

**立法會**  
**Legislative Council**

LC Paper No. CB(1)713/05-06

(These minutes have been  
seen by the Administration)

Ref : CB1/PL/TP/1

**Panel on Transport**

**Minutes of meeting held on  
Friday, 16 December 2005, at 10:00 am  
in Conference Room A of the Legislative Council Building**

**Members present** : Hon LAU Kong-wah, JP (Chairman)  
Hon Andrew CHENG Kar-foo (Deputy Chairman)  
Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP  
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP  
Hon LAU Chin-shek, JP  
Hon Miriam LAU Kin-ye, GBS, JP  
Hon Abraham SHEK Lai-him, JP  
Hon LI Fung-ying, BBS, JP  
Hon Tommy CHEUNG Yu-yan, JP  
Hon Albert CHAN Wai-yip  
Hon WONG Kwok-hing, MH  
Hon LEE Wing-tat  
Hon Jeffrey LAM Kin-fung, SBS, JP  
Hon Albert Jinghan CHENG

**Member attending** : Hon CHAN Kam-lam, SBS, JP

**Members absent** : Hon TAM Yiu-chung, GBS, JP  
Hon LEUNG Kwok-hung  
Hon CHEUNG Hok-ming, SBS, JP

**Public Officers  
attending** : **Agenda item IV**

Mr Roger LAI  
Director of Electrical and Mechanical Services

Mr Frank CHAN  
Assistant Director of Electrical and Mechanical Services

Mr WONG Sek-cheung  
Acting Chief Engineer  
Electrical and Mechanical Services Department

Mr Roy TANG  
Deputy Director of Environmental Protection

Mr MOK Wai-chuen  
Principal Environmental Protection Officer  
Environmental Protection Department

Mr Ken HUI  
Chief Transport Officer  
Transport Department

**Agenda item V**

Dr Sarah LIAO  
Secretary for the Environment, Transport and Works

Mr Joshua LAW  
Permanent Secretary for the Environment, Transport and  
Works

Miss Cathy CHU  
Deputy Secretary for the Environment, Transport and Works

Miss Angela LEE  
Principal Assistant Secretary for the Environment, Transport  
and Works

Mr LEE Kwong-ming  
Chief Treasury Accountant (Transport)  
Environment, Transport and Works Bureau

Mr Alan WONG  
Commissioner for Transport

Mr Albert YUEN  
Assistant Commissioner for Transport/Bus and Railway

Mr W M WONG  
Principal Transport Officer/Bus and Railway  
Transport Department

**Attendance by invitation** : **Agenda item V**

The Kowloon Motor Bus Company (1933) Limited/  
Long Win Bus Company Limited

Mr John C C CHAN  
Managing Director

Mr LUI Po-chiu  
Operations Director

Citybus Limited/  
New World First Bus Services Limited

Mr Lyndon REES  
Managing Director

Mr Samuel CHENG  
Deputy Managing Director

Mr Mark SAVELLI  
Deputy Managing Director

New Lantao Bus Company (1973) Limited

Mr Peter MOK  
Executive Director

**Clerk in attendance** : Mr Andy LAU  
Chief Council Secretary (1)2

**Staff in attendance** : Ms Anita SIT  
Senior Council Secretary (1)9

Miss Winnie CHENG  
Legislative Assistant (1)5

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- I Confirmation of minutes and matters arising**  
(LC Paper No. CB(1)452/05-06 - Minutes of the meeting held on 4 November 2005)

The minutes of the meeting held on 4 November 2005 were confirmed.

- II Information papers issued since last meeting**  
(LC Paper No. CB(1)492/05-06(01) - A letter from Mr LAM Faat-kang, member of Tsuen Wan District Council requesting for banning heavy vehicles from using Texaco Road Flyover during night time)

2. Members noted the information paper issued since the last meeting.

- III Items for discussion at the next meeting scheduled for 20 January 2006**  
(LC Paper No. CB(1)503/05-06(01) - List of outstanding items for discussion  
LC Paper No. CB(1)503/05-06(02) - List of follow-up actions)

3. Members noted that the Administration did not propose any item for discussion at the next regular meeting scheduled for 20 January 2006.

4. The Chairman said that in view of the impending opening of the Tung Chung Cable Car and the Asia World-Expo at the Hong Kong International Airport, it was opportune for the Panel to review with the Administration the permitted operating areas for New Territories taxis. Ir Dr Raymond HO expressed concern that a number of related projects were being held up pending the merger discussions between MTR Corporation Limited and Kowloon-Canton Railway Corporation. He suggested that the Administration be asked to brief the Panel on the progress of the merger discussions. Members agreed that the following two items would be discussed at the next regular meeting –

- (a) Permitted operating areas for New Territories taxis; and
- (b) Progress of the merger discussions between MTR Corporation Limited and Kowloon-Canton Railway Corporation.

Regarding item (a), members agreed that representatives of urban taxi, New Territories taxi and Lantau taxi trades be invited to attend the meeting to give views on related issues.

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5. Mr WONG Kwok-hing suggested and members agreed that the Panel would conduct a site visit to the landing point of the Hong Kong-Shenzhen Western Corridor on the Hong Kong side in January 2006.

