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Panel on Transport

Background brief on
Urban and New Territories taxi fuel surcharge applications

Introduction

This paper sets out the background to the Government's incentive scheme to encourage taxi operators to replace their diesel vehicles with liquefied petroleum gas (LPG) vehicles. It also summarizes the views expressed by the transport trades regarding the impact of changes in oil price on public transport services, and measures taken by the Administration to assist the public transport trades.

LPG taxis

2. In 2000, the Government introduced an incentive scheme to encourage taxi operators to replace their diesel taxis with LPG taxis. Operators were provided with a $40,000 grant for the replacement. At present, almost all taxis are LPG vehicles and the use of LPG by them is duty free. According to an information paper provided by the Administration in March 2006, LPG price per litre at dedicated LPG filling station is 45 percent lower than the price of diesel with equivalent energy output.

3. LPG pump price at dedicated LPG filling station is capped by a pricing formula. Non-dedicated LPG filling stations are free to adjust their pump prices. Since September 2005, there have been large fluctuations of LPG international prices. However, in accordance with the then pricing adjustment mechanism, LPG pump prices at dedicated stations could not be changed until the date for the next half-yearly ceiling price adjustment. Consequently, there was a significant price differential between dedicated and non-dedicated stations, resulting in huge increase in demand at dedicated LPG filling stations and thus queuing of vehicles.

4. In February 2006, the Government introduced a new pricing adjustment mechanism for dedicated LPG filling stations. Under the new pricing adjustment mechanism, the two elements of the pricing formula (i.e. LPG international price and LPG operating price) were kept unchanged. Only the adjustment frequency of LPG prices at dedicated stations was changed from once every six months to once a month.

Under the new mechanism, the operators of dedicated stations could raise or lower their LPG pump prices on a monthly basis according to the movement of LPG international prices.

Impact of changes in oil price on public transport services

5. The Panel on Transport has all along been concerned about the impact of changes in oil price on public transport services. At the meeting of the Panel held on 16 September 2005, representatives from the franchised bus, non-franchised bus, public light bus, ferry and taxi trades expressed their opinions on the impact of changes in oil price on their operations.

6. Some public transport trades were of the view that the Administration should consider the request of public transport operators for the introduction of fuel surcharge so that passengers would share part of the increasing fuel expenses. They pointed out that the concept of fuel surcharge was not new as the Administration had in the past approved the taxi trades to collect the surcharge. Further, passenger fuel surcharge was also levied by airlines. They also urged the Administration to waive the duty on ultra low sulphur diesel (ULSD).

7. At the same meeting, the Panel also noted the Administration's position of not supporting the introduction of fuel surcharge as requested by the G.M.B. Maxicab Operators General Association Ltd.. The Administration's view was that under the suggested fuel surcharge arrangement, the full impact of any increase in fuel costs would be directly passed to the passengers. Yet the impact of oil price change on the financial performance of individual green minibus (GMB) routes might vary significantly due to their different financial arrangement, operating conditions and types of vehicles used, i.e. LPG vis-à-vis diesel vehicles. Imposing a blanket fuel surcharge on all GMB routes without due regard to their individual operating characteristics might lead to unnecessary surcharge on routes having healthy financial performance. The Administration considered that a more prudent approach was to examine whether the change in oil price had a sustained and significant impact on the financial performance of the GMB route concerned when processing fare increase applications submitted by individual GMB operators.

8. For franchised buses, the Administration pointed out that they were now exempted from paying fuel duty and there had not been any fuel surcharge arrangement for the franchised buses which were commonly used by the public. Apart from these considerations, it would be inappropriate for franchised bus operators to ask the public to fully and immediately bear the fluctuations of a specific cost item, e.g. fuel cost, through the arrangement of a surcharge. Instead, franchised bus operators should vigilantly consider ways to manage their operating costs more effectively. Similarly, the above considerations also applied to Star Ferry which was operating both franchised and licensed ferry services. The diesel used by the company was duty-free.

