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Panel on Transport
Meeting on 23 April 2010

**Background brief on the development of
major outlying island licensed ferry services**

Purpose

This paper provides background information on the development of major outlying island licensed ferry services in Hong Kong. It also summarizes the major concerns expressed by the Panel on Transport (the Panel) on the subject at previous meetings.

Background

2. Prior to March 1999, outlying island ferry services in Hong Kong were provided by the Hongkong & Yaumati Ferry Company Limited (HYF) under a franchise.

3. In 1998, with HYF's franchise expiring on 31 March 1999, outlying island ferry services were tendered out as licensed services in three packages as follows-

Package I - Central to Cheung Chau, Kowloon Point to Cheung Chau (excursion) and Inter-islands services;

Package II - Central to Mui Wo, Central to Peng Chau and Kowloon Point to Mui Wo (excursion) services; and

Package III- Central to Yung Shue Wan and So Kwu Wan services.

4. Upon completion of the tender assessment exercise, the Administration awarded the operating rights of Packages I and II to HYF, and Package III to Hong Kong and Kowloon Ferry Limited¹ (HKK). These licensed services started operation in April 1999.

¹ This is a subsidiary company of the Hong Kong and Kowloon Ferry Holdings Limited.

5. Following a spate of complaints about HYF's services, with the approval of the Commissioner for Transport (C for T), HYF transferred its licences to New World First Ferry Services Limited (NWFF), which took over the operation of these services from mid-January 2000.

Regulation of licenced ferry services

6. In accordance with the provisions of the Ferry Services Ordinance (Cap 104) (FSO), a ferry service licence (FSL) may be granted for an initial period not exceeding three years. C for T may, at the request of the licensee, during any period while the FSL is in force, extend the licence for a further period not exceeding three years at any one time. The period of a FSL (together with all extensions) shall not exceed an aggregate period of 10 years.

7. Fares of licensed ferry services are determined by C for T in accordance with the provisions of FSO. Section 33 of FSO stipulates that C for T may by notice in the Gazette determine the maximum fares that may be charged for the carriage of passengers, baggage, goods and vehicles on any licensed services. A licensed ferry operator shall not charge any fare exceeding the maximum fares.

8. A licensed ferry operator may apply to C for T to review the fares of the licensed ferry services. In considering applications for fare adjustment, the Transport Department (TD) will take into account a basket of factors, including –

- (a) financial condition of the ferry operators;
- (b) forecasts of changes in operating costs, revenue and return;
- (c) past performance of ferry operators in provision of the ferry services concerned;
- (d) public acceptability of the proposed fares; and
- (e) other measures by the ferry operator to achieve cost saving and generate additional revenue.

The last tender exercise in 2008 for the operation of the major outlying island licenced ferry services

9. On 20 July 2007, the Administration briefed the Panel on the tender arrangements for the operation of six major outlying island licensed ferry services, the licences of which would expire by the end of March 2008. The six major outlying island ferry services are -

Routes operated by NWFF

- (a) Central-Cheung Chau;
- (b) Central-Peng Chau;
- (c) Central-Mui Wo;
- (d) Inter-islands (Peng Chau - Mui Wo - Chi Ma Wan - Cheung Chau);

Routes operated by HKK

- (e) Central-Yung Shue Wan; and
- (f) Central-Sok Kwu Wan.

Original preliminary proposals

10. In view of the persistently low patronage for the "Central-Peng Chau" and "Central-Mui Wo" routes which had resulted in serious losses over the years, the Administration proposed the following tendering arrangements with a view to enhancing the financial viability of these two routes and minimizing the magnitude of fare increase -

- (a) Combine the "Central-Peng Chau" and "Central-Mui Wo" routes into the "Central-Peng Chau-Mui Wo" route during non-peak hours. Special direct services between Mui Wo and Central and between Peng Chau and Central would be provided during morning peak hours (i.e. between 7 a.m. and 9 a.m.) of weekdays;
- (b) Suitably reduce the frequency of the "Central-Peng Chau-Mui Wo" route during non-peak hours from the existing every 40/45 minutes to every 60 minutes per headway;
- (c) Group the "Central-Cheung Chau", "Inter-islands" and "Central-Peng Chau-Mui Wo" routes into one single tender package to be run by a single ferry operator;
- (d) Shorten the Inter-islands route into a shuttle service plying between Mui Wo and Cheung Chau to enhance frequency with some sailings calling at Chi Ma Wan; and
- (e) Permit bidders to propose using fast and ordinary vessels or only ordinary vessels in the "Central-Mui Wo", "Central-Peng Chau" and "Central-Yung Shue Wan" routes to reduce operating costs.

