

**Legislative Council Panel on Transport**

**Arrangements for the Operation of  
Major Outlying Island Licensed Ferry Services  
in the Coming Tender Exercise**

**Purpose**

On 20 July 2007, the Government briefed the Transport Panel on the arrangements for the operation of the current six major outlying island licensed ferry services<sup>1</sup> in the coming tender exercise. This paper sets out the revised arrangements for the operation of the Central-Cheung Chau, Central-Peng Chau, Central-Mui Wo and the Inter-island services in the tender exercise following our further consultation.

**Background**

2. The current licences of the six major outlying island ferry services will expire by the end of March 2008. The Transport Department (TD) plans to launch a new tender exercise in September 2007. As a result of rising operating costs, in particular the fuel cost, and falling patronage in the recent years, most outlying island ferry services have been operating at a loss. The Government considers it necessary to ensure the continued provision of these ferry services for residents of the outlying islands upon the expiry of the current licences and to keep the fares stable as far as possible.

**Government's Measures to Assist Ferry Operation**

3. It is the Government's established policy that public transport services should be run by the private sector or public corporations in accordance with commercial principles. The Government would not

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<sup>1</sup> The six major outlying island ferry services are (i) Central-Cheung Chau, (ii) Central-Peng Chau, (iii) Central-Mui Wo, (iv) Inter-island (Peng Chau-Mui Wo-Chi Ma Wan-Cheung Chau), (v) Central-Yung Shue Wan, and (vi) Central-Sok Kwu Wan routes.

provide direct subsidy for their daily operating expenditure. However, to improve the financial viability of the outlying island routes, the Government has implemented a series of measures to help reduce the operating costs of these ferry services. These include taking over pier maintenance responsibility, waiving fuel duty, reimbursing pier rentals and exempting the vessel licence fees for ferry services under the Elderly Concessionary Fares Scheme and allowing ferry operators to sub-let premises at piers for commercial and retail activities, etc.. In mid-2007, the Government introduced more new measures to help ferry operators enhance their ability to generate non-fare box revenue. For these measures, please refer to the Annex. It is also the Government's policy to require ferry operators to use the non-box fare revenue to cross-subsidize ferry operation so as to alleviate future pressure for fare increase. Nevertheless, fare revenue is still the mainstay of the ferry services.

### **Original Preliminary Proposals**

4. The persistently low patronage for the Central-Peng Chau and Central-Mui Wo routes has resulted in serious losses over the years. To enhance the financial viability of these two routes and reduce the risk of substantial fare increase, TD put forward to the Rural Committees of Cheung Chau, Peng Chau and Mui Wo as well as the Islands District Council in July this year the following preliminary proposals on the tendering arrangements:

- (i) Combine the Central-Peng Chau and Central-Mui Wo routes into the Central-Peng Chau-Mui Wo route during non-peak hours. Special direct services between Mui Wo and Central and between Peng Chau and Central will be provided during morning peak hours (i.e. between 7 a.m. and 9 a.m.) of weekdays for the convenience of residents going to work or school.

- (ii) Suitably reduce the frequency of the Central-Peng Chau-Mui Wo route during non-peak hours from the existing every 40/45 minutes to every 60 minutes per headway to reduce fuel expenditure.
- (iii) Group the Central-Cheung Chau, Inter-island and Central-Peng Chau-Mui Wo routes into one single tender package to be run by a single ferry operator.
- (iv) Shorten the Inter-island route into a shuttle service plying between Mui Wo and Cheung Chau to enhance frequency with some sailings calling at Chi Ma Wan.

5. The purpose of proposing the merging of the Central-Mui Wo and Central-Peng Chau routes is to help to reduce fuel expenditure. In addition, under this proposal, the operating costs could be shared out by the patronage of Mui Wo and Peng Chau. This could help to lower the risk of substantial fare increase in the tender with a view to stabilizing future fare level.

6. The grouping of the Central-Cheung Chau, Inter-island and Central-Peng Chau-Mui Wo routes into one tender package to be operated by a single ferry operator will enable cross-subsidization among these routes. Moreover, the operator can enjoy greater flexibility in fleet deployment to cater for possible upsurge in passenger demand during holidays. It would help stabilize the fare level and facilitate the improvement of the Inter-island service.

