

**Legislative Council Panel on Transport
Urban and NT Taxi Fuel Surcharge Applications**

PURPOSE

This paper invites Members' views on the applications made by some urban and NT taxi associations for imposing a fuel surcharge.

THE APPLICATIONS

(1) Urban Taxis' Application

2. Some urban taxi associations have submitted an application for imposing a fuel surcharge. The proposal is as follows –

- (a) to charge \$1 per trip as a fuel surcharge when the LPG price per litre is between \$3 to \$4;
- (b) to cancel the fuel surcharge automatically when the LPG price per litre drops to \$3 or below;
- (c) to adjust the amount of fuel surcharge, upon discussion between the Government and the taxi trade, when the LPG price per litre increases to \$4 or above; and
- (d) the Government and the taxi trade to review every three months to ensure the effective implementation of the fuel surcharge.

(2) NT Taxis' Application

3. Some NT taxi associations have submitted the following fuel surcharge application:

- (a) to charge \$1 per trip as a fuel surcharge when the LPG

price per litre is \$3 or above; and

- (b) to cancel the fuel surcharge automatically when the LPG price per litre drops to \$2.99 or below.

ASSESSMENT OF THE APPLICATIONS

4. The operating conditions of the taxi trade are affected by different factors, including operating costs which consist of a number of cost components and revenue. The trends of change for each of these factors may vary. A mechanism is currently in place for fare adjustment upon fare increase applications by the taxi trade. Under this mechanism, a holistic assessment is made on the changes in all relevant factors which affect the net income of taxi operators. Thus, sustained rise in individual cost components (including fuel price), in so far as it affects the net income of taxi operators, can be dealt with under the current mechanism.

5. In assessing the above applications, the Administration considers that the idea of introducing a fuel surcharge in the area of public transport services has serious implications. Given these services are used by members of the public daily, directly passing the short-lived or frequent price surge to passengers through imposing any fuel or other individual cost component surcharge does not seem appropriate. It is more suitable to take into account the overall impact of the changes in revenue and all cost items on the taxi trade.

6. Our assessment about the impact of fuel price change on the operating conditions of the taxi trade is set out in paragraphs 7 to 15 below.

Impact of fuel price change on the operating conditions of the taxi trade

7. A cash grant scheme for encouraging the conversion of diesel taxis into LPG taxis was introduced in 2000 and completed at

the end of 2003. Over 99% of the taxis was LPG fuelled by 2004. Hence, the analysis in the following paragraphs about the impact of fuel price change on the operating conditions of the taxi trade uses 2004 as the base year for comparison.

8. Upon analysis, the following is observed:
- (i) compared with a 4.1% increase in the Composite Consumer Price Index during the same period¹, there is real growth in revenues of urban and NT taxis. The daily meter revenue and net meter revenue after fuel and rental costs have increased by 5.9% and 4.9% respectively for an urban taxi and by 12.2% and 9.4% respectively for a NT taxi since 2004 despite the LPG price increases; and
 - (ii) the fuel cost as a percentage of operating cost since 2004 has not been seriously disrupted by the increase in LPG price. For urban taxis, it remained at a range of 17.6% to 18.7%. For NT taxis, it gradually increased from 21.6% to 31.1% which was attributable not only to the increase in fuel price but also the increase in mileage operated.

Detailed analyses and data are set out below.

Urban Taxis' Operation

Changes in LPG fuel price and fuel cost

9. In 2004, the average LPG fuel price for an urban taxi was \$2.28 per litre. Over the years, the LPG price did fluctuate and has gradually risen by 42.5% to an average at \$3.25 in 2007 (January to August).

10. From the data obtained by the taximeter reading surveys conducted by the Transport Department, it is noted that the daily fuel

¹ It refers to the period between January 2004 and August 2007.

cost of an urban taxi has increased at a lesser extent. It increased from \$134 in 2004 to \$152 in 2007, i.e. an increase of 13.4% over the recent four years. In fact, there was a drop in the daily fuel cost of 2.7 % in 2006 even when the LPG price rose by 13.2% in the year. The total fuel cost is affected by several factors, including LPG price, dead mileage and paid mileage. Survey results show that the daily dead mileage as a percentage of total operating mileage of an urban taxi has decreased significantly from over 40% in 2004 to around 25% in the eight months of 2007 probably due to economic recovery. This has, to a considerable extent, absorbed the impact of the LPG price increase on urban taxis.

11. In the following table, the changes in LPG price and daily fuel cost of an urban taxi from 2004 to 2007 are shown:

Year	Average LPG price/litre for urban taxi	Year-on-year change	Daily fuel cost for urban taxi	Year-on-year change	Fuel cost as a % of operating cost²
2004	\$2.28	---	\$134	---	17.6%
2005	\$2.65	+16.2%	\$146	+9.0%	18.5%
2006	\$3.00	+13.2%	\$142	-2.7%	17.7%
2007 (Jan - Aug)	\$3.25	+8.3%	\$152	+7.0%	18.7%
<i>Cumulative change from 2004 to 2007</i>	<i>+\$0.97</i>	<i>+42.5%</i>	<i>+\$18</i>	<i>+13.4%</i>	<i>---</i>

Changes in daily taxi meter revenue and net meter revenue

12. Compared with 2004, the average daily meter revenue for an urban taxi in 2007 has increased by 5.9%. Despite the increase in the LPG price in recent years, the net meter revenue after fuel and rental costs in 2007 has increased by 4.9% as compared with 2004.