**IV Liquefied petroleum gas filling stations**

(LC Paper No. CB(1)503/05-06(03) - Information paper provided by the Administration

LC Paper No. CB(1)529/05-06(01) - A Joint submission from 司機權益關注組／的士司機權益協會籌委會

LC Paper No. CB(1)543/05-06(01) - Gist of discussion between Duty Roster Members and 司機權益關注組／的士司機權益協會籌委會)

6. The Director of Electrical and Mechanical Services (DEMS) explained the operation of dedicated liquefied petroleum gas (LPG) filling stations (“dedicated stations”) under the Design, Build and Operate (DBO) contracts and the recent problems encountered and actions being taken to tackle the problem. He made the following points –

- (a) The LPG pump price at each dedicated station comprised two elements, namely the LPG international price and the maximum operating price to which the operators concerned had committed. The DBO contracts for dedicated LPG filling stations were awarded through open tender. The bidder offering the lowest operating price was offered the DBO contract at each tendering exercise. The pricing mechanism for dedicated stations had been clearly stated in the relevant tender documents to all bidders and DBO contract documents with the operators.
- (b) At the time of designing the Pricing Formula in 1999, LPG international prices had been quite stable. To avoid frequent adjustments to the LPG pump prices, the frequency of the LPG ceiling price adjustment was then set at half-yearly intervals. On the other hand, with a view to ensuring the long-term sustainability of the 21-year DBO contract, the DBO contract documents had incorporated a provision that a review of the pricing mechanism should be conducted at five-yearly intervals. Again the review of the pricing mechanism had been clearly stated in the tender documents to all bidders and DBO contract documents with the operators.
- (c) The price differential of LPG between dedicated and non-dedicated LPG filling stations (“non-dedicated station”) had all along been insignificant, ranging between \$0.1 and \$0.2 per litre. However, due to the recent surge of LPG international prices, non-dedicated station operators had already

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adjusted the retail price of LPG upward. On the other hand, dedicated station operators could not adjust the retail prices of LPG freely. As a result of the widened price differential between the two types of refilling stations, there had been an increase in demand at dedicated filling stations and a decrease in demand at non-dedicated stations.

- (d) Up to the first half of 2005, the operation of dedicated stations had been smooth. On average, the daily consumption at the dedicated stations operated by the China Resources Petrochemicals (Group) Co. Ltd. (CRC) had been about 400 000 litres in total. This had increased to some 550 000 litres in recent months. The present situation was that the LPG road tanker fleet, oil terminal at Tsing Yi and even the LPG supply chain of the dedicated station operators were stretched to their capacity limit. So the crux of the problem was that the pump prices at dedicated stations were lagging behind the movement of LPG international prices.

7. Mr WONG Kwok-hing said that a number of taxi and public light bus operators involving some 20 000 vehicles had switched to use LPG vehicles in support of Government's policy to improve air quality in Hong Kong. Now they had to queue up at dedicated stations for at least 30 minutes and sometimes more than one hour to get refilled. Very often, less than half of the LPG nozzles were operated at the stations. The situation was deteriorating. The drivers of LPG vehicles found it difficult to endure the situation any more. Their complaints to the Electrical and Mechanical Services Department (EMSD) had been in vain. On 12 December 2005, he had visited four dedicated LPG filling stations together with the LPG vehicle trades and thereafter had made a complaint to EMSD. Disappointingly, no oral or written response to his complaint had been received yet. He considered that the Administration had failed to monitor the operation of the dedicated stations and the situation had now reached a critical point. The Administration had informed him that CRC would deploy a new LPG road tanker in February 2006. However, it would be too late if any relief to the queuing problem would only be available by then. He suggested that during this transitional period, the Administration should urge CRC and ECO Energy Co. Ltd. (ECO) to adjust the LPG pump prices at non-dedicated stations to the same level as dedicated stations to relieve the queuing problem.

8. The Assistant Director of Electrical and Mechanical Services (AD/EMS) responded that since late November 2005, EMSD had received a total of 290 complaints against some dedicated stations. EMSD had already strengthened its inspection work at dedicated stations and a total of 580 surprise inspections had been carried out since late November 2005. Upon receipt of any complaint, EMSD would immediately contact the relevant filling station. Since the establishment of the complaint hotline on 29 November 2005, the queuing situation at dedicated stations had improved. According to the findings of recent inspections, the queuing time at most dedicated stations was less than 30 minutes. During the Sixth Ministerial Conference, as the dedicated station in Wan Chai was affected, the queuing time at the dedicated station in Sheung Wan was slightly longer than 30 minutes. Other dedicated stations at which the

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queuing time was 30 minutes or slightly longer included those located in Kwun Tong, Kwai Chung and Tuen Mun. AD/EMS also made the following points –

- (a) The dedicated stations operated by CRC were designed to support a daily consumption of 400 000 litres in total. The present daily consumption was some 550 000 litres. Under the oversight of EMSD, CRC had made special arrangements to deploy its LPG supply to dedicated stations as far as possible. EMSD's figures showed that the daily consumption at the non-dedicated stations operated by CRC was 40 000 litres only, which was less than 10% of the 550 000 litres consumed at CRC's dedicated stations, indicating that CRC had in fact mobilized their resources to meet the substantial surge on demand at dedicated stations.
- (b) The Administration had discussed the matter with Mr WONG Kwok-hing and the LPG taxi trades on 15 December 2005, and thereafter had had follow-up discussions with the Transport Department and the Environmental Protection Department. The Administration would follow up Mr WONG's suggestion of urging CRC's non-dedicated stations to adjust LPG prices to the same level as dedicated stations, but had to point out that as the LPG prices at non-dedicated stations were not subject to the Government's regulation, there was no guarantee that CRC would heed the suggestion.
- (c) There were a total of 190 LPG nozzles at dedicated stations (108 nozzles at CRC's stations and 82 nozzles at ECO's stations) and a total of 202 LPG nozzles at non-dedicated stations. So, the two types of LPG filling stations had been expected to share about equally the daily LPG consumption. But the situation at present was that about 75% of LPG vehicles chose to get refilled at dedicated stations. In the case of CRC, the dedicated stations were designed to support about 10 000 LPG vehicle fillings per day and now they were supplying up to 15 000 fillings a day. In fact, during the past months of rising LPG international prices, CRC and ECO had increased their supply at dedicated stations.
- (d) Each LPG filling station had limited LPG inventory, which was about 40 000 litres. If all the 24 LPG nozzles at a station were put into operation, 25% of the inventory would be depleted in an hour. This explained why notwithstanding the heavy demand at dedicated stations, the operators had to close some LPG nozzles in order to maintain the operation of the stations until the next refilling of their LPG storage tanks. There was also a safety requirement that when the LPG inventory level of a station was depleted to about 10%, the whole station must stop operation, in which case, the effect on the transport trade could be significant.
- (e) There was a suggestion that dedicated stations should, as far as possible, operate all LPG nozzles in response to demand and when the LPG inventory

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of any station was used up, the operator concerned might then close the station with a notice posted outside the station. The LPG vehicle trades had very divergent views to this suggestion. EMSD would continue to discuss with the LPG vehicle trades and the operators of dedicated stations with a view to working out an arrangement acceptable to all parties concerned. In the meantime, EMSD would direct the operators to strengthen their facilities and supply chain so as to minimize the inconvenience to the LPG vehicle trades.