### **View Collection on the Preliminary Proposals**

7. After the preliminary proposals were put forward, the Government received feedback from various parties. The salient points are summarized below:

(i) Cheung Chau Rural Committee and some Cheung Chau residents who have expressed their views

- They oppose grouping the Central-Cheung Chau and Central-Peng Chau-Mui Wo services into one tender package. They consider it unfair to the residents of Cheung Chau by using part of the revenue from the Central-Cheung Chau route to subsidize the Peng Chau and Mui Wo routes which have been incurring losses. Moreover, they consider that the proposed route package will require a very large vessel fleet, which may be advantageous to the current ferry operator only and discourage other ferry operators from bidding for these routes.
- They request abolishing the existing fare differential (i.e. the fare for Sundays/public holidays is higher than that for weekdays).

(ii) Mui Wo Rural Committee and some Mui Wo and South Lantau residents who have expressed their views

- They oppose the merged route of Central-Peng Chau-Mui Wo during non-peak hours since it is unacceptable for the journey time to increase by 15 minutes. They request that the Central-Peng Chau and Central-Mui Wo services should continue to operate as two separate routes as at present.
- They do not agree to the reduction of service frequency during non-peak hours as they consider that it will cause inconvenience to the residents of Mui Wo and South Lantau.
- Some of those who have expressed views appreciate that the current patronage and fare level cannot support the existing ferry service level. They remarked that it was acceptable to increase fare in order to keep the Central-Mui Wo route as a stand-alone route and the current frequency unchanged. In addition, they request

maintaining both fast and ordinary ferry services.

- They request to abolish the existing fare differential (i.e. the fare for Sundays/public holidays is higher than that for weekdays).

(iii) Peng Chau Rural Committee and some Peng Chau residents who have expressed their views

- They accept the merged Central-Peng Chau-Mui Wo route and the grouping with the Central-Cheung Chau service into one single tender package.
- Some Peng Chau residents oppose the merging of the Central-Peng Chau and Central-Mui Wo routes and request to maintain two Central-Peng Chau and Central-Mui Mo separate routes.
- They do not agree to the reduction of service frequency during non-peak hours.
- They request to abolish the existing fare differential (i.e. the fare for Sundays/public holidays is higher than that for weekdays).

### **Further Consultation on Different Options**

8. In the light of the above views on the preliminary proposals from various parties, TD conducted another more extensive view collection exercise, including meeting different organisations and the local community to listen to their views. TD held consultative meetings with the Rural Committees of Mui Wo, Peng Chau, Cheung Chau and the Islands District Council again in August.

9. At the consultative meetings, TD explained the purpose of the preliminary proposals originally put forward by the Government and gave an account of the views on the preliminary proposals expressed by residents of Cheung Chau, Peng Chau and Mui Wo. TD also pointed out at the meetings that route arrangement, service frequency and

requirements on different ferry types would have a direct bearing on the operating costs thus and the risk of fare increase. Therefore, when opting for or against merging ferry routes, lowering frequency during non-peak hours and maintaining both fast and ordinary ferry types and other arrangements, the rural committees and the local community should take into account the impact of these options on the fares. Should they opt for keeping separate Central-Mui Wo and Central-Peng Chau routes at all times and the existing service frequency, they would need to recognise and accept the risk of substantial fare increase under such arrangements, though the actual magnitude of fare increase depends on the commercial decision of the ferry operator. Besides, TD also reiterated that the Government would not provide direct subsidy to cover the daily operating costs of ferry services.

