

**For discussion
27 June 2008**

**Legislative Council Panel on Transport
Lantau and Urban Taxi Fare Increase Applications**

PURPOSE

This paper invites Members' views on the fare increase applications made by the Lantau Taxi Association and urban taxi associations.

THE APPLICATIONS

Lantau Taxis' Application

2. The Lantau Taxi Association¹ has submitted the following fare increase application to the Transport Department ("TD") –

Lantau Taxis	Existing Fares	Proposed Fares	
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
Additional fare for baggage, animal/bird and telephone booking	\$5	\$5	

Urban Taxis' Applications

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

¹ This is the only association representing members of the Lantau taxi trade.

Urban Taxis	Existing Fares	Proposed Fares			
		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 ² or part thereof	\$1.40	Before 8 km	\$1.50	Before 11 km	\$1.50
		8 km onwards	\$1	11 km onwards	\$1
Additional fare for baggage, animal/bird and telephone booking	\$5	\$5		\$5	

CONSIDERATION OF TAXI FARE ADJUSTMENT APPLICATIONS

4. Taxis provide a personalised point-to-point public transport service. Taxi fare increase 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 for incremental charges³.

² Application B proposes to change “every 1 minute” to “every 50 seconds” for calculating incremental charge for waiting time.

³ This revised policy on taxi fare structure is recommended by TAC in its Report on the Review of Taxi Operation issued on 5 June 2008.

5. The scale of fares for the hiring of taxis is specified in Schedule 5 to the Road Traffic (Public Service Vehicles) Regulations (Cap. 374D) and is determined by the Chief Executive-in-Council, subject to negative vetting by the Legislative Council (“LegCo”). Under the established practice, the Administration will consult the LegCo Panel on Transport and the Transport Advisory Committee (“TAC”) on a taxi fare increase application before submitting it to the Chief Executive-in-Council for a decision.

FINANCIAL POSITION OF THE TAXI TRADE

Lantau Taxis

6. 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 operators⁴. Amongst 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

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

Lantau Taxis					
Year	1998	2004	2008 (Jan to Mar)	Change 2008 (Jan – Mar) over 1998	Change 2008(Jan – Mar) over 2004
Average total monthly revenue ⁵	\$25,645	\$29,443	\$35,703	+\$10,058 <i>or +39.2%</i>	+\$6,260 <i>or +21.3%</i>

⁴ 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.

⁵ Per Lantau taxi. Usually one Lantau taxi is operated by one driver per day.

(b) Operating Costs

8. For rentee-drivers, the monthly operating costs in January to March 2008 have increased by 49.3% compared with the average monthly position in 1998 when the Lantau taxi fare was last increased. 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 monthly operating costs have increased by 32.4%, with fuel costs up by 138.1% and rental costs 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.

9. For taxi owners, the 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

10. The average monthly net incomes of the Lantau taxi operators in 1998, 2004 and January to March 2008 are set out below -

Lantau Taxis	Average monthly net income		
	Rentee-drivers	Owner-drivers	Rentor-owners
1998	\$10,277	\$10,659	\$4,054
2004	\$12,103	\$17,734	\$7,928
2008 (Jan – Mar)	\$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%)

11. The general price level has decreased by 6.9% since 1998 and increased by 8.9% since 2004. The net incomes of Lantau taxi operators in the first quarter of 2008 are higher than those in 1998 but lower than in 2004 in real terms.

Urban Taxis

12. 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.

13. 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

14. 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 to Mar)⁶	Change 2008 (Jan – Mar) over 1998	Change 2008 (Jan – Mar) over 2004
Average total monthly revenue ⁷	\$24,774	\$20,505	\$22,121	-\$2,653 <i>or -10.7%</i>	+\$1,616 <i>or +7.9%</i>

(b) Operating Costs

15. For rentee-drivers, the 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 monthly operating costs have increased by 15.1%, with fuel costs rising by 61.2% and rental costs up by 5.3%. There was a 19% drop in fuel consumption due to a decrease in operating mileage.

16. For taxi owners, the 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.

⁶ The 2008 (Jan to Mar) revenue of urban taxis reflects the latest revenue situation after the \$1 flagfall fare increase.

⁷ Per urban taxi rentee-driver. Usually one urban taxi is operated by two drivers per day.

(c) **Net Income**

17. The average monthly net incomes of urban taxi operators in 1998, 2004 and January to March 2008 are set out below -

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

Estimated impact of proposed fare increases on taxi revenues

18. The estimated impact of the proposed fare increases under the various applications on the monthly revenues of the urban and Lantau taxi trade is set out below for reference.