*(Post-meeting note: The Administration subsequently advised that EMSD had followed up with CRC with regard to Mr. Wong's suggestion on LPG price reduction at CRC's non-dedicated stations. CRC advised that they were unable to do so. However, the LPG pump price at CRC's non-dedicated station at Fanling was lowered by twenty cents on 5 January 2006.)*

9. In reply to Mr Albert CHENG's enquiry, AD/EMS confirmed that EMSD had conducted surprise inspections at dedicated stations during midnight hours and the queuing time cited above covered the situation during midnight hours.

10. Mr CHAN Kam-lam pointed out that the crux of the problem was the significant price differential (about \$1.0 per litre at present) between dedicated and non-dedicated stations, resulting in a huge increase in demand at dedicated stations and thus the queuing of LPG vehicles. There was an urgent need to review the pricing mechanism for dedicated stations, and in fact the two companies concerned had raised the issue in 2004. He asked whether and when the frequency of LPG ceiling price adjustment for dedicated stations would be revised from half-yearly to monthly, so that the pump prices would reflect the movement of LPG international prices timely.

11. AD/EMS concurred with Mr CHAN that the skewed balance between supply and demand at dedicated stations was attributed to the significant price differential between dedicated and non-dedicated stations. He advised that since May 2005, a joint departmental working group had started the five-year Pricing Review as prescribed in the DBO contracts. The working group had reached the view that more frequent ceiling price adjustments would reduce the time-lagging effect and hence narrow the price-gap between dedicated and non-dedicated stations. He stressed that the introduction of a more frequent ceiling price adjustment mechanism did not in itself increase the operating cost for the transport trade, but would allow more timely ceiling price adjustment according to LPG international prices. The Administration planned to implement the modified mechanism as soon as a general consensus among concerned parties had been reached.

12. Mr CHAN Kam-lam said that the operators of dedicated stations at present had to lose about \$0.4 to \$0.5 for each litre sold at the stations. In fact, over the past months, they had not reduced the supply but had supplied more LPG than the design capacity of the stations. CRC was operating the dedicated stations at a loss of \$9 million in September 2005, \$12 million in October 2005 and \$10 million in November 2005. He

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pointed out that the problem could not be solved unless the LPG ceiling price adjustment was adjusted more frequently. He asked if the more frequent ceiling pricing adjustment arrangement could be implemented earlier than February 2006. AD/EMS said that the Administration would see if the arrangement could be implemented at an earlier timing.

13. Ms LI Fung-ying said that the LPG vehicle trades had lodged a complaint to Complaints Division of the Legislative Council on 13 December 2005. They had expressed strong dissatisfaction and indicated that they could not endure the queuing problem any more. They had pointed out that the problem had occurred not recently but as early as 2004, but the Administration had not taken prompt action to address the problem. She questioned why the Administration had not co-opted any representative from the LPG vehicle trades into the working group to conduct the five-year Pricing Review. She considered that revising the LPG ceiling price adjustment frequency from half-yearly to monthly was a significant change, and was concerned that the scenario of “quick increase and slow reduction in LPG pump prices” at dedicated stations would occur, thus adding to the financial burden of the LPG vehicle trades and in turn the burden of transportation expenses on the public. She emphasized that the sites for the dedicated stations were provided at nil land premium to the operators. Although they had incurred losses in recent months, the operators might have attained substantial profits in the past. The arrangement of making LPG ceiling price adjustment half-yearly should not be changed simply because at this point in time, the arrangement prevented the operators from making profits. She asked whether the Administration would discuss the matter with the LPG vehicle trades.

14. DEMS stressed that with the frequency of LPG ceiling price adjustment changed to monthly, the adjustment would still be based on the same factors and thus the process of price adjustment would continue to be highly transparent. The Administration had explained the pricing mechanism to the LPG vehicle trades when the LPG Taxi Scheme was launched in 1999. The suggestion of revising the ceiling price adjustment frequency from half-yearly to monthly was to minimize the time-lagging effect, thereby narrowing the price gap between dedicated and non-dedicated LPG filling stations. It was necessary for the Administration to arrive at a view under the five-year Pricing Review and thus a joint departmental working group comprising representatives from relevant government departments had been set up for the purpose. Actually, the Administration had maintained a dialogue with the LPG vehicle trades through formal and informal channels. The latest discussion with the trades was held on 9 December 2005.

15. As regards the fact that the dedicated stations were offered at nil land premium, DEMS pointed out that the DBO contracts were awarded to bidders offering the lowest operating prices. Hence, the benefit of “nil land premium” had already been factored into the committed operating prices of the operators.

16. On the concern about the occurrence of the scenario of “quick increase and slow reduction in LPG pump prices”, the Deputy Director of Environmental Protection said

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that each DBO contract was awarded to the bidder offering the lowest pump price and hence willing to accept the lowest profit margin. In 2000, the LPG international price was about \$1.5 per litre, and the pump price at non-dedicated stations was about \$3.4. The current LPG international price had increased to \$2.3 per litre, a 50% increase, but the pump price at non-dedicated stations had dropped to \$3.27. This phenomenon was attributed to the price suppression effect brought about by dedicated stations. The effect was particularly evident in the first year after the launch of the dedicated LPG filling stations when the pump price at non-dedicated stations had dropped by \$1 in the year. If the LPG ceiling price was adjusted more frequently, when the LPG international price dropped, dedicated stations would adjust their pump prices downwards in a more timely manner and this in turn would exert similar pressure for downward adjustment on the pump prices of non-dedicated stations. Therefore, the scenario of “quick increase and slow reduction in LPG pump prices” could not happen.

