

LEGISLATIVE COUNCIL BRIEF

Road Traffic Ordinance
(Chapter 374)

LANTAU AND URBAN TAXI FARE ADJUSTMENT APPLICATIONS

ROAD TRAFFIC (PUBLIC SERVICE VEHICLES) (AMENDMENT) REGULATION 2008

INTRODUCTION

At the meeting of the Executive Council on 23 September 2008, the Council ADVISED and the Chief Executive ORDERED that under section 7(1C) of the Road Traffic Ordinance (Cap. 374), the Road Traffic (Public Service Vehicles) (Amendment) Regulation 2008 (“the A Amendment Regulation”), at Annex A, be made to give effect to an adjustment in the fares for the hiring of Lantau and urban taxis, with effect from 30 November 2008.

JUSTIFICATIONS

(A) CONSIDERATION OF TAXI FARE ADJUSTMENT APPLICATIONS

2. Taxis provide a personalised point-to-point public transport service. Taxi fare adjustment applications are considered in accordance with the following guiding principles -

- (a) the need to ensure the financial viability of taxi operations, taking into consideration changes in revenue and operating costs;
- (b) the need to maintain an acceptable level of taxi service in terms of taxi availability, passenger waiting time and feedback from passengers;
- (c) the need to maintain a reasonable differential between taxi fares and those of other public transport modes;
- (d) the likely public acceptability of the proposed fares; and
- (e) taxi fare structure should be “front-loaded” and thereafter on a varying descending scale of incremental charges¹.

3. The scale of fares for the hiring of taxis is specified in Schedule 5 to the Road Traffic (Public Service Vehicles) Regulations (Cap. 374 sub. leg. D) (“the principal Regulations”) and is determined by the Chief Executive in Council, subject to negative vetting by the Legislative Council.

¹ This revised policy on taxi fare structure is recommended by the Transport Advisory Committee in its Report on the Review of Taxi Operation issued on 5 June 2008.

(B) THE APPLICATIONS AND ASSESSMENTS

(1) Lantau Taxis' Application

4. The Lantau Taxi Association² has submitted the following fare increase application to the Transport Department ("TD") –

Lantau Taxis	Fares		
	Existing	The Application	
Flagfall charge for the first 2 km or any part thereof	\$12	\$15	
Incremental charge for every subsequent 200 m or part thereof and for every waiting period of 1 minute or part thereof	\$1.20	Before 20 km	\$1.30
		20 km onwards	\$1.20
Average rate of fare increase	---	+9.17%	

Financial Position of the Lantau Taxi Trade

5. Lantau taxi fares were last increased in March 1998, by an average rate of 9.1%. There are at present 50 Lantau taxis and about 91 Lantau taxi operators³. Amongst the 91 operators, there are 26 rentor-owners (29%), 15 owner-drivers (16%) and about 50 rentee-drivers (55%), including some part-time drivers.

(a) Operating Revenue

6. The changes in the average monthly operating revenue received by a Lantau taxi rentee-driver since the last fare increase and since 2004, i.e. the year of conversion to liquefied petroleum gas ("LPG")-operation, are set out below -

² This is the only association representing members of the Lantau taxi trade.

³ There are three types of taxi operators, namely rentee-drivers, owner-drivers and rentor-owners. **Rentee-drivers** hire taxis from taxi owners. **Owner-drivers** own and drive the taxis themselves; some also rent their taxis out to rentee-drivers for one shift. **Rentor-owners** do not drive their taxis but rent them out to drivers.

Lantau Taxis					
Year	1998	2004	2008 (Jan – Mar)	Change 2008 (Jan – Mar) over 1998	Change 2008 (Jan – Mar) over 2004
Average total monthly revenue ⁴	\$25,645	\$29,443	\$35,703	+\$10,058 <i>or +39.2%</i>	+\$6,260 <i>or +21.3%</i>

(b) Operating Costs

7. For a rentee-driver, the average monthly operating costs in January to March 2008 have increased by 49.3% compared with the average monthly position in 1998. Among various cost components, fuel cost and rental cost have increased by 30.6% and 60.9% respectively. As compared with the position in 2004, the average monthly operating costs have increased by 32.4%, with fuel cost up by 138.1% and rental cost up by 8.3%. During this period, fuel price has increased by 109% while fuel consumption has risen by 14% because of an increase in operating mileage.

