

## Legislative Council Panel on Transport Fares for Outlying Island Ferry Services in Hong Kong

### Purpose

This paper briefs members on the issue of fares for outlying island ferry services in Hong Kong.

### Outlying Island Ferry Services

2. Under section 28 of the Ferry Services Ordinance (“the FSO”), Cap 104, the Commissioner for Transport (“the C for T”) may grant a ferry service licence to any person to operate a ferry service in Hong Kong. Such licence may be granted for a maximum period of three years, and may be extended for further period(s) not exceeding three years on each occasion, with the aggregate continuous period of the licence with all extensions thereof not exceeding ten years.

3. New World First Ferry Services Ltd. (“NWFF”) and Hong Kong Kowloon Ferry Limited (“HKK”) are two major operators providing ferry services for outlying islands. NWFF is currently operating five licensed services<sup>1</sup> serving three outlying islands, viz. Cheung Chau, Peng Chau and Lantau, and HKK is operating three licensed ferry services for Lamma Island<sup>2</sup>.

### Ferry Fares

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

5. A licensed ferry operator may apply to the C for T to review the fares of the licensed ferry services. In considering applications for fare adjustment,

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<sup>1</sup> The five outlying island services operated by NWFF are (i) Central – Cheung Chau, (ii) Central – Mui Wo, (iii) Central – Peng Chau, (iv) Peng Chau – Mui Wo – Chi Ma Wan – Cheung Chau, and (v) Kowloon Point – Mui Wo – Cheung Chau – Kowloon Point.

<sup>2</sup> The three outlying island services operated by HKK are (i) Central – Yung Shue Wan, (ii) Central – Sok Kwu Wan, (iii) Yung Shue Wan – Aberdeen (via Pak Kok Tsuen).

Transport Department (“TD”) will take into account a basket of factors, including –

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

### **Recent Fare Increase Applications**

6. On 29 September 2005, NWFF applied for an increase in the fares of its outlying island services at a proposed average rate of 9.4%. The Commissioner for Transport has reduced NWFF’s proposed average rate of increase from 9.4% to 6.5%, representing an increase of adult fares of \$0.8, \$1 and \$1.2 respectively on ordinary class, deluxe class of ordinary ferries and fast ferries on weekdays and \$1 on all types of ferries on Sundays and Public Holidays. The new fares took effect on 21 February 2006. With regard to HKK, the company had increased the fares for its three Lamma island routes in February 2005 at an average rate of 6.2%. Since then, TD has not received any further fare adjustment application from HKK.

### **Ways to Improve Ferry Operators’ Financial Viability**

7. It is the Government’s established policy that public transport services should be operated by the private sector or by public corporations without direct Government subsidy. Under this arrangement, public transport services can be provided more efficiently and responsively to cater for changing demands. Operators will also have the incentive to enhance their efficiency to minimise cost.

8. In order to relieve the ferry operators’ pressure for fare increase in the interest of the general public who travel on the ferry services, the Government has been providing indirect assistance to help reduce the ferry operators’ operating cost, to facilitate the generation of non-fare box revenue and to boost patronage through promotion of tourism and local economy on the outlying islands.

9. The major measures taken by the Government to reduce the operating

costs of ferry services are summarised below –

- (a) since April 1997, the Government has taken over from ferry operators the responsibility of maintaining the pier structures and pier facilities, such as fender system and lift and ramp system, to alleviate the financial burden on the ferry operators;
- (b) the Government reimburses the rentals of piers used by ferry services offering concessionary fares to the elderly;
- (c) the Government exempts the licence fee for vessels deployed on licensed ferry services offering concessionary fares to the elderly; and
- (d) the marine diesel used by vessels deployed on the ferry services are exempted from duty.

10. In addition to Government's assistance in reducing the operating costs of ferry services, the ferry operators have also taken initiatives to carry out a series of cost saving measures in the past years. Measures that have been taken by NWWF and HKK to reduce their operating costs are at **Annex 1**.

11. To assist the ferry operators to generate non-fare box revenue, ferry operators are permitted to carry out a number of commercial activities at the piers leased to them by the Government. Ferry operators may also make use of their vessels to generate non-fare box revenue, subject to the Government's approval having regard to the merits of individual cases. The non-fare box revenue so generated is required to be ploughed back to the accounts of the ferry services to cross-subsidise ferry operation. The commonly approved commercial activities include -

- (a) sub-letting part(s) of pier premises for commercial concessions, such as -
  - (i) retails shops;
  - (ii) mobile communication radio base stations; and
  - (iii) other activities such as restaurant and cafes subject to approval of Town Planning Board<sup>3</sup>;
- (b) setting up advertising panels within and on roof top of pier premises;
- (c) putting up advertisements within vessel cabins and on ship hulls;
- (d) sub-letting of pier berthing facilities for use by other vessels; and
- (e) contract-hiring of vessels for other services, such as employee or tour

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<sup>3</sup> The uses and activities stipulated in the Outline Zoning Plan (OZP) for piers that may be permitted by the Town Planning Board generally include bank, exhibition or convention hall, showroom (excluding motor vehicle showroom), fast food shop, marine fuelling station, restaurant, retail shop and service trades etc.

services during non-peak period.

12. Examples of the above activities carried out by NWFF and HKK to generate more non-fare box revenue are at **Annex 2**. We understand that there were occasions in which proposals to erect advertising panels or other installations on top of the piers were objected by local residents, District Councils or the Harbour-front Enhancement Committee. In such cases, the processing time for applications would be longer due to the need to consult relevant parties and consider their views. The relevant Government departments will expedite the processing of such applications as far as practicable with a view to balancing the financial need of ferry operators and community concerns.

13. From time to time, relevant Government departments and related organizations such as Agriculture, Fisheries and Conservation Department, Home Affairs Department, Leisure and Cultural Services Department, Tourism Commission and the Hong Kong Tourism Board (TB) would join hands to promote visits to the Cheung Chau, Peng Chau and Lantau. Events with strong district characteristics are organised to enhance the attractiveness of the islands and a series of publicity programme targeting at both local residents and overseas tourists have been launched. From 20 April to 7 May 2006, the TB has been launching a series of new promotion activities, viz. the Culture and Heritage Celebrations, at Central Piers to promote events with cultural and heritage characteristics, such as Tin Hau Festival, Cheung Chau Bun Festival and Birthdays of the Lord Buddha and Tam Kung, etc. The Home Affairs Department together with the local community have also organised district events, such as demonstration of traditional wedding ceremony on water of the old fishing village of Tai O.

## **Conclusion**

14. The Government will continue to encourage the licensed ferry operators to further explore ways to improve their financial position.

Environment, Transport and Works Bureau  
Transport Department  
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**Cost Saving Measures taken by the NWFF and HKK**

**(A) New World First Ferry Ltd. (NWFF)**

Since 2000, NWFF has made considerable effort in reducing its operating costs by implementing the following measures :

- (a) arranging vessel maintenance services at areas with lower cost, i.e. Mainland China, since 2002
- (b) reduction in staff cost, e.g.
  - 1. contracting out security service since 2000
  - 2. reducing pier staff by revising the fare collection methods for “North Point – Hung Hum” and “North Point – Kowloon City” services in 2002
  - 3. reducing crew overtime pay since 2004
  - 4. pier staff re-deployment in 2004
- (c) reduction in overhead costs e.g.
  - 1. cutting cash collection charges since 2000
  - 2. reducing office shuttle bus services since 2000
  - 3. contracting out service boat since 2000
  - 4. streamline work practices since 2001
  - 5. using cheaper fixed telephone line services since 2001 and mobile phone packages since 2002
- (d) reduction in fuel cost, e.g.
  - 1. changing to new fuel refueler in 2001
  - 2. hedging fuel cost in 2001/02 and 2002/03,
  - 3. negotiating with fuel supplier for a lower handling charge since 2003
- (e) rationalisation of “North Point – Hung Hum” and “North Point – Kowloon City” services since June 2005
- (f) cessation of loss-making route, viz. “Tuen Mun – Tung Chung – Sha Lo Wan – Tai O” service, since September 2005.

**(B) Hong Kong & Kowloon Ferry Holding Ltd. (HKK)**

Since 1998, HKK has made considerable effort in reducing its operating costs by implementing the following measures :

- (a) arranging vessel maintenance service at a dockyard offering a lower cost than the market price since 1998;
- (b) adopting the new technology “E-max”, a chemical liquid added into vessel engines to lower fuel consumption, since 2001;
- (c) purchasing spare parts directly from overseas to save agent fee since 2002;
- (d) reduction in number of pier staff by revising the fare collection method and rearranging the work practice in 2002; and
- (e) cessation of loss making routes, viz. “Central – Tsuen Wan” and “Central – Pak Kok Tsuen” services, from July 2000 and April 2002 respectively.

**Measures taken by NWFF and HKK  
to generate Non Fare Box Revenue**

**(A) New World First Ferry Ltd. (NWFF)**

As at March 2006, NWFF has successfully sub-let about 40 retail shops / food stalls at nine piers<sup>4</sup>, sub-let rooftop of five piers<sup>4</sup> for installation of mobile communication radio base stations and a number of advertisement spaces within the pier premises, on external walls and at the rooftop of the piers for generation of non-fare box revenue. NWFF has also sub-let its berths for operation of other ferry services, such as tour services during festivals and public holidays, and contract hire its vessels for operating other services, such as employee services for the Cyberport development during the period from 2000 to 2003 and tour services operated by a travel agent.

**(B) Hong Kong & Kowloon Ferry Holding Ltd. (HKK)**

As at March 2006, HKK has successfully sub-let about four retail shops, sub-let the rooftop for installation of mobile communication radio base stations and some advertisement spaces within the pier premises and on external walls of two piers for generation of non-fare box revenue. HKK has also entered into a contract with a travel agent for hiring its vessel and sub-letting a berth for operation of a harbour sightseeing tour service in the evenings. HKK also leases their vessels to other operators for providing other ferry services from time to time.

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<sup>4</sup> The number of piers includes piers used by all of NWFF's ferry services. For piers used by NWFF's outlying island ferry services, five piers have food stalls or retail shops and one pier has mobile communication radio base station on its rooftop.