10. At the above meetings, TD consulted the relevant rural committees and the Islands District Council<sup>2</sup> on the following possible options -

(i) Route Arrangement

- As regards the arrangement of the routes plying between Central, Peng Chau and Mui Wo, the following three options may be considered :

Option 1

To operate a merged Central-Peng Chau-Mui Wo route, with special direct sailings provided between Mui Wo and Central and between Peng Chau and Central during morning peak hours (i.e. 7 a.m. to 9 a.m.) on weekdays. For the rest of time, the service will be provided in the form of a merged Central-Peng Chau-Mui Wo route;

Option 2

To operate a merged Central-Peng Chau-Mui Wo route with the duration of special direct sailings extended,

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<sup>2</sup> TD attended the meetings held by the Rural Committees of Peng Chau, Cheung Chau and Mui Wo on 16 and 17 August 2007. It also attended the Islands District Council meeting on 20 August 2007.

that is, other than the proposed morning peak hours (i.e. 7 a.m. to 9 a.m.) on weekdays, special direct sailing plying between Central and Mui Wo and between Central and Peng Chau will also be provided from 5 p.m. to 8 p.m. in the evening. For the rest of time, it will operate as a merged Central-Peng Chau-Mui Wo route; or

Option 3

To maintain the existing arrangement of operating two separate Central-Mui Wo and Central-Peng Chau direct routes.

(ii) Route Packaging

- To group the Central-Cheung Chau and Inter-island routes into one package, while grouping the Central-Mui Wo and Central-Peng Chau routes into another package for tender; or
- To group the four routes, viz. Central-Cheung Chau, Inter-island, Central-Mui Wo and Central-Peng Chau routes, into one package for tender.

(iii) Service Frequency during Non-Peak Hours

- To reduce the frequency of Central-Mui Wo and Central-Peng Chau services from the existing 40/45 minutes to 60 minutes per headway during non-peak hours.

(iv) Vessel Type Arrangement

- To allow bidders to propose the vessel types, based on their commercial decisions, in the tender documents for the Central-Mui Wo and Central-Peng Chau routes.

(v) Sunday/Public Holiday Fare

- To maintain the present arrangement (i.e. allowing bidders to put forward proposals on fare levels, including fare differential between weekdays and Sundays/public holidays) in the coming tender exercise.

11. As regards the arrangements set out in paragraph 10, TD also drew the attention of the rural committees concerned and the Islands District Council to the following factors for consideration.

(i) Route Arrangement

- Options 1 and 2 can help to save expenditure on fuel cost. Also, as the operating costs are shared out by the patronage of Peng Chau and Mui Wo, the overall operating costs of the merged service can be lowered. This could help to reduce the risk of substantial fare increase. Comparing the two options, the estimated amount of fuel expenditure saved under Option 1 is larger than that under Option 2. Hence, the former will be more effective in stabilizing the future fare level.
- As regards Option 3, the journey time of the two routes during non-peak hours will be shorter than that of the above two options, and passengers may find it more convenient. However, as the patronage of these two routes are relatively low, TD expects that interested bidders, based on commercial considerations, will very likely raise substantially the fare level of these two routes in order to make them financially viable, though the actual magnitude of fare increase depends on the commercial decision of the operators. Moreover, the proposed improvement of the Inter-island route and its frequency cannot be implemented. The current route of plying between Peng Chau, Mui Wo, Chi Ma Wan

and Cheung Chau and the frequency of about two hours per headway will have to be maintained.

(ii) Route Packaging

- As Cheung Chau residents strongly object against the grouping of Central-Cheung Chau, Peng Chau and Mui Wo routes into one tender package, the Central-Mui Wo and Central-Peng Chau routes have to be grouped as another package and the risk for fare rise for these two routes will increase. Besides, the Central-Cheung Chau and Inter-island routes will be grouped as another tender package. It is anticipated that in coping with possible upsurge in passenger demand during holidays, the future operator of the Cheung Chau route will have less flexibility in the vessel deployment as compared with TD's original preliminary proposed arrangement.

(iii) Service Frequency during Non-Peak Hours

- TD suggested that the frequency of services for those periods with low patronage for the Central-Mui Wo and Central-Peng Chau routes be suitably reduced. In other words, frequency during non-peak hours may be reduced from the existing 40/45 minutes to 60 minutes per headway for the purpose of saving expenditure on fuel cost and reducing the risk of substantial fare increase.

