

MRS SELINA CHOW (in Cantonese): Madam President, last year, Hong Kong economy finally rid itself of deflation, thanks to the recovery of the property market and the retail industry. However, spiralling oil prices have brought great hardships to the affected industries. According to some members of the transport industry, owing to high oil prices, their monthly oil expenses have gone up by \$2,000 to \$3,000. Even the fishery industry saw the prices of sea fish rise by 30% late last year due to rising fuel expenses. Spiralling oil prices have also driven the costs of plastic material upward, thus greatly raising the costs of local manufacturers. Even laundry shops, relying on a great variety of oil by-products to operate, were once poised to raise charges by 10% collectively. The impact of oil prices on the local economy can be felt everywhere, so to speak. There should be no cause for complaint if the public must bear with high oil prices purely because of rocketing international oil prices. However, is the actual situation really so simple? Or is it because the local oil industries are influenced by other human factors, such as oligopoly or collusive price fixing, and, as a result, local oil companies have often acted quickly in raising but slow in lowering oil prices, or even synchronized the adjustments? Have oil companies reaped exorbitant profits, thereby injuring the interest of consumers? Recent signs have indicated that the industries seem to be confronted with six major problems, and this situation must be addressed. This is also the main reason for me to propose this motion today.

First, oil companies have been quick in increasing but slow in lowering oil prices. Let me cite a few examples: According to the monthly statistics provided by the Census and Statistics Department, from January to November last year, imported unleaded petrol (ULP) saw its average unit import price increased six times in total. At the same time, the monthly pump price of ULP almost followed in going up on every occasion. However, during the same period, the monthly average import price was reduced four times, whereas the monthly pump price was reduced only three times in Hong Kong. There was even a strange phenomenon that, despite a fall in import price, pump price had risen instead.

Second, synchronized adjustments in prices. Last year, five local oil companies almost simultaneously adjusted their prices of ULP and ultra low sulphur diesel (ULSD) 12 and 11 times respectively. So long as one oil company took the lead, other oil companies would follow immediately in less than a day at a surprisingly synchronized pace.

Third, many consumers feel that the oil companies are reaping exorbitant profits, accusing them of "profiting excessively". For instance, the post-duty price of ULP in Hong Kong is nearly 94% higher than that in the United States, 90% and 92% higher than that in the United Kingdom and Canada respectively. Even when compared with its most expensive counterpart in Japan, it is still 40%

Fourth, the local oil companies have indirectly forced the public to use expensive oil by supplying only ULP with an octane value of 98, but not petrols with an octane value of 97 or 95. In contrast, petrols with an octane value of 98, 97 and 93 are supplied in Shenzhen for the choice of motorists. There is a difference of \$0.97 per litre in the pump price of Octane 98 petrol and that of Octane 97 petrol. If Hong Kong oil traders can, like those in Shenzhen, provide petrol of different grades to motorists so that they can choose the more expensive or cheaper one as they like, the public can definitely save some money.

Fifth, the oil companies have often complained of expensive import costs of fuel and there is no room at all for profits to be made. However, according to the information provided by the Census and Statistics Department (let me cite the figures of October 2004 as an example), the local post-duty pump price of ULP was 103% higher than its weighted average import price, and even 115% higher than that of green diesel. In other words, the pump price is more than double the average import price. The profits thus reaped should be substantial.

Finally, the pump prices of petrol supplied in oil stations throughout the territory are more or less the same. By logic, there should be a difference in the operating costs and rents of different districts and filling stations. However, the pump prices of petrol sold in these stations are always the same. Why? The oil companies have always defended themselves by saying that the pump prices have included various concessions. However, the oil companies have always acted like talking to themselves. Their discounts are never transparent. How many consumers, motorists do make their choices based on different prices?

Here I wish to quote the findings of a public opinion poll recently conducted by the Liberal Party. Nearly 80% of the respondents agreed that oil companies had been quick in raising but slow in lowering prices. 60% felt that the adjustments in prices were excessively synchronized. 65% were of the view that there was monopolization in the oil industries. Nearly 80% agreed that a focused fair competition law should be introduced. Actually, the Liberal Party's proposal of enacting legislation is extremely mild. As usual, we disapprove of the enactment of a sweeping fair competition law. Neither do we support the Government controlling oil by way of legislation for this will impede free market operation. We seek to:

First, to enact legislation to criminalize possible horizontal price fixing in the oil industries and vertical price fixing between oil suppliers and retail filling stations with a view to ensuring price competition.

Second, to empower the Secretary for Economic Development and Labour by way of legislation to investigate and obtain financial information of oil companies so that he can analyse in an in-depth manner as to whether there is collusive price fixing among oil companies. As such information is mostly sensitive in nature, it must not be made public indiscriminately in order not to undermine the privacy protection to which the operators are entitled in a level playing field. The Liberal Party therefore considers it most appropriate for the Secretary to exercise this power to investigate and obtain the information.

Third, legislation should ensure the transparency of the pricing mechanism of the oil industries and safeguard the right of the consumers to make their choices freely in the light of price competition. In other words, we are forced to enact legislation in the hope of providing the public with minimum consumer protection with the least vigour.

The Liberal Party is convinced that merely relying on legislation is not enough to convince the public that there is competition in the oil industries. While legislation can eliminate oligopoly, other complementary reform initiatives are needed for the purpose of promoting a healthy competitive environment. These initiatives should include, among other things, considering introducing more competitors and preventing oil companies and retailers from forming themselves into a cluster in the same district for they can then manipulate the prices in a certain district.

Furthermore, our neighbour, Singapore, has managed to keep its oil prices persistently at a low level because it has its own oil refineries. Hong Kong should therefore seriously consider the feasibility of constructing refineries to achieve the purpose of controlling quality and quantity, as well as lowering prices. Of course, we will not underestimate the feasibility of this proposal or acceptance by the community. However, in-depth consideration is warranted.

All these are just preliminary proposals. It would be best for the matter to be handed to the Competition Policy Advisory Group (COMPAG) to conduct in-depth studies and present a feasibility report expeditiously. The COMPAG itself should enhance its representativeness and professional standard. In doing

so, it can more effectively assist the Government in identifying an ideal package for the purpose of realizing fair competition in the oil industries and rebuilding public confidence.

Nevertheless, I wish to give a fair comment in the end. When we are heading in this direction, and while legislation is being considered, we should give operators of oil companies ample opportunities to express their views to ensure absolute fairness and openness.

In the course of drafting this motion, I had met with representatives of oil companies to listen to their requests and views. Some oil companies stated that they were actually very pleased to provide information to the Government and had indeed done it. Unfortunately, not every company was willing to do the same. Therefore, this approach seemed a bit unfair instead. Statutory regulation can ensure that this phenomenon will not occur. At the same time, the Government will have to assume the responsibility of ensuring fairness. This will prevent the Government from "making verbal coercion" just because the public is vocal and doing nothing if the public keeps quiet. Instead, it should really justify its actions with reasons.

The market in Hong Kong is small. Over the past couple of years, the Government has changed the rules of the game in granting land for the construction of liquefied petroleum gas filling stations and filling stations with a view to introducing more competition. However, this seems a bit unfair to companies which are prepared to make enormous investments in building oil depots. In any case, it will benefit both the oil companies and consumers if a fair set of rules of the game can be formulated in the sector by way of legislation for compliance by all competitors. In the course of enacting legislation, all parties must be given opportunities to make representations. At the same time, the authorities should seriously grasp the matter and make an in-depth judgement, thereby making a decision that is most beneficial to the entire community.

Madam President, I so submit.