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Serge Berthier

<>

2007/08/16 PM 06:37

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cc pi@legco.gov.hk, mwrc@netvigator, iya@netvigator

Subject Ferry lines to Lantau South

Sir,

I refer to the TD/s proposal for the Licensed Ferry Services of the Outlying Islands to be re-tendered, and the comments made by Deputy Secretary for Transport and Housing Cathy Chu Man-ling to the lawmakers quoted in the South China Morning Post dated July 21.

The comments made by Dy Secretary are reminiscent of the tone of TD when talking about the Lantau - Tung Chung road and the renewal of the ferry franchise to HYF in 1998.

HYF then the undisputed operator was complaining from the outset that it was losing money. Meanwhile the Lantau and Peng Chau residents were complaining of a lousy and sub-standard service. Finally the franchise was extended in such a manner that HYF was able to extract about HK\$400 millions from a new operator without any track record - New World First Ferry, which is controlled by the New World Group - to hand over its franchise which should have terminated for lack of performance. I wonder where these efficient civil servants of TD are today. Is it possible they have been promoted and still be around to peddle the same ridiculous logic that made HYF?

Anyway, to sale an operation that is losing money at such a premium was quite spectacular and it makes one wonder where the money is in a ferry license since every operator is claiming at the time of the renewal of the franchise that the operator claims is losing money. Star Ferry has always been another specialist of the argument. It is doing this years doing the same as in 1999. When are we going to be serious on this issue? At every renewal the operator claims to lose money, yet it is always the only one to apply, having make sure that no one will challenge its way of doing business. We are still waiting to see the Wharf group to relinquish any of its franchises in the tramway of the Star Ferry, yet it is telling us that as far back as it existed they have never done any money out of it. As for New World First Ferry, a newcomer in the game, what can one think of a company still operating the vessel whose photo I attach to this email? That vessel, plying the route between Peng Chau and Cheng Chau was build and already plying the same route when New World was nothing.

There is actually a very troubling aspect in the comments of the Deputy Secretary for Transport and Housing than the fact that mega-groups ruled by tycoons are trying to get the best of their dealings with the government. It is the fact that a tender is supposed to be a process where every candidate has the same chance. I wonder what the

Director of Audit would say on the single admission that TD has already concluded that except the actual franchisee, no one is prepared to bid and I suggest the lawmakers to refer the matter to the ICAC and indeed the Director of Audit. How come the civil servants of TDA can discuss the terms of a franchise without proper disclosure of who, where and what was discussed? Who gave them such an authority and who is supervising that everything is on record?

For transparency purpose and good governance, whenever there is an open tender exercise, no one should talk to anyone before the submissions have been made and expression of interest have been made. Obviously the Dy Secretary admits that for TD it is not the case. She goes as far as to admit that the department (who, when) is already tailoring the conditions of the tender to the request of the one candidate so as to get at least one bidder, because TD already knows there is no bidder except New World First Ferry.

Who are we kidding? Recently, Alitalia, the national airline of Italia was for sale by open tender. There has been no bidder. The Italian government is under pressure to change the terms of the bid, but at least it is a transparent process.

In essence, the Dy Secretary in an open democracy would today have no choice but to resign after the comments she made. She said too little or too much. Unfortunately, in Hong Kong, the government wants the people to believe that it is for their benefit that the civil servants try to make a the best deal when talking to big companies.

But what do they know about fair and level-playing field when she admits TD is already massaging the terms and conditions of the tender to please New World First Ferry and when we still are waiting for an antimonopoly law in Hong Kong?

It is her predecessor in the Transport Department that declared in a press release in 1999

"For the outlying islands, ferry services will be strengthened with the provision of more ferry trips and a mixture of both fast and slow vessels to cater for demands of different passengers,"
(see <http://www.info.gov.hk/gia/general/199903/30/0330178.htm>).

Today, 8 years later, with a huge increase in the population on South Lantau, TD is making a u-turn and promotes the view that the ferry services should be reduced, not strengthened or cleaned up.

The question is why.

The Transport Department is turning a blind eye to the situation prevailing on Lantau and is trying to railroad people's views.

The first fact is that since the time it took over the operation of HYF, the New World Group has taken a 19.9% stake in the company that owns New Lantau Bus Company and has integrated the management into its own operation. Therefore New World has control over the public transport system of Lantau and a near monopoly.

The second fact is that the renovation of the road linking South Lantau to Tung Chung will at last be finished, some fifteen years after its closure for repairs. This project is under the supervision of TD which has blocked unnecessarily every move to improve the transportation links between the island and Hong Kong since 1992. It would be too long to quote here the arguments raised by the former Secretary for Transport, Nicolas Ng, to reject the necessity of the improvement of the Tung Chung road. They are on record at the Legco. Ridicule has never killed any civil servant in Hong Kong.

When the road is at last a two-lane road and accessible to the Lantau residents without restriction, the traffic pattern will change. I am prepared to bet that, all of a sudden, New Lantau Bus will ask for an increase in its bus services between South and North Lantau.

That would be a very bad decision because ferry services are more convenient, faster, safer and for the environment much better than sub-standard buses on a road.

The fact that New World through affiliated companies enjoys now a monopoly on public transport on Lantau South is quite unacceptable. The legislators should force the Transport Department to allow that at least other private operators to challenge such a monopoly on road and sea.

