

立法會 *Legislative Council*

LC Paper No. CB(1)1975/07-08
(These minutes have been seen
by the Administration)

Ref : CB1/PL/TP/1

Panel on Transport

Minutes of meeting held on Friday, 25 April 2008, at 8:30 am in the Chamber of the Legislative Council Building

Members present : Hon Andrew CHENG Kar-foo (Chairman)
Hon CHEUNG Hok-ming, SBS, JP (Deputy Chairman)
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon LAU Kong-wah, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon LI Fung-ying, BBS, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon Albert CHAN Wai-yip
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon LEUNG Kwok-hung
Hon Ronny TONG Ka-wah, SC
Hon TAM Heung-man

Members attending : Hon LEE Cheuk-yan
Hon James TO Kun-sun
Hon LEUNG Yiu-chung
Hon Howard YOUNG, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung

Public officers attending : Agenda item IV
Ms Annette LEE
Deputy Secretary for Transport and Housing (Transport) 3

Miss Rosanna LAW
Principal Assistant Secretary for Transport and Housing (Transport) 2

Agenda item V

Ms Eva CHENG
Secretary for Transport and Housing

Mr Philip YUNG
Deputy Secretary for Transport and Housing (Transport) 1

Mr WAI Chi-sing
Director of Highways

Mr TAM Hon-choi
Chief Engineer/Hong Kong-Zhuhai-Macao Bridge
Highways Department

Agenda item VI

Miss Cathy CHU
Deputy Secretary for Transport and Housing (Transport) 2

Mrs Avia LAI
Principal Assistant Secretary for Transport and Housing

Mr Alan WONG
Commissioner for Transport

Mr Albert YUEN
Assistant Commissioner/Bus and Railway
Transport Department

Agenda item VII

Miss Cathy CHU
Deputy Secretary for Transport and Housing (Transport) 2

Mrs Avia LAI
Principal Assistant Secretary for Transport and Housing

Mr Alan WONG
Commissioner for Transport

Mr Don HO
Assistant Commissioner/Management and Paratransit
Transport Department

Mr Carey WONG
Principal Transport Officer/Management

**Attendance by
invitation**

: **Agenda item IV**

Tate's Cairn Tunnel Company Limited

Mr Terence FUNG
General Manager

Ms Rowena LEE
Head of Finance & Administration Department

Ms Donna YIP
Corporate Affairs Manager

Agenda item VI

Citybus Limited and
New World First Bus Services Limited

Mr Samuel CHENG
Managing Director

Mr George HO
Financial Controller

Mr William CHUNG
Head of Operations

Mr Paul LI
Head of Engineering

Agenda item VII

三島聯盟

Mr CHAN Chi-lin
發言人

Mr FUNG Kam-lam

發言人

Individual

Miss Gisela CHEUNG
Lamma Island Resident

Individual

Mr Robin PEARD

Humanist Association of Hong Kong

Mr Anthony P HENDERSON
Chairman

Mui Wo Rural Committee

Mr TSANG Wan-chuen
Vice-Chairman

Mr LAI Sing
Member

Luk Tei Tong Village Office

Mr LI Kwok-keung
Chairman

South Lantau Liaison Group

Miss Esta OVERMARS
Chairwoman

Tai A Chau Fishermen Association

Mr KWOK Cheuk-kin
Chairman

Mr HO Chi-wai
Vice-Chairman

Lantau Island Association of Societies

Mr NG Cheuk-wing
Chairman

Ms LAW King-fan
Secretary

離島渡輪關注組

Mr Steve GARDNER
發言人

Mr Thomas LEGG
發言人

Individual

Mr Godfrey ROOKE

Pak Mong Village

Mr CHEUNG Chee-hung
村代表

Lantau Island Residents Association

Mr KWOK Ping
Secretary

Lamma Island (North) Rural Committee

Mr CHAN Lin-wai
Chairman

Residents of Yung Shue Wan Lamma Island Ferry Services Concern Group

Mr TSE Chung

Mr LAI Yu-sing
Secretary

Waterfront Business Group

Mr Dan PETERSON

Director

Ms Sharon CHANDLER
Director

Pak Kok Community Association

Ms Tracey DUGGAN
Associate Member

Mr Andrew WILCOCKSON
Associate Member

Islands District Council

Mr LEE Chi-fung
Chairman
Traffic & Transport Committee, Islands District Council

Mr WONG Fuk-kan
Vice-Chairman
Traffic & Transport Committee, Islands District Council