8. For a taxi owner, the average monthly parking, maintenance and miscellaneous costs together in the first quarter of 2008 have increased by 30.1% since 1998 and by 14.8% since 2004.

(c) Net Income

9. The average monthly net income of a Lantau taxi operator in 1998, 2004 and January to March 2008 is set out below -

Lantau Taxi	Average monthly net income		
	Rentee-driver	Owner-driver	Rentor-owner
1998	\$10,277	\$10,659	\$4,054
2004	\$12,103	\$17,734	\$7,928

⁴ Per Lantau taxi. Usually one Lantau taxi is operated by one driver per day.

Lantau Taxi	Average monthly net income		
	Rentee-driver	Owner-driver	Rentor-owner
Jan – Mar 2008	\$12,753	\$17,298	\$8,111
<i>Change over 1998 (in real terms)</i>	+24.1% (+33.3%)	+62.3% (+74.3%)	+100.1% (+114.9%)
<i>Change over 2004 (in real terms)</i>	+5.4% (-3.2%)	-2.5% (-10.4%)	+2.3% (-6.0%)

10. The general price level has decreased by 6.9% since 1998 and increased by 8.9% since 2004. The average monthly net income of a Lantau taxi operator in the first quarter of 2008 is higher than that in 1998 but lower than that in 2004 in real terms.

11. The above analysis shows that there have been substantial increases in the operating costs of the trade in recent years, exerting considerable pressure on its operating conditions. The average monthly net income of a Lantau taxi is lower than that in 2004 in real terms. There is a case for them to propose fare increases.

Approved Fare Adjustment for Lantau taxis

12. Under the application, the average rate of fare increase is 9.17%. Having regard to all the relevant factors mentioned in paragraph 2 above, including changes in the operating costs and revenue, public acceptability and TAC’s recommended revised taxi fare structure policy, the proposed rate of fare increase is considered to be on the high side and an average rate of fare increase of **7.67%** for Lantau taxis is approved. Details are set out below.

Lantau Taxis	Fares				
	Existing	The Application		Approved Fare Adjustment	
Flagfall charge for the first 2 km or any part thereof	\$12	\$15		\$13	
Incremental charge for every subsequent 200 m or part thereof and for every waiting period of 1 minute or part thereof	\$1.20	Before 20 km (i.e. \$132 ⁵)	\$1.30	<i>Before \$130 (20 km⁶)</i>	<i>\$1.30</i>
		20 km (i.e. \$132) onwards	\$1.20		
Average rate of fare increase	---	+9.17%		+7.67%	

Estimated Impact of Approved Fare Adjustment on Passengers

13. The estimated impact on fares for trips of different journey distances⁷ is set out below.

Trip Distance	Existing Fare	The Application	Approved Fare Adjustment
Below 2km	\$12	\$15.0 (+25.0%)	\$13.0 (+8.3%)
8km	\$48	\$54.0 (+12.5%)	\$52.0 (+8.3%)
16.7km	\$100	\$110.6 (+10.6%)	\$108.6 (+8.3%)
33.3km	\$200	\$211.8 (+5.9%)	\$209.8 (+4.9%)
50km	\$300	\$312 (+4.0%)	\$310.0 (+3.3%)
Average rate of increase	---	+9.17%	+7.67%

⁵ This is the total fare, according to the fare scale proposed in the application, for a journey of 20km if no charge for “waiting time” is incurred.

⁶ The total fare for a journey of 20km will be \$130 under the approved fare adjustment, if no charge for “waiting time” is incurred.

⁷The estimation has not taken into account any “waiting time” charge that may be incurred in respect of a journey.

Level of Services

14. To monitor the service level of Lantau taxis, TD has conducted surveys at taxi stands in Lantau. The survey results show that though the passenger waiting time during holidays are relatively longer, the level of Lantau taxi service is generally adequate to meet passenger demand on weekdays.

Fare Differential

15. The effect of the approved fare adjustment on the fare differentials⁸ is expected to be minimal. Existing fare differential between Lantau taxis and other public transport modes is 4.32. It is estimated that the differential will become 4.65 after the approved fare adjustment is implemented.