(iv) Vessel Type

- On vessel type arrangement for the Central-Mui Wo and Central-Peng Chau routes, TD plans to specify in the tender document to permit bidders to propose vessel types based on their commercial considerations in order to provide them with more room to reduce operating cost. This includes choosing to operate with both fast and ordinary ferries or with a single ferry type.

- Should the current mode of operation with fast and ordinary ferries for the Central-Mui Wo and Central-Peng Chau routes be maintained, the operating costs could not be reduced. As the two services are currently making losses, it is expected that the bidders will substantially increase the fare level.

(v) Sunday/Public Holiday Fare

- Under the existing arrangement, fare revenue from Sundays/public holidays can cross-subsidize about 10% to 20% of the fare paid by residents on weekdays, such that residents can enjoy comparatively lower fares during weekdays. Should the abolition of this arrangement be made compulsory, fares for weekdays will have to be increased substantially. This will have adverse impact on residents of the outlying islands using the services on weekdays.
- Therefore, TD plans to maintain the present arrangement (i.e. allowing bidders to put forward proposals on fare levels of the routes concerned for weekdays and Sundays/public holidays based on their commercial considerations). In evaluating the tender bids, TD will carefully compare proposals of all bidders on the overall fare arrangements. Tenders with better and more reasonable overall fare arrangements will be given higher score.

### **Views expressed by the Rural Committees**

12. The views expressed by the Rural Committees of Cheung Chau , Mui Wo and Peng Chau on the options set out in paragraph 11 above are summarised below:

(i) Cheung Chau Rural Committee

- Strongly objects to the grouping of the Central-Mui Wo, Central-Peng Chau and Central- Cheung Chau routes into one single tender package, and considers the grouping of the Central-Cheung Chau and Inter-island routes into one tender package acceptable.
- Requests to abolish the existing fare differential (i.e. the fare for Sundays/public holidays is higher than that for weekdays).

(ii) Mui Wo Rural Committee

- Only agrees to maintaining the current arrangement of two separate Central-Mui Wo and Central-Peng Chau routes, and strongly objects to the proposal of combined route.
- Mui Wo Rural Committee notes the strong objection expressed by the Cheung Chau Rural Committee, but still maintains its wish to group the Central-Mui Wo and Central-Cheung Chau routes into one tender package for the sake of cross-subsidization from the Cheung Chau route.
- Considers the current mode of operation with fast and ordinary ferries for the Central-Mui Wo route should be maintained.
- Disagrees to the reduction of service frequency during non-peak hours.
- Requests to abolish the existing fare differential (i.e. the fare for Sundays/public holidays is higher than that for weekdays).

(iii) Peng Chau Rural Committee

- Accepts Option 3, i.e., maintaining two separate Central-Mui Wo and Central-Peng Chau routes in view of the objection raised by residents of Mui Wo against the proposed merged Central-Peng Chau - Mui Wo route. It requests that consideration should be given to using ferries that incur lower operating costs in order to help reduce the risk of substantial fare increase.
- Agrees to specify in the tender document to permit bidders to propose vessel type arrangements based on their commercial considerations. This includes choosing to operate with both fast and ordinary ferries or with a single type of ferry .
- In view of the views of Cheung Chau residents, most members at the meeting accept the grouping of the Central-Mui Wo and Central-Peng Chau routes into one tender package, while grouping the Central-Cheung Chau and Inter-island routes into another tender package.
- Objects to the proposal of reducing the frequency during non-peak hours to lower operating costs, and considers that the reduction of frequency during non-peak hours should only be considered after the outcome of the tender exercise is available and when it is necessary.
- Requests to abolish the existing fare differential (i.e. the fare for Sundays/public holidays is higher than that for weekdays). As this may affect the weekday fares, it is acceptable to allow bidders to propose the fare level (including whether there will be fare differential between weekdays and Sundays/public holidays) of the route.

### **Views of the Islands District Council**

13. On 20 August 2007, TD consulted the Island District Council on the issues mentioned in paragraphs 9 to 11 and reported the views of the Rural Committees of Cheung Chau, Mui Wo and Peng Chau as set out in paragraph 12. At the meeting, chairmen of the relevant rural committees and the District Council members of the respective constituencies generally maintained the views of the relevant rural committees as mentioned above. Nevertheless, the District Council Chairman believed that Peng Chau residents wished to group the Central-Cheung Chau and Central-Peng Chau routes into one tender package, so as to allow cross-subsidization between these routes.

### **Revised Arrangements**

14. The original preliminary proposals put forward by TD, set out in paragraph 4, were intended to keep the fares of the ferry services concerned stable as far as possible and ensure the continued operation of the ferry services upon the expiry of the current licences. TD has also pointed out during the process of consultation that route arrangement and service frequency have a direct bearing on the operating cost and the risk of fare increase.

15. Nevertheless, the results of several rounds of consultation clearly show that those Mui Wo residents who have expressed their views strongly object to the merging of the routes plying between Central, Peng Chau and Mui Wo although they are aware of the risk of substantial fare increase that they may face. Those Mui Wo and Peng Chau residents who have expressed their views also oppose the reduction of service frequency during non-peak hours. Moreover, those Cheung Chau residents who have expressed their views are staunchly opposed to the proposal of grouping the Central-Cheung Chau, Central-Mui Wo and Central-Peng Chau routes into one tender package. After carefully considering the above views, we, respecting the views of the residents as service users, intend to revise the arrangements in the tender exercise as follows:

(i) Route Arrangements

- Maintain the existing arrangement of operating separate Central-Peng Chau and Central-Mui Wo routes.

(ii) Route Packaging

- Group the Central-Cheung Chau and Inter-island routes into one tender package, and group Central-Mui Wo and Central-Peng Chau routes into another tender package.

(iii) Service Frequency during Non-Peak Hours

- Maintain the existing frequency of Central-Mui Wo and Central-Peng Chau routes (i.e. every 40/45 minutes per headway) during non-peak hours.

(iv) Vessel Type Arrangement

- On the vessel type arrangement for Central-Peng Chau route, bidders will be allowed to put forward proposals based on their commercial decisions in the tender documents. As for the Central-Mui Wo route, the current mode of operation with both fast and ordinary ferries will be maintained.

### **Sunday/Public Holiday Fares**

16. We understand that those residents who have expressed their views as mentioned above request abolishing the existing fare differential (i.e. the fare for Sundays/public holidays is higher than that for weekdays). However, the above revisions to the tender arrangements, which are made to cater for the views collected above, already brings a risk of substantial fare increase. We consider that bidders should be allowed to put forward their fare level proposals (including whether there will be fare differential between weekdays and Sundays/public holidays)

based on commercial considerations, in order to minimise as far as possible another risk factor of fare increase.

### **Advice Sought**

17. Members' views on the revised arrangements set out in paragraph 15 are welcomed.

Transport and Housing Bureau  
Transport Department  
August 2007

**Annex**

**Measures to help reduce the operating cost of ferry services  
and enhance the ability of ferry operators  
to generate non-fare box revenue**

- (I) Measures to help reduce the operating cost of ferry services include-
- (i) Government has taken over pier maintenance responsibility since 1997/1998;
  - (ii) waiving fuel duty; and
  - (iii) reimbursing pier rentals and exempting vessel licence fees through the Elderly Concessionary Fares Scheme.
- (II) Measures to help enhance the ability of ferry operators to generate non-fare box revenue include-
- (i) allowing ferry operator to sub-let premises at the piers for commercial and retailing activities;
  - (ii) relaxing land uses at Central Piers Nos. 4, 5 and 6. With effect from July 2008, the first floor of the said piers can be used for commercial activities such as restaurants, fast food shops, retail shops and service trades;
  - (iii) streamlining the procedures for approval of applications for sub-letting premises at the piers. Starting from June 2007, processing time is reduced to within one month for relatively straightforward applications and to within three months for more complex ones, such as those involving pier structural alterations;
  - (iv) Central Pier Nos. 4, 5 and 6 will be retrofitted with fire prevention facilities, including sprinkler system and means of escape. The works is anticipated to be completed in 2008; and
  - (v) improving the general outlook of the piers and the walkway outside, which include repainting these piers and replacing the dilapidated paving blocks of the walkway.