17. Mr Albert CHENG said that he had raised a relevant oral question at the Council meeting on 2 March 2005. The queuing problem at dedicated stations however had not been improved since then. Being one of the Duty Roster Members receiving the LPG vehicle trades on 13 December 2005, he was certain that the LPG vehicle trades were not asking for raising the LPG pump prices at dedicated stations. Given the price differential between dedicated and non-dedicated stations, it was understandable that LPG vehicles, which were either taxis or public light buses, would most probably choose to get refilled at dedicated stations despite the queuing time involved, since they would not be able to earn the price differential otherwise. He could not accept the explanation that because of the limited LPG inventory of dedicated stations, some of the LPG nozzles had to be closed to delay the depletion of the inventory. Instead, the LPG inventory of dedicated stations should have been designed to support full operation of all LPG nozzles. He also considered that there existed a serious loophole in that the same oil company was allowed to operate both dedicated and non-dedicated stations. Since the profit margin of dedicated stations was lower than that of non-dedicated stations, the company naturally had the incentives to keep the operation of dedicated stations at a low level so as to force some LPG vehicles to get refilled at non-dedicated stations.

18. Ms Miriam LAU concurred with other members that the problem with the operation of dedicated stations had existed for some time and according to the complaints she had received, the reason for the long queuing time was either that some nozzles were broken purported by the stations concerned or that there were inadequate manpower to man the stations. She had written to the operators to convey the LPG vehicle trades' concern, and thereafter slight improvement was observed. The LPG vehicle trades believed that the fundamental problem was that the operators had to lose more money if they sold more LPG at dedicated stations. The trades also suspected that the present queuing problem was in fact a plot of the operators to press the Government to change the pricing mechanism. Although drivers had to wait for over 30 minutes or more at dedicated stations, they still chose to queue up at dedicated stations because they had to pay some \$40 dollars or more for each refill at non-dedicated stations and they

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could not recoup that amount by operating an additional hour. This was indeed a very tragic situation for LPG vehicle drivers.

19. Ms LAU further said that the operators of dedicated stations were provided with the dedicated sites at nil land premium. They thus had the obligation to put the stations to full operation by operating all LPG nozzles. The proper way of handling the problem was not to allow the operators to raise LPG pump prices but to ensure that the LPG inventory could be replenished more frequently and timely to support the full operation of dedicated stations. She asked whether there were provisions in the DBO contracts to require the operators to operate all the LPG nozzles installed at the stations.

20. AD/EMS advised that there was no provision in the DBO contracts requiring the full operation of all the LPG nozzles at the dedicated stations. The practice of some dedicated stations making a false claim that some nozzles were broken and thus could not operate had been rectified recently. He explained that the crux of the problem lied in the supply chain of dedicated stations. To replenish the LPG inventory, the operator needed to transport LPG from the LPG reserve in Tsing Yi to individual stations. An LPG road tanker normally ran two to three rounds a day as each round took about 4 hours. Presently, the LPG road tankers of the operators of dedicated stations were running four to five rounds each day. Moreover, the road tankers needed maintenance after running a certain distance and there were safety rules to follow. So there was a bottle-neck in the supply chain. According to the DBO contracts, CRC was required to support a daily supply at dedicated stations of not less than 400 000 litres in total. Presently, CRC was supplying some 550 000 litres in total at its dedicated stations.

21. Ir Dr Raymond HO commented that the problem with the operation of dedicated stations had reached a critical stage. If the problem was due to the limited LPG inventory at dedicated stations, increasing the number of dedicated stations would be a possible solution. He suggested that instead of restricting the number of LPG nozzles in operation to maintain the inventory at a certain level, it would be preferable to operate all nozzles in response to demand and when the inventory was about to be used up, the operator should notify incoming vehicles to turn to other stations for refilling. In this connection, it would be necessary to find effective means to disseminate to drivers information on the supply situation of individual dedicated stations. The most important point was to avoid making drivers queuing for a long time. He also urged the Administration to strengthen communications with the LPG vehicle trades.

22. While accepting the need to strengthen communications with the LPG vehicles trades, DEMS said that it had yet to ascertain whether the arrangement suggested by Dr HO was acceptable to the trades. Over the past months, EMSD had done a lot of work with a view to limiting the queuing time to 30 minutes. He explained that the design of equipping each dedicated station with 24 nozzles was intended to meet the peak demand during the rush hours, i.e. 3:00 pm to 6:00 pm. Full operation of the nozzles during rush hours was possible when the LPG inventory could be fully replenished right before the rush hours and this in turn was possible on the condition that the demand was not that heavy during the non-peak hours. In the case of CRC's dedicated stations, they were

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presently supplying on average 550 000 litres each day and were operating near full capacity during non-peak hours. Under these conditions, its supply chain could not cope with the increased demand and fully replenish the LPG inventory of its dedicated stations right before the rush hours. That explained why the dedicated stations could not operate all the LPG nozzles during the rush hours at present. He appealed for members' understanding of the over-stretched situation at present. He remarked that EMSD had made an in-depth investigation into the situation and could confirm the situation described above.

23. Ir Dr Raymond HO urged the Administration to review the operation of dedicated LPG filling stations as a matter of urgency with a view to solving the problems identified satisfactorily and quickly.

24. Mr WONG Kwok-hing reiterated the strong dissatisfaction of the LPG vehicle trades. He suggested that the Panel convene a special meeting in early January 2006 to further discuss the matter, with the attendance of the Secretary for the Environment, Transport and Works and the trades. He cautioned that if the queuing problem was not addressed urgently, the trades' strong negative sentiments might be escalated to vigorous actions. In reply to his query on the status of his complaint lodged with EMSD on 12 December 2005, AD/EMS said that Mr WONG's complaint letter was received by EMSD on 13 December 2005 and EMSD would provide a written reply to Mr WONG shortly.