² Operating cost includes rental and fuel costs.

The detailed figures are as follows:

Year	Daily meter revenue (a)	Daily fuel cost (b)	Daily rental (c)	Net revenue after fuel and rental (d) = (a)-(b)-(c)	Margin (d / a)
2004	\$1,431	\$134	\$627	\$670	46.8%
2005	\$1,457	\$146	\$642	\$669	45.9%
2006	\$1,500	\$142	\$660	\$698	46.5%
2007 (Jan - Aug)	\$1,515	\$152	\$660	\$703	46.4%
<i>Cumulative change from 2004 to 2007</i>	+\$84 <i>or +5.9%</i>	+\$18 <i>or +13.4%</i>	+\$33 <i>or +5.3%</i>	+\$33 <i>or +4.9%</i>	---

From the table, it can be seen that the margin of net revenue (net meter revenue over daily meter revenue) could largely be maintained.

NT Taxis' Operation

Changes in LPG fuel price and daily fuel cost

13. In 2004, the average LPG fuel price for a NT taxi was \$2.24³. Since then, the LPG price gradually rose by 41.1% to an average at \$3.16 in 2007 for NT taxis.

14. Compared with 2004, the operating mileage of NT taxis in 2007 increased by 16.9% and the daily fuel cost increased by 65.2% from \$112 in 2004 to \$185 in 2007. In the following table, the changes in LPG price and daily fuel cost of a NT taxi from 2004 to 2007 are shown:

³ The LPG price charged by LPG stations in New Territories are generally lower than price charged by stations in urban area probably due to cheaper land cost.

Year	Average LPG price/litre for NT taxi	Year-on-year change	Daily fuel cost for NT taxi	Year-on-year change	Fuel cost as a % of operating cost
2004	\$2.24	---	\$112	---	21.6%
2005	\$2.65	+18.3%	\$139	+24.1%	25.3%
2006	\$2.93	+10.6%	\$165	+18.7%	28.7%
2007 (Jan - Aug)	\$3.16	+7.8%	\$185	+12.1%	31.1%
<i>Cumulative change from 2004 to 2007</i>	<i>+\$0.92</i>	<i>+41.1%</i>	<i>+\$73</i>	<i>+65.2%</i>	<i>---</i>

Changes in daily meter revenue and net meter revenue

15. For a NT taxi, the average daily meter revenue in 2007 has increased by 12.2% since 2004. The increase in meter revenue in recent years has fully offset the impact of the increase in fuel cost on the net meter revenue. The detailed figures are as follows:

Year	Daily meter revenue (a)	Daily fuel cost (b)	Daily rental (c)	Net revenue after fuel and rental (d) = (a)-(b)-(c)	Margin (d / a)
2004	\$1,016	\$112	\$406	\$498	49.0%
2005	\$1,037	\$139	\$410	\$488	47.1%
2006	\$1,078	\$165	\$410	\$503	46.7%
2007 (Jan - Aug)	\$1,140	\$185	\$410	\$545	47.8%
<i>Cumulative change from 2004 to 2007</i>	<i>+\$124 or +12.2%</i>	<i>+\$73 or +65.2%</i>	<i>+\$4 or +1.0%</i>	<i>+\$47 or +9.4%</i>	<i>---</i>

From the table, it can be seen that the margin of net meter revenue (net meter revenue over daily meter revenue) could largely be maintained.

WAY FORWARD

16. In view of the above, we have reservation about the urban and NT taxis' applications for introducing a fuel surcharge. We consider that it is more prudent to tackle increases in various cost components including fuel costs, within the current mechanism for fare adjustment as necessary. This will also avoid triggering a wave of introducing surcharges in various modes of public transport.

BACKGROUND

17. The then Governor-in-Council approved the introduction of a one-dollar per hiring temporary fuel supplement to the fare scales for urban, NT and Lantau taxis on 16 December 1990. Prior to that, a general fare revision was made in May/June 1990 by an average rate of 18%, 22.3% and 17.2% for urban, NT and Lantau taxis respectively. Due to the Gulf crisis, the price of diesel fuel increased four times by an aggregate rate of more than 26% from \$4.2 per litre on 22 August 1990 to \$5.3 per litre on 14 November 1990. The average daily income of urban, NT and Lantau taxi drivers decreased by 5.6%, 10% and 17% respectively in real terms from January to November 1990. The diesel price decreased to \$4.84 on 2 May 1991. The temporary fuel supplement was withdrawn with effect from 2 June 1991.

ADVICE SOUGHT

18. Members are invited to give comments on the above assessment.

Transport and Housing Bureau
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