

## **LEGISLATIVE COUNCIL BRIEF**

### **Road Traffic Ordinance (Chapter 374)**

#### **Taxi Fare Increase Applications**

#### **Road Traffic (Public Service Vehicles) (Amendment of Schedule 5) Regulation 2008**

### **INTRODUCTION**

A At the meeting of the Executive Council on 22 January 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 of Schedule 5) Regulation 2008, at Annex A, be made to give effect to an increase in the flagfall fare by \$1 for urban and NT taxis, with effect from 28 February 2008.

### **JUSTIFICATIONS**

#### **Taxi Policy**

2. Taxis provide a personal, door-to-door mode of public transport service and are regarded as an alternative to private cars. 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; and
- (d) the likely public acceptability of the proposed fares.

## **Taxi Fare Increase Applications**

3. The rising fuel cost has made the operating condition of the taxi trade, in particular taxi drivers, increasingly difficult. Since 2004, when most of taxis have been converted to liquefied petroleum gas (LPG)-driven, the LPG price has increased by 83.0% from \$2.24/litre in January 2004 to \$4.10/litre in December 2007. In November and December 2007, the LPG price has increased by 10.4% and 10.2% respectively. Some urban and NT taxi associations earlier submitted applications for introducing a fuel surcharge of \$1 when the LPG price per litre is \$3 or above. Both the Administration and the Transport Advisory Committee (TAC) did not support the applications having regard to the considerations that a taxi fuel surcharge may have serious read-across implications of triggering other modes of public transport to request fuel surcharges for their services and would directly shift the fuel cost burden to the general public without taking into account the changes in the operating revenue and other cost items. We consider that it is more appropriate to address the adverse impact brought by increases in operating costs, including fuel cost, on the trade through the existing fare adjustment mechanism. It is a more balanced approach which could, on the one hand, take into account all relevant factors, including revenues and all cost items, affecting the taxi trade and, on the other hand, offer greater protection to the public. We have explained our stance to the taxi trade which accepted using the existing fare adjustment mechanism, instead of a fuel surcharge of \$1, to address the impact of fuel price increase.

4. Subsequently, some urban and NT taxi associations have formally applied for the flagfall fare to be increased by \$1. These associations represent mainly taxi drivers who are directly affected by the fuel price hike. They urge speedy processing of their applications to provide early relief to taxi drivers in view of the accelerating rate of fuel price increases in recent months.

5. In this connection, the taxi trade indicates that it will put forward proposals for revising the taxi fare structure by increasing short-haul fares and lowering long-haul fares in response to TAC's current review (see paragraphs 26 to 29). Thus, the increase in flagfall fare by \$1 is the first of the two steps towards the fare structure revamp to enhance the taxi trade's competitiveness as well as to combat to a certain extent the "discount gangs".

## Assessment of the Applications

### *Financial Position of the Urban Taxi Trade*

6. Urban taxi fares were last increased in June 1998, by an average rate of 5.9%. There are at present 15,250 urban taxis and about 32,500 urban taxi operators. These operators<sup>1</sup> can be broadly categorised into rentee-drivers (63%), rentor-owners (13%) and owner-drivers (24%).

#### (a) Operating Revenue

7. On the basis of surveys<sup>2</sup> conducted by Transport Department, the changes in the operating revenue received by an urban taxi rentee-driver since last fare increase and 2004, i.e. the year of change over to LPG-operation, are set out below.

Average monthly revenue <sup>3</sup>	1998	2004	2007	Change (2007 over 1998)	Change (2007 over 2004)
Meter revenue	\$22,844	\$19,533	\$20,680	-\$2,164 <i>or -9.5%</i>	+\$1,147 <i>or +5.9%</i>
Miscellaneous income <sup>4</sup>	\$1,930	\$972	\$827	-\$1,103 <i>or -57.2%</i>	-\$145 <i>or -14.9%</i>

8. The drop in the monthly revenue of urban taxi rentee-drivers since 1998 could largely be explained by the decrease in daily patronage from 1.1 million in 1998 to 0.9 million in 2007<sup>5</sup> attributable to the enhanced network coverage and service standards of and the provision of fare concessions for long-haul routes by railways and franchised buses.

