

LCQ9: Crude oil prices

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Following is the question by the Hon Emily Lau and a written reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council today (October 25):

Question:

Members of the public have complained to me that although international crude oil prices have recently fallen from the peak of US\$70-odd to US\$50-odd a barrel, representing a cumulative drop as high as 20%, the local oil companies have only slightly adjusted the pump prices downwards. In this connection, will the Executive Authorities inform this Council :

(a) of the movements in international oil prices in the last six months, and whether the local pump prices were adjusted in line with the movements in international oil prices in the same period; and

(b) whether it will enact legislation to regulate adjustments of pump prices by oil companies; if so, of the timing for legislation; if not, the reasons for that?

Reply:

Madam President,

(a) The international crude oil prices had been on an increasing trend in recent years, and there was notable increase since this April with prices hitting a record high in August. During the past few months, the prices of unleaded petrol and ultra low sulphur diesel (ULSD) in the international market also reached record high levels. Following the drop in crude oil prices since August, the prices of unleaded petrol and ULSD in the international market also fell in the past two months.

We have been monitoring closely trends in international oil prices as well as local retail prices of auto-fuel. We note that changes in local pump prices of auto-fuel have been broadly in line with trend movements of the international oil prices. Nevertheless, prices of refined oil products (such as unleaded petrol and

ULSD) are not only affected by crude oil prices, but also subject to various factors, such as the supply and demand in the market, the productivity of the refinery, the costs of raw materials and refinery process as well as the transportation costs etc. Therefore, changes in prices of unleaded petrol and ULSD may not be exactly the same as those of crude oil prices.

Moreover, local pump prices of auto-fuel include not only the import costs and duty, but also discounts offered by oil companies and other operating costs. Therefore, although the adjustments in local pump prices should be broadly in line with trend movements and magnitude of changes in import prices, their respective percentage changes, which are with reference to different bases, will not be exactly the same.

Since September this year, the oil companies have reduced their pump prices taking into account the reduction of import prices. Compared with the high levels, the pump prices of unleaded petrol and ULSD have been reduced cumulatively by \$0.55/litre and \$0.30/litre respectively. We have all along urged the oil companies to reduce their prices whenever there is room for downward adjustment.

(b) Retail oil prices in Hong Kong are determined by oil companies having regard to international oil prices, commercial practices and their operating costs. The role of the Government is to maintain a steady supply, encourage transparency and enhance competition by removing barriers to entry into the fuel market.

In view of the public's concern about competition in the local auto-fuel retail market, the Competition Policy Advisory Group (COMPAG) chaired by the Financial Secretary commissioned in July last year a consultant to conduct an independent and comprehensive study on the competition situation in the auto-fuel market in Hong Kong, and to review if there is any anti-competitive behaviour. The consultant's report was released in April this year.

We note that the consultant had concluded, after detailed examination of the structure, operating costs and retail pricing of the local auto-fuel retail market, that there was no clear evidence of collusion by the oil companies in setting prices for auto-fuel. Nevertheless, the consultant recommended that the Government should consider preventive measures against cartel behaviour, either through general or sector-specific competition laws. We are also concerned about the consultant's observation on the potential for collusion in the local market. We will consider

further measures to promote competition in the auto-fuel market in the light of the consultant's recommendations.

The Competition Policy Review Committee (CPRC) recommended in its report on the review of Hong Kong's competition policy published earlier that a cross-sector competition law, which would prohibit specific types of anti-competitive conduct, should be introduced. The Government has carefully considered the relevant recommendations and will issue a public consultation document before the end of this year to seek public views on this subject.

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