Bus services and ferry services are complementary and to how and they remain so being now under the control of the same company? How can we believe the company works for the benefits of the Lantau residents? What matter for New World is to enjoy a franchise and the cash-flow that goes with it. I suggest that lawmakers read the new book of Joe Studwell "Asian Godfathers: Money and Power in Hong Kong and South East Asia" to understand better the rationale between the attitude of TD on this ferry matter and what really is at play.

TD has in the past never challenged the franchised companies. It took many years to get rid of China Motor Bus, but it was a result of protest, complaints and scandals, not a result of a proper monitoring of the company. As for the infamous Yaumatei Ferry Company reborn as HYF, it took months of protest for the residents of Lantau South to challenge TD and get at last a new operator. At the end, TD admitted HYF had to go but we discover now that TD's mindset has not changed.

I give you a simple and easy to check example: the inter-island route going from Cheng Chau to Peng Chau via Chimawan and Mui Wo is using the same vessel for the past forty years while the fare is about ten times the price of what it was 20 years ago. New World First Ferry acquired the vessel from the infamous HYF when it took over the franchise. What did it change? Nothing. How can we believe that the ex-HYF vessel, whose purchase value has been amortized over and over during forty years, is fuel-efficient and complies with emission regulation as regards the pollution? How can we believe that the cost of maintaining such an antiquated vessel is low and that the route is run with an efficient equipment? Of course it is not. And the question is: where has gone the depreciation value since the vessel has never been replaced?

In what country would one see a public transport company using equipments built in the 1950s or 1960s? (Congo or Bangladesh?). Yet TD sees nothing wrong and does not suggest to put in the tender that all vessels must be no more than 15 years old, by which time they must be retired from service. In some other countries, the requirement is more stringent and the amortization is done over ten years.

Then New World First Ferry argues that it should cut ten daily sailings because the occupancy rate of those trips is below costs. By the same token, I suggest TD to revise the bus routes controlled by New World and to cut every route where the occupancy is below 50%. That would cut most of the routes plied by franchised buses in Hong Kong between 10am and 4pm. It would greatly reduce pollution and traffic jams on King's Road, Nathan Road and in Central. But of course TD would not follow through such a proposition. Yet, this is

what is at stake when talking about Lantau South and ferry services.

I hope that the legislators will stand up for the Lantau South residents.

If not, do not expect the population to accept a decision that will reduce the ferry services. TD already badly underestimated the problem of the Tung Chung road in the past and the result was the blockage of the road, years of delay and economic losses that could have been avoided if the Transport Committee of the Legco had taken a firm stand on the issue. It is not necessary to go through the same process again because at the end TD will not impose its view on the matter. The colonial mindset is gone and the civil servants have to understand that they are in their position to serve the public, not to serve some vested private interests.

For your perusal, I attach an email I received today which highlights better than anything what is really going on on Lantau South.

I am the Supervisor of the Lantau International School, the only international school on Lantau that I founded in 1995 when HYF was the ferry franchisee and when the government Education bureau told me that there was no demand for an English speaking school on Lantau. In those days, the school caters for 35 children. In 2007/2008, the school caters for 196 children and in 2008/2009 for 218. Yet the school keeps having a waiting list.

This trend does not really support the complain of New World First Ferry that less and less people are on the ferry. We have more and more families moving on the island and they do expect a reasonable public transport system, not a downgraded one.

The income of those families classified them as upper middle-class as can be seen by the kind of cars they do purchase to go around in what remains a rural spot.

These people are unlikely to accept a sub-standard transport system on the guise that a listed company such as New World is not making money. They are more likely to go to the heart of the matter and raised issues that have not been raised in the past, such as where is the money going and why TD is not asking the right question and not dealing in an open, honest and transparent manner. There is a demand for a modern ferry service. one where we don't have to use vessel such as the one on the photo taken on August 6, 2007 in Mui Wo (see photo).

As regards the petition which is too long, my view is that the merger of the traffic should be abandoned. The frequency should remain the same and if necessary fares should be adjusted. But New World Ferry should also improve its fleet and phase out during the new franchise any vessel that is more than ten years old. Only then we will have an efficient and environmentally friendly service. Currently none of the vessels would pass an environmental test in Europe. They are all heavy polluters.

Best regards

Serge Berthier
Lantau South resident since 1990.
Supervisor of the Lantau International School.



The Inter-island ferry in 2007. The same boat was used in 1986!!! New World Ferry ...

Provisional Legislative Council

Panel on Transport Franchise of Ferry Services

INTRODUCTION

Ferries provide an essential link to the outlying islands, and an useful alternative to land transport between Central and the New Towns. In the inner harbour, ferries play a supplementary role.

2. Ferry services in Hong Kong are mainly provided by two franchisees, Hongkong & Yaumati Ferry Company Limited (HYF) and Star Ferry Company Limited (SF). HYF operates a network of 15 routes and SF a total of three routes. Franchises are granted by the Executive Council.

3. A ferry operator may also be granted a right to operate a ferry route in the form of a licence. Licences are granted by the Commissioner for Transport. Licensed ferry services normally cater for demand that does not justify enfranchising the routes, e.g. non-essential services, excursion services and special services such as vehicular services for dangerous goods vehicles.

