

For discussion on
25 May 2012

Legislative Council Panel on Transport Taxi Fare Increase Applications

Purpose

This paper invites Members' views on the fare increase applications made by the urban, the New Territories ("NT") and Lantau taxi trades.

The Applications

2. In view of the increase in operating costs, in particular the price of Liquefied Petroleum Gas ("LPG"), the operating environment for the taxi trades has become more difficult. The urban, NT and Lantau taxi trades submitted applications in late March and mid-April 2012 respectively for increasing the flagfall charges as follows:

	Flagfall charge for the first 2 kilometres or any part thereof		
	Urban Taxis	NT Taxis	Lantau Taxis
Existing fare	\$20	\$16.5	\$15
The trade's proposal	\$22 (+\$2)	\$19 (+\$2.5)	\$17 (+\$2)

3. While the three taxi trades have not applied for changes to the incremental charges after flagfall, the NT taxi trade also applied for increasing the additional fares for every article of baggage carried, every animal or bird carried, and every hiring arranged through telephone booking by \$1 each (i.e. from \$4 to \$5). The proposal will bring these additional fares for NT taxis on par with those charged by urban and Lantau taxis.

Consideration of Taxi Fare Increase Applications

4. Taxis provide a personalised point-to-point public transport service. The Administration has all along considered taxi fare increase applications in accordance with the following guiding principles:

- (i) the need to ensure the financial viability of taxi operations, taking into consideration changes in revenue and operating costs;
- (ii) the need to maintain an acceptable level of taxi service in terms of vehicle availability, passenger waiting time and feedback from passengers;
- (iii) the need to maintain a reasonable differential between taxi fares and those of other public transport modes;
- (iv) the likely public acceptability of the proposed fares; and
- (v) that the taxi fare structure should be “front-loaded” and thereafter on a varying descending scale for incremental charges.

5. The scale of fares for the hiring of taxis is specified in Schedule 5 to the Road Traffic (Public Service Vehicles) Regulations (Cap. 374D). Under section 7(1C) of the Road Traffic Ordinance (Cap. 374), the Chief Executive in Council (“CE-in-Council”) may make Amendment Regulation to give effect to adjustment in the fares for the hiring of urban, NT and Lantau taxis. In the course of assessing the taxi fare increase applications, the Administration will take into account the views of the Legislative Council Panel on Transport and the Transport Advisory Committee before submitting its recommendations to CE-in-Council.

Financial Position of the Taxi Trades

Urban Taxis

6. Urban taxi fares were last increased in July 2011 by an average rate of 5.15%. There are at present 15,250 urban taxis and about 32,500 urban taxi

operators¹. 63% of them are rentee-drivers, 13% are rentor-owners and 24% are owner-drivers.

(a) Operating Revenues

7. Since the last fare increase, the average monthly operating revenues received by urban taxi operators in 2011 (July – December) and 2012 (January – April) are set out below:

Urban Taxis	Average monthly operating revenues		
	Rentee-drivers	Owner-drivers	Rentor-owners
2011 (Jul – Dec)	\$25,736	\$35,113	\$19,273
2012 (Jan – Apr)	\$25,457	\$34,834	\$19,273
<i>Change over 2011 (Jul – Dec) (in real terms)</i>	<i>-1.1% (-3.8%)</i>	<i>-0.8% (-3.5%)</i>	<i>±0.0% (-2.7%)</i>

(b) Operating Costs

8. The average monthly operating costs borne by urban taxi operators in 2011 (July – December) and 2012 (January– April) are set out below:

Urban Taxis	Average monthly operating costs		
	Rentee-drivers ²	Owner-drivers ³	Rentor-owners ⁴
2011 (Jul – Dec)	\$13,198	\$11,875	\$9,294
2012 (Jan – Apr)	\$13,508	\$12,429	\$9,603
<i>Change over 2011 (Jul – Dec) (in real terms)</i>	<i>+2.3% (-0.5%)</i>	<i>+4.7% (+1.8%)</i>	<i>+3.3% (+0.5%)</i>

¹ There are three types of taxi operators, namely, rentee-drivers, owner-drivers and rentor-owners. Rentee-drivers hire taxis from taxi owners. Owner-drivers own and drive the taxis themselves; some also rent their taxis out to rentee-drivers for one shift. Rentor-owners do not drive their taxis but rent them out to rentee-drivers.