Impact of Lantau taxi fare increase application

Lantau Taxis	1998	2004	2008 (Jan to Mar)	The Application
Average total monthly revenue of rentee-driver	\$25,645	\$29,443	\$35,703	\$38,931* (+\$3,228)* \$39,875# (+\$ 4,172)#

* Projected average monthly revenue if the application is accepted, **assuming a 2% passenger drop** for a 10% increase in fare. Figures in brackets indicate the projected amount changed over the average monthly revenue from January to March 2008.

Projected average monthly revenue if the application is accepted, **assuming no passenger resistance**. Figures in brackets indicate the projected amount changed over the average monthly revenue from January to March 2008.

Impact of urban taxi fare increase applications

Urban Taxis	1998	2004	2008 (Jan to Mar)	Application A	Application B
Average total monthly revenue of rentee-driver	\$24,774	\$20,505	\$22,121	\$22,661* (+\$540)*	\$23,053* (+\$932)*
				\$22,986# (+\$865)#	\$23,432# (+\$1,311)#

* Projected average monthly revenue if the application is accepted, **assuming a 2% passenger drop** for a 10% increase in fare. Figures in brackets indicate the projected amount changed over the average monthly revenue from January to March 2008.

Projected average monthly revenue if the application is accepted, **assuming no passenger resistance**. Figures in brackets indicate the projected amount changed over the average monthly revenue from January to March 2008.

IMPACT OF PROPOSED FARE INCREASES ON PASSENGERS

Lantau taxis

19. For Lantau taxis, the average taxi fare per passenger trip is \$27.1. With the proposed fare adjustment, the estimated percentage increase in taxi fare per passenger trip on average will be 9.2%. The breakdown by trips of different journey distances is set out below.

Lantau Taxis		
Trip Distance	Existing Fares	Proposed Fares
Below 2km	\$12	\$15 (+25%)
8km	\$48	\$54 (+13%)
16.7km	\$100	\$110.6 (+11%)
33.3km	\$200	\$211.8 (+6%)
50km	\$300	\$312 (+4%)

Urban taxis

20. For urban taxis, the average taxi fare per passenger trip is \$25.0. The estimated percentage increases in taxi fare per passenger trip on average will be 4.6% and 6.7% for Application A and Application B respectively. The breakdown by trips of different journey distances is set out below.

Urban Taxis				
Trip Distance	Existing Fare	Corresponding Fare		
		Application A		Application B
Below 2km	\$16	\$18	(+12.5%)	\$18 (+12.5%)
8km	\$58	\$63	(+9%)	\$63 (+9%)
14km	\$100	\$93.0	(-7%)	\$100.5 (+0.5%)
28.3km	\$200	\$164.5	(-18%)	\$172.0 (-14%)
42.6km	\$300	\$236.0	(-21%)	\$243.5 (-19%)

LEVEL OF SERVICES

21. 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 the passenger demand on weekdays.

22. For urban taxis, survey results show that the level of urban taxi service is generally adequate in catering for the passenger demand.

ASSESSMENT

23. The above analysis of the changes in the financial positions of the Lantau and urban taxis shows that there have been substantial increases in the operating costs of the trade in recent years, exerting considerable pressure on their operating conditions. The average monthly net incomes of Lantau and urban taxi rentee-drivers in early 2008, after the \$1 flagfall fare increase for urban taxis, are still lower than in 2004 in real terms.

There is a case for them to propose fare increases.

24. Moreover, the taxi trade is also encountering competitiveness problem in the longer-haul transport sector brought by the enhanced network coverage and service standards of railways and franchised buses as well as discounts offered by some trade members. The applications put up by Lantau and urban taxis are in line with TAC's recommended revised policy on taxi fare structure, which provides the trade with more flexibility in proposing fare adjustments in the light of market situation, by allowing the trade to propose fares at a varying descending scale for incremental charges. In particular, the two fare adjustment applications made by urban taxi associations propose to lower longer-haul fares. This would help to enhance the competitiveness of the trade in the longer-haul sector and also benefit passengers of longer trips.

25. In considering taxi fare increase applications, the Administration will take into account the various factors mentioned in paragraph 4 above, including public acceptability of the proposed fares. We would consider the views of the LegCo Panel on Transport and the TAC before putting forward our recommendation to the Chief Executive-in-Council.

ADVICE SOUGHT

26. Members are invited to provide comments on the above fare increase applications.

**Transport and Housing Bureau
Transport Department
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