#### (b) Operating Costs

9. For rentee-drivers, the monthly operating costs in 2007 have decreased slightly by 2% compared with the position in 1998 when the urban taxi fare was last increased. Among the costs, fuel cost has

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<sup>1</sup> **Rentee-drivers** hire taxis from taxi owners. **Rentor-owners** do not drive their taxis but rent them out to drivers. **Owner-drivers** own and drive the taxis themselves; some also rent their taxis out to rentee-drivers for one shift.

<sup>2</sup> Figures on monthly meter revenues, rental incomes and rental costs for 1998 are obtained from Taxi Operating Finance Report. For 2007, the meter revenue figures are estimated by using taximeter surveys whereas the rentals are estimated from the monthly survey on taxi rentals. The methodologies of the surveys for 2007 are different from the survey for 1998.

<sup>3</sup> Per one shift a day.

<sup>4</sup> The miscellaneous income received by rentee-drivers mainly includes sundry income (i.e. tips) given by passengers.

<sup>5</sup> The average figure from January to June 2007.

decreased by 42.2% but rental cost has gone up by 17.6%. The reduction in fuel cost is largely due to the change from diesel to LPG operation. For comparison, the current diesel cost per km operated is about \$1.1 whereas the LPG cost per km operated is about \$0.79 as at December 2007. As compared with 2004, i.e. the year of change over to LPG-operation, the operating costs have increased by 7.5% attributable to the increases in rental and fuel costs.

10. The costs borne by taxi owners (including parking, maintenance, insurance, etc.) in 2007 have reduced by 21.2% since the last fare increase (against a change in general price level of -10.9% during the period). The decrease is mainly due to the lower maintenance cost for LPG taxis.

(c) Net Income

11. The average monthly net income of the three groups of urban taxi operators in 1998, 2004 and 2007 are set out below.

<b>Average monthly net income</b>	<b>Rentee-drivers</b>	<b>Owner-drivers</b>	<b>Rentor-owners</b>
1998	\$13,381	\$19,663	\$6,932
2004	\$10,117	\$19,965	\$8,026
2007	\$10,341	\$21,674	\$10,473
<i>Change over 1998</i>	-22.7% (-13.2%) <sup>6</sup>	+10.2% (+23.7%)	+51.1% (+69.6%)
<i>Change over 2004</i>	+2.2% (-2.7%)	+8.6% (+3.4%)	+30.5% (+24.2%)

12. The average monthly net income of urban rentee-drivers (account for 63% of urban taxi operators) has dropped because the decrease in operating revenue could not be compensated by the small drop in total operating cost (the saving of fuel cost under LPG operation has been largely offset by the increase in rental cost).

13. Due to the increase in rental income and the drop in operating costs, the average monthly net incomes of both the urban owner-drivers and rentor-owners have increased since the last fare increase.

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<sup>6</sup> Percentage in brackets refers to change in real terms after discounting the change in CCPI.

## ***Financial Position of the NT Taxi Trade***

14. NT taxi fares were last increased in April 1997, by an average of 7.4%. There are at present 2,838 NT taxis and about 5,200 NT taxi operators, of which 58% are rentee-drivers, 19% are rentor-owners and 23% are owner-drivers.

### **(a) Operating Revenue**

15. On the basis of surveys conducted by Transport Department, the changes in average operating revenue received by a NT taxi rentee-driver since last fare increase and 2004 are tabulated below.

<b>Average monthly revenue<sup>7</sup></b>	<b>1997</b>	<b>2004</b>	<b>2007</b>	<b>Change (2007 over 1997)</b>	<b>Change (2007 over 2004)</b>
Meter revenue	\$17,368	\$13,767	\$15,447	-\$1,921 <i>or -11.1%</i>	+\$1,680 <i>or +12.2%</i>
Miscellaneous income	\$469	\$354	\$309	-\$160 <i>or -34.1%</i>	-\$45 <i>or -12.7%</i>

16. The daily patronage of NT taxis decreased slightly from 199,000 in 1997 to 196,000 in 2007. The decrease in meter revenue of NT taxi rentee-drivers is partly due to the competition from other public transport modes in the NT.