11. After the preliminary proposals were put forward, the Panel received feedback from various parties opposing to the proposals. The Panel held a meeting on 29 August 2007 to receive public views on the related matters. Some deputations objected to the merging of the routes plying between Central, Peng Chau and Mui Wo and the proposed reduction of service frequency during non-peak hours. Some were staunchly opposed to the proposal of grouping the "Central-Cheung Chau", "Central-Mui Wo" and "Central-Peng Chau" routes into one tender package. Some deputations further requested the Administration to consider canceling the holiday fares, lowering the general fares and extending the service hours, as well as expanding the coverage of ferry services to outlying islands.

Revised proposals

12. At the Panel meeting on 29 August 2007, the Administration reported that after several rounds of consultation, the following revised arrangements for the tender exercise were proposed -

(a) *Route Arrangements*

Maintain the existing arrangement of operating separate "Central-Peng Chau" and "Central-Mui Wo" routes.

(b) *Route Packaging*

Group the "Central-Cheung Chau" and "Inter-islands" routes into one tender package, and group "Central-Mui Wo" and "Central-Peng Chau" routes into another tender package.

(c) *Service Frequency during Non-Peak Hours*

Maintain the existing frequency of "Central-Mui Wo" and "Central-Peng Chau" routes (i.e. every 40/45 minutes per headway) during non-peak hours.

(d) *Vessel Type Arrangement*

While bidders for the "Central-Peng Chau" route would be allowed to put forward proposals on the vessel type arrangement based on their commercial decisions in the tender documents, the current mode of operation with both fast and ordinary ferries would be maintained for the "Central-Mui Wo" route.

(e) *Sunday/Public Holiday Fares*

Bidders should be allowed to put forward their fare level proposals

(including whether there would be fare differential between weekdays and Sundays/public holidays).

Outcome of the tender exercise and new measures to alleviate pressure on ferry operation

13. The Administration briefed the Panel on the outcome of the tender exercise at its meeting held on 22 February 2008. The Panel noted that for the "Central–Cheung Chau" and "Inter-islands" ferry routes (Package 1), TD had received a bid from NWFF (i.e. the incumbent operator of these routes). Having considered its proposed service level and other related arrangements, TD decided to grant new licences for operating these two routes to NWFF with effect from 1 July 2008.

14. As regards the other two packages, i.e. Package 2 ("Central–Mui Wo" and "Central–Peng Chau" routes) and Package 3 ("Central–Yung Shue Wan" and "Central–Sok Kwu Wan" routes), the Panel noted that the proposed average fare increases in the only bid received for the two routes in Package 2 were about 30%, and those in the only bid received for Package 3 were about 35% for the "Central–Yung Shue Wan" route and over 50% for the "Central–Sok Kwu Wan" route. In view of the above drastic fare increase proposals, TD decided to conduct a re-tender exercise for the four ferry routes concerned.

15. On 30 May 2008, the Administration announced the re-tender results of the four routes concerned. TD decided to award the licence of "Central-Mui Wo" route to NWFF, "Central-Peng Chau" route to HKK, "Central-Yung Shue Wan" route to Islands Ferry Company Limited² and "Central-Sok Kwu Wan" route to Winnertex Limited³. The average fare increase rates of the licences awarded this time ranged from 5.5% to 23% only.

16. To help alleviate the pressure on ferry operation during the effective period of the new licences so as to maintain fare stability as far as possible, the Administration also announced the following new measures –

(a) During the new licence period of three years starting from 1 July 2008, the Administration would waive the vessel-related fees of these four routes, reduce or waive the pier cleansing, water and electricity expenses, and provide more assistance to the operators on a reimbursement basis on top of the waiving of pier rentals and vessel licence fees under the current Elderly Concessionary Fares Scheme;

(b) The MTR Corporation Limited (MTRCL) would offer a fare

² This is a subsidiary company of the Hong Kong and Kowloon Ferry Holdings Limited.

concession of \$1.5 per trip, lasting for six months, to passengers using these four ferry routes and interchanging to MTR⁴; and

- (c) The Administration would launch a one-off \$2 million scheme of providing free ferry tickets to encourage organizations such as schools, non-government organizations and community and district groups to organize activities to Peng Chau, Mui Wo and Lamma Island. This scheme aimed to have a positive impact on the tourism development on outlying islands and thus help increase the patronage of these outlying island ferry routes. In this connection, TD would form an inter-departmental working group to map out the detailed arrangements to jointly promote this scheme⁵.