*(Post-meeting note: The Administration subsequently advised that EMSD had provided a written reply to Mr. Wong on 17 December 2005, and rectified that Mr. Wong's complaint letter was received on 12 December 2005.)*

25. Ms Miriam LAU said that while she did not object to convening a special meeting, she considered that both the Administration and the Panel already had a good grasp of the problem. She did not consider it a panacea by making more frequent adjustments to the LPG ceiling price for dedicated stations. She pointed out that the original intention of the half-yearly adjustment arrangement was to avoid frequent changes in LPG pump prices and this was to safeguard the interest of LPG vehicle trades. The Administration should not fall into the trap by allowing the operators of dedicated stations to make more frequent price adjustments.

26. The Chairman requested the Administration to provide a written response to the issues raised with suggested solution(s) by end December 2005. If members were not satisfied with the written response, a special meeting to further discuss the subject would then be convened. Members agreed.

27. DEMS reiterated that the LPG pump price at each dedicated station comprised two components, the LPG international price and the operating price fixed in the relevant DBO contracts. The Administration did not propose to make any change to these components. Allowing a more frequent ceiling price adjustment would only have

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the effect of enabling the pump price to reflect the changes in LPG international price in a more timely manner without adding to the operating cost of the transport trades.

28. Mr Albert CHENG said that in preparing the written response, the Administration should give special consideration to the LPG trades' views. He also recapitulated that during the DRM meeting on 13 December 2005, the taxi trade requested that they be allowed to impose a fuel surcharge on passengers.

**V Review of the basis for considering bus fare adjustment and application for new franchises**

(LC Paper No. CB(1)309/05-06(01) - Information paper on "Review of the Basis for Considering Bus Fare Adjustments" provided by the Administration

LC Paper No. CB(1)309/05-06(02) - Information paper on "Application for New Franchises by Citybus Limited (Franchise for Hong Kong Island and Cross Harbour Routes), New Lantao Bus Company (1973) Limited and Kowloon Motor Bus Company (1933) Limited" provided by the Administration

LC Paper No. CB(1)309/05-06(03) - Presentation notes on "Review of the Basis for Considering Bus Fare Adjustments" provided by the Administration

LC Paper No. CB(1)310/05-06 - Background brief on "Review of the Basis for Considering Bus Fare Adjustments" prepared by the Legislative Council Secretariat)

29. The Chairman recapitulated that when the subject was discussed at the meeting on 25 November 2005, members made a number of suggestions regarding the fare reduction initiatives proposed by the Administration. On 14 December 2005, the Legislative Council passed a motion on "franchised bus fares". He then invited the Secretary for the Environment, Transport and Works (SETW) to brief members on the latest position of the matter.

30. SETW said that she had taken heed of the views made by Members at the Panel meeting on 25 November 2005 and during the motion debate at the Council meeting on 14 December 2005. She learned that Members in general supported the new fare adjustment arrangement which allowed upward and downward fare adjustments and had requested the Administration to negotiate certain items with the franchised bus companies. She assured members that the Administration would spare no effort in

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working out a satisfactory package of fare reduction initiatives in collaboration with the bus companies.

31. Mr CHENG Kar-foo asked how far the approval of the Executive Council (ExCo) for the new fare adjustment arrangement would hinge on a consensus on fare reduction initiatives which might or might not be reached among the Government, the franchised bus companies and the general public, and what the timetable was for the implementation of the new fare adjustment arrangement and fare reduction initiatives. Referring to the motion passed at the Council meeting on 14 December 2005, Mr CHENG enquired about the position of The Kowloon Motor Bus Company (1933) Limited (KMB) on the various demands included in the motion, in particular the cancellation of the proposed arrangement for advance payment of the day return fare as a condition of fare reduction, a reduction of not less than 10% of the fares for both the forward and return journeys taken, and the introduction of monthly ticket schemes and sectional fares.

32. SETW said that ExCo would consider the new franchises for KMB, Citybus Limited (Citybus) and New Lantao Bus Company (1973) Limited (NLB) in conjunction with the proposed new fare adjustment arrangement and fare reduction initiatives, as the Administration would put forward these proposals as a package for ExCo's approval.

33. Mr John CHAN, Managing Director of KMB, said that the negotiation between KMB and the Government was still underway. The company had taken note of the views of Members and the public, and understood that the public in general did not accept the arrangement of advance payment of day return fare as a condition of fare reduction. In the light of this, KMB would withdraw this proposed arrangement and instead consider providing a discount on the return fare. On the premise of not adding to the financial burden of the company, KMB would try to work out the relevant details with the Government. He also clarified that any fare discount arrangement would require technical adjustment to the Octopus system and this process could take up to three months. As such, it would not be possible to implement any new fare discount arrangement on 1 January 2006. However, if it was agreed that a fare reduction initiative should be implemented for three years, the three-year period would count from the date of implementation of the fare reduction initiative. He further said that KMB would examine the other suggestions such as monthly ticket schemes in detail.

34. Mr CHENG Kar-foo commented that there was a consensus among LegCo Members that the Government should implement a more objective fare adjustment mechanism that allowed upward and downward adjustments for franchised bus services. Since there was not much controversy over the proposed new fare adjustment arrangement, the Administration should not delay the implementation of the arrangement on account of any unsettled issues surrounding the proposed fare reduction initiatives.

35. Noting that KMB would consider the return fare discount arrangement in place of the advance payment of day return fare arrangement, Mr CHENG Kar-foo asked

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whether franchised bus companies would be prepared to consider a package of fare reduction initiatives that would enable all bus passengers to benefit from fare reduction. Pointing out that some 70% of bus passengers patronized bus routes where the single fare was below \$10, Mr CHENG asked whether the bus companies would actively consider introducing monthly ticket schemes and section fares. He considered that the existence of a wide range of fares and the need to install an additional Octopus machine on buses were not insurmountable problems. For example, monthly tickets of different prices could be introduced for different categories of bus routes.

36. In response, SETW confirmed that it was the Administration's intention to implement the proposed new fare adjustment arrangement as soon as possible. She however pointed out that the grant of new franchises, the proposed new fare adjustment arrangement and fare reduction initiatives were inter-related matters and therefore they should be considered together.