FRANCHISED FERRY SERVICES IN HONG KONG

4. Due to improved road links, harbour reclamation, declining patronage and rising operating costs, franchised ferry services in Hong Kong are no longer viable.

Declining Patronage

5. With the opening of more cross-harbour tunnels, new road networks and rail links, there has been a persistent decline in ferry patronage. The inner harbour services are the worst hit. The average daily patronage of HYF's inner harbour routes dwindled from 437 200 in 1970 to a mere 21 100 in the first eight months of 1997. SF's average daily patronage has also fallen from 155 200 in 1970 to 91 000 during the same period.

6. Ferry patronage has also declined due to the relocation of piers away from the main catchment areas to make way for reclamation. Patronage on HYF's Central - Jordan Road ferry service dropped 64%, when compared to 1994, after piers at both ends were relocated in 1995 and 1996. SF forecasts that patronage on its Edinburgh Place - Kowloon Point service would be further affected by the re-provisioning of the Edinburgh Place piers, now planned for late 2003.

Rising Operating Costs

7. Ferry services are increasingly costly to run. Other than staff costs, which account for 50% of the operating costs, the cost of pier maintenance has also shot up.

8. In response to a suggestion from some Members, Government conducted a review of the division of responsibility over the maintenance of ferry piers. Government, as landlord and developer of the ferry piers, has agreed to take over the financial responsibility for maintaining pier structure from 1997/98 onwards. Franchisees, as tenants of the piers, would continue to take care of the day to day maintenance.

This new arrangement should give franchisees some relief.

9. Whilst Government will strive to provide convenient transport interchange facilities near ferry piers to facilitate passenger movements, one would have to recognize that with the completion of more infrastructural projects and continuous improvements of land transport, ferry services are becoming increasingly less competitive in terms of convenience and travelling time. This is particularly so for the inner harbour services.

FRANCHISEES' FINANCIAL POSITION

10. HYF's current franchised network comprises six inner harbour routes, two new town routes, six outlying island services and one vehicular route. Please see [Annex A](#) for details.

11. The Company has incurred heavy losses since 1994. Only two of its routes are profit-making. The remaining 13 routes are all loss-making. The greatest drain of HYF's resources is due to the operation of the inner harbour route group and the new town route group. Income from other sources such as excursion services, chartered services, and shop rentals and advertising at piers is not sufficient to cover such losses.

12. SF operates the cheapest cross-harbour public transport services in the territory. But none of its three cross-harbour routes are able to recover even the operating costs. Only with income from shop rentals and advertising is SF able to sustain its operations.

13. The financial position of HYF and SF illustrates the fact that, with a persistent decline in patronage and increase in operating costs, ferry operators are finding it increasingly difficult to maintain the overall viability of their existing networks. This also calls into question the rationale for keeping non-essential inner harbour and new town routes which are heavily loss-making.

14. Against this background, a more pragmatic approach would be to institute a complete revamp of the current network, to excise from it those heavily loss-making routes with land transport alternatives. The objective is to ensure that, following the rationalization, the franchisees are able to deploy their resources to improve essential ferry services, whilst being able to achieve a positive return to sustain operations.

15. As to the future of services excised from existing network, it is probable that some of these routes may become viable if they are operated with different service levels, fare levels, vessel types and cost structures. We would examine carefully whether it is commercially viable to tender out some of the routes as licensed services and let market forces determine the future of such routes.

HYF's FRANCHISE RENEWAL

16. In view of HYF's financial predicament, ExCo approved in 1995 the grant of development rights above four piers on the Central Reclamation to HYF by way of a private treaty grant. Profits generated from the development will be used for service improvements, to keep fare increases in line with inflation and to meet HYF's accumulated loss.

17. As part and parcel of the pier development package, HYF was required to apply for a new franchise to the year 2010. This would enable ferry passengers to benefit from the development profit generated beyond the term of the current franchise (to expire in March 1999). Franchise negotiations are ongoing.

18. Under this package, HYF will rationalize its inner harbour routes prior to the expiry of its current franchise. This route group has continually been incurring serious losses since the introduction of cross-harbour road and rail links. Concurrently, Government is reviewing the patronage of HYF's new town

route group and its vehicular service which also suffer heavy losses to see whether there is room for further rationalization. So far, statistics have revealed that -

- a. Following the opening of the Tuen Mun Road Bus-only Lane in March 1995 and the addition of four climbing lanes on Tuen Mun Road in 1996, the average daily patronage for HYF's Tuen Mun - Central service has declined by 20% from 11 600 in 1994 to 9 300 in 1996. Coupled with the introduction of direct cross-harbour bus services via Route 3 and the commissioning of the Western Harbour Crossing, the average daily patronage for the service has further declined to 7 700 in August 1997. Currently the spare capacity of the service stands at 40% and 57% during the morning and evening peak hours.
- b. Following the opening of the Western Harbour Crossing, the daily patronage of the Tsuen Wan - Central via Tsing Yi service in August 1997 has dropped by 27%, when compared with the average patronage figure in 1996. Government is considering HYF's proposal to cancel this franchised route next year. If there is sufficient demand, the service will be tendered out.
- c. Also since the opening of the Western Harbour Crossing, the average daily number of vehicles using the North Point - Kowloon City vehicular service has dropped by 44%. In view of this decline, Government is considering HYF's proposal to cancel this franchised vehicular route early next year. Vehicles so displaced can make use of the three cross-harbour tunnels.