Measures to assist the public transport trades

9. At the above meeting on 16 September 2005, the Panel on Transort also reviewed with the Administration various measures to facilitate public transport operators to reduce operating cost and open up non-fare box sources of revenue in order to reduce the pressure for fare increase. It also held another meeting in October 2005 to follow up on the above measures to assist the public transport trades, and received an update on the consultancy study on auto-fuel retail market in Hong Kong and the work of the Competition Policy Review Committee, as well as the Administration's stance on the proposed reduction/waiver of the duty on ULSD as an urgent relief measure to ease the hardship caused by the high cost of ULSD to the transport industry.

10. The Council also passed a motion on 16 November 2005 urging the Administration to adopt effective measures to assist the transport industry in opening up new sources of income and cutting expenditure, and to actively consider reducing and remitting the duty on ULSD, so as to alleviate the hardship of the transport industry, relieve public transport operators' pressure to increase fare, and strengthen the position of Hong Kong's logistics industry.

11. The Administration has advised that whilst it is the established transport policy that the Government would not provide any direct subsidies to public transport operators, it would continue to maintain close dialogues with the operators in order to explore measures that could facilitate their operation, generate non-fare box revenue and reduce cost.

12. For taxis, they are allowed to display advertisements to generate non-fare box revenue. Since May 2003, the Transport Department has implemented relaxation of no-stopping restriction in "7 am to 7 pm" and "peak hours" restricted zones for taxis only. Besides, the department also continues to lift relaxation on taxi's picking up and dropping off of passengers in restricted zones to strengthen their role in providing a personalized, point-to-point service. The department also opened Lok Ma Chau Control Point for taxi operations from 11:00 pm to 6:30 am daily.

Duty on ULSD

13. In June 1998, the Government reduced the duty rate for regular motor diesel from $2.89 to $2 per litre as a temporary measure during the Asian Financial Crisis. Later in July 2000, ULSD was introduced at a concessionary rate of $1.11 per litre for environmental reasons in order to facilitate a cost-neutral switch from regular diesel to this cleaner, but more costly fuel. The concessionary duty rate was scheduled to be adjusted to $2 per litre on 1 January 2001 and was to revert to $2.89 per litre on 1 January 2002. By 2001, regular motor diesel had been completely replaced by ULSD at all petrol filling stations in the territory. Nevertheless, in order to relieve the operating pressure on the industry during the economic downturn, the Government has postponed the reversion of the ULSD duty rate on seven occasions. According to

the resolution passed by the Legislative Council in December 2006, the duty rate for ULSD is scheduled to revert to $2.89 per litre on 1 January 2009.

14. To further improve the roadside air quality, the Administration has proposed to introduce a concessionary duty rate of $0.56 per litre for Euro V motor vehicle diesel for two years, starting from 1 December 2007, to advance its availability.

<u>Measures to enhance competition in the auto-fuel retail market</u>

15. The Legislative Council has all along been concerned that oil companies are quick in raising and slow in reducing retail auto-fuel prices and that there seems to be some form of price fixing practices in the market. The issue of auto-fuel price adjustments has been discussed by the Panel on Economic Services at various meetings in 2002, 2003, 2004 and 2006. In this regard, the Council also passed a motion at its meeting on 26 January 2005 urging the Government to actively consider introducing a fair competition law and other effective measures for the oil industries with a view to increasing competition and enhancing the transparency of product prices. The wordings of the motion are as follows:

> "That, as the adjustments of local oil product prices are always quick in going up but slow in coming down and the pace of price adjustments by various oil companies tends to be synchronized, while oil product pump prices often fail to truly reflect import costs, this Council urges the Government to actively consider introducing a fair competition law and other effective measures for the oil industries, including requesting the Competition Policy Advisory Group to take heed of any unfair mode of competition that may emerge in the local oil market, and entrusting the Group to monitor and study the situation, with a view to increasing competition in the oil industries and enhancing the transparency of product prices, thereby avoiding oligopoly, promoting fair competition and safeguarding commercial clients and the public against high oil prices."

Review by the Transport Advisory Committee

16. The Transport Advisory Committee is conducting a review on the mode of operation and quality of the taxi services in Hong Kong. The review seeks to identify feasible and appropriate improvement measures to broaden the taxi trade's business opportunities, and at the same time benefit the public through the provision of competitive taxi services to meet their needs.

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