

Legislative Council Panel on Transport

Impact of Changes in Oil Price on Public Transport Services

PURPOSE

This paper sets out information requested by the Panel on Transport in relation to the impact of changes in oil price on public transport services.

EXISTING FARE ADJUSTMENT PROCEDURE

2. Fare adjustment of different modes of public transport are governed by different legal provisions. Due to their different nature of service, mode of operation and regulatory framework, the fare adjustment procedures for various public transport services vary. Details of the existing fare adjustment procedures of various public transport modes are summarised at Annex A.

FARE INCREASE APPLICATIONS

3. As at 7 September 2005, the Transport Department (“TD”) has received a total of 13 fare increase applications for 51 green minibus (“GMB”) routes. The fare increase applied for ranges from \$0.3 to \$1.2. The G.M.B. Maxicab Operators General Association Ltd. (“GMOGA”) submitted a request for fuel surcharge to TD on 30 August 2005. The franchised bus operators and the Star Ferry Company Limited (“Star Ferry”) have also raised the idea of fuel surcharge. The Government has not received any fare increase application from other public transport operators.

GOVERNMENT’S POSITION ON THE APPLICATIONS

4. The fare increase applications by GMB operators are being processed by TD. In considering the applications, TD will carefully

assess a basket of factors including the overall viability of the route package, the financial performance of the operators, past service performance of the operators, the patronage of the routes/package of routes, whether there are alternative means for the operators to cut cost and increase revenue, and public affordability and acceptability. TD will stringently vet the applications having regard to these factors.

5. With regard to the GMOGA's request for the introduction of a blanket fuel surcharge for all GMB routes, the Government does not agree to it. It is because under the suggested fuel surcharge arrangement, the full impact of any increase in fuel costs will be directly passed to the passengers. Yet the impact of oil price change on the financial performance of individual GMB routes may vary significantly due to their different financial arrangement, operating conditions and types of vehicles used, i.e. liquefied petroleum gas ("LPG") vis-a-vis diesel vehicles. Imposing a blanket fuel surcharge on all GMB routes without due regard to their individual operating characteristics may lead to unnecessary surcharge on routes having healthy financial performance. The Government considers that a more prudent approach is to examine whether the change in oil price has a sustained and significant impact on the financial performance of the GMB route concerned when processing fare increase applications submitted by individual GMB operators.

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

MEASURES TO ALLEVAITE IMPACT ON PUBLIC TRANSPORT OPERATORS

7. The Government has been working closely with public transport operators to identify ways to reduce operating cost and increase revenue, so as to minimize the need for an increase in fare. Measures that can help achieve the purpose are set out below.

Fuel duty exemption and concession

8. Since March 1992, franchised bus companies have been exempted from paying diesel duty. The marine light diesel used by ferry service operators is also duty-free.

9. Since ultra-low sulfur diesel (“ULSD”) was first introduced into Hong Kong in July 2000, a concessionary duty rate was introduced for ULSD for environmental reasons initially and for easing the burden of the transport trade during times of economic slowdown in later years. The duty was set at \$1.11 per litre, a concessionary rate which was much lower than the duty charged on the more polluting regular light diesel oil at that time. The concession has been extended for six times to 31 December 2005. This concession has helped reduce the operating cost of the PLB, non-franchised bus and goods vehicles trades.

Conversion to liquefied petroleum gas (“LPG”) vehicles

10. 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. In August 2002, a similar incentive scheme was introduced for public light buses (“PLB”). Eligible owners of PLB who have replaced their diesel vehicle with an LPG or electric vehicle are provided with a one-off grant of \$60,000 or \$80,000 respectively, for each diesel PLB replaced. Given the lower price of LPG than that of diesel, the increase in fuel cost of PLBs that use LPG is smaller than the corresponding increase for PLBs that use diesel. The scheme will continue until 31 December 2005. PLB owners are encouraged to make

use of the grant and replace their diesel vehicles with LPG ones so as to reduce the long-term fuel expenses of their operation.

Other measures

11. The Government has encouraged the public transport operators to take measures to reduce fuel expenses and they have implemented or planned various measures to reduce fuel expenses. For example, GMB and franchised bus operators have instructed their drivers to switch off the bus engines at termini. They have also implemented network rationalization measures which reduced their fleet size and thus achieved cost-saving. During the past two years, the fleet size of the Kowloon Motor Bus (1933) Limited, Citybus Limited and New World First Bus Services Limited has reduced by about 240 buses (5.5%), 45 buses (4.9%) and 74 buses (9.6%) respectively. Bus stop rationalization to reduce unnecessary stops as well as driver training for smooth driving also help reduce fuel consumption.

12. In order to reduce fuel consumption, TD is discussing with the franchised bus operators on the feasibility of raising the average temperature of the air-conditioned bus saloon and restructuring or canceling the underutilized bus routes.

13. The Government has also implemented a series of measures to facilitate the operation of various transport trades with a view to expanding their business opportunities whenever possible. Initiatives such as the relaxation of restricted zones and allowing taxis and the PLBs to operate at the Lok Ma Chau Control Point increase the business opportunities of the trades. Measures are also taken to increase the non-fare box revenue of the public transport trades. Examples include allowing the installation of multi-media broadcasting on-board PLBs and franchised buses. As regards ferry, the Government helps maintain the pier structures and pier facilities to lower the operating costs of ferry operators. Moreover, ferry operators are permitted to put up advertising panels on roof top of piers as well as to sub-let areas of pier premises as commercial concessions. The Government will maintain dialogue with the public transport trades to explore cost-cutting and revenue-generating measures.