SF ' S FRANCHISE RENEWAL

19.SF's franchise expires in March 1998. We are satisfied that SF is able to maintain a proper and efficient ferry service. We are taking a critical look at the relationship between SF's projected financial position and its network and are considering options to help improve the commercial viability of SF's operations in the long term. A likely approach will be to grant SF a new franchise with a smaller network with routes so excised put out to tender. We will start franchise negotiations shortly with SF and aim to complete the exercise in early 1998.

Transport Bureau
Government Secretariat
October 1997

Annex A

List of Existing HYF Services

Franchised Ferry Services

Vehicular

1. North Point - Kowloon City

Passenger

(a) Inner harbour

1. Central - Jordan Road

2. North Point - Kwun Tong
3. North Point - Kowloon City
4. North Point - Hung Hom
5. Wan Chai - Hung Hom
6. Central (Edinburgh Place) - Tsim Sha Tsui (East)

(b) New Town

1. Tsuen Wan - Central / Wan Chai via Tsing Yi
2. Central - Tuen Mun

(c) Outlying Islands

1. Central - Mui Wo
2. Central - Peng Chau
3. Central - Cheung Chau
4. Central - Sok Kwu Wan
5. Central - Yung Shue Wan
6. Peng Chau - Mui Wo - Chi Ma Wan - Cheung Chau

Legislative Council

LC Paper No. CB(1) 186/99-00
(These minutes have been seen
by the Administration)

Ref: CB1/PL/TP/1

LegCo Panel on Transport

Minutes of meeting held on Wednesday, 28 July 1999, at 10:30 am in Conference Room A of the Legislative Council Building

Members present :

Hon Mrs Miriam LAU Kin-ye, JP (Chairman)
Hon LAU Kong-wah (Deputy Chairman)
Hon Edward HO Sing-tin, SBS, JP
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, JP
Hon LEE Wing-tat
Hon LEE Kai-ming, SBS, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, JP
Hon CHAN Wing-chan
Hon CHAN Kam-lam
Hon Andrew CHENG Kar-foo
Hon TAM Yiu-chung, GBS, JP
Hon FUNG Chi-kin
Dr Hon TANG Siu-tong, JP

Members attending :

Hon LEE Cheuk-yan
Hon LEUNG Yiu-chung
Hon SIN Chung-kai
Hon CHOY So-yuk

Members absent :

Hon Andrew WONG Wang-fat, JP
Hon LAU Chin-shek, JP

Public officers attending:

For Item III

Transport Bureau

Mr Kevin HO,
Secretary for Transport (Atg)

Mr Thomas CHOW,
Deputy Secretary for Transport

Mr Roy TANG,
Principal Assistant Secretary for Transport

For Item V

Transport Bureau

Mr Kevin HO,
Secretary for Transport (Atg)

Ms Shirley LAM,
Principal Assistant Secretary for Transport

Ms Doris CHEUNG,
Principal Assistant Secretary for Transport

Transport Department

Mrs Dorothy CHAN,
Commissioner for Transport (Atg)

Mr Y M LEE,
Chief Traffic Engineer

Highways Department

Mr John CHAI,
Project Manager/Major Works (Atg)

Planning Department

Mr C K LI,
Chief Town Planner

For Item VI

Transport Bureau

Mr Kevin HO,
Secretary for Transport (Atg)

Miss Linda LAI,
Deputy Secretary for Transport

Mr Brian LO,
Principal Assistant Secretary for Transport

Transport Department

Mrs Dorothy CHAN,
Commissioner for Transport (Atg)

Ms Carolina YIP,
Assistant Commissioner for Transport (Atg)

Attendance by invitation:

For Item III

Merrill Lynch (Asia Pacific) Limited

Mr David Dunn,
Managing Director

Mercer Management Consulting

Mr Andrew A Jennings,
Senior Consultant

For Item VI

The Hongkong & Yaumati Ferry Co Ltd

Mr David HO,
General Manager

Mr Rayman YUEN,
Deputy General Manager

Clerk in attendance :

Ms LEUNG Siu-kum,
Chief Assistant Secretary (1)2

Staff in attendance :

Mr Andy LAU,
Senior Assistant Secretary (1)6

I Confirmation of minutes and matters arising

(LC Paper No. CB(1) 1748/98-99 - Minutes of meeting on 25 June 1999

LC Paper No. CB(1) 1749/98-99 - List of Follow-up Actions

LC Paper No. CB(1) 1750/98-99 - List of Outstanding Items for Discussion)

Members agreed to defer consideration of the minutes of meeting held on 25 June 1999 by circulation.

(Post meeting note: The minutes were subsequently confirmed vide LC Paper No. 1769/98-99).

2. Members noted the List of Follow-up Actions and raised no question on it.

II Information papers issued since last meeting

- LC Paper No. - A submission from a group of residents in Peng Chau on ferry service provided
CB(1) 1617/98-99 by Hongkong and Yaumati Ferry Co Ltd. (HYF)
- LC Papers No. - and CB(1) 1742/98-99 Transport issues referred from Legislative Council
CB(1) 1716/98-99 Members' meeting with Southern Provisional District Board)

3. Members noted the information papers issued since the last meeting. Noting the concerns of the Southern Provisional District Board members about the provision of a multi-storey public car park at Stanley Market, members agreed to include the subject matter in the list of outstanding items for discussion.