37. Mr John CHAN said that KMB had offered monthly tickets some time in the past, and at that time KMB's bus service network was much smaller than the one at present. Given the very large bus service network and the wide range of fares at present, it was difficult to devise a proper monthly ticket scheme. Moreover, understandably, people would only buy monthly tickets if the tickets would enable them to make savings. As such, monthly ticket schemes would definitely result in a reduction in the company's fare revenue. As regards section fares, KMB had all along been examining the relevant technical and other issues. There was also the consideration that with the offer of section fares, some short-haul passengers would switch to long-haul routes whenever convenient to themselves, and this would lengthen journey times, upset the existing bus service schedules and vehicle allocations, and pose additional difficulties in designing future bus service schedules.

38. Mr WONG Kwok-hing enquired about the progress of discussion between the Government and franchised bus companies since the passage of the abovementioned motion. He opined that the Administration should make use of its bargaining power to strive for a favourable package for the public in the negotiation on the new franchises for the three bus companies concerned. He also enquired about the present position of bus-bus interchange (BBI) discounts for routes jointly operated by different bus companies.

39. SETW said that the Administration fully understood the demands of LegCo Members and would try the best to negotiate with bus companies for a favourable package. All along, the Administration had worked towards the objective of ensuring quality franchised bus services being offered at reasonable fares.

40. Mr Lyndon REES, Managing Director of Citybus/New World First Bus Services Limited (NWFB), referred to a letter dated 12 December 2005 from the companies to LegCo Members. He highlighted that the companies were operating under very difficult conditions; over the past two years, fuel costs and tunnel tolls had gone up by 35% and 70% respectively and the market interest rate had doubled. Notwithstanding

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the difficult situation, since 2003 the companies had spent \$100 million in total on fare concessions. Citybus's funds for the sharing of profits with passengers had been exhausted. NWFB had never made sufficient profits to generate funds for the sharing of profits with passengers. Under these circumstances, a 10% fare reduction across-the-board would put the companies out of business. The companies would examine with KMB relevant technical details regarding jointly operated cross harbour routes.

41. Mr Peter MOK, Executive Director of NLB, advised that at present, NLB was jointly operating one BBI scheme at the Tung Chung bus terminal with Long Win Bus Company Limited and Citybus Limited and another bus-rail interchange scheme with MTR Corporation Limited at Tung Chung MTR station. Section fares had been offered on NLB South Lantau routes for some time.

42. Mr John CHAN said that there were already some BBI schemes jointly operated between KMB and the other franchised bus companies at present. KMB was prepared to examine with the other franchised bus companies whether more BBI schemes between different bus companies could be introduced.

43. The Chairman requested the franchised bus companies to consider expanding BBI schemes in parallel with the proposed new fare adjustment arrangement and fare reduction initiatives and revert to the Panel on the progress of these matters in about two to three months.

44. Mr LEE Wing-tat said that at present, there was often substantial overlapping of the routeings of two or more routes operated by the same franchised bus company and there was no BBI discount between these routes. Thus, a passenger taking one route and then change to the other route had to pay a very high total fare. Bus companies often put forward the excuse that offering intra-company interchange discounts involved complicated technical issues. He however learned from professionals in the relevant technical field that the level of technicality involved was rather low. He therefore urged franchised bus companies to make vigorous efforts to devise intra-company BBI schemes with the provision of an interchange discount to rectify the present unreasonable arrangement and asked for a timetable for this work.

45. Mr LEE Wing-tat expressed concern that the level of competition among franchised bus companies was very limited at present and in fact there was a regressive trend in this regard. Pointing out that bus companies had little incentive to improve bus services given the lack of competition, he opined that the Administration should explore ways to bring in more competition to the franchised bus service sector. For example, the Administration should open up the franchised bus service market on a regional basis as had been suggested by the Democratic Party.

46. Mr Lyndon REES commented that there had once been intense competition on the Hong Kong Island between Citybus and NWFB. That had led to an extent of destructive competition with an excessive number of buses on the road. Since the

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amalgamation of the management of the two bus companies, the companies had been able to downsize their fleets by some 150 buses and thus reduce traffic congestion. There had not been deterioration in the service quality of the bus companies. The experience in the United Kingdom also illustrated that deregulation of the bus service sector had brought in destructive competition.

47. Mr John CHAN said that in the case of KMB, different bus routes were designed to serve different target passenger groups. The existing bus route plan and BBI schemes had been devised with the objective of optimizing the utilization of resources while ensuring adequate service for passengers with different transport needs. There was indeed a need to rationalize bus routes from time to time. In the course of rationalization, franchised bus companies could not make changes unilaterally, and the views of affected local communities had to be considered. As regards the issue of competition, he pointed out that the main force of competition for franchised bus companies did not come from other franchised bus companies but from other public transport modes, in particular railways. There in fact existed very adequate competition among the various public transport modes.

48. SETW pointed out that as there was limited road space, the public transport network could not be a market with entirely free competition. It was necessary for the Government to regulate the market, as had been manifested in the regulation of non-franchised buses. The Administration had an active role in regulating franchised bus services, and in this regard, there was a constant need to strike a balance between the provision of convenient bus services for the public and the need to rationalize bus routings and schedules to avoid duplications and excessive buses on the road. At present, there was adequate and healthy competition among the various public transport modes. So, the work priority of the Administration was rationalization of bus services. She had explained the Administration's position to the Chairmen and Deputy Chairmen of the 18 District Councils at a recent meeting with them, and they generally agreed to the need to reduce the number of buses to facilitate smooth traffic.

49. Mr Albert CHAN said that the public in general considered that the extent of fare reduction was not enough under the proposal in November 2005. If the final package arrived at after further negotiation with the bus companies was not agreeable to the public, he asked whether the Administration would consider opening up the franchised bus service market to other interested operators by putting franchised bus routes to open tender, instead of simply renewing the franchises of existing operators.