² For rentee-drivers, their monthly operating costs comprise fuel and rental.

³ For owner-drivers, their monthly operating costs comprise fuel, vehicle maintenance, insurance, depreciation and miscellaneous items like licence fees.

⁴ For rentor-owners, their monthly operating costs comprise vehicle maintenance, insurance, depreciation and miscellaneous items like licence fees.

(c) **Net Income**

9. The average monthly net income of urban taxi operators in 2011 (July – December) and 2012 (January – April) are set out below:

Urban Taxis	Average monthly net income		
	Rentee-drivers	Owner-drivers	Rentor-owners
2011 (Jul – Dec)	\$12,538	\$23,238	\$9,979
2012 (Jan – Apr)	\$11,949	\$22,405	\$9,670
<i>Change over 2011 (Jul – Dec) (in real terms)</i>	-4.7% (-7.3%)	-3.6% (-6.2%)	-3.1% (-5.7%)

10. The above information shows that there has been some increase in the operating costs of urban taxis in 2012 (January – April). The average monthly net income of the three types of operators of urban taxis in 2012 (January – April) is lower than its respective level in 2011 (July – December) to a different extent in both nominal and real terms.

NT Taxis

11. NT taxi fares were last increased in July 2011 by an average rate of 8.05%. There are at present 2,838 NT taxis and about 5,200 NT taxi operators. 58% of them are rentee-drivers, 19% are rentor-owners and 23% are owner-drivers.

(a) **Operating Revenues**

12. Since the last fare increase, the average monthly operating revenues received by NT taxi operators in 2011 (July – December) and 2012 (January – April) are set out below:

NT Taxis	Average monthly operating revenues		
	Rentee-drivers	Owner-drivers	Rentor-owners
2011 (Jul – Dec)	\$23,317	\$28,472	\$13,363
2012 (Jan – Apr)	\$23,814	\$28,951	\$13,363
<i>Change over 2011 (Jul – Dec)</i> <i>(in real terms)</i>	+2.1% (-0.7%)	+1.7% (-1.1%)	±0.0% (-2.7%)

(b) Operating Costs

13. The average monthly operating costs borne by NT taxi operators in 2011 (July – December) and 2012 (January – April) are set out below:

NT Taxis	Average monthly operating costs		
	Rentee-drivers ⁵	Owner-drivers ⁶	Rentor-owners ⁷
2011 (Jul – Dec)	\$11,250	\$12,423	\$9,186
2012 (Jan – Apr)	\$11,781	\$13,167	\$9,507
<i>Change over 2011 (Jul – Dec)</i> <i>(in real terms)</i>	+4.7% (+1.9%)	+6.0% (+3.1%)	+3.5% (+0.7%)

(c) Net Income

14. The average monthly net income of NT taxi operators in 2011 (July – December) and 2012 (January – April) are set out below:

⁵ For rentee-drivers, their monthly operating costs comprise fuel and rental.

⁶ For owner-drivers, their monthly operating costs comprise fuel, vehicle maintenance, insurance, depreciation and miscellaneous items like licence fees.

⁷ For rentor-owners, their monthly operating costs comprise vehicle maintenance, insurance, depreciation and miscellaneous items like licence fees.