III Privatization of MTR Corporation

(LC Paper No. CB(1) 1751/98-99(01) - Information paper provided by the Administration)

4. The Chairman informed the meeting that privatization of the Mass Transit Railway Corporation (MTRC) was last discussed at the meeting held on 25 June 1999. At that meeting, members requested the Administration to provide information on the approaches adopted by overseas governments in the privatization of railways, covering, amongst other things, the regulatory regime and fare setting mechanism. An information paper was subsequently provided by the Administration vide LC Paper No. CB(1)1751/98-99(01) for members' reference.

5. At the invitation of the Chairman, the Secretary for Transport (Acting) (S for T (Ag.)) briefed members on the legislative timetable of the proposal and said that the Administration would introduce the Bill to the Council at the first available time slot after the summer recess. As to the relevance of the approaches adopted by overseas governments in the privatization of MTRC, he said that in drawing lessons from the overseas experience, it was important for the Government to pay due regard to the unique operational characteristics of MTRC, which was amongst the most efficiently and profitably run railway systems in the world, and to map out a privatization plan that would best suit Hong Kong's circumstances.

6. The Senior Consultant of Mercer Management Consulting (SC/MMC) highlighted the uniqueness of MTR system in Hong Kong as compared to other overseas railway systems. In terms of profitability, MTRC had been a most profitably run railway system in the world and had all along operated under prudent commercial principles. Unlike other cities where the Government needed to put up a subsidy to cover a substantial portion of the operating expenses of the railway systems, MTRC had never imposed any financial burden on the Government. SC/MMC advised that there were different considerations for privatization in other countries. In the cases of Argentina, Japan and New Zealand, one of the primary reasons was to reduce financial drains on governments. For the other three cases in the United Kingdom, Canada and the United States, the common objective was to improve the productivity and efficiency.

7. SC/MMC further advised that privatization was usually accompanied by a lessening of the related economic regulation. For instance, all transport industry-specific regulations in New Zealand were eliminated, and regulatory requirements on both the restructured companies and the private railroads resulting from privatization were reduced in Japan. In terms of regulatory mechanism, SC/MMC advised that open market competition was an effective regulatory mechanism. He said that the cost of regulation was one of the prime reasons leading to the poor financial performance of the rail freight in the United States in the 1970s. On the passenger side, he referred members to the case of Japan, highlighting that fare increases had become far less frequent after privatization. He elaborated that prior to privatization, Japanese National Railways adjusted fares on an annual basis. But in the five years following privatization, the privatized companies had not increased their fares except on one occasion where the increase was inevitable due to the introduction of a new consumption tax.

8. Mr Edward HO commented that the paper did not contain sufficient information on the business of the concerned railway companies before and after privatization in respect of the following areas:

1. financial position of the company, including the change in profit and loss, and the change in the amount of government subsidy;
2. service standard, including the change in railway safety and efficiency; and
3. regulatory mechanism, including the change in respect of the monitoring roles played by the Government and the legislature in determining fares and service standards.

9. SC/MMC advised that it might be difficult to collate all the requested information as it covered a large number of privatized companies in different countries. He, however, undertook **Admin** to provide as much information as possible to members.

Fare determination mechanism

10. Noting that the consultant was of the view that competition was the most effective form of regulatory mechanism and having regard to the fact that in some cases, fares were determined through commercially negotiated contracts between the privatized companies and the local authorities, Mrs Selina CHOW enquired about the role of the legislature and how consumers' views could be reflected in the negotiation process. SC/MMC advised that in most cases, fare determination was related to the issue of subsidy as most of the railway systems, if not all, were running at a loss. He said that the legislature did not have a defined role in the process. In the case of the United Kingdom, there was an independent regulatory authority separate from the Ministry of Transport. One of the key functions of the Regulator was to act as a guardian of users' interests and to receive complaints from them. Regarding the fare determination mechanism, the Franchising Director had the power to include in a franchise agreement a provision to ensure that the level of fares was reasonable. Fare increases after privatization were capped at inflation for the first three years, and inflation less one percent for the next four years.

11. The Chairman enquired whether the privatized companies continued to receive Government **Admin** subsidies in one form or another after privatization. SC/MMC undertook to provide further information in this regard.

12. Mr LEE Cheuk yan expressed concern about the fare determination mechanism of the **Admin** privatized MTRC. He opined that the proposed mechanism which provided for fare autonomy for the privatized MTRC, in respect of Government regulation, was worse than that of the United Kingdom as the Franchising Director of the United Kingdom could still have power to include in a franchise agreement a provision to ensure that the level of fares was reasonable. At the request of Mr LEE, SC/MMC undertook to elaborate on how "reasonable" was defined in the case of the United Kingdom.

13. Mr LEE Cheuk-yan stated that in New Zealand, urban passenger services were provided through commercially negotiated contracts to local authorities. These contracts provided for payment to the rail operators for the railway services to cover the cost of providing the rail services in excess of income generated from fares, plus a reasonable profit margin. As such, the authority to determine the level of fares seemed to be rested with the Administration. SC/MMC clarified that no transport industry-specific legislation for freight rates or other aspects of a freight operator's business applied in New Zealand and the privatized long distance passenger services were also not regulated. The only Government's involvement was in the community railway operation between Auckland and Wellington where the operation were governed through contract terms negotiated between the municipalities and the private

operators.