### **(b) Operating Costs**

17. For rentee-drivers, since last fare increase in 1997, the monthly operating costs in 2007 have decreased by 14.9%, which is mainly attributable to the decrease in fuel cost after changing from diesel to LPG operation. The cost borne by taxi owners have also reduced by 10.0% (mainly on repair and maintenance) against a change in general price level of -6.7% since last fare increase.

### **(c) Net Income**

18. The average monthly net income of the three groups of NT taxi operators in 1997, 2004 and 2007 are set out below.

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<sup>7</sup> Per one shift a day.

<b>Average monthly net income</b>	<b>Rentee-drivers</b>	<b>Owner-drivers</b>	<b>Rentor-owners</b>
1997	\$8,230	\$9,700	\$2,271
2004	\$7,102	\$11,303	\$4,507
2007	\$7,585	\$11,942	\$3,521
<i>Change over 1997</i>	-7.8% (-1.2%) <sup>8</sup>	+23.1% (+32.0%)	+55.0% (+66.2%)
<i>Change over 2004</i>	+6.8% (+1.7%)	+5.7% (+0.6%)	-21.9% (-25.6%)

19. For NT rentee-drivers (accounting for 58% of NT taxi operators), the average monthly net income has dropped because the decrease in the meter revenue out-weighed the drop in operating costs, particularly on fuel expense.

20. Due to an increase in rental income and a drop in the operating cost, the average monthly net incomes of both the NT owner-drivers and rentor-owners have increased since the last fare increase.

### ***Level of Service***

21. The Transport Department has conducted surveys at some of the taxi stands on Hong Kong island, Kowloon and NT. In the 1997 survey, the maximum passenger waiting time at 80% of surveyed taxi stands did not exceed 15 minutes, and the maximum passenger waiting time at the remaining 20% of surveyed taxi stands was 16 to 30 minutes. In 2006, the maximum passenger waiting time at 80% of the surveyed taxi stands did not exceed 7 minutes, and the maximum passenger waiting time at the remaining 20% of the surveyed taxi stands was 8 to 23 minutes. In general, the taxi services meet passenger demand on normal days.

### ***Fare Differential***

22. From a traffic management angle, it would be desirable to maintain a reasonable fare differential between taxis and other modes of public transport. This would help promote the use of other public

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<sup>8</sup> Percentage in brackets refers to change in real terms.

transport services which are more efficient users of road space. The fare differentials between taxis and other modes of public transport in 1997, 1998 and 2007 are at Annex B.

B

23. For urban taxis, there is a slight drop in the fare differential probably due to the fare increase of other public transport modes. A larger drop in the fare differential for NT taxis is likely attributable to the commencement of West Rail and the introduction of more long-haul bus routes with relatively higher fare per passenger trip due to the development of the New Territories in the last decade. The effect of the \$1 flagfall fare increase on the fare differentials is expected to be minimal.

### *Impact of Fare Increase on Passengers*

24. The average taxi fare per passenger per trip for urban taxis is \$27.49 and for NT taxis is \$14.81. With the fare increase of \$1 in flagfall fare, the percentage increase in taxi fare per passenger per trip on average will be 2.7% for urban taxis and 4.5% for NT taxis.

### *Incremental Charges and Service Surcharges*

25. The urban and NT taxi trade has not proposed any change to the incremental charges (i.e. charge for every subsequent 0.2 km or every minute of waiting time) and service surcharges, such as for baggage or telephone booking.

26. Indeed, the taxi trade indicates that it will propose changes to the taxi fare structure in response to the review currently undertaken by TAC on the mode of operation and quality of the taxi services in Hong Kong.

