

**Submission to Legislative Council Panel on Transport
for Meeting on 2 June, 2011
Agenda Item VI: Fare Increases for Outlying Island Ferry Services**

by
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Resolutely Oppose Fare Increase for “Central – Discovery Bay” Licensed Ferry Service

Our Concerns and Request for Action

- We strongly object to the proposed fare increase for the Central – Discovery Bay ferry service. The operator has failed to learn the obvious lessons of the sharp increase in ferry fares implemented two years ago – that ridership and therefore revenues are very sensitive to price. We call on the company to consider overall revenue first, and to devise new strategies to encourage greater patronage of the ferry service.
- We note that the ferry company enjoys a number of concessions paid from the public purse, including (a) taking over the maintenance responsibilities of the Central Ferry Pier No. 3; (b) waiving fuel duty; and (c) reimbursing pier rentals and exempting vessel licence fees for ferry services under the Elderly Concessionary Fare Schemes. We contend that such benefits provided to a private company should be conditional on a commitment to greater transparency. Specifically, we propose that any company receiving such benefits be required to allow data on ridership to be published in the Monthly Traffic and Transport Digest issued by Transport Department. Data on the services provided by some other licensed ferry operators is already published. No ferry operator that receives public assistance should be exempt.
- Hong Kong Resort Company Limited (HKR) enjoys a monopoly on transport services in Discovery Bay through its ownership of the basic transport infrastructure in Discovery Bay, including the ferry pier and the transport interchanges. We call on the Government to legislate to require that all such basic transport facilities at residential estates be open to any licensed or franchised transport operator, in order to ensure fair competition in the provision of public transport services.
- We demand that Transport Department strictly enforce the existing licence conditions.

Background and Rationale for New Way Forward

1. Hong Kong Resort Company Limited (HKR), the developer of Discovery Bay, enjoys a near monopoly over transportation at Discovery Bay due to the fact that it owns the major transport infrastructure, including the ferry pier and the transport interchanges. While the company provides an excellent service in general, it has a very poor record when it comes to building trust with the people it serves. It refuses to release relevant information that would assist the captive population of Discovery Bay, now numbering about 18,000, in assessing the rationale for fare increases and the viability of services.
2. Since the opening of the Tunnel Link to the north shore of Lantau Island in 2000, buses operated by the company have attracted an increasing number of passengers. As a result, traffic on the ferry has fallen. While the bus service earns ever larger profits, the ferry service has been suffering.
3. The company applied to Transport Department (TD) for an average 9% increase in fares in January this year, citing higher costs and mounting losses. The residents contend that the ferry has a very high in-built cost structure as the developer has treated the ferry as a loss-leader to promote the sale of residential properties in Discovery Bay. Throughout the past two decades, investments in the ferry fleet have allowed the company to achieve higher sales prices for its flats than would have been the case if the service was run on a stand-alone commercial basis.
4. The residents have all along demanded greater transparency. While they are entirely willing to support a fast and convenient ferry service, they are not willing to subsidise the sale of flats.
5. The approach that TD has taken in reviewing Hong Kong Resort Company Limited's (HKR) application for a fare increase on the Central – Discovery Bay ferry route is fundamentally flawed. TD has ignored the cross-subsidies that the developer enjoys through providing the ferry service, and has characterised the company and the owners as contending parties, arguing over the scale of the fare increase. It has spoken of needing to be fair to the residents and the company; and of having won an important concession for the residents by encouraging the company to agree to a one-month extension to the validity period of the 50-trip fare card.
6. Members of the City Owners' Committee (COC) and Passenger Liaison Group (PLG) are not only residents – they are owners as well. The owners recognise that a fast, convenient and high quality ferry service to Central District is critical to property values in Discovery Bay. The owners would fully support any justifiable fare increase that ensures that the standards of the ferry service – and their property values – are maintained.

7. However, there comes a point when fare increases are counter-productive. It would appear that the large fare rise in 2009 resulted in little or no net revenue gain for the company.
8. The owners are deeply concerned that any move to increase fares without at the same time taking aggressive measures to improve ferry ridership will only contribute to the downward spiral of the ferry service.
9. In order to work with the company and TD with the goal of improving ridership, the owners need access to basic information on the operation of the ferry company. This is precisely what the owners and residents fought for in 2009, at the time of the last application for a fare rise and licence renewal. At that time, TD agreed with the owners and residents and incorporated new licence conditions that would ensure greater transparency.
10. However, the stipulated information was never published as required by the licence conditions, and TD has declined to take appropriate action to enforce the licence. This has made it very difficult for the owners to evaluate the proposal made by the company and to make meaningful alternative suggestions.
11. Nevertheless, after reviewing the very meagre information that has been released by HKR in recent years, it is possible to draw certain conclusions about the ferry operation. It is evident that the fare increase and other measures introduced at the time of the last licence renewal have had a disastrous impact on ridership. Regrettably, the operator has failed to learn the lessons of 2009, and is continuing down the same path in 2011.