14. Referring to the Canadian case, Mr HO Chun-yan enquired whether a similar environment for competition existed in Hong Kong. SC/MMC explained that the Canadian Government had the right to introduce competition through mandated access and/or inter-switching arrangements at locations where rates were found to be artificially high due to lack of competition. In the absence of a parallel railway system in Hong Kong, Mr HO Chun-yan enquired whether it was a common practice in other countries to introduce some sort of mechanism to regulate the level of fares and standard of services. SC/MMC advised that the Hong Kong's case was rather unique and it was difficult to find a suitable case for direct comparison. As to the regulatory mechanism, he remarked that the cost of regulation had always been high as the focus of the management had been put on regulation rather than other commercial market issues.

15. In response to the Chairman's enquiry about competition, SC/MMC advised that competition was not simply confined to parallel mode of transport but was extended to cover other modes of transport.

16. Mr LEE Cheuk-yan also queried the justifications for the proposed privatization of MTRC. Unlike other overseas systems, MTRC, being a most efficiently and profitably run railway system in the world, did not have any financial pressure for privatization. Further, parallel competition between different rails did not exist in Hong Kong. In terms of competition, it was only applicable amongst different modes of transport such as buses, taxis and public light buses etc. He asked if competition had been created as a result of the splitting up of the rail upon privatization in other countries.

17. SC/MMC replied that in some of the examples such as New Zealand and Canada, there was no change in the structure as well as the size and role of the subsequent organizations. In Argentina, passenger and freight services were divided into different functional lines but the reason for the split was not to introduce competition. Rather, it was intended to establish different functional management units. In Japan, the former railway company run by the State was considered too big and too complex to be managed as a single entity, and hence, it was divided into different regional units. The only applicable case was found in the United Kingdom where the British Rail was split into more than 100 companies to promote competition. However, it was questionable whether such a structure had a better performance than a single one.

Staff

18. Noting that one of the reasons for privatization in other overseas cases was to reduce financial drains on Government, Mr CHAN Wing-chan enquired whether the saving was achieved by means of cutting staff. SC/MMC replied that staff cuts were not solely responsible for the savings and that one of the benefits of privatization was to introduce private sector productivity and efficiency through improved service/market responsiveness which, in turn, would enable the companies concerned to achieve saving. Mr CHAN Wing-chan requested the Administration to avoid cutting staff in the course of the privatization exercise.

Foreign investment and financial arrangement

19. Regarding foreign investment after privatization, SC/MMC advised that in most of the cited cases, privatization of the railway systems came with different degree of foreign investment.

20. Referring to the case in the United States, Mr CHAN Kam-lam remarked that the franchise was only for a term of three years, with two optional one-year extensions by the public transportation authority. He enquired whether the franchisees would be willing to put up investment within such a short span of time even if they were allowed to determine fares on their own. SC/MMC agreed that there was a link

between the amount of investment and the length of the franchise period. However, in the case of the United States, the company concerned was simply an operator and would not be responsible for any substantial capital investment other than those related to the routine maintenance of equipment. In the case of the United Kingdom, some of the franchise periods had been extended from seven years to 15 years to encourage new investments by railway companies.

21. As to whether investors would consider the privatization of MTRC attractive, S for T (Ag.) advised that the Administration would examine the issue taking into account the future monitoring mechanism and the investment environment at large.

22. Mr LEE Wing tat requested the Administration to provide further information on MTRC's business plan for the coming ten years with projection on cash flow and internal rate of return. S for T (Ag.) replied that he would need to consult MTRC to see if the requested information, if available, could be released to members. **Admin**

23. In response to the Chairman, S for T (Ag.) clarified that the Operating Agreement signed between the Government and the MTR Corporation Limited (MTRCL) would eventually be an open document. The Administration undertook to put forward a summary of contents of the Operating Agreement for members' consideration.

Conclusion

24. In view of the nature and importance of the subject matter, the Chairman suggested and members agreed that a further meeting should be scheduled for September to receive briefing by the Administration on the legislative proposal before it was formally introduced to the Council.

(Post meeting note : With the concurrence of both Chairmen, a joint meeting of the Panel on Transport and Panel on Financial Affairs to discuss the legislative proposal of the privatization of MTRC was scheduled for 4 October 1999 at 10:45 am).

IV Planning and design of roads and highways

(LC Paper No. CB(1) 1564/98-99(03) -- Information paper provided by the Administration
LC Paper No. CB(1) 1751/98-99(02) - Information paper provided by the Administration)

25. Members noted the information papers provided by the Administration. In view of time constraint, they agreed to defer consideration of the item.

V Transport network in Lantau

(LC Paper No. CB(1) 1751/98-99(03) - Information paper provided by the Administration)

26. The Chairman drew members' attention to a joint submission from seven local bodies on Lantau, urging the Administration to speed up the provision of a new North-South Link Road between Tai Ho Wan and Mui Wo (the project).

(Post meeting note : The joint submission was circulated to members after the meeting vide LC Paper No. CB(1) 1770/98-99(03)).