17. The Administration further advised that it would conduct a review on the outlying island ferry services as soon as possible, with a view to enhancing the long-term financial viability of these services and maintaining fare stability. Under the principle of not providing direct subsidy for daily operation, the Administration would study the long-term development of the outlying island ferry services and would listen to views from all sectors and the public, with a view to completing the review before the commencement of the next operating period of the ferry services in 2011.

Discussions held by the Panel on the development of ferry services

18. The Panel discussed the development of ferry services in Hong Kong at meetings held in 1998, 2004, 2007 and 2008. Members raised various concerns about the pressure on the ferry operation and suggestions of measures to alleviate such pressure. When the Panel discussed the ferry policy at its meeting in February 1998, some members took the view that ferry services should be put into more effective use to relieve road traffic congestion and to meet the needs of the travelling public. Members urged the Administration to ensure the provision of efficient ferry services for residents on outlying islands at an acceptable cost level, and formulate measures to improve the commercial viability and attractiveness of ferry services.

19. At the Panel meeting on 23 April 2004, members noted the difficulty faced by the ferry operators in operating outlying island ferry services due to shrinking island population and fuel cost. Members discussed with the Administration the need to set up a fund to stabilize outlying island ferry fares and provide other indirect

³ This is a subsidiary company of the Hong Kong and Kowloon Ferry Holdings Limited.

⁴ The fare concession of \$1.5 per trip to passengers using the four ferry routes and interchanging to MTR ended on 13 January 2009.

⁵ The one-off \$2 million scheme was completed in January 2009.

assistance to ferry operators, and to develop and promote tourism facilities and attractions on the outlying islands. Members urged the Administration to explore different ways to reduce operating costs of these outlying island ferry routes and expand opportunities of ferry operators to generate non-fare box revenue. Some members suggested that the Administration should grant a longer licence period so as to assist the operators concerned to recover their investment in ferry operation, while some proposed the provision of government funding support for ferry services, such as the granting of property development rights above ferry piers.

20. The Panel discussed matters relating to the operation of outlying island ferry services on 25 April 2008 including receiving views from deputations. In recognition that ferry service was the only means of transport for islanders, the Panel reiterated the need for the Administration to provide necessary assistance to ensure the provision of efficient outlying island ferry services at reasonable prices. The Administration advised that it had been implementing various measures to help reduce the operating costs of these ferry services. These included taking over pier maintenance responsibility, waiving fuel duty, reimbursing pier rentals and exempting vessel licence fees for ferry services under the Elderly Concessionary Fares Scheme. In addition, the Administration allowed ferry operators to sub-let premises at piers for commercial and retail activities. The Administration pointed out that it had in mid-2007 taken measures such as seeking the Town Planning Board (TPB)'s approval to relax land uses at Central Piers No. 4, 5 and 6 so that the operators could sublet the upper deck of these piers for commercial activities, streamlining the procedures for approval of applications for sub-letting premises at the piers, and retrofitting these piers with fire prevention facilities.

21. In January 2010, the Administration informed the Panel that, having obtained TPB's approval, the Administration was planning for the construction of an additional floor at Central Piers No. 4 to 6. Ferry operators could use that floor for commercial or retail activities to generate more non-fare box revenue. The Administration pointed out that, whilst its policy was to require ferry operators to use the non-fare box revenue to cross-subsidize ferry operation so as to alleviate future pressure for fare increase, fare revenue remained the mainstay of the ferry services. The Administration undertook to review the long-term development of outlying island ferry services with a view to enhancing their financial viability and maintaining their fare stability in the long run.

Latest developments

22. At the Panel meeting on 22 May 2009, Hon Miriam LAU expressed concern about the Administration's implementation of measures to increase the non-fare box revenue of the ferry operators concerned, which she understood had been making little progress due to the lack of co-ordination amongst the bureaux and departments concerned. The Panel has also received a referral from the Complaints Division regarding views expressed by a deputation called "三島聯盟" on outlying island

ferry services. The complainant expressed various concerns about the fares, frequency, facilities on board and safety of the "Central-Cheung Chau", "Central-Mui Wo", "Central-Peng Chau" and "Central-Lamma" routes. The referral from the Complaints Division, which included the submissions made by the complainant and the Administration's written response, was issued vide LC Paper No. CB(1)1075/08-09 on 17 March 2009.

