

LCQ12: Retail oil prices in HK

Following is the question by the Hon Fred Li and a written reply by the Secretary for Economic Development and Labour, Mr Stephen Ip, in the Legislative Council today (January 17):

Question:

According to the latest information provided by the Government to this Council, the import unit values of motor spirit and ultra low sulphur diesel in November last year dropped by 23% and 18.9% respectively compared to those in June last year, while the relevant retail prices in the same period fell only slightly by 5.9% and 3.3% respectively. In this connection, will the Government inform this Council :

- (a) whether it has assessed if local oil companies should reduce the retail prices of motor fuels; if so, of the criteria adopted for the assessment; if the assessment result is in the affirmative, of any alternative ways to urge local oil companies to reduce the prices immediately, apart from making verbal appeals; and
- (b) given that the papers provided by the Government periodically to this Council have set out the average retail prices of unleaded petrol in which "certain price concessions were incorporated", and it has been reported that ExxonMobil, the largest motor spirit retailer in Hong Kong, has indicated that its concessions currently offered to customers have not been reflected in the Government's figures, whether it has assessed if the company's claim contradicts the papers provided by the Government, and if it is appropriate to use the Government's figures provided to this Council as the basis for monitoring oil prices, and whether the Government will revise the relevant figures?

Reply:

Madam President,

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 will not be exactly the same as such percentages are calculated on different bases. As regards Hon Fred Li's specific questions, our replies are as follows:

(a) Retail oil prices in Hong Kong are determined by oil companies having regard to international oil prices, commercial practices and their operating costs. In a free market economy, the Government does not have the power to dictate the retail prices of auto-fuels. But the Government will endeavour to maintain a stable fuel supply, encourage transparency and enhance competition by removing barriers to entry into the fuel market.

The monthly average import prices of major oil products compiled and submitted by the Census and Statistics Department (C&SD) to the Panel on Economic Services of this Council are one of the indicators of import prices of oil products. However, these data have their limitations. For instance, as the C&SD's figures reflect the average value of imported consignments declared by the oil companies in a particular month, they may differ from the actual prices of the consignments of individual oil companies. Moreover, the consignments involved may not be purchased or sold in the retail market in the month when the declarations are made. As C&SD needs time to collect and process the information, there is also a time lag of about four weeks between the time of declaration and the availability of such data.

In addition to the C&SD's data, we also monitor whether changes in local pump prices of auto-fuel are broadly in line with trend movements of international oil prices as reflected by prices for Brent Crude oil and Singapore free-on-board prices for unleaded petrol and ultra low sulphur diesel (ULSD). In recent months, the international oil prices continue to be volatile. We have all along urged the oil companies to reduce their prices immediately whenever there is room for downward adjustment.

In view of the public's concern about the local auto-fuel retail market, the Competition Policy Advisory Group (COMPAG) commissioned a consultant in 2005 to conduct a comprehensive study on the competition situation in the auto-fuel market in Hong Kong. The consultant's report was released in April last year. 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-fuels. Nevertheless, the consultant recommended that the Government should consider preventive measures against cartel behaviour, through either cross-sector or sector-specific competition

laws. The Competition Policy Review Committee (CPRC) recommended in its report on the review of Hong Kong's competition policy published in July 2006 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 issued a public discussion document in November 2006 for a three-month public consultation.

(b) The C&SD has advised that the average local retail prices of unleaded petrol provided by them in each month are compiled based on information collected from oil companies through a Monthly Retail Price Survey. During the data collection process, census officers also ask the oil companies for information on various price concession schemes. The C&SD has all along tried to incorporate as far as possible all price concessions. However, this Monthly Retail Price Survey is a voluntary statistical survey and has to rely on the oil companies in data collection. While the department has included the price concessions reported by oil companies in their average retail prices, they are unable to cover those concession schemes not reported in detail by oil companies on grounds of commercial sensitivity or other reasons. Therefore, the level of concession quoted in the paper submitted to the Panel on Economic Services of this Council may be lower than the actual discount being offered by individual oil companies. In the paper submitted, the C&SD has already stated that only "certain" price concessions are incorporated in the relevant retail prices of unleaded petrol.

The consultancy report on the competition situation in the local auto-fuel market released in last April also addressed the issue of price concessions offered by oil companies. At the request of the consultant, oil companies provided information on price concessions offered by them at that time. Based on the information obtained, the consultant estimated that, for the year ended June 2005, the average discounts on retail prices of unleaded petrol and diesel were HK\$0.93 per litre and HK\$1.45 per litre respectively (i.e. around 7% and 20% of the prevailing retail prices respectively). However, oil companies adjust their price concessions from time to time and the current situation may have already changed.

The C&SD will continue to liaise closely with the oil companies concerned, and request them to provide detailed information regarding various concession schemes with a view to compiling related statistics that could better reflect the actual price movements faced by consumers. We also hope that if it is decided to introduce a cross-sector competition law in the future, the Government may be empowered to

request oil companies to provide detailed information for investigation if and when anti-competitive conduct in the auto-fuel retail market is suspected.

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