Individual

Ms Jackie SIMPSON
Lo So Shing Resident

Neighbourhood and Worker's Service Centre

Mr WONG Yun-tat
Chief Community Organizer

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

Staff in attendance : Ms Sarah YUEN
Senior Council Secretary (1)6

Miss Winnie CHENG
Legislative Assistant (1)5

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- I Confirmation of minutes and matters arising**
(LC Paper No. CB(1)1315/07-08 - Minutes of the meeting held on 1 April 2008)

The minutes of the meeting held on 1 April 2008 were confirmed.

- II Information papers issued since last meeting**
(LC Paper No. CB(1)1191/07-08(01) - Submission on regulation of fares of public light buses from a member of the public
- LC Paper No. CB(1)1283/07-08(01) - Administration's reply to the submission on regulation of fares of public light buses from a member of the public
- LC Paper No. CB(1)1325/07-08(01) - Further submission on regulation of fares of public light buses from a member of the public
- LC Paper No. CB(1)1206/07-08(01) - Submission on Central Kowloon Route and related issues from a Mr LEE
- LC Paper No. CB(1)1266/07-08(01) - Submission on alignment of Central Kowloon Route from a group of Yau Ma Tei residents
- LC Paper No. CB(1)1289/07-08(01) - Submission on working schedule for bus drivers from Hong Kong Railway Workers General Union
- LC Paper No. CB(1)1356/07-08(01) - Administration's paper on expansion of speed enforcement camera system, Phase 2)

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

- III Items for discussion at the next meeting scheduled for 23 May 2008**
(LC Paper No. CB(1)1317/07-08(01) - List of outstanding items for discussion
- LC Paper No. CB(1)1317/07-08(02) - List of follow-up actions)

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3. Members agreed that the following items would be discussed at the May regular meeting –

- (a) Outlying island ferry services;
- (b) Central Kowloon Route; and
- (c) Staffing proposal for the implementation of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link.

(Post meeting note : The meeting was subsequently advanced to 16 May 2008 to enable members to deliberate further on the funding proposals relating to Hong Kong – Zhuhai – Macao Bridge before they were submitted to the Public Works Subcommittee.)

IV Application for toll increase by Tate's Cairn Tunnel Company Limited

- (LC Paper No. CB(1)1317/07-08(03) - Administration's paper on application for toll increase by Tate's Cairn Tunnel Company Limited
- LC Paper No. CB(1)1317/07-08(06) - Paper on application for toll increase from the Tate's Cairn Tunnel Company Limited
- LC Paper No. CB(1)1347/07-08 - Paper on toll increases by Tate's Cairn Tunnel Company Limited prepared by the Legislative Council Secretariat (Background brief))

4. The Deputy Secretary for Transport and Housing (Transport)³ (DS(T)³) briefed members on the Administration's paper on the application for toll increases by Tate's Cairn Tunnel Company Limited (TCTC).

5. With the aid of power-point, Mr Terence FUNG, General Manager of TCTC, explained the justifications for the proposed toll increases.

(Post-meeting note: The presentation material was issued to members by email on 26 April 2008.)

Traffic implications of the proposed toll increases and options to mitigate them

6. Pointing out that Lion Rock Tunnel (LRT)'s toll for private cars and taxis was only \$8, Miss TAM Heung-man expressed concern that if Tate's Cairn Tunnel (TCT)'s toll for private cars and taxis was increased to \$15 as proposed, vehicles would be diverted from TCT to LRT, thereby aggravating the congestion at LRT. Mr LAU Kong-wah, Mr CHEUNG Hok-ming and the Chairman had similar concerns. Mr CHEUNG, in particular, pointed out that congestion at the Cross-Harbour Tunnel (CHT) might become more serious. Mr LAU and the Chairman also respectively

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expressed concerns that such traffic implications would in turn lead to economic loss, and incur social cost or affect the air quality.