NT Taxis	Average monthly net income		
	Rentee-drivers	Owner-drivers	Rentor-owners
2011 (Jul – Dec)	\$12,067	\$16,049	\$4,177
2012 (Jan – Apr)	\$12,033	\$15,784	\$3,856
<i>Change over 2011 (Jul – Dec) (in real terms)</i>	<i>-0.3% (-3.0%)</i>	<i>-1.7% (-4.3%)</i>	<i>-7.7% (-10.2%)</i>

15. The above information shows that there has been some increase in the operating costs of NT taxis in 2012 (January – April). The average monthly net income of the three types of operators of NT taxis in 2012 (January – April) is lower than its respective level in 2011 (July – December) to a different extent in both nominal and real terms.

Lantau Taxis

16. Lantau taxi fares were last increased in July 2011 by an average rate of 4.11%. There are at present 50 Lantau taxis and about 121 Lantau taxi operators. 64% of them are rentee-drivers, 23% are rentor-owners and 13% are owner-drivers.

(a) Operating Revenues

17. Since the last fare increase, the average monthly operating revenues received by Lantau taxi operators in 2011 (July – December) and 2012 (January – April) are set out below:

Lantau Taxis	Average monthly operating revenues		
	Rentee-drivers	Owner-drivers	Rentor-owners
2011 (Jul – Dec)	\$21,967	\$31,555	\$19,040
2012 (Jan – Apr)	\$22,074	\$31,656	\$19,040
<i>Change over 2011 (Jul – Dec) (in real terms)</i>	<i>+0.5% (-2.3%)</i>	<i>+0.3% (-2.4%)</i>	<i>±0.0% (-2.7%)</i>

(b) Operating Costs

18. The average monthly operating costs borne by Lantau taxi operators in 2011 (July – December) and 2012 (January – April) are set out below:

Lantau Taxis	Average monthly operating costs		
	Rentee-drivers⁸	Owner-drivers⁹	Rentor-owners¹⁰
2011 (Jul – Dec)	\$12,100	\$14,175	\$11,691
2012 (Jan – Apr)	\$12,533	\$14,834	\$12,066
<i>Change over 2011 (Jul – Dec) (in real terms)</i>	+3.6% (+0.7%)	+4.6% (+1.8%)	+3.2 % (+0.4%)

(c) Net Income

19. The average monthly net income of Lantau taxi operators in 2011 (July – December) and 2012 (January – April) are set out below:

Lantau Taxis	Average monthly net income		
	Rentee-drivers	Owner-drivers	Rentor-owners
2011 (Jul – Dec)	\$9,867	\$17,380	\$7,349
2012 (Jan – Apr)	\$9,541	\$16,822	\$6,974
<i>Change over 2011 (Jul – Dec) (in real terms)</i>	-3.3% (-5.9%)	-3.2% (-5.9%)	-5.1% (-7.7%)

20. The above information shows that there has been some increase in the operating costs of the Lantau taxis in 2012 (January – April). The average monthly net income of the three types of operators of Lantau taxis in 2012 (January – April) is lower than its respective level in 2011 (July – December) to a different extent in both nominal and real terms.

⁸ For rentee-drivers, their monthly operating costs comprise fuel and rental.

⁹ For owner-drivers, their monthly operating costs comprise fuel, vehicle maintenance, insurance, depreciation and miscellaneous items like licence fees.

¹⁰ For rentor-owners, their monthly operating costs comprise vehicle maintenance, insurance, depreciation and miscellaneous items like licence fees.

Average Rate of Fare Increase

21. Taxi fare is front-loaded with a flagfall charge, followed by incremental charges according to the distance travelled. Since the proposed fare increases do not concern the incremental charges, the rate of fare increase for long-haul trips would be lower than that for short-haul ones. The distribution of trip lengths of the three types of taxis is different. Trips of NT taxis tend to be short-haul whilst those of the urban and Lantau taxis are of longer distance. As such, even for the same amount of increase in flagfall charges, the average rate of increase would be different for different types of taxis. The average rate of the proposed fare increase for the respective taxi trades is 4.51% for urban taxis, 8.60% for NT taxis and 4.04% for Lantau taxis.

