

Study into Hong Kong's auto-fuel market **at a glance**

Why did the Commission conduct a study into the local auto-fuel market?

Hong Kong's petrol prices being highlighted as the highest in the world have brought the state of competition in the auto-fuel market into sharp focus. In addition to looking at auto-fuel prices and their movements, the Commission has identified a number of structural and behavioural features of the market that are hindering competition and which the Commission believes would likely have contributed to the high auto-fuel prices in the territory. The Commission has made some recommendations in the report on how to address these issues.

Structural and behavioral features in the local auto-fuel market

Structural features

High seller concentration and high degree of vertical integration

The market is highly concentrated with several major retailers dominating the auto-fuel supply chain - from refining, importing to retailing at petrol-filling stations (PFS) (except PetroChina).



Similar cost structures

Major retailers are likely to have broadly similar cost structures, i.e., there is no low-cost 'maverick' competitor. Hong Kong's topography also limits the opportunities for alternative retailing models to emerge.



High barriers to entry and expansion

The market is characterised by high barriers to entry – it is particularly difficult for new entrants to obtain a sufficient number of PFS sites and access to terminal storage facilities.



Single product for petrol

Only one octane number of petrol, 98 RON, is available in Hong Kong¹.



Behavioural features

Little emphasis on pump prices

Pump prices are not prominently displayed at PFS, some even do not display pump prices.



Strong emphasis on discounts

Discounts are prevalent, yet complex and opaque.

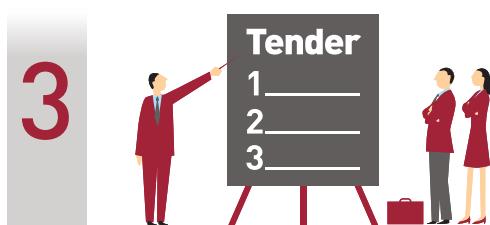
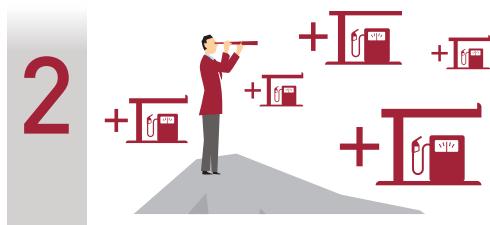
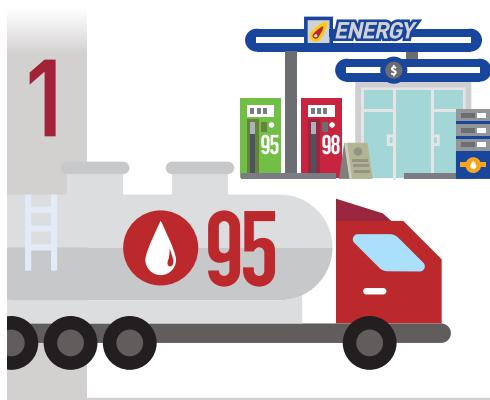
Discounts

Limited variation in prices across time or geography

Retail prices move infrequently and are the same across each retailer's stations.



Recommendations by the Competition Commission



The re-introduction of 95 RON petrol

In Hong Kong, both the “standard” and “super” varieties of petrol on offer are 98 RON¹, which is considered a premium and more expensive fuel usually offered alongside a cheaper alternative (e.g., 91 or 95 RON) in other markets. The recommendation will provide a cheaper product choice benefiting consumers.

Retailers have once stated that their decision to sell only 98 RON petrol reflected customer preference. However according to a survey², a vast majority (86.2%) of the respondents in Hong Kong indicated that they are likely to switch to the petrol with lower octane level if it is 10% cheaper, while close to half of the respondents (45.7%) will definitely / are very likely to make the switch. In fact, most modern cars can comfortably use 95 RON petrol without compromising performance.

Increasing the number of PFS sites

The number of PFS sites has only increased by less than 5% while the net imports of unleaded petrol are up by more than 50% over the past decade. The government should enable more sites for PFS use to be tendered and / or converted. This can help reduce barriers to entry and expansion.

Review of the tendering system for PFS sites

There is room for further enhancements of the tendering system for PFS sites. With the leases of a number of PFS sites expiring in 2018, this is an opportune time for the Government to engage different stakeholders and review the tendering system with a view to introducing more competition to the market.

Prominent display of pump prices and walk-in discounts at PFS

The practice of prominently displaying auto-fuel prices at PFS is customary in overseas markets. With prominent price boards, motorists will easily know and compare the pump prices and walk-in discounts being offered at different stations, especially when prices are moving. A recent survey² indicated that almost 70% of the respondents supported the display of price information on prominent boards at PFS.

Exploration of potential ‘structural’ reform options

In addressing the structural barriers in the auto-fuel market, the government should explore potential ‘structural’ reform options – such as the provision of economically priced terminal storage enabling new entrants to import their own supplies of auto-fuel and explore alternative sources of auto-fuel supply.

1: The Commission notes that there have been some claims that the “super” variety of petrol on sale in Hong Kong may be of a higher RON than 98 RON, however the Commission has not been able to verify this.

2: The Competition Commission commissioned the Social Science Research Centre of The University of Hong Kong to conduct the survey in 2017.



The myth about auto-fuel prices – Are high and similar auto-fuel prices a result of price fixing?

Not necessarily. The proof of anti-competitive conduct requires hard evidence, that is, any proof of an agreement or concerted action among competing suppliers. When one firm changes its pump prices, all others follow within one or two days until they are all at the same or similar level again – this ‘parallel pricing’ phenomenon is almost universal in any homogeneous product market and reveals very little about whether firms are competing or coordinating.