23. In consideration of the difficulty faced by the ferry operators in operating outlying island ferry services, the Panel has scheduled a meeting for 23 April 2010 to further discuss with the Administration measures to enhance the financial viability of outlying island ferry services.

Relevant papers

24. A list of the relevant papers is in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
20 April 2010

Appendix

Development of major outlying island licensed ferry services

List of relevant papers (from July 1997 to October 2009)

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
22.10.97	Panel on Transport	Administration's paper on franchise of ferry services	CB(1)354/97-98(01) http://www.legco.gov.hk/yr97-98/english/panels/tp/papers/tp2210-4.htm
12.12.97	Panel on Transport	Administration's paper on rationalization of Hongkong and Yaumati Ferry Company Limited's (HYF) franchised routes	CB(1)625/97-98(03) http://www.legco.gov.hk/yr97-98/english/panels/tp/papers/tp1212-6.htm
25.9.98	Panel on Transport	Legislative Council Brief on franchise of the HYF and the pier development package Minutes of meeting	TBCR 2/3151/95(98)pt.23 http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp2509_4.htm CB(1)340/98-99 http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp250998.htm
14.10.98	Council meeting	Hon Miriam LAU Kin-ye raised a question on operation of licensed ferry services	http://www.legco.gov.hk/yr98-99/english/counmtg/hansard/981014fe.htm
27.11.98	Panel on Transport	Administration's paper on progress of tendering out outlying island, new town and inner harbour ferry services Administration's paper on ferry services to be provided to Cheung Chau/Mui Wo/Peng Chau by the HYF Minutes of meeting	CB(1)511/98-99(02) http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp27115a.htm CB(1)538/98-99(01) http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/p538e1.pdf CB(1)768/98-99 http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp271198.htm
13.1.99	Council meeting	Ir Dr Hon Raymond HO raised a question on the operation of unlicensed ferry services	http://www.legco.gov.hk/yr98-99/english/counmtg/hansard/990113fe.htm

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
9.2.99	Panel on Transport	<p>Letter from the Department of Justice on mechanism for fare adjustment of licensed ferry services</p> <p>Minutes of meeting</p>	<p>CB(1)866/98-99(02)</p> <p>http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/p866e2.pdf</p> <p>CB(1)1121/98-99</p> <p>http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp090299.htm</p>
26.3.99	Panel on Transport	<p>Administration's paper on transitional arrangements for the outlying island, new town and inner-harbour ferry services</p> <p>Information note on licensed ferry services</p> <p>Minutes of meeting</p>	<p>CB(1)1033/98-99(03)</p> <p>http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp2603_5.htm</p> <p>CB(1)1062/98-99(01)</p> <p>http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/t2631062.htm</p> <p>CB(1)1329/98-99</p> <p>http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp260399.htm</p>
23.4.99	Panel on Transport	<p>Administration's paper on the initial operations of the new licensed ferry services</p> <p>Administration's paper on carrying capacity and patronage of outlying island ferry services</p> <p>Minutes of meeting</p>	<p>CB(1)1169/98-99(04)</p> <p>http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp23044a.htm</p> <p>CB(1)1287/98-99(01)</p> <p>http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp2304a.htm</p> <p>CB(1)1563/98-99</p> <p>http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp230499.htm</p>
28.7.99	Panel on Transport	<p>Information paper on ferry services of the HYF</p> <p>Minutes of meeting</p>	<p>CB(1)1751/98-99(04)</p> <p>http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp28076c.htm</p> <p>CB(1)186/99-00</p> <p>http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp280799.htm</p>