The Effect of an Increase in LPG Price in recent months

22. The LPG price has been on an increasing trend since the end of 2011. Average LPG price went from an average of \$4.38 per litre in November 2011 to \$6.14 per litre in April 2012, representing an increase of 40%. Although the LPG price of dedicated LPG stations has come down to an average of \$5.29 per litre in May 2012, the level is still higher than the 2011 average of \$4.71 by about 12%.

23. Given the increase in LPG price, the urban, NT and Lantau taxi operators have been suffering from a drop in net income since the beginning of 2012. Comparing the average monthly net income of April 2012¹¹ with that of November 2011¹², rentee-drivers saw a drop by around 11% to 13% (ranging from \$1,097 to \$1,630), and owner-drivers by around 7% to 9% (ranging from \$1,147 to \$1,748). Although rentor-owners are not directly affected by the increase in LPG price, their operating costs have also increased since early 2012 because of an increase in repair and maintenance expenditure. In April 2012, their average monthly net income dropped by around 2% to 5% (ranging from \$185 to \$246) as compared with November 2011. There is thus a strong demand

¹¹ Latest available figure.

¹² November 2011 is a month not under the influence of any festive seasonal effects brought by the summer vacation, golden week, Christmas, etc. since the last fare increase. The LPG price in November and December 2011 was also relatively more stable.

from the taxi trades (drivers and owners inclusive) for their fare increase applications to be approved expeditiously, so that the new fares can be implemented as soon as possible.

Fuel Surcharge Mechanism

24. Apart from the fare increase applications, some taxi associations have requested the Government to consider introducing a fuel surcharge mechanism to dampen the direct impact of a fluctuating LPG price on them. The associations suggested to impose a fuel surcharge on passengers when the LPG price reaches a certain level, and for the amount of the surcharge to be adjusted upward or downward automatically in tandem with the LPG price without the need to consult the Legislative Council or to obtain approval from the Government.

25. Fluctuation in the individual cost components of taxi operation is always treated as part of the operating costs. In processing the taxi fare adjustment applications, the Administration would all along consider and evaluate various relevant factors. They include changes in the costs of taxi operation and revenues of the trades, acceptability of the general public, etc.. In the event that some cost items increase whilst others decrease or when both revenues received and costs increase, this approach can take into account whether the relevant factors would even each other out, rather than simply imposing a surcharge on certain cost item thereby transferring the cost fluctuation concerned completely and directly to the consumers. We consider that this is the most proper and a fairer approach to all parties concerned. Indeed, taxi operation involves different cost items. Introducing a fuel surcharge does not necessarily increase the actual income of drivers. However, using a fuel surcharge to respond to variations in fuel cost would adversely affect the integrity of the current taxi fare adjustment mechanism. A fundamental consideration on whether a fuel surcharge should be introduced for taxi service is the read-across implications of the relevant arrangements on other public transport modes and passengers concerned.

26. Prima facie, the associations' suggestion that the fuel surcharge should increase or decrease in tandem with fuel price may appear simple. What is noteworthy is that a fuel surcharge which varies with fuel price would be fraught with implementation problems. Firstly, a surcharge of an adjustable amount and independent of the normal fare adjustment mechanism would cause confusion to

both the passengers and drivers and easily lead to disputes between the two groups. There may also be incidents of abuse. Some unscrupulous drivers may use the fuel surcharge as an excuse to overcharge. Separately, given that the surcharge amount would be different from time to time according to fuel price, it might be difficult for the passengers to know clearly the fare to be paid. Furthermore, for an upward and downward adjustable fuel surcharge to be implemented, a discussion on the design of the relevant mechanism, the fuel prices that will trigger different rates of the surcharge, and the rates of the surcharge, as well as on the legislative amendments required would need to take place in the first instance. Therefore, the matter has to be considered carefully.

Advice Sought

27. Members are invited to comment on the aforementioned fare increase applications.

Transport and Housing Bureau
Transport Department
May 2012