50. SETW pointed out that the existing franchise arrangement, which had been established long time ago, was to ensure reliability and stability of bus services to serve the public. There were clear provisions in the existing Ordinance setting out the required service standards as prerequisites for offer of new franchises. All along, the arrangement had worked well. At present, the Administration did not have any plan to change the existing franchise arrangement, given the fact that the prevailing service standard was indeed high. But if there was a strong demand from LegCo Members and such was supported by the community at large, the Administration would not preclude

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the possibility of putting franchised bus routes to open tender. She remarked that this was a very complicated matter and the Administration must be very careful if such a move was to be contemplated.

51. Mr Albert CHAN pointed out that if franchised bus routes were put to open tender, existing operators could also bid for the bus routes. Unless franchised bus routes were put to open tender, there was no way to ascertain the bottom-line of bus companies. As there was still some time before the existing franchises expired for two bus companies, the Administration should try out the open tender arrangement to test the market. He remarked that many residents in the New Territories were strongly dissatisfied with the existing bus services, especially the very high fares for overnight bus services.

52. Ms Miriam LAU said that LegCo Members' consensus was not the offer of a 10% fare reduction across-the-board, but that franchised bus companies should make their best efforts to provide fare reduction and concessions. The Administration should work on this basis and encourage the bus companies to offer fare reduction/concessions as far as possible while safeguarding the interest of their shareholders. As the financial position and operating conditions of individual franchised bus companies varied, she asked whether the Administration would take this into account and work out with individual bus companies different fare reduction packages.

53. SETW said that the Administration had undertaken in-depth research for the purpose of drawing up the fare reduction initiatives, and the conclusion was that priority should be accorded to long-haul passengers. The Administration had also carefully considered the variations among individual franchised bus companies in terms of the numbers and percentages of long-haul and short-haul routes in devising the proposed fare reduction initiatives. In the course of negotiation, franchised bus companies had considered the proposed fare reduction initiatives having regard to their own financial position and had agreed to the initiatives. The proposed fare reduction initiatives, where the percentage of fare reduction was determined according to the single fare amount, would also facilitate implementation of fare reduction under BBI schemes.

54. SETW further explained that fare reduction for short-haul routes was made available through BBI schemes, which were first introduced when the economy was at a low a few years ago and the bus companies made ongoing review of these schemes having regard to their own operating conditions. The Administration would continue the discussion with bus companies to see if BBI schemes could be extended to cover more routes.

55. Mrs Selina CHOW was delighted to note that in view of the public's negative sentiments towards the advance payment of day return fare arrangement, franchised bus companies were willing to adopt an alternative arrangement to implement fare reduction. She emphasized the importance of balancing the interest of the commuting public and bus companies' commercial interest, and pointed out that if the community put too much pressure on franchised bus companies to provide fare reduction and

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concessions, the commuting public might have to suffer in the end as bus services would deteriorate. She concurred that at present, there were excessive buses on busy corridors.

56. Mrs Selina CHOW further said that the households of certain districts such as Tin Shui Wai and Tung Chung in general were relatively less well-off economically, and she was delighted to note that the Administration would accord priority to long-haul passengers in working out fare reduction initiatives with the bus companies. In this connection, she urged the Administration and bus companies to give special consideration to the general economic condition of households in individual districts in devising the fare reduction initiatives.

57. Mr Tommy CHEUNG shared Mrs Selina CHOW's view and sought the Administration's response to Mrs CHOW's suggestion. SETW said that it was also the Administration's intention to enable long-haul passengers to benefit most from the fare reduction initiatives on this occasion, and that was why a greater extent of fare reduction for long-haul routes was proposed. Many residents in Tung Chung and Tin Shui Wai often had to travel long distances to work or for other purposes and thus they would be among those who could benefit more from the proposed fare reduction initiatives. As regards intra-district bus routes running within Tung Chung and Tin Shui Wai, the fares were not particularly high compared to the intra-district routes of other districts and thus there was no strong reason to implement a greater fare reduction for these routes.

58. In reply to Mr Tommy CHEUNG's further query, SETW advised that the proposed fare reduction initiatives would benefit bus passengers travelling different distances. For long-haul routes, i.e. those routes where the single fare was \$15 or above, the proposed fare reduction was 15%; for medium-haul routes, i.e. those routes where the single fare was between \$10 and \$14.9, the proposed fare reduction was 5%; and for short-haul routes, fare discount would mainly be made available through BBI schemes.

59. Mr WONG Kwok-hing commented that NLB, despite being the smallest franchised bus company earning the least profit, was able to provide the best bus services. As such, there should be room for other franchised bus companies to improve their services. He asked whether franchised bus companies were willing to reinstate the \$1 flat fare for the elderly on Sundays and public holidays and provide half-fare concession for persons with disabilities (PwDs). He pointed out that since franchised buses had spare capacity during non-peak periods, they should make use of the spare capacity to service the elderly and the disabled. So doing should not bring about additional financial burden onto the bus companies.

60. Mr John CHAN said that KMB had offered the \$1 flat fare for the elderly for a period in the past. The present circumstances were however different, as what was under discussion was a package of fare reduction initiatives. The offer of \$1 flat fare for the elderly in addition to the fare reduction initiatives currently proposed would go beyond the financial capability of KMB. As regards the offer of fare concession for PwDs, there were still a number of related issues that needed to be resolved as discussed at an earlier meeting.

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61. Mr Lyndon REES said that Citybus and NWFB were operating under very difficult conditions; there had been tremendous increase in costs in particular fuel costs and at the same time there was a strong demand from the community for reduction in fares. Citybus and NWFB had already spent over \$100 million in concessions since 2003, and were offering half fare for the elderly aged 60 and above. The companies considered that it should be the Government's responsibility rather than bus companies' responsibility to subsidize the transport expenses of PwDs. While Citybus and NWFB were always willing to review issues relating to fares, the companies could not bring forward any further promise under the present circumstances.

