



2/4/2008

Ms Eva CHENG,
Secretary for Transport and Housing,
2/f Main and East Wings,
Central Government Offices.

(cc. Mr. John C Tsang, Financial Secretary)

Dear Madam,

We are sure that you must already know that a crisis exists in the provision of ferry services to the outlying islands.

This crisis has come about because the government has:

- **failed** to commence examination of the future of ferry services in good time—i.e. at least three years ago;
- **failed** to carry out any study to determine the present needs of the island communities;
- **failed** to determine the structure of vessels, schedules and ownership that could best fulfil those needs (see note 1);
- **failed** to amend the Ferry Services Ordinance to permit a ten-year franchise, which is essential to the provision of viable services, even though this has been obvious for a very long time;
- **failed** to heed constant warnings that the ferry companies were operating at losses because of rising fuel prices;
- **delayed** opening the upper decks of the piers to commercial use to supplement fare income;
- **neglected** to take constructive action to enable the projected extra floor to be added, other than legal action at HKYF.

The latest move by the Commissioner of Transport to call for bids for each route separately ignores the principle of efficiency of scale—the very policy that led to the merging of MTRC and KCRC. The negative reactions of the ferry companies to this latest tender are very worrying.

In consequence of this continuing history of incompetence, it now appears inevitable that ferry services after June will be both curtailed and considerably more expensive, and island-dwelling citizens will be severely penalised by a situation not of their own making.

In a report to the Commissioner, we have proposed that there be a three-year period during which:

- a. the government attends to these matters to put the future of island ferry services on a rational footing;
- b. services be not diminished but, preferably, improved;
- c. any increase in fares is kept to a nominal amount, if necessary through the use of public funds.

However, in regard to the last proposal, the Commissioner repeatedly responds that it is a policy of government not to "directly subsidize the operations of public transport".

It is this point that we wish to take up with you.

The government has provided support to the MTRC over the years, in the form of capital grants and land rights, and has extended this support into the future for the proposed extensions. The clearly stated purpose of this is to ensure that the fares on these lines make them affordable to the communities served. While this is not a "direct subsidy", the eventual cash-flow advantage for the public is precisely the same and business viability is ensured.

Hence, there is no escaping the conclusion that there must be a higher-level policy to ensure that public transport systems meet the needs of the communities they serve at reasonable fares; if necessary through use of public funds.

We can only conclude, therefore, that the Commissioner is defining "direct subsidy" to mean payments directly related to income from ticket sales. Indirect subsidies -- such as those to the MTRC -- are clearly established policy.

We can also appreciate that a "direct subsidy", once introduced, can go on for ever whereas a "capital grant" type of subsidy is a one-off.

The Commissioner has also taken the line that "subsidies" are already given to the ferry company in the forms of fuel tax relief and terminal maintenance. However, these are trivial in comparison with the level of support given to the MTRC and do nothing to resolve the present critical situation.

We therefore request that you invoke this higher-level policy for a period of three years during which time public funds in some form are provided to continue a viable service whilst the government:

- i. drafts an Ordinance to provide for a ten-year franchise;
- ii. removes all impediments to developing the ferry terminals for commercial use;
- iii. undertakes an in-depth study to determine the needs of the communities affected;
- iv. undertakes an in-depth study to determine the structure of vessels, schedules and ownership that could best fulfil those needs (see footnote).

We earnestly ask you to examine this situation urgently, to head off what would only be a complete disaster for everyone. We can see no other way out of this mess.

We would also be very willing to discuss it further with you.

Yours sincerely,

Eric Spain
Secretary, Living Islands Movement

(for reply: ericjs@netvigator.com)

Footnote: A paper appeared in *Transportation Journal*, Vol 33, pp. 133-152, 2006. ("Planning and Evaluation of Passenger Ferry Services in Hong Kong") The author, Mr Avishai Ceder, informed us that it had been commissioned by the Hong Kong Government. When the report was requested from the Transport Department in 2007, they informed us that there was no such report on file and that they had no knowledge of it!