(2) Urban Taxis' Applications

16. TD has received the following two different fare adjustment applications from urban taxi associations –

Urban Taxis	Fares				
	Existing	Application A		Application B	
Flagfall charge for the first 2 km or any part thereof	\$16	\$18		\$18	
Incremental charge for every subsequent 200m or part thereof and for every waiting period of 1 minute ⁹ or part thereof	\$1.40	Before 8 km	\$1.50	Before 11 km	\$1.50
		8 km onwards	\$1	11 km onwards	\$1
Average rate of fare increase	---	+4.64%		+6.69%	

⁸ Fare differentials refer to the difference between the fare level of taxi and that of other public transport modes.

⁹ Application B proposes to change “every 1 minute” to “every 50 seconds” for calculating incremental charge for waiting time.

Financial Position of the Urban Taxi Trade

17. There are at present 15,250 urban taxis and about 32,500 urban taxi operators, 63% of which are rentee-drivers, 13% are rentor-owners and 24% are owner-drivers.

18. Prior to the \$1 increase in flagfall fare in February 2008, the urban taxi fares were last increased in June 1998, by an average rate of 5.9%. At the time when the urban taxi trade submitted the \$1 flagfall fare increase application last year, the trade was deliberating among themselves on longer term fare restructuring proposals. Pending the outcome of its deliberation on these proposals, the trade put up the \$1 flagfall fare increase application as a temporary measure to partially address the impact of rising operating costs on the trade. In assessing the trade's current financial position, the data reflecting the situations in 1998, 2004 (year of conversion to LPG operation) and early 2008 are provided for reference.

(a) Operating Revenue

19. The changes in the average monthly operating revenue received by an urban taxi rentee-driver are set out below.

Urban Taxis					
Year	1998	2004	2008 (Jan – Mar)¹⁰	Change 2008 (Jan – Mar) over 1998	Change 2008 (Jan – Mar) over 2004
Average total monthly revenue ¹¹	\$24,774	\$20,505	\$22,121	-\$2,653 <i>or -10.7%</i>	+\$1,616 <i>or +7.9%</i>

¹⁰ This reflects the latest revenue situation after the \$1 flagfall fare increase.

¹¹ Per urban taxi rentee-driver. Usually one urban taxi is operated by two drivers per day.

(b) Operating Costs

20. For a rentee-driver, the average monthly operating costs in January to March 2008 have increased by 5.0% compared with the position in 1998, with rental cost rising by 17.6% and fuel cost reducing by 21.1%. As compared with 2004, the average monthly operating costs have increased by 15.1%, with fuel cost rising by 61.2% and rental cost up by 5.3%. Although fuel price has risen dramatically in past few years, fuel cost has not increased in tandem because of a 19% drop in fuel consumption due to a decrease in operating mileage.

21. For a taxi owner, the average monthly parking, maintenance and miscellaneous costs together in the first quarter of 2008 have decreased by 13.9% since 1998 and increased by 1.2% since 2004.

(c) Net Income

22. The average monthly net income of an urban taxi operator in 1998, 2004 and January to March 2008 is set out below.

Urban Taxi	Average monthly net income		
	Rentee-driver	Owner-driver	Rentor-owner
1998	\$13,381	\$19,663	\$6,932
2004	\$10,117	\$19,965	\$8,026
Jan – Mar 2008	\$10,164	\$20,969	\$9,886
<i>Change over 1998 (in real terms)</i>	<i>-24.0% (-17.7%)</i>	<i>+6.6% (+15.5%)</i>	<i>+42.6% (+54.5%)</i>
<i>Change over 2004 (in real terms)</i>	<i>+0.5% (-7.7%)</i>	<i>+5.0% (-3.5%)</i>	<i>+23.2% (+13.2%)</i>

The above analysis shows that there have been substantial increases in the operating costs of the urban taxi trade in recent years, exerting considerable pressure on their operating conditions. The average monthly

net income of an urban taxi rentee-driver in early 2008, after the \$1 flagfall fare increase, is still lower than that in 2004 in real terms. There is a case for them to propose fare adjustments.

Approved Fare Adjustment for Urban Taxis

23. Under Application A and Application B, the average rate of fare increase is 4.64% and 6.69% respectively, or 7.0% and 9.1% respectively if the \$1 flagfall increase implemented in February is included. In assessing the above taxi fare increase applications, we have to take into account the impact on passengers as well as on the trade as a whole.