62. Ms Miriam LAU said that the operational situation of franchised bus companies was available for public scrutiny. While understandably the commuting public would always favour as many concessions as possible, one should also consider how far franchised bus companies could offer fare reduction and concessions having regard to their financial position. She had mentioned the "butter theory" in the recent motion debate and highlighted the need to find ways to improve franchised bus companies' operating conditions so that they would be in a better position to offer fare reduction and concessions. She then asked whether the Administration had any planned measures to improve the operating conditions for franchised bus companies.

63. SETW said that since she had assumed her present office in 2002 when the economy was in a downturn, she had been working with franchised bus companies on measures to improve their operational environment. Rationalization of bus services had been an ongoing task. Under the existing franchises, franchised bus companies had the obligation to provide bus services for areas where the population was not large enough to support profitable operation. To enable bus companies to utilize their resources in a more efficient manner, the Administration had made efforts to examine if the bus service for some of these areas could be replaced by public light bus service. Such changes could be made only if the affected people accepted the changes. In some cases, rationalization was made through re-routeing and adjustments to the frequency of service. The Administration had explained the situation to District Councils to garner their support for the rationalization measures.

64. Mr LAM Kin-fung said that franchised bus services had improved in recent years and at present people in most areas had convenient access to bus services. He considered that to enable franchised bus companies to sustain viable operation, more still needed to be done to rationalize existing bus services. As bus companies' financial position could be improved, they would be in a better position to offer fare reduction and concessions to the public, in particular the elderly and PwDs.

65. Mr LEE Wing-tat said that the Democratic Party was in support of rationalization of bus services where warranted. He recalled that when he was the Chairman of the Kwai Tsing District Council, he was in support of the designation of a BBI station at the exits of Shing Mun Tunnel, notwithstanding that the proposal was not popular among the residents of the district. In fact, the Democratic Party had also suggested the

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designation of BBI stations at the exits of other tunnels, but the Administration had turned down these suggestions. He further said that while he understood that the bus service sector was not a free market, he considered that the Administration should try out a more competitive approach at least at the regional level. Through careful planning, opening up of the market at the regional level would not result in more buses on busy corridors. He shared Mr Albert CHAN's view that the Administration should try out the award of franchises for some routes through international open tender.

66. Mr Albert CHAN highlighted the hardship faced by many people living in new towns. He pointed out that due to high transport fares, people living in new towns had reduced their social activities and found themselves distanced from their family members living in other districts and from the community at large. He asked KMB to consider schemes such as monthly tickets to benefit the low income people living in new towns, so that their social lives would not be unduly affected by high transport expenses.

67. Mr John CHAN said that apart from being the Managing Director of KMB, he was also a member of the social welfare sector. He had served the Community Chest for over 10 years and had worked with the Lotteries Fund. He was well aware of the circumstances of the underprivileged groups. He commented that there was in place a welfare system in Hong Kong which included the Comprehensive Social Security Assistance (CSSA) scheme to provide a safety net for those who lacked the means to support their basic needs. It was questionable that the responsibility of assisting the underprivileged should be placed on franchised bus companies. In fact, the bus companies were examining with the Government feasible fare reduction initiatives that would enable long-haul passengers to benefit most, as the burden of transport expenses was relatively high on them.

68. Mr Albert CHAN pointed out that the CSSA was by no means able to relieve the burden of high transport expenses on the people living in new towns. He urged the bus companies to attain a better understanding of the people's circumstances and raise their sensitivity to the social problems caused by high transport fares.

69. Mr WONG Kwok-hing asked whether the Administration would consider including the offer of \$1 flat fare for the elderly and half-fare concession for PwDs as conditions in the negotiation with franchised bus companies on the grant of new franchises. He noted that these elements had not been mentioned in the Administration's information papers. He highlighted that the elderly and PwDs usually patronized bus services during non-peak hours when franchised buses had spare capacity. Hence, the concessions for the elderly and PwDs would not necessarily reduce bus companies' fare revenue.

70. SETW responded that fare concession for PwDs involved welfare and transport policies. While she agreed that franchised buses had spare capacity during non-peak hours, she pointed out that given that there was no clear definition of PwDs for the purpose of the provision of public transport fare concession, it was not possible to include this element in the negotiation on new franchises. As LegCo had set up a

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subcommittee to examine the issue, the Administration would follow up the matter in that context. She also pointed out that at present, Citybus was already offering half-fare concession for passengers aged 60 and above, and franchised bus companies had also agreed to offer \$2 flat fare or half fare, whichever was lower, for the elderly on Sundays and public holidays. Moreover, each year the companies staged a free-ride day for the elderly. She believed that while the Government and bus companies could consider doing more on fare concessions having regard to social circumstances, inclusion of requirements on fare concessions in franchise agreements, which were legal documents, involved complicated issues and might not be the best approach for tackling fare concession matters.

71. Mr WONG Kwok-hing demanded that the negotiation between the Administration and bus companies on new franchises should cover the provision of \$1 flat fare for the elderly and half-fare concession for PwDs. The responsibility of the Environment, Transport and Works Bureau was to ensure that these elements were fully considered in the negotiation process. He also asked whether more could be done to better utilize the spare capacity of franchised buses, highlighting that the capacity of franchised buses was a social resource and thus should not be wasted.

72. SETW responded that it was not necessary or the best approach to pursue fare concessions in the context of franchises. In fact, the half fare for the elderly currently offered by franchised bus companies were not specified in the existing franchises. She assured members that the Administration had taken note of Members' views and demands and would continue to do more on fare concessions for the underprivileged having regard to prevailing social circumstances.

73. Ms Miriam LAU said that the Liberal Party concurred that the fares for long-haul bus routes were relatively high, and thus the party also asked for a greater fare reduction for long-haul routes. As regards the provision of fare concession for low income people in general and PwDs, the issues were being examined by the Subcommittee to Study the Subject of Combating Poverty and the Subcommittee to Study the Transport Needs of and Provision of Concessionary Public Transport Fares for Persons with Disabilities respectively.

**VI Any other business**

74. There being no other business, the meeting ended at 12:25 pm.