27. The Project Manager/Major Works (Acting) (PM/MW(Ag.)) briefed members on the essential features of the project. At members' request, he undertook to provide a set of material presented at the meeting for members' information. **Admin**

28. Members, in general, expressed concern about the environmental problems associated with the project. They pointed out that there was a need to strike a proper balance between the need to ensure a timely provision of transport infrastructure to meet the transport needs of residents on Lantau on one hand and to preserve the last natural scenery of Hong Kong on the other.

29. In reply, PM/MW(Ag.) advised that the Administration had evaluated a total of 17 alignment options by a weighting system taking into account all relevant criteria, including engineering, environmental, land uses and cost/programme. He further advised that a tunnel option might not always be better than a road option. In terms of energy consumption, a tunnel option would necessitate the provision of lighting and ventilation systems within the tunnel. Further, emissions from vehicles would be concentrated at both ends of the tunnel. Regarding the recommended alignment option, he said that it would generally be about 120 metres to 200 metres away from the Tai Ho Stream and its estuary, which had recently been designated as a Site of Special Scientific Interest (SSSI). Of all the alignment options, the recommended alignment was the farthest from the SSSI. Mitigation measures would be provided to protect the SSSI and all other streams during the construction stage of this project. The Administration would also implement large scale woodland planting of about 15 hectares of native trees in areas adjacent to the proposed road link to compensate for the habitat loss and to mitigate the adverse visual impacts of the elevated structures.

30. The Chairman advised that as the subject matter was only first discussed at the Panel, it would be helpful if members could sound out their major concerns and requested the Administration to provide additional information to facilitate subsequent discussion. Members agreed that the item should be put on the list of outstanding items for discussion. Meanwhile, the Administration was requested to provide the following information:

1. the evaluation of the 17 alignment options together with the pros and cons of each option, the assessment criteria and the weightings accorded to each individual factors such as costs, environmental implication etc.;
2. the estimated capital cost as well as the future maintenance cost of the recommended option as compared with those of other options;
3. the detailed work schedule of the proposed project and the possibility of fast-tracking the project;
4. the concerns raised by the public, the Advisory Council on the Environment and its Environmental Impact Assessment Subcommittee as well as the Country and Marine Parks Board about the recommended option and how these concerns would be addressed;
5. the recommended measures to protect the Tai Ho Stream and the SSSI as well as the government department(s) which was/were responsible for the environmental monitoring work after the completion of the proposed project; and
6. the overall planning for the development of Lantau and the information on the necessary transport network to meet the development needs.

VI Ferry service of the Hongkong and Yaumati Ferry Co Ltd

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|---------------------------------------|--|
| (LC Paper No. CB(1) 1561/98-99(02) | - Submission from a group of residents in Peng Chau on ferry service - provided by HYF |
| LC Paper No. CB(1) 1617/98-99 | - A further submission from a group of residents in Peng Chau on ferry service provided by HYF |

- LC Paper No. CB(1) 1751/98-99(04) - Information paper provided by the Administration
- LC Paper No. CB(1) 1751/98-99(05) - Administration's reply to LC Papers No. CB(1) 1561/98-99(02) and CB(1) 1617/98-99

31. The Chairman drew members' attention to a submission from Hongkong and Yaumati Ferry Co. Ltd (HYF) and a letter from Mr LEE Wing-tat enclosing the findings of a recent survey on HYF ferry service.

(Post meeting note : The above papers were subsequently circulated to members vide LC Paper No. CB(1) 1770/98-99(01) and (02)).

32. At the invitation of the Chairman, the General Manager of HYF (GM/HYF) briefed members on measures implemented by HYF to improve the operation of HYF's new licensed ferry services in the light of the feedback and comments received during the initial operation period of the services. He said that the Company had arranged a training course for all front-line staff with a view to further improving their performance.

Holiday Return Ticket System

33. Mr TAM Yiu-chung called on the Administration and HYF to consider the residents' request for reinstating the previous holiday return ticket system, i.e. extending the validity period of the return tickets to cover a day before and a day after Sunday or public holidays. However, noting the Company's stance as set out in paragraph 15 of the paper, he requested the Administration and HYF to revisit the subject matter in collaboration with the operator of the electronic ticketing system. He also opined that consideration should be given to extend the validity of the return tickets to straddle long holidays.

34. The Commissioner for Transport (Ag.) (C for T(Ag.)) advised that the Administration was liaising with the Company to see what improvement measures could be introduced in this regard to satisfy the residents' needs.

35 GM/HYF added that the Company was actively considering extending the validity of the holiday return tickets to straddle long holidays and would consult the Island Provisional District Board (IPDB) in September 1999 when the technical problem associated with the modification of the electronic ticketing system was resolved. He further advised that the modification work would incur a capital expenditure of no less than \$2 million, with additional operating costs of \$0.2 million per annum.

36. Mr LEUNG Yiu-chung requested the Company to consider providing a fare adjustment service for different classes and vessel types as the present arrangement was unfair to passengers. On some occasions, passengers might prefer to make use of an ordinary ferry for the return trip even if they had a return ticket for fast ferry as the schedules for the latter might not be convenient for them. GM/HYF advised that the Company's market plan was to migrate from manual ticketing system to electronic ticketing system so as to enhance efficiency and minimize related operational problems. The fare adjustment feature would be incorporated in the electronic ticketing system. He further said that the fare adjustment service made on board had created conflicts between passengers and the Company's staff in the past especially during summer holidays when a deluxe class passenger could not find a seat after buying a ticket at the ticket office. To improve the situation, it was considered more appropriate that passengers should decide to take ordinary class or deluxe class at designated turnstiles at pier.