Ferry Ridership is NOT Inelastic

12. The company contends that ferry ridership is inelastic, and does not respond to price. No information on past ridership has been provided to support this claim; information released by the company and distributed to members of the COC and PLG by TD on 6 May, 2011, only shows actual figures for one year – 2009-10. All other figures provided are projections. No information has been provided to support these projections.
13. Despite this lack of cooperation, by drawing upon information released in 2008 it is evident that the claim that ridership is insensitive to price is incorrect. In fiscal year 2007-08 (ended 31 March), the ferry carried 4.71 million passengers (from the document “Survey on Ferry Service Revamp and Fare Increase in Discovery Bay”, released by HKR in October 2008).

14. The HKR document released by TD on 6 May, 2011, shows that, in 2010-11, the ferry carried 4.26 million passengers. This is a fall of 9.55%, a dramatic fall in ridership in just three years. This fall cannot be attributed to a simple change of preference; it can only be due to a dramatic swing in the demographic of Discovery Bay brought on by the sharp fare increase introduced in 2009.
15. The significant fall in patronage occurred even though the population in Discovery Bay is rising. Although ridership figures for the external bus service are not available, TD does publish data on the number of bus trips through the Discovery Bay Tunnel Link. This data shows that, while ferry patronage fell by 9.55% in the three years to March 2011, the number of bus journeys through the tunnel rose by 9.82% in the three years ended 31 December, 2010. It is very instructive to note that bus traffic was relatively flat between 2006 and 2009, and only jumped dramatically in 2010 after the fare rise had been implemented and all spare capacity on the routes had been taken up. A review of the pattern of complaints regarding the bus service received by TD will support this view.
16. Thus, the residents of Discovery Bay are VERY sensitive to price. The tragedy is that it is not possible to win back lost passengers by re-adjusting the ferry fare. The fare rise in 2009 put in motion a change in the demographic composition of Discovery Bay. Once the demographic composition changes, it is very difficult to reverse the trend. It is certainly not something that can be done with short-term trial measures.

Revenue is Important, not Fares

17. In May 2009, TD approved a 12.93% increase in the 50-trip ferry fare. It also accepted the unilateral action taken earlier by HKR to reduce the validity period of the 50-trip fare card. These twin measures are directly responsible for the dramatic fall in ferry ridership.
18. Historical data on the revenue of the ferry company is not available. Nevertheless, we can see from the above that the reduction in the validity period of the 50-trip fare card did not result in more people paying full price for the ferry. Instead, it discouraged people from taking the ferry altogether.
19. With fewer residents holding the 50-trip fare card and a sharp rise in fares, ridership fell – altogether by 9.55% as stated above. As a result, the net increase in revenue from the 12.9% increase in fare was 3.4%.
20. It bears repeating: This 3.4% rise in revenue was won on the back of a disastrous fall of 9.55% in ridership. Although we can only speculate, one must ask what the position would be now if in 2009 HKR had only raised fares by three or four percent and had not reduced the validity period of the 50-trip fare card. It is safe to say that the revenue position

and long-term outlook for the ferry would have been significantly better than it is today.

21. It is even questionable whether the ferry company achieved a 3.4% increase in revenue. No data is available on the change in the relative number of half-price passengers (students) and adult passengers. Student demand IS inelastic, as the students must connect to their school bus at Central Pier No. 3. Adults, on the other hand, are much more flexible. Thus, it is likely that the company lost relatively more full-price adult fares than concessionary fares.
22. In the absence of any data from TD or HKR, it must be assumed that the increase in revenue as a result of the 2009 fare increase was negligible. The long-term damage to the viability of the ferry service through loss of ridership, on the other hand, is very real.

Consultation

23. When members of the COC and PLG met with TD in February, the members impressed on TD that they had two concerns: ridership and transparency. The members advised TD that they needed access to the data promised in the licence conditions in order to make realistic proposals to improve ridership.
24. Instead of acting on these concerns and returning to consult with members with additional information and proposals to improve ridership, TD announced on 29 April – just one day before the licence expired – that it accepted HKR’s application for a fare increase with only minor adjustments. In addition, TD immediately approved the licence renewal, making it impossible for the COC and PLG members to have any say on possible changes to the licence conditions to ensure that data would be released as required in future.
25. No proposals were made by either TD or HKR to improve ferry ridership. Instead, HKR advised that ridership was inelastic.
26. The proposed fare increase is unacceptable, and will only lead to a widening of the gap between the ferry and the bus fares. Without any measures to encourage bus users back onto the ferry, we will see further passenger drift toward the bus. The trend will become entrenched, as the demographic of Discovery Bay changes to favour those who choose the bus over the ferry.
27. We are extremely disappointed that TD has backed away from enforcing the licence conditions that were agreed after the very bitter experience of 2009 in the face of unreasonable behaviour by the ferry company. We demand greater transparency and an end to the existing monopoly over public transportation services in Discovery Bay.