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
23.4.04	Panel on Transport	<p>Administration's paper on outlying islands ferry services in Hong Kong</p> <p>Supplementary information paper on outlying islands ferry services in Hong Kong</p> <p>Minutes of meeting</p>	<p>CB(1)1556/03-04(03)</p> <p>http://www.legco.gov.hk/yr03-04/english/panels/tp/papers/tp0423cb1-1556-3e.pdf</p> <p>CB(1)1956/03-04(01)</p> <p>http://www.legco.gov.hk/yr03-04/english/panels/tp/papers/tp0423cb1-1956-1e.pdf</p> <p>CB(1)1911/03-04</p> <p>http://www.legco.gov.hk/yr03-04/english/panels/tp/minutes/tp040423.pdf</p>
9.11.05	Council meeting	Hon LAU Kong-wah raised a question on rise in ferry fares	<p>http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm1109ti-translate-e.pdf</p>
28.4.06	Panel on Transport	<p>Administration's paper on fares for outlying islands ferry services in Hong Kong</p> <p>Minutes of meeting</p>	<p>CB(1)1347/05-06(05)</p> <p>http://www.legco.gov.hk/yr05-06/english/panels/tp/papers/tp0428cb1-1347-5e.pdf</p> <p>CB(1)1786/05-06</p> <p>http://www.legco.gov.hk/yr05-06/english/panels/tp/minutes/tp060428.pdf</p>
26.1.07	Panel on Transport	<p>Administration's paper on application for fare increase of Hong Kong and Kowloon Ferry Limited</p> <p>Minutes of meeting</p>	<p>CB(1)771/06-07(03)</p> <p>http://www.legco.gov.hk/yr06-07/english/panels/tp/papers/tp0126cb1-771-3-e.pdf</p> <p>CB(1)1002/06-07</p> <p>http://www.legco.gov.hk/yr06-07/english/panels/tp/minutes/tp070126.pdf</p>
27.4.07	Panel on Transport	<p>Administration's paper on application for fare increase Hong Kong and Kowloon Ferry Limited</p> <p>Minutes of meeting</p>	<p>CB(1)1409/06-07(04)</p> <p>http://www.legco.gov.hk/yr06-07/english/panels/tp/papers/tp0427cb1-1409-4-e.pdf</p> <p>CB(1)1609/06-07</p> <p>http://www.legco.gov.hk/yr06-07/english/panels/tp/minutes/tp070427.pdf</p>

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
20.7.07	Panel on Transport	<p>Administration's paper on fare increase application by the "Star" Ferry Company, Limited and arrangements for the operation of major licensed ferry services of the outlying islands to be tendered</p> <p>Minutes of meeting</p>	<p>CB(1)2111/06-07(02)</p> <p>http://www.legco.gov.hk/yr06-07/english/panels/tp/papers/tp0720cb1-2111-1-e.pdf</p> <p>CB(1)146/07-08</p> <p>http://www.legco.gov.hk/yr06-07/english/panels/tp/minutes/tp070720.pdf</p>
29.8.07	Panel on Transport	<p>Administration's paper on arrangements for the operation of major outlying island licensed ferry services in the coming tender exercise</p> <p>Minutes of meeting</p>	<p>CB(1)2292/06-07</p> <p>http://www.legco.gov.hk/yr06-07/english/panels/tp/papers/tp0829cb1-2292-1-e.pdf</p> <p>CB(1)101/07-08</p> <p>http://www.legco.gov.hk/yr06-07/english/panels/tp/minutes/tp070829.pdf</p>
22.2.08	Panel on Transport	<p>Administration's paper on outlying island ferry services</p> <p>Minutes of meeting</p>	<p>CB(1)818/07-08(01)</p> <p>http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tpcb1-818-1-e.pdf</p> <p>CB(1)1123/07-08</p> <p>http://www.legco.gov.hk/yr07-08/english/panels/tp/minutes/tp080222.pdf</p>
25.4.08	Panel on Transport	<p>Administration's paper on the latest developments regarding the re-tendering arrangements of the "Central - Mui Wo", the "Central - Peng Chau", the "Central - Yung Shue Wan" and the "Central - Sok Kwu Wan" routes</p> <p>Minutes of meeting</p>	<p>CB(1)1070/07-08(01)</p> <p>http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp0222cb1-1070-1-e.pdf</p> <p>CB(1)1975/07-08</p> <p>http://www.legco.gov.hk/yr07-08/english/panels/tp/minutes/tp080425.pdf</p>

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
16.5.08	Panel on Transport	Administration's response to concerns raised at previous meetings	CB(1)1545/07-08(03) http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp0516cb1-1545-3-e.pdf
		Administration's paper on outlying island ferry services	CB(1)1739/07-08(01) http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp0222cb1-1739-1-e.pdf
		Minutes of meeting	CB(1)2205/07-08 http://www.legco.gov.hk/yr07-08/english/panels/tp/minutes/tp080516.pdf
	Panel on Transport	Administration's paper on fare concessions of franchised bus companies and MTRCL and issues relating to fare adjustment of MTR	CB(1)1582/08-09(01) http://www.legco.gov.hk/yr08-09/english/panels/tp/papers/tp0108cb1-1582-1-e.pdf