

**Legislative Council Panel on Transport**

**Outlying Islands Ferry Services in Hong Kong**

**Purpose**

This paper serves to brief members on the issue of Sunday/public holiday fares for the three outlying island services (i.e. Central – Cheung Chau, Central – Peng Chau and Central – Mui Wo) operated by New World First Ferry Services Limited (“NWFF”) in relation to the request of some residents for removal of the higher holiday fares for the services.

**Regulation of ferry service and fare**

2. The three outlying island ferry services are operated by NWFF. In providing ferry services, a licensee shall, at all times during the licence period, maintain to the satisfaction of the Commissioner for Transport (“C for T”) a proper and efficient ferry service. The licensee is required to comply with the schedule of service which sets out the service level, fares, number and type of vessels etc. to provide the service. Transport Department (“TD”) monitors the operation of the services regularly to ensure that they are provided in adherence to the requirements stipulated in the schedule of service. TD also monitors public feedback on the services and, if necessary, will in consultation with the licensee make adjustments to the service to better suit passenger demand or operational needs.

3. As regards regulation on ferry fares, C for T may by notice in the Gazette determine the maximum fares that may be charged on licensed ferry services. A licensee shall not charge a fare exceeding the maximum fare. The maximum fare will be specified and form part of the service details required for compliance by the licensee. Any fare increase requires prior approval from C for T. However, the licensee may, at its discretion, charge fares lower than the specified fare.

4. In view of the present economic situation, the ferry operators have been encouraged to consider reducing their fares or introducing concessionary fares having regard to their financial position. However, in accordance with the system and spirit of free enterprise, it will be the commercial decision of individual ferry operators whether they would reduce their fares or offer concessions taking into account their own financial position.

#### **Existing fare structure of the services**

5. The existing fare structure of the three outlying island ferry services has been effective since 1 April 1999, when the Hong Kong & Yaumati Ferry Company Limited (“HYF”) was granted licences to operate the services after a tender exercise. NWFF adopted the same fare structure when they took over the operation of the three services from HYF in January 2000. The three outlying island ferry services operated by NWFF to Cheung Chau, Peng Chau and Mui Wo are charging the same fares, and the existing fares are shown in the table below.

Vessel	Fare	
	Weekday (\$)	Sunday/Public Holiday (\$)
Ordinary Ferry		
Ordinary class	10.5	15.7
Deluxe class	16.8	25
Fast Ferry	21	31

*Note: Children (between 3 and under 12 years old), passengers aged 65 or above and disabled passengers can enjoy half-fare and children under 3 years old do not have to pay.*

6. The higher fares for holidays have been adopted by ferry operators since 1976. The rationale is to allow the ferry operator to charge a higher fare on holidays to recover its operating cost on weekdays so that a lower weekday fare can be maintained.

7. Although higher holiday fares are charged on the services, local residents of the three outlying islands can enjoy fares equivalent to the weekday fares on Sundays and public holidays by using day-return tickets, the price of which is \$21 for ordinary class and \$33.6 for deluxe class on ordinary ferry, and \$42 on fast ferry. If monthly tickets which cost \$420 each are used, the average daily fare for the ferry service will be lower than the standard rates on both the fast and ordinary ferry during weekdays and holidays.

### **Scope for reducing holiday fares**

8. NWFF has examined its financial situation to explore if there is room for removing or reducing the higher holiday fares. The financial performance of NWFF has not been satisfactory since its commencement of operation in 2000. The assessments conclude that there is little scope for reducing the holiday fares for the three outlying island services for the following considerations:

- (a) Of the three outlying island services, only the Cheung Chau service is viable while the other two are loss-making. The average daily patronage of all the three ferry routes has been decreasing over the past years (see **Annex**). Operating costs, particularly fuel cost which is beyond the control of NWFF, continue to be high. It is therefore unlikely that the financial performance of the services will be improved significantly in the foreseeable future.
- (b) Despite reductions in holiday passenger demand for outlying island services in recent years, the holiday fare revenue from these services on Sundays/public holidays remains an important income source to meet the operating cost of the services. If the holiday fare now cross-subsidizing the weekday services were reduced, the viability of the outlying island services would be adversely affected and would exert pressure for an increase in weekday fare. This would not be in the interest of the residents of the three outlying islands.
- (c) The feasibility of lowering fares through service reduction

has also been examined. Since there is little room to cut the costs for staff and vessel repair and maintenance, NWFF will only be able to achieve savings in fuel cost through reduction in the number of sailings. However, savings from fuel cost will be off-set by the anticipated patronage drop especially during holidays due to a deterioration in the service level which would render the services less attractive. NWFF has also examined the implication of taking out vessels from the existing fleet providing services to Cheung Chau, Peng Chau and Mui Wo to achieve savings in the total operating cost. However, it is anticipated that to do so would result in inadequate capacity to meet the demand for ferry services during peak hours and holidays.

9. In response to the local residents' request for lower fares, NWFF launched a 'Buy-One-Get-One-Free' concession scheme in November 2003 for a trial period of three months. Under the scheme, any two passengers taking fast ferries to Cheung Chau, Mui Wo and Peng Chau together at or after 12:00 noon on Sundays/holidays could enjoy one free ticket. Since January 2004, the concession scheme has been extended to cover the whole day on Sundays/holidays and the scheme will last until May 2004.

### **Extension of ferry service licences in 2005**

10. In accordance with the provisions of the Ferry Services Ordinance, Chapter 104 ("FSO"), a ferry service licence ("FSL") may be granted for an initial period not exceeding three years. The C for T may, at the request of the licensee, during any period while the FSL is in force, extend the licence for a further period not exceeding three years at any one time. The period of a FSL (together with all extensions) shall not exceed an aggregate period of 10 years.

11. The FSLs in respect of the three outlying island ferry services operated by NWFF will expire on 31 March 2005. NWFF has submitted its application for licence renewal. TD will consider NWFF's application based on the assessment of its service performance and public acceptability of the services.

12. To facilitate the assessment, TD will conduct a monitoring survey and a passenger opinion survey in April/May 2004 to assess the operator's performance and collect passenger views on the level of service and fare, frequency and vessel deployment of the outlying island services operated by NWFF. The findings of the surveys will be presented to the relevant District Councils ("DC"). Public views received through DCs and other channels will be considered in the assessment.

13. TD will also collect views from relevant government departments including the Marine Department, Civil Engineering Department and Home Affairs Department on the ferry service performance.

### **Conclusion**

14. The higher holiday fares have been cross-subsidizing the weekday operation and helping to maintain weekday fares at a lower level. In view of its current financial situation, NWFF does not see any scope for reducing the holiday fares without affecting the viability of its operation and quality of the service.

15. The existing holiday fares would not affect local residents who can enjoy lower fares during Sunday/holidays by using monthly tickets or day-return tickets. While it has yet to be established whether the current 'Buy-One-Get-One-Free' concession scheme is effective in attracting new holiday patronage, NWFF has agreed to consider extending the concession scheme upon its expiry on 9 May 2004 so as to gather more data and statistics to further assess the effectiveness of the scheme in the coming summer. TD will continue to encourage NWFF to consider extending the existing or offering new concession for holiday fares in order to benefit other passengers. TD will also work with NWFF to look for cost saving and efficiency improvement measures to improve the financial situation of the outlying island services.

**Transport Department**  
**April 2004**

**Annex**

**Average Daily Patronage of the Three Outlying Islands Ferry Routes**

<b>Route</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Central – Cheung Chau</b>	17,900	17,915	17,637	16,899
<b>Central - Peng Chau</b>	5,600	5,305	5,298	4,985
<b>Central - Mui Wo</b>	7,040	6,891	6,996	6,445
<b>Total :</b>	30,540	30,111	29,931	28,329
<b>Change of patronage</b>	-	-1.4%	-0.6%	-5.4%