24. For Application B, its public acceptability is relatively lower given the higher average rate of fare increase at 9.1%.

25. On the other hand, Application A will provide a modest increase to the income of a rentee-driver. It is envisaged that such a modest increase in net income on the part of rentee-drivers and owner-drivers under this scenario can easily be eroded should there be any further rise in operating costs, such as the LPG prices.

26. On balance, a fare adjustment that maintains the flagfall charge at \$18 with the incremental charge set at \$1.5 up to \$70.50 (i.e. the total fare for a journey of **9 km**¹²) and \$1 after the total fare has reached \$70.50 is approved. This stands between Application A and Application B but closer to the former. It provides reasonable, but still modest, rates of increase in the income of rentee-drivers and owner-drivers; it provides a modest margin for rentee-drivers to cope with cost escalation; and it will

¹² The total fare for a journey of 9km is \$70.50 if no “waiting time” charge is incurred.

still to a large extent mitigate the encroachment of the “discount” gangs. In short, it provides a more equitable arrangement to balance the various interests of the taxi trade. This is also in line with the Transport Advisory Committee (“TAC”)’s recommended revised taxi fare structure. The resulting average rate of fare increase is **5.46%**, or 7.8% taking into account the \$1 increase in flagfall charge in February 2008. Having regard to the fact that taxis provide personalized transport service as an additional choice for passengers, the approved fare adjustment maintains a balance between helping the taxi trade to cope with operation difficulties and catering for consumer interest.

Impact of Approved Fare Increases on Passengers

27. The estimated impact on fares for trips of different journey distances¹³ is set out below.

Trip Distance	Existing Fare	App. A (\$1 from 8km)	App. B (\$1 from 11km)	Approved Fare Adjustment (\$1 from \$70.50 (9km¹⁴))
Below 2km	\$16	\$18.0 (+12.5%)	\$18.0 (+12.5%)	\$18.0 (+12.5%)
8km	\$58	\$63.0 (+8.6%)	\$63.0 (+8.6%)	\$63.0 (+8.6%)
14km	\$100	\$93.0 (-7.0%)	\$100.5 (+0.5%)	\$95.5 (-4.5%)
28.3km	\$200	\$164.5 (-17.8%)	\$172.0 (-14.0%)	\$167.0 (-16.5%)
42.6km	\$300	\$236.0 (-21.3%)	\$243.5 (-18.8%)	\$238.5 (-20.5%)
Average rate of increase	--	+4.64%	+6.69%	+5.46%

¹³ The estimation has not taken into account any “waiting time” charge that may be incurred in respect of a journey.

¹⁴ The total fare for a journey of 9km is \$70.50 if no “waiting time” charge is incurred.

<i>Average rate of increase, including the \$1 flagfall increase</i>	--	+7.0%	+9.1%	+7.8%
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Level of Services

28. To monitor the service level of urban taxis, TD has conducted surveys at taxi stands. The survey results show that the level of urban taxi service is generally adequate in catering for passenger demand.

Fare Differential

29. The effect of the approved fare adjustment on the fare differentials is expected to be minimal. The existing fare differential between urban taxis and other public transport modes is 3.96. It is estimated that the differential will become 4.18 after the approved fare adjustment is implemented.

(C) NECESSARY ADJUSTMENT TO REGULATION 62 OF CAP. 374D

30. It is required under existing regulation 62(1) and (1A) of the principal Regulations to display the conversion table specified by the Commissioner for Transport in a prominent position inside a taxi and to mark in manuscript on the receipt issued to the passenger the appropriate fare chargeable under the amended scale of fares in Schedule 5 to the principal Regulations, until the taximeter of the taxi has been calibrated to reflect the amended fare scale approved by the Chief Executive in Council. If regulation 62(1) or (1A) is not complied with, the fare for the hiring of the taxi is to be the old fare shown in the taximeter, notwithstanding

regulation 47 of the principal Regulations¹⁵. This does not pose any problem so long as the amended fares are higher than the old fares. However, under the approved fare adjustment, the total fares for longer-haul trips would in general be lower than those charged according to the existing fare scale. To plug the potential loophole in order to protect passengers' interest, appropriate amendments were made to Regulation 62 of the principal Regulations to the effect the fare for the hiring of the taxi under this Regulation does not exceed the appropriate amount of fares chargeable under the amended scale of fares in Schedule 5 to the principal Regulations.

