

Legislative Council Panel on Transport

**Application for Fare Increase
Hong Kong and Kowloon Ferry Ltd.**

Purpose

This paper brief members on the application of Hong Kong and Kowloon Ferry Limited (“HKK”) to increase the fares of its following three licensed ferry services for Lamma Island -

- (a) Central – Yung Shue Wan;
- (b) Central – Sok Kwu Wan; and
- (c) Aberdeen – Yung Shue Wan (via Pak Kok Tsuen).

Background

2. HKK has started operating the three licensed ferry services for Lamma Island since 1998.

3. Since the granting of the licenses to HKK, it has been able to provide satisfactory ferry services in accordance with the Schedules of Service. HKK has also operated additional sailings to cater for upsurge in passenger demand where necessary. As shown by the passenger opinion surveys commissioned by Transport Department (TD) in 2006, passengers were generally satisfied with HKK’s services.

4. Regarding its financial performance, HKK has been operating in a loss since its commencement of operation of the three licensed ferry services from 1998. Up to end 2006, the Company has accumulated a total loss of about \$27 million.

5. The fares of the three ferry routes for Lamma Island were last adjusted on 1 February 2005 at a weighted average rate of 6.2%. The single journey adult fares on weekdays were increased by \$1, while those of Sundays and public holidays were kept unchanged. However, this fare increase could only help cover part of the rising operating costs. Due to the escalating fuel prices, the total fuel cost incurred by HKK in 2005 has increased drastically by 34% when compared to that in 2004. As a result, HKK still suffered from a loss of more than \$7 million in 2005 even after the fare increase in February 2005.

6. Facing the poor financial situation, HKK has introduced a series of measures to generate more non-fare box revenue in the past years as an effort to improve its financial performance. These measures include –

- (a) sub-letting spaces at piers for commercial and retail activities;
- (b) charter-hiring its vessel to travel agents and sub-letting a berth for operation of a harbour sightseeing tour service in the evenings;
- (c) leasing its vessels to other operators for providing other ferry services from time to time; and
- (d) arranging disposal of old and surplus vessels.

7. HKK has also implemented cost-cutting measures which include -

- (a) procurement of vessel maintenance service at a lower cost;
- (b) purchase of spare parts directly from overseas to save agency fees;
- (c) downsize of pier staff by improving fare collection arrangement and streamlining work practices;
- (d) cessation of loss-making and underutilized routes, viz. “Central – Tsuen Wan” and “Central – Pak Kok Tsuen” services; and
- (e) freezing of staff salaries between 2001 and 2005.

8. To reduce the Company’s operating loss, HKK recently applies to increase the single journey adult fares of the above ferry services by \$0.4 to \$1.6, representing an weighted average increase of 12.2%. Details of HKK’s fare increase proposal are at Annex.

Processing of HKK’s Fare Increase Application

9. Fares of licensed ferry services are determined by the C for T in accordance with the provisions in the Ferry Services Ordinance (“FSO”). Section 33 of the FSO stipulates that the C for T may by notice in the Gazette determine the maximum fares that may be charged for the carriage of passengers, baggage, goods and vehicles on any licensed services. A licensed ferry operator shall not charge any fare exceeding the maximum fares.

10. In considering HKK’s application for fare adjustment, TD will take into account a basket of factors, including –

- (a) financial condition of the ferry operators;
- (b) forecasts of changes in operating costs, revenue and return;
- (c) past performance of ferry operators in provision of the ferry services concerned;

- (d) public acceptability of the proposed fares, and
- (e) other measures by the ferry operator to achieve cost saving and generate additional revenue.

11. TD consulted the Islands District Council Traffic and Transport Committee meeting on 15 January 2007 about HKK's application for fare increases. The consultation with the locals about the fare increase application is still in progress. Government appreciates that HKK's proposed fare adjustment is a concern of Lamma Island residents. TD will carefully take into account all relevant factors, which include the public acceptability of the proposed increase and the long term financial viability of the ferry operator when considering HKK's application with a view to striking a good balance.

Outlying Islands Ferry Services: Way Forward

12. It is the Government's established policy that public transport services should be operated by the private sector or by public corporations without direct Government subsidy. Under this arrangement, public transport services can be provided more efficiently and responsively to cater for changing demands. Operators will also have the incentive to enhance their efficiency to minimise cost.

13. With a view to relieving the ferry operators' pressure for fare increase in the interest of the ferry passengers, the Government has been providing indirect assistance to help reduce the ferry operators' operating cost and to facilitate the generation of non-fare box revenue. Major measures taken by the Government to reduce the operating costs of ferry services are summarised below –

- (a) since April 1997, the Government has taken over from ferry operators the responsibility of maintaining the pier structures and pier facilities, such as fender system and lift and ramp system, to alleviate the financial burden on the ferry operators;
- (b) the Government reimburses the rentals of piers used by and exempts the licence fee for vessels deployed on licensed ferry services offering concessionary fares to the elderly; and
- (c) the marine diesel used by vessels deployed on the ferry services are exempted from duty.

14. To help generate non-fare box revenue, ferry operators are permitted to carry out a number of commercial activities at the piers leased to them by the Government. Ferry operators may also make use of their vessels to generate non-fare box revenue, subject to the Government's approval having regard to

the merits of individual cases. The non-fare box revenue so generated is required to be ploughed back to the accounts of the ferry services to cross-subsidise ferry operation. We will continue to explore new measures such as upgrading the pier facilities and shortening the processing time for commercial concession applications, to strengthen ferry operators' ability to generate more non-fare box revenue to cross subsidize the ferry operation. Opportunity will also be taken to review the vessel quality and service level when the existing licences for outlying island ferry routes are due for tendering.

Environment, Transport and Works Bureau
Transport Department
January 2007

HKK's Proposed Faretable for Lamma Island Ferry Services

(1) Central – Yung Shue Wan				
	Mondays to Saturdays		Sundays and Public Holidays	
	Ordinary Ferry	Fast Ferry	Ordinary Ferry	Fast Ferry
Adult	\$12.6 (\$11)	\$17.6 (\$16)	\$15.6 (\$14)	\$21.6 (\$20)
Elderly / Child / Passenger with disabilities	\$6.3 (\$5.5)	\$8.8 (\$8)	\$7.8 (\$7)	\$10.8 (\$10)
Monthly ticket	\$567 <average \$9.5 per journey> (\$495 <average \$8.3 per journey>)			
(2) Central – Sok Kwu Wan				
	Mondays to Saturdays		Sundays and Public Holidays	
	Ordinary Ferry	Fast Ferry	Ordinary Ferry	Fast Ferry
Adult	\$12.6 (\$11)	\$15.6 (\$14)	\$15.6 (\$14)	\$19.6 (\$18)
Elderly / Child / Passenger with disabilities	\$6.3 (\$5.5)	\$7.8 (\$7)	\$7.8 (\$7)	\$9.8 (\$9)
Monthly ticket	\$567 <average \$9.5 per journey> (\$495 <average \$8.3 per journey>)			
(3) Aberdeen – Yung Shue Wan (via Pak Kok Tsuen) (Fast Ferry)				
Adult	\$13.6 (\$12)			
Elderly / Child / Passenger with disabilities	\$6.8 (\$6)			
<u>Section Fare</u>				
Adult	\$6.8 (\$6)			
Elderly / Child / Passenger with disabilities	\$3.4 (\$3)			
Monthly ticket	\$567 <average \$9.5 per journey> (\$495 <average \$8.3 per journey>)			

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