GOVERNMENT POSITION ON FURTHER DUTY REDUCTION

14. The existing duty rate on ULSD at \$1.11 per litre is already a concessionary rate, some 60% below the regular duty rate. The Financial Services and the Treasury Bureau (FSTB) estimates the extension of the concessionary rate in 2004-05 for another year is costing the Government about \$900 million. The cumulative loss in government revenue since 2000 due to the concession on ULSD has been \$5.8 billion.

15. The current concessionary rate will remain valid until the end of this year. FSTB will take into account all relevant factors including the fiscal position of the Government, the macroeconomic environment and the business conditions of the transport sector in deciding the way forward.

Environment, Transport and Works Bureau
September 2005

**Mechanisms for Fare Adjustment
for Various Public Transport Services**

Railways

Under the Operating Agreement pursuant to section 4(2) of the Mass Transit Railway Ordinance (Cap. 556), MTR Corporation Limited may, through its board of directors, resolve to approve proposed fare change after considering the level of public acceptance of any proposed change (based on passenger surveys) and consulting the Transport Advisory Committee and the Legislative Council Panel on Transport.

2. According to section 4(2)(e) of the Kowloon-Canton Railway Corporation Ordinance (Cap. 372), Kowloon-Canton Railway Corporation shall have power to determine its fares. As a general practice, for any fare adjustment proposal, the Corporation will consider public views and consult the Transport Advisory Committee and the Legislative Council Panel on Transport.

Franchised Bus

3. According to section 13(1) of the Public Bus Services Ordinance (“PBSO”)(Cap. 230), the CE-in-Council may determine the scale of fares which may be charged for the carriage of passengers, baggage and goods on any specified franchised route or group of routes. Regarding the temporarily altered specified bus routes or new temporary routes, section 13(2) of the PBSO stipulates that the Commissioner for Transport (“C for T”) shall determine fares of these routes based on the scale of fares determined by the CE-in-Council under section 13(1) of PBSO. According to section 13(4) of PBSO, a franchised bus operator shall not charge a fare exceeding the fare scale determined or, except with the prior permission of C for T, a fare lower than that so determined.

4. Adjustment to the bus fare scales is subject to CE-in-Council’s approval. CE-in-Council endorsed the Modified Basket of Factors (“MBOF”) approach, relating to bus fare adjustment, on 12 December

2000. Under this approach, the Government will consider a basket of factors including changes in operating costs and revenue since the last fare adjustment; forecasts of future costs, revenue and return; the need to provide the operator with a reasonable rate of return; public acceptability and affordability; and the quality and quantity of service provided in assessing bus fare adjustment applications for the purpose of making recommendation to the CE-in-Council in determining the scale of bus fares.

Public Light Bus (“PLB”)

5. There are two types of PLB, viz. green minibus (GMB) and red minibus (RMB). According to section 29(1) of the Road Traffic Ordinance (Cap. 374), C for T may issue a passenger service licence (PSL) for operation of GMB services subject to such conditions as he may specify, which shall include conditions as to the fares to be charged. Any change to the conditions of the PSL, including the fare level, of a particular GMB service is subject to C for T’s approval. Regarding the RMB services, their fares are set by the service operators having regard to factors such as the operating environment and market demand, etc.

Franchised Ferry

6. According to sections 19(1)(a) and (6) of the Ferry Services Ordinance (Cap. 104), the CE-in-Council may by order determine the maximum fares that may be charged for the carriage of passengers on any franchised ferry service and may determine such fares in relation to classes of passengers, times of operation of the franchised services, and standards of ferry vessel accommodation. A franchised ferry operator shall not charge a fare exceeding the maximum fare or, except with the prior permission of C for T, a fare other than that so determined. Increase in the maximum fare is subject to the CE-in-Council’s approval.

Licensed Ferry

7. According to section 33 of the Ferry Services Ordinance (Cap. 104), C for T may by notice in the Gazette determine the maximum fares that may be charged for the carriage of passengers on any licensed ferry

services and that a licensed ferry operator shall not charge a fare exceeding the maximum fare. For ferry services whose fares are specified by C for T in the Gazette, fare increase requires C for T's approval.

Taxis

8. Taxi fare scales are prescribed by the CE-in-Council in the Road Traffic (Public Service Vehicles) Regulations (cap. 374, sub. leg. D). Regulation 47(2) of the Regulations stipulates that no taxi operator shall charge a fare exceeding the appropriate scale of fares. Taxi fare adjustment requires legislative amendment to be made by the CE-in-Council.

Hong Kong Tramways

9. According to section 51 of the Tramway Ordinance (Cap. 107), subject to the consent of the CE-in-Council, it shall be lawful for the company to alter the rates of fares for the time being authorised in respect of the whole or any portion of the tramway. Any such alternation shall come into force one month after its publication in the Gazette or within such shorter period after such publication as the CE-in-Council may order.

Peak Tramway

10. According to section 22 of the Peak Tramway Ordinance (Cap. 265), the Peak Tramways Company Limited may charge such fares for the use of the tramway as it may fix from time to time.