7. In reply, DS(T)3 pointed out that traffic implications were one of the factors Government would examine when considering tunnel toll increase applications. In this regard, it was estimated that with the proposed toll increases, about 1 300 and 400 vehicles would be diverted from TCT to LRT and Tai Po Road (TPR) respectively per day. Nevertheless, Route 8 between Cheung Sha Wan and Shatin, which was commissioned in March 2008, would help relieve the traffic congestion at LRT and TPR as indicated by the drop in vehicles using LRT from 91 000 in January 2008 to 84 400 in April 2008, and the drop in vehicles using TPR from 32 400 to 27 200 during the same period. Given this diversion effect of Route 8 and the availability of a number of alternative routes to TCT such as the Shing Mun Tunnels, LRT and TPR, the traffic implications of the proposed toll increases would not be too great.

8. Miss TAM Heung-man enquired about efforts to ensure an even distribution of traffic among the tunnels serving Shatin. In this regard, Mr LAU Kong-wah called on the Administration to negotiate with TCTC on the option of extension of franchise in exchange for toll reduction (the franchise extension option). DS(T)3 responded that there was no plan at this stage to pursue this option for TCT because the transport need was not strong enough.

9. Concerned that there would be five more subsequent projected toll increases during the remainder of TCTC's franchise, Ms Miriam LAU urged the Administration to as soon as practicable map out measures, such as by extending TCTC's franchise, to effectively improve TCTC's operation to obviate the need to increase tolls. This was because toll increases might impact on public transport fares. The Administration might also not be able to reject TCTC's toll increase application because, as shown in the case of the Eastern Harbour Crossing (EHC), the operator could overturn the Chief Executive (CE)-in-Council's rejection through arbitration.

10. In response, DS(T)3 stressed the need for strong justifications in pursuing the franchise extension option, which required substantial public resources. The Government was presently pursuing the option with the operators of EHC, the Western Harbour Crossing (WHC) and Route 3 in the light of the relevant traffic objectives but the Administration had as yet not accorded priority to TCTC. However, the Government had all along encouraged tunnel operators including TCTC to improve the traffic volume by measures such as offer of concessionary tolls.

11. Mr CHEUNG Hok-ming asked how the priority in negotiating with tunnel operators on the franchise extension option had been worked out. In his view, TCT had great strategic importance to the residents of New Territories East and should be covered in the negotiation to ensure fairness. The Chairman shared his view. Mr Albert CHAN, however, did not agree that the franchise extension option should be pursued. Instead, Government should seek to buy back TCT (the buy-back option) and other Build-Operate-Transfer tunnels at reasonable prices to facilitate efforts to balance the traffic flows of various tunnels through adjusting the relevant tolls. To effect a

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long-term solution to the operation problem of TCT and protect public interests, Ms Miriam LAU saw a need for the Administration to pursue either of the above options as soon as possible.

12. In response, Mr Terrence FUNG of TCTC said that TCTC was willing to consider all constructive options. DS(T)3 also pointed out that although the need to rationalize the utilization of the three road harbour crossings seemed more prominent, the Administration would, in consideration of members' views, explore the above options with TCTC. In fact, Government was willing to explore with tunnel operators various ways to achieve effective distribution of traffic on roads. However, the buy-back option would involve substantial public resources and the need to determine a price acceptable to both the operators concerned and to the community.

13. Mr LAU Kong-wah and the Chairman took the opportunity to express concern about the slow progress of Government's negotiation with the operators concerned to effect even distribution among the three road harbour crossings. DS(T)3 responded that the Administration was already exploring various measures to rationalize the utilization of the three crossings but time was required for such efforts to bear fruit. She also pointed out the importance of the availability of connecting roads with sufficient capacity to accommodate the traffic flow diverted from CHT as a result of any toll reduction at EHC and WHC. The Administration was therefore actively following up the proposed Central-Wan Chai Bypass which was an important element in improving the distribution of traffic among the three road harbour crossings.

