of non-labour business cost), the direct impact of high oil prices on Hong Kong's economy should be relatively small. Nevertheless, depending on their consumption level, the impact of rising oil prices would vary amongst different sectors of the economy, with more significant impact on those sectors which are larger oil consumers, such as the aviation, transport, fisheries, restaurant and construction industries.

The surge in oil prices will affect external trade which has more significant impact on the Hong Kong economy. This is because high oil prices would curtail the economic growth of our trading partners and the cut-back in income from external trade would affect spending and investment in Hong Kong. However, as the impact of the recent oil price hike on global output is less than that in the 1970s, its indirect impact on the Hong Kong economy should be milder. The Government Economist estimates that a persistent increase in oil prices by US$10/barrel for one year will reduce Hong Kong's gross domestic product (GDP) growth by 0.6%.

The price hike would push up production costs, and if passed onto consumers, would lead to higher prices for consumer products. Nevertheless, the overall impact on consumer prices is not expected to be significant, as the Hong Kong economy is not heavily dependent on oil. The Government Economist estimates that a persistent increase in oil prices by US$10/barrel for one year would increase the Composite Consumer Price Index (CPI) by 0.2%.

(b) At present, the Government does not see the need to set up any committee on oil supply, distribution and consumption in Hong Kong. Hong Kong's reliance on oil at present is much less than that in the 1970s. For example , in the case of energy supply, a diversity of fuels such as coal, nuclear power and natural gas are used for electricity generation.

After the oil crisis in the 1970s, the Government has put in place legislative and administrative arrangements to deal with any oil supply disruption in Hong Kong. These include -

(i) enactment of the Oil (Conservation and Control) Ordinance (Cap. 264) in 1979. Under the Ordinance, the Director of Oil Supplies (i.e., the Director of Electrical and Mechanical Services) is empowered, in the event of an oil supply emergency, to regulate or prohibit the storage, supply, acquisition, disposal or consumption of oil;

(ii) formulation of a contingency plan, which will enable the Director to co-ordinate and enforce the conservation measures in the Ordinance in both the public and private sectors in the event of an oil supply disruption; and

(iii) conclusion of a voluntary code of practice between the Director and the oil companies and Towngas in 1982, whereby the oil companies and Towngas are required to maintain strategic reserves of gas oil (i.e., ultra-low sulphur diesel and industrial diesel oil) and naphtha in Hong Kong respectively, in an amount equivalent to 30 days of retained imports during the previous calendar year. In this connection, the oil companies and Towngas file weekly reports on the stock levels of gas oil and naphtha respectively to the Director.

We will continue to monitor closely the oil supply situation in Hong Kong to ensure that the public will have reliable and sufficient energy supplies.

Ends/ Wednesday, December 1, 2004