Monitoring of service

37. In view of the grievance and complaints from residents about the outlying ferry service provided by HYF, Mr LEUNG Yiu-chung commented that the Administration had failed to monitor the service, and enquired the actions taken by the Administration since the new licensed ferry services commenced operation in April this year.

38. C for T (Ag) advised that since 1 April 1999, the Transport Department had been discussing with HYF on measures to improve the operation of HYF's new licensed ferry services in the light of the feedback and comments received during the initial operation period of the new licensed services. In general, the concerns of passengers mainly related to timetables, vessel quality and conditions, and fares. Regarding timetables of services, HYF had already arranged to increase the frequencies of individual routes on top of the tender requirements in response to demands from passengers. Regarding complaints about non-adherence to schedules, she said that Transport Department was liaising with HYF with a view to identifying suitable measures to improve the situation. This included, among other things, a review on the journey speed and the berthing arrangements for vessels. On vessel quality and conditions, HYF had also taken various measures to improve vessel conditions as set out in its submission tabled at the meeting. Transport Department would continue to liaise with HYF with a view to introducing further improvement measures. The Administration would also conduct survey to solicit passengers' views on how the services could be further enhanced to meet their needs.

39. Referring to the findings of a survey conducted on 23 July 1999, Mr LEE Wing-tat pointed out that more than 70% of the respondents considered the ferry services provided by HYF not reliable. They also complained about the existing level of service which was inadequate to meet passenger demand.

40. In reply, GM/HYF said that the Company had kept reviewing and monitoring closely its services by constant discussion with the Administration, relevant authorities, IPDB members, area committees and island residents. To enhance its services, arrangements had been made to further improve the frequency of ferry services for Peng Chau, Cheung Chau and Mui Wo during peak periods. Notwithstanding the reply, Mr LEE Wing-tat remarked that it took a long time for passengers to wait for another despatch if they failed to board on a vessel due to overloading. He therefore requested the Company to deploy larger vessels to address the transport needs of residents during peak periods.

41. Referring to the problem of late departure of sailings due to the need to wait for the last-minute passengers on board, GM/HYF explained that the Company had indeed put forward a proposal to the IPDB on the closing down of the ticket office before the scheduled departure time. However, the proposal was not supported by IPDB. Noting the reply, Mr LEE Wing-tat encouraged HYF to go back to IPDB and discuss the proposal of closing down the ticket office before the schedule departure time. In the light of members' comment on the irregularity of the service, GM/HYF said that he would further consult the IPDB on the said alternative arrangement.

42. Referring to the spare capacity of vessels, the Assistant Commissioner for Transport (Ag) advised that during the peak periods, the respective loading factor for fast ferry and ordinary ferry services might be up to 80% and 60% to 80%, depending on individual sailings. At the request of **HYF** the Chairman, HYF undertook to provide further information on the carrying capacity of the various ferry services versus the actual passenger figures.

(Post meeting note : The requested information was circulated to members vide LC Paper No. CB(1)1859/98-99).

Floating refuse

43. Mr HO Chun yan expressed concern about the problem of floating refuse which would lead to engine

malfunction and, in turn, hinder the punctuality and reliability of ferry services. He requested the Company to look into the problem and provide the related statistics for members' information.

44. GM/HYF briefed members on the problem of floating refuse and the remedial measures taken when such problem was identified. He said that in order to speed up the related rectification work, the Company had already arranged to deploy stand-by divers near piers to address the problems. However, there might be cases where the vessel would need to be towed back to the shipyard for repair. To address the problem, the Company had been providing regular reports to the Marine Department for follow-up.

(Post meeting note : A letter setting out the average time of service disruption due to the vessel breakdown caused by the floating rubbish being trapped in the engine of a ferry was provided by HYF and circulated to members vide LC Paper No. CB(1)1859/98-99).

45. In response to Mr CHAN Kam-lam, C for T(Ag) advised members that subsequent to the enforcement actions taken by the Marine Department and the police, the illegal ferry services had ceased to operate. The Administration would closely monitor the situation and take appropriate enforcement actions as and when necessary.

VII Any other business

(1:00 pm onwards)

Bus fire accident

46. Mr LAU Kong-wah expressed grave concern about the recent bus fire accident. He urged the Administration to make a direct investigation rather than awaiting the report to be submitted by the Company. C for T (Atg) advised that after the incident, they had requested all bus companies to carry out a thorough examination on similar type of vehicles. The Transport Department had also requested Kowloon Motor Bus Company (1933) Limited to submit a detailed report on the incident in collaboration with the vehicle supplier. The Department would follow up the issue with a view to avoiding recurrence of similar incident in future. She stressed that Transport Department was equally concerned about vehicle safety as well as the repair and maintenance of vehicles. Apart from conducting annual vehicle inspection, the Department had been carrying out daily random checks on the buses as well. Transport Department had also asked the franchised bus operators to examine the feasibility of installing a fire extinguishing system in the engine compartment.

Vote of thanks

47. As this was the last regular meeting of the Transport Panel of the Legislative Council, the Chairman thanked members for their support and the Administration for its co-operation during the session.

48. There being no other business, the meeting ended at 1:05 pm.

Legislative Council Secretariat
22 October 1999

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