27. TAC has launched this review in the light of the changes in the competitiveness of the taxi trade in the transportation market, particularly in the long-haul sector, brought by the enhanced network coverage and service standards of and the provision of fare concessions for long-haul routes by railways and franchised buses. To increase patronage, some taxi drivers resort to offering fare discounts or taxi pooling. The situation has caused considerable concern in the taxi sector.

28. The objective of TAC's review is 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. The review will also address the discount gang problem. Among other things, the review will look at the taxi fare structure.

29. The TAC will put forward recommendations to the Government for consideration. Should TAC come up with its recommendation on the revision of the taxi fare structure and if endorsed by the Administration, the current \$1 fare increase would be subsumed within the overall fare re-structuring proposal for future approval by the Chief Executive in Council.

### **LEGISLATIVE TIMETABLE**

30. The legislative timetable is as follows -

Publishing in the Gazette	25 January 2008
Tabling at the Legislative Council	30 January 2008
Effective date	28 February 2008

### **IMPLICATIONS OF THE FARE INCREASE**

C 31. The Amendment Regulation has economic implications as set out at Annex C. The Amendment Regulation 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 Road Traffic Ordinance (Cap. 374). It has no productivity, environmental or sustainability implications.

### **PUBLIC CONSULTATION**

D 32. We consulted the TAC on 20 December 2007. The TAC reckoned that the operating conditions of urban and NT rentee-drivers' had become increasingly difficult, noting that their net incomes had dropped since the last fare increase. TAC supported the increase in flagfall fare by \$1 with a view to helping the rentee-drivers improve their operating conditions. The detailed views and advice of the TAC are set out in its letter to the Secretary for Transport and Housing at Annex D.

33. The Legislative Council Panel on Transport (Panel) generally considered that the taxi trade was facing a difficult operating condition and



the rising LPG price was exerting pressure on the taxi operators. The Panel passed a motion on 30 October 2007 to request the Government to accept the urban and NT taxi fuel surcharge applications. It subsequently noted that some taxi associations accepted the Administration's stance on fuel surcharge and submitted applications for a flagfall increase of \$1 instead. The Panel since then has raised no further view.

## **PUBLICITY**

34. A press release will be issued in the afternoon of 22 January 2008. A spokesman will be available to handle media enquiries.

## **BACKGROUND**

35. In the past, taxi fare increase was made almost every year in tandem with the general price increase until the last increase in 1997 for NT taxis and in 1998 for urban taxis.

## **ENQUIRIES**

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

Transport and Housing Bureau  
Transport Department  
January 2008

## **List of Annexes**

- Annex A - Road Traffic (Public Service Vehicles) (Amendment of Schedule 5) Regulation
- Annex B - Fare Differential Between Taxis and Other Modes of Public Transport
- Annex C - Implications of the Fare Increase
- Annex D - Transport Advisory Committee's Advice

**ROAD TRAFFIC (PUBLIC SERVICE VEHICLES)  
(AMENDMENT OF SCHEDULE 5) 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 28 February 2008.

**2. Taxi fares**

Schedule 5 to the Road Traffic (Public Service Vehicles) Regulations (Cap. 374 sub. leg. D) is amended –

- (a) in item 1, by repealing “\$15.00” and substituting “\$16.00”;
- (b) in item 2a, by repealing “\$12.50” and substituting “\$13.50”;
- (c) in item 4(vi), in the Chinese text, by repealing “費” and substituting “費。”;
- (d) in item 4(via), in the Chinese text, by repealing “\$30” and substituting “\$30.00”.

Clerk to the Executive Council

COUNCIL CHAMBER

2008

### **Explanatory Note**

This Regulation amends Schedule 5 to the Road Traffic (Public Service Vehicles) Regulations (Cap. 374 sub. leg. D) to increase some of the fares specified in that Schedule. Accordingly –

- (a) for taxis licensed to operate in Hong Kong and Kowloon, the fare for the first 2 kilometres or any part thereof is increased from \$15.00 to \$16.00; and
- (b) for taxis licensed to operate in the New Territories, the fare for the first 2 kilometres or any part thereof is increased from \$12.50 to \$13.50.