THE AMENDMENT REGULATION

31. The main provisions of the Amendment Regulation are as follows-

(a) Section 1 provides for the commencement of the Amendment Regulation, which is on 30 November 2008;

(b) Section 2 adds a definition of "chargeable amount" to the interpretation section (section 2) to the principal Regulations;

(c) Section 3 introduces amendments to the existing provision providing for transitional arrangements (regulation 62) and specifies the fare that should be charged if the taximeter of a taxi has not yet been

¹⁵ Regulation 47 of the principal Regulations provides, amongst other things, that the scale of fares for the hiring of taxis shall be as specified in Schedule 5 and that no registered owner or driver of a taxi shall charge for hiring of the taxi a fare exceeding the appropriate scale of fares specified in that Schedule.

adjusted to record the fare chargeable under the amended scale of fares and-

- (i) the conversion table stipulated by the Commissioner for Transport is not displayed in a prominent place in the taxi; or
- (ii) the total amount of fare chargeable under the amended scale of fares in Schedule 5 to the principal Regulations is not set out in manuscript on the receipt issued to the passenger.

The fare in such case should be the fare specified in the new regulation 62(3), a fare that does not exceed the appropriate amount of fares chargeable under the amended scale of fares; and

(d) Section 4 amends items 1, 2 and 3 of Schedule 5 to the principal Regulations to put into effect the approved fare adjustments in paragraphs 16 and 35 above.

LEGISLATIVE TIMETABLE

32. The legislative timetable is as follows-

Publishing in the Gazette	3 October 2008
Tabling at the Legislative Council	8 October 2008
Effective date	30 November 2008

IMPLICATIONS OF THE PROPOSAL

B 33. The Amendment Regulation has economic implications as set out at Annex B. It has no civil service, financial, productivity, environmental or sustainability implications, and is in conformity with the Basic Law, including the provisions concerning human rights. The Amendment Regulation will not affect the current binding effect of the Ordinance.

PUBLIC CONSULTATION

C 34. TAC was consulted on 29 July 2008 and supported the proposed increase. TAC considered that the Administration's recommended options could maintain a balance between helping the taxi trades to cope with operation difficulties and catering for consumer interest. The detailed advice of the TAC is set out in its letter to the Secretary for Transport and Housing at Annex C. The Legislative Council Panel on Transport was consulted on 30 June 2008.

PUBLICITY

35. A press release will be issued in the afternoon of 23 September 2008. A spokesman will be available to handle media enquiries.

BACKGROUND

36. When the urban taxi trade applied for the \$1 increase in flagfall fare in end 2007, it indicated that it would propose changes to the taxi fare structure in response to the review undertaken by the TAC on the mode of operation and quality of the taxi services in Hong Kong. In its Report on the Review of Taxi Operation issued on 5 June 2008, TAC suggests that

the taxi fare structure should be “front-loaded” and thereafter on a varying descending scale of incremental charges.

ENQUIRIES

37. For any enquiries, please contact Mr Don Ho, Assistant Commissioner for Transport at 2829 5208.

Transport and Housing Bureau

Transport Department

September 2008

**ROAD TRAFFIC (PUBLIC SERVICE VEHICLES)
(AMENDMENT) REGULATION 2008**

(Made by the Chief Executive in Council under section 7(1C) of the Road Traffic Ordinance (Cap. 374))

1. Commencement

This Regulation shall come into operation on [30 November 2008].

2. Interpretation

Regulation 2(1) of the Road Traffic (Public Service Vehicles) Regulations (Cap. 374 sub. leg. D) is amended by adding –

““chargeable amount” () means the amount of fares chargeable under Schedule 5, but does not include any amount chargeable under item 4 of that Schedule;”.

3. Transitional. Conversion of Taximeters

(1) Regulation 62 is amended by repealing the heading and substituting “**Transitional provisions relating to conversion of taximeters**”.

(2) Regulation 62(2)(a) is amended by adding “in” before “subregulation (1)”.

(3) Regulation 62(2) is amended by repealing everything after “the fare for” and substituting “the hiring of the taxi shall be the fare specified in subregulation (3).”.