Public acceptability and affordability of the proposed toll increases

14. Mr LAU Kong-wah and Ms LI Fung-ying considered the rate of the proposed toll increases, at over 20% on average, too significant and unacceptable to the public, especially as the increases would lead to increases in the prices of other services. Mr LAU, in particular, urged the Administration to play the "goal-keeper" role against significant toll increases because, in his view tunnels were public resources. Moreover, as he understood, there was no guarantee on the returns for TCTC's investment.

15. In response, DS(T)3 stressed that although on the basis of the Base Toll Proposal which accompanied its franchise bid, TCTC expected that it would achieve an Internal Rate of Return (IRR) of 13.02% over the 30-year franchise period, in considering TCTC's franchise bid in 1988, the Government only agreed to the initial tolls but gave no undertaking in respect of subsequent toll adjustments. Neither was there any agreement on a guaranteed rate of return. She further pointed out that there was an established mechanism for processing TCTC's application for toll increase. This was the consultation stage. The Administration would also seek the views of the Transport Advisory Committee (TAC) before seeking the approval of CE-in-Council. The Administration would carefully consider views from all those concerned and at the present consultation stage, the Administration did not have a particular stance on the application. She assured members that public affordability and acceptability was an important consideration that would be taken into account when processing the application.

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16. Ms LI Fung-ying found it undesirable that the Administration should have no stance of its own regarding TCTC's toll increase application, the rate of which went far beyond inflation and public affordability. In response, DS(T)3 emphasized that the Government was aware of the public's concern about toll increases, and had already urged TCTC to carefully consider such concerns when determining the magnitude and timing of its proposed toll increases. As a result, TCTC had slightly revised its original proposal but, due to its own considerations, TCTC had proceeded with its toll increase application. She reiterated that the Administration would process the application according to the procedure described in paragraph 15 above, and would reflect all views expressed on the application to CE-in-Council for consideration. In vetting the application, CE-in-Council would carefully consider all relevant factors, including public acceptability and affordability. Mr WONG Kwok-hing, however, found the Administration's above stance unclear and unacceptable, and was tilted in favour of TCTC.

The need to perform corporate social responsibility

17. Ms LI Fung-ying considered it unreasonable that TCTC should seek toll increases after it had started to make an operating profit in 2000-2001 and forecast that it would start to pay dividends in 2007-2008. In response, Mr Terence FUNG of TCTC pointed out that according to the TCT Ordinance (Cap. 393), a "reasonable but not excessive return" should result from TCTC's investment to build TCT because, only reasonable return could attract substantial investment from the private sector for building infrastructure in Hong Kong. Moreover, TCTC had been making loss for 19 years since the start of its 30-year franchise. It only began to accumulate profit in 2007-2008.

18. Ms LI Fung-ying, however, opined that if TCTC could start to pay dividends in 2007-2008, its return from TCTC was already reasonable. Moreover, its franchise would not expire until ten years later. She considered TCTC's application for toll increases a disregard of its corporate social responsibility (CSR). Mr WONG Kwok-hing, Mr Albert CHAN and the Chairman shared her views. In particular, the Chairman pointed out that TCTC's proposed rate of increase was much higher than the present inflation rate. Mr Terence FUNG of TCTC responded that TCTC was under pressure to increase its tolls not only to balance its books but also to provide quality service. In fact, toll increases had already been deferred in consideration of the economic downturn a few years back.

Other views and concerns

19. Miss TAM Heung-man, Ms LI Fung-ying and Mr Albert CHAN expressed concern that the toll disparity between LRT and TCT would further increase as a result of TCTC's proposed toll increases, so that the number of vehicles using TCT would reduce to aggravate TCTC's financial underperformance and hence necessitate further toll increases. In response, Mr Terence FUNG of TCTC pointed out that as a result of the last toll increase in 2005, TCTC's accumulated loss had greatly decreased from \$340

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million in 2004 to \$53 million as at the end of June 2007 notwithstanding the diversion effect.