2. The Regulation also rectifies two clerical errors in the Chinese text of Schedule 5.

**Fare Differential<sup>1</sup>**  
**Between Taxi and Other Modes of Public Transport**

**(A) Urban Taxi**

Year	Average Fare per Passenger		Fare Differential between Urban Taxi and Other Public Transport Modes
	Urban Taxi <sup>2</sup>	Other Public Transport Modes <sup>3</sup>	
1998	\$27.15	\$5.61	4.84
2007 (Jan – Jun)	\$27.49	\$6.19	4.44
Projected March 2008 (with fare increase)	\$28.24	\$6.19 <sup>4</sup>	4.56

**(B) NT Taxi**

Year	Average Fare per Passenger		Fare Differential between NT Taxi and Other Public Transport Modes
	NT Taxi	Other Public Transport Modes <sup>5</sup>	
1997	\$16.55	\$4.45	3.72
2007 (Jan – Jun)	\$14.81	\$6.70	2.21
Projected March 2008 (with fare increase)	\$15.48	\$6.70	2.31

<sup>1</sup> Fare differential refers to the ratio of the average fare per passenger of taxi to other public transport modes.

<sup>2</sup> For taxis, the calculation of the average fare per passenger is based on the fare for an average taxi trip, including waiting time charges and average number of passengers in a taxi trip.

<sup>3</sup> For urban taxi, other public transport modes refer to Kowloon Motor Bus Company (1933) Limited, New World First Bus Services Limited, Citybus Limited, MTR Corporation Limited and Green Minibus. For these other public transport modes, the average fare per passenger is calculated by dividing the total revenue by the total number of passengers carried.

<sup>4</sup> The projected fare differentials in March 2008 have not taken into account the revised fares of the MergeCo after the rail merger.

<sup>5</sup> For NT taxi, other public transport modes refer to Kowloon Motor Bus Company (1933) Limited, KCR Corporation and Green Minibus.

**Economic Implications**

The taxi fare increase is expected to raise the Composite Consumer Price Index (CCPI) by 0.02 of a percentage point in the first month when the fare increase takes effect, while the effect on CCPI for the year 2008 is expected to be an increase of about 0.01 of a percentage point.



8 January 2008

Ms Eva Cheng, JP  
Secretary for Transport and Housing  
2/F., Main and East Wings  
Central Government Offices  
Lower Albert Road  
Central  
Hong Kong

Dear Ms Cheng,

**Taxi Fare Increase Applications**

This letter sets out Transport Advisory Committee (“TAC”)’s advice to the Chief Executive in Council (“CE-in-Council”) on the urban and New Territories (“NT”) taxi associations’ applications for a one-dollar fare increase.

In advising on the taxi fare increase applications, Members have 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; and
- (d) the likely public acceptability of the proposed fares.

/P.2. ....

Members noted that the net incomes of urban and NT rentee-drivers had decreased since the urban and NT taxi fares were last increased in 1998 and 1997 respectively and their net incomes were expected to continue to fall if the current trend of fuel price increases continued. Members noted that the revenues of rentee-drivers had dropped and other operating costs, such as rental cost, had also increased. On the other hand, the average monthly net incomes of the owner-drivers and rentor-owners had increased since the last fare increase due to the increase in rental income.

Furthermore, Members noted that the effect of the proposed \$1 flagfall fare increase on the fare differentials between other modes of public transport was expected to be minimal. Members generally considered the proposed \$1 increase acceptable from the public point of view. Lastly, this method of increasing the fare is in line with the existing arrangements, and is also preferred to adopting a fuel surcharge mechanism.

Having considered all the relevant circumstances and information before us, TAC supports the urban and NT taxis' applications for increasing the flagfall fare by \$1 with a view to helping the taxi drivers to improve their operating conditions.

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.

(Teresa Cheng)

Chairman

Transport Advisory Committee