(4) Regulation 62 is amended by adding –

“(3) The fare specified for the purposes of subregulation (2) shall be –

(a) if the fare recorded on the taximeter does not exceed the appropriate amount chargeable under Schedule 5, the fare recorded on the taximeter; and

- (b) if the fare recorded on the taximeter exceeds the appropriate amount chargeable under Schedule 5, that amount.”.

4. Taxi fares

Schedule 5 is amended –

- (a) by repealing “[reg. 47]” and substituting “[regs. 2, 47 & 62]”;
- (b) in item 1, by repealing everything from “\$16.00” to “thereafter.” and substituting –
 - “(A) \$18.00 for the first 2 kilometres or any part of those 2 kilometres;
 - (B) \$1.50 for every further 200 metres or any part of those 200 metres, until the chargeable amount reaches \$70.50; and
 - (C) \$1.00 for every 200 metres or any part of those 200 metres, after the chargeable amount has reached \$70.50.”;
- (c) in item 2, by repealing everything from “\$12.00” to “thereafter.” and substituting –
 - “(A) \$13.00 for the first 2 kilometres or any part of those 2 kilometres;
 - (B) \$1.30 for every further 200 metres or any part of those 200 metres, until the chargeable amount reaches \$130.00; and
 - (C) \$1.20 for every 200 metres or any part of those 200 metres, after the chargeable amount has reached \$130.00.”;
- (d) by repealing item 3(i) and substituting –

- “(i) Taxis licensed to operate in Hong Kong and Kowloon (A) \$1.50 for every period of 1 minute, or any part of that period, during which the taxi is hired but not in motion, until the chargeable amount reaches \$70.50; and (B) \$1.00 for every period of 1 minute, or any part of that period, during which the taxi is hired but not in motion, after the chargeable amount has reached \$70.50.”;

(e) by repealing item 3(ii) and substituting –

- “(ii) Taxis licensed to operate within Lantau .. (A) \$1.30 for every period of 1

minute, or any part of that period, during which the taxi is hired but not in motion, until the chargeable amount reaches \$130.00; and

(B) \$1.20 for every period of 1 minute, or any part of that period, during which the taxi is hired but not in motion, after the chargeable amount has reached \$130.00.”.

Clerk to the Executive Council

COUNCIL CHAMBER

2008

Explanatory Note

This Regulation amends the Road Traffic (Public Service Vehicles) Regulations (Cap. 374 sub. leg. D) (“principal Regulations”) to adjust certain fares specified in Schedule 5 to the principal Regulations. Under the adjustment –

- (a) for taxis licensed to operate in Hong Kong and Kowloon –
 - (i) the fare for the first 2 kilometres or any part of those 2 kilometres is increased from \$16.00 to \$18.00;
 - (ii) the fare for every further 200 metres or any part of those 200 metres is increased from \$1.40 to \$1.50, until the chargeable amount* reaches \$70.50;
 - (iii) the fare for every 200 metres or any part of those 200 metres is adjusted to \$1.00, after the chargeable amount* has reached \$70.50;
 - (iv) the fare for every period of 1 minute, or any part of that period, during which the taxi is hired but not in motion is increased from \$1.40 to \$1.50, until the chargeable amount* reaches \$70.50; and

* The expression “chargeable amount” () means the amount of fares chargeable under Schedule 5 of the principal Regulations, as amended by this Regulation, but does not include any amount chargeable under item 4 of that Schedule.

- (v) the fare for every period of 1 minute, or any part of that period, during which the taxi is hired but not in motion is adjusted to \$1.00, after the chargeable amount* has reached \$70.50; and
- (b) for taxis licensed to operate within Lantau –
- (i) the fare for the first 2 kilometres or any part of those 2 kilometres is increased from \$12.00 to \$13.00;
 - (ii) the fare for every further 200 metres or any part of those 200 metres is increased from \$1.20 to \$1.30, until the chargeable amount* reaches \$130.00;
 - (iii) the fare for every 200 metres or any part of those 200 metres is adjusted back to \$1.20, after the chargeable amount* has reached \$130.00;
 - (iv) the fare for every period of 1 minute, or any part of that period, during which the taxi is hired but not in motion is increased from \$1.20 to \$1.30, until the chargeable amount* reaches \$130.00; and
 - (v) the fare for every period of 1 minute, or any part of that period, during which the taxi is hired but not in motion is adjusted back to \$1.20, after the chargeable amount* has reached \$130.00.

Economic Implications

The approved fare adjustments will lead to a year-on-year increase in the Composite Consumer Price Index (“CCPI”) by about 0.03 of a percentage point for the month of December 2008. For the year 2008 as a whole, the fare adjustments (to be effective in late November) will only lead to a rise of less than 0.01 of a percentage point. Taking into account also the \$1 increase in the flagfall charge for urban taxi in February 2008, the cumulated impact on CCPI for 2008 would be around 0.01 of a percentage point.



29 August 2008

Ms Eva Cheng, JP
Secretary for Transport and Housing
16/F, Murray Building
Garden Road
Central, Hong Kong

Dear Ms Cheng,

Lantau and Urban Taxi Fare Increase Applications

This letter sets out Transport Advisory Committee's advice to the Chief Executive in Council ("CE-in-Council") on the fare increase applications of Lantau and urban taxis.

In advising on the taxi fare increase applications, TAC has taken into account the following guiding principles -

- (a) the need to ensure the financial viability of taxi operations, taking into consideration changes in revenue and operating costs;
- (b) the need to maintain an acceptable level of taxi service in terms of taxi availability, passenger waiting time and feedback from passengers;
- (c) the need to maintain a reasonable differential between taxi fares and those of other public transport modes;
- (d) the likely public acceptability of the proposed fares; and
- (e) taxi fare structure should be "front-loaded" and thereafter on a varying descending scale of incremental charges, as recommended by TAC in its Report on the Review of Taxi Operation issued on 5 June 2008.

Members noted that there had been substantial increase in the operating costs of both the Lantau and urban taxi trades in recent years, exerting considerable pressure on their operating conditions. The average monthly net income of urban and Lantau taxi drivers in the first quarter of 2008 were lower than in 2004 (the year of full conversion to LPG mode) in real terms and their income is expected to continue to decrease at the existing fares as operating costs continue to rise in line with the general inflation.

On Lantau taxis' application, the average fare increase rate is 9.17%. TAC considers that this proposed rate of fare increase is on the high side having regard to public acceptability and changes in the revenue and operating costs of Lantau taxis. Members were advised that the trip distribution records show that the vast majority of the trips are for a distance of less than 20 km. TAC agrees that the dividing line of 20 km proposed by the trade for the descending scale for incremental charge is appropriate. The flagfall rate of \$15 applied for however is too high and a modest increase of \$1 from \$12 as recommended by the Administration would be more acceptable to the passengers. Members were of the view that the Administration's recommended option, which represents an average fare increase rate of 7.67%, provides a better balance between the interests of the taxi trade and that of the passengers and is to be preferred.

As regards urban taxi, members noted that the two applications received from the urban taxi associations represented an average rate of fare increase of 4.64% and 6.69%. The corresponding average rate of fare increase when the \$1 increase in flagfall charge implemented in February 2008 is included would be 7% and 9.1%. The only difference between these two applications is the dividing line adopted for the descending scale of incremental charge, one at 8 km and the other 11 km.

The Administration recommended that the proposed increase for the flagfall charge of \$18 be accepted. Members were of the view that the increase was reasonable and would be acceptable to the passengers. The incremental charges applied for is in line with the descending scale principle set out in TAC's Report on the Review of Taxi Operation, and

members were of the view that this would generally be accepted by the public. The Administration further advised that the vast majority of the trips have been for a travelling distance of less than 9 km. It recommended that 9 km be adopted as the dividing line for the incremental charge. If that is adopted, Members noted that the taxi fare would be lower than the existing fare when the trip distance exceeded about 14 km.

Under the Administration's recommended option, the average fare increase rate is 5.46%, or 7.8% if the \$1 flagfall increase implemented in February 2008 is included. Members were of the view that this option is more appropriate than the two proposals.

The average fare increase of 7.67% for Lantau taxis and 7.8% for urban taxis is, in TAC's view, reasonable as well as comparable. In the premises, having taken into account all the relevant circumstances and information provided, TAC supports the Administration's recommended options for urban and Lantau taxi fare adjustment.

I would be grateful if you would kindly convey TAC's advice to the CE-in-Council for consideration. TAC's advice may be released for public information in due course after the Council's decision is announced.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Teresa Cheng', with a horizontal line underneath it.

(Teresa Cheng)
Chairman

Transport Advisory Committee