20. Ms Miriam LAU asked whether the Administration would help TCTC address the factors quoted in paragraph 13 of the Administration's paper as attributes to the lower-than-expected traffic volume through TCT. DS(T)3 responded that the Administration generally agreed with TCTC's assessment in paragraph 13 and added that as regards the relocation of the airport, this factor was not covered in TCTC's feasibility study. She advised that the Government's intention to build a new airport in the western part of Hong Kong had been made known to the public in the 1987 Policy Address and the TCTC submitted its final bid to the Government in 1988. The exact location of the new airport was announced in the 1989 Policy Address. DS(T)3 added that the Government had kept in close contact with TCTC on measures that could improve the traffic distribution among TCTC and the alternate roads.

The motion

21. Mr WONG Kwok-hing sought to move the following motion, which was seconded by Mr LAU Kong-wah –

"本會強烈反對大老山隧道大幅加價，促請政府予以否決。"

(Translation)

"That this Panel strongly opposes the substantial increase in tolls for Tate's Cairn Tunnel, and urges the Government to reject it."

22. Soliciting support for his proposed motion, Mr WONG Kwok-hing stressed the need for the Panel to clearly state its stance regarding the proposed toll increases for CE-in-Council's reference. Recapitulating her views in paragraph 9 above, Ms Miriam LAU said that she would abstain from voting on the proposed motion.

23. Members agreed to proceed with the proposed motion and put it to vote. Except for the Chairman who did not exercise his voting right, of the other members present, three voted for the motion and one abstained. The Chairman declared that the motion was carried.

(Post-meeting note: The wording of the motion was circulated to members vide LC Paper No. CB(1)1385/07-08 on 28 April 2008.)

V Update on Hong Kong-Zhuhai-Macao Bridge

(LC Paper No. CB(1)1317/07-08(04) - Administration's paper on Hong Kong – Zhuhai – Macao Bridge, Hong Kong Boundary Crossing Facilities and the Link Road in Hong Kong
LC Paper No. CB(1)1348/07-08 - Paper on Hong Kong-Zhuhai-Macao

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Bridge prepared by the Legislative Council Secretariat (Background brief))

24. At the invitation of the Chairman, the Chief Engineer/Hong Kong-Zhuhai-Macao Bridge briefed members on the progress of the planning work for the Hong Kong-Zhuhai-Macao Bridge (HZMB), the Hong Kong Boundary Crossing Facilities (HKBCF) and the link road in Hong Kong.

(Post meeting note : A copy of the PowerPoint presentation material was circulated to members after the meeting vide LC Paper No. CB(1) 1383/07-08(02)).

Mode of construction and operation

25. In recognition of the inherent problems associated with the "Build-Operate-Transfer" (BOT) tunnels whereby tunnel operators only aimed at maximizing their profit, members were cautious about the Administration's proposal to invite private investment to undertake the Main Bridge under a BOT franchise for a period of 50 years.

26. Mr CHEUNG Hok-ming supported the proposed implementation of HZMB but expressed concern about the traffic volume between Hong Kong and Pearl River West which would have a significant bearing on the financial performance of HZMB and its resultant toll levels. As HZMB would be taken forward as a BOT project, he was worried that in case the traffic revenue fell short of expectation, the franchisee would make every effort to increase its revenue through toll adjustments as was the case in the existing BOT tunnels. In order to boost the utilization of the bridge so as to help stabilize the toll levels, the Democratic Alliance for the Betterment and Progress of Hong Kong suggested that arrangements should be made to allow citizens of the three places to drive and park their vehicles at various control points.

27. The Secretary for Transport and Housing (STH) noted Mr CHEUNG's proposal and remarked that this would require further examination by the three governments, having regard to its impact on traffic flow as well as the operation of the existing cross-boundary quota system. To this end, the Administration had engaged a traffic consultant to explore and review possible options for regulating cross-boundary vehicles after the commissioning of HZMB, and to recommend the preferred arrangements for these vehicles.

28. Mr WONG Kwok-hing expressed concern about the adoption of the BOT model for the implementation of HZMB, particularly with reference to local experience where Government had little say about the toll adjustments by tunnel operators. He was worried that as HZMB would be taken forward jointly by the three governments, this would make the formulation of tolling strategy and toll determination mechanism complicated. In the end, the Hong Kong Special Administrative Region (HKSAR) Government might not have a say in the toll levels of HZMB.

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29. STH said that the feasibility study report pointed out that in view of the mega size of the whole HZMB project, it was not financially viable to rely entirely on private investment. The three governments therefore were prepared to contribute to the funding gap of the HZMB Main Bridge, if necessary, so as to avoid the situation whereby the successful bidder of the project would have to set the bridge tolls at a high level. On the split of the contribution among the three governments, she said that this would be determined in accordance with the principle of Equalization of Benefit to Cost Ratio, ie. the respective economic benefits. The exact amount of contribution would be worked out, pending the outcome of the tendering exercise and the financing arrangements proposed by the successful bidder. To take forward the related work, the Administration would put up a relevant funding proposal to the Public Works Subcommittee (PWSC) to seek approval for engaging a consultant to undertake, inter alia, the related work on the tendering exercise for the HZMB Main Bridge.

30. On the preparatory work for the tender documents, Ir Dr Raymond HO enquired why there was a need to engage an expert in the Mainland to carry out the related work, given the substantial local experience in the related areas of work. The Director of Highways (DHy) explained that as the Main Bridge of HZMB would be within Mainland waters, the design and construction of the bridge had to comply with the Mainland standards. Hence, the consensus was that the consultant responsible for the drafting of the tender document should have both international and Mainland experience.

31. Ms Miriam LAU welcomed the proposed implementation of HZMB. Whilst recognizing the merits of using the BOT approach to take forward the HZMB project, she expressed concern about the inherent problems associated with BOT projects as reflected in the BOT tunnels in Hong Kong. She pointed out that accurate traffic forecast was a prerequisite for the success of a BOT project. However, in the past, most of the traffic forecasts undertaken by the Administration deviated significantly from the actual situation. She therefore enquired how the Administration would address this fundamental issue and ensure the reliability of the traffic forecast.

32. STH agreed that traffic forecast was an important area of work, and the Administration would carry out a detailed study in this respect. Regarding the variation between traffic forecast and actual traffic flow, she explained that this could be due to a number of factors, for example, variation in the pace of economic growth and change of transport policy, etc. As for the low utilization of Shenzhen Bay Port, she explained that this was partly due to the inadequate connecting infrastructure in Shenzhen. Upon completion of the Guangshen Yanjiang Expressway, more cross-boundary vehicles would be attracted to use the Port.

33. On the delivery mode, Mr Albert CHAN commented that instead of BOT, the three governments should jointly set up a company and grant a service concession to a private entity for managing and operating the bridge. This would effectively enable the three governments to retain control over the bridge, particularly its toll levels for the benefits of the travelling public and the logistic industry.

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34. The Chairman also remarked that as the BOT approach had resulted in wastage of scarce infrastructure resources, he urged the Administration to review whether it was appropriate to take forward HZMB through BOT. In his opinion, consideration could be given to adopting a concession approach for the three governments to take up the construction of HZMB, and a concession agreement could be granted to a private company through open tender to operate the bridge at reasonable tolls. This would ensure that HZMB would not turn out to be a "white elephant", and the scarce infrastructure resources could be put into more effective use.

35. STH said that the Administration had taken a forward looking perspective in the planning of the HZMB given its enormous strategic importance. The proposed concession approach with full government funding was one way to take forward the project. However, the China Highway Planning and Design Institute was of the view that given the mega size of the whole HZMB project, it would be more appropriate to deliver a part of the project (i.e. the Main Bridge) through BOT. This would effectively transfer the construction risks to the private sector. As a means to lower the toll levels to a reasonable level and in order to improve the financial viability of the Main Bridge, the three governments had agreed that they would, if necessary, contribute to the funding gap of the HZMB Main Bridge. The split of the contribution, which had been carefully considered by the three governments, would be determined in accordance with the principle of Equalization of Benefit to Cost Ratio, with Hong Kong contributing 50.2%, Mainland, 35.1% and Macao 14.7%.

36. In response to Mr CHEUNG Hok-ming's question, STH confirmed that the current planning intent was to construct HKBCF under the mode of "separate locations of boundary crossing facilities". This was considered more practicable, having regard to the alignment of HZMB and other legal and regulatory considerations.

Public consultation

37. Mr WONG Kwok-hing enquired about the consultation with green groups and relevant district councils on the planning and implementation of HZMB. DHy said that the Administration commissioned a site selection study in May 2007 for HZMB HKBCF. The study had examined various possible sites. It finally recommended the preferred location of HKBCF at the waters off the north-east of the Airport Island. The preferred site would have the least environmental impacts. This site location would also provide the chance for better integration with the proposed Tuen Mun-Chek Lap Kok Link. Subject to PWSC/Finance Committee's endorsement of the project, the Administration would engage consultants to undertake the investigation and preliminary design for HZMB HKBCF. It would further consult the green groups and the district council(s).

Environmental concerns

38. Miss TAM Heung-man expressed concern about the impact of the construction works on the habitat of the Chinese White Dolphins and enquired about the

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effectiveness of the mitigation measures to be introduced. STH replied that HZMB was a designated project under the Environmental Impact Assessment Ordinance (Cap. 499) and environmental permits would be required for the construction and operation of these works. In identifying the preliminary location of HZMB HKBCF, the Administration had already taken into account the distribution of the Chinese White Dolphins in the waters of Hong Kong and avoided carrying out works in the vicinity of the waters most frequented by the Chinese White Dolphins. DHy supplemented that the Administration would carry out an Environmental Impact Assessment study to address the potential environmental impacts of the project in detail and put in place effective measures to protect the habitats of the Chinese White Dolphins.

Implementation timetable

39. In response to Ms Miriam LAU, DHy replied that the target completion date of HZMB and HKBCF was late 2015 or early 2016. STH supplemented that the Administration would aim at shortening the duration of the tendering process with a view to expediting the delivery of the project.

40. Ir Dr Raymond HO welcomed the proposed implementation of HZMB. He opined that there was a need to speed up the project to avoid Hong Kong being marginalized. He also remarked that transport infrastructure would not cause any insurmountable adverse impact on the habitat of the Chinese White Dolphins, hence environmental considerations should not affect the progress of the project. He also expressed concern about the accuracy of the traffic forecast and urged the Administration to review the reliability of transport models.

Supporting infrastructure

41. In response to Ir Dr Raymond HO, DHy advised that the Administration would ensure that proper coordination between the local connecting infrastructure and HZMB would be in place to meet the additional traffic generated by HZMB.

Financing arrangements

42. Some Members expressed doubt about the need and justifications for HZMB. In the absence of more information, they considered it difficult to judge whether the proposed financing arrangement was appropriate and would serve the best interest of Hong Kong. They requested the Administration to provide further information to allay their concerns.

43. Noting that Hong Kong would need to contribute more than 50% to the funding gap of the HZMB Main Bridge, Mr Albert CHAN remarked that the proposed financing arrangement would not serve the best interest of Hong Kong. He had doubt that the implementation of HZMB could really bring economic and transport benefits to Hong Kong, considering that HZMB could also create social and economic problems.

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44. STH said that HZMB would be strategically important to the further economic development of Hong Kong, Macao and the Western Pearl River Delta region. The connectivity brought about by HZMB would benefit various sectors of Hong Kong, such as tourism, finance and commerce. As such, she could not agree that Hong Kong could not gain from the implementation of HZMB.

45. Mr Albert CHAN was not convinced of the Administration's reply. He said that based on a previous study commissioned by Sun Hung Kai Properties Limited in the 1990s, the forecast passenger and freight traffic flow between Hong Kong and the western bank of the Pearl River were not high. Considering the limited benefits brought about by the project to Hong Kong, the high contribution ratio of Hong Kong to the funding gap of the Main Bridge, and the potential loss to be borne by Hong Kong in case of default, the proposed financing arrangement for HZMB would not serve the best interest of Hong Kong.

46. Mr Albert HO asked about the economic benefits of HZMB, and how the split of contribution to the funding gap of the HZMB project among the three governments was determined. STH replied that the economic benefits accrued to transport infrastructure was generally measured in terms of time saving to road users. This was widely accepted as an international practice for evaluating different transport infrastructure projects. She stressed that HZMB was strategically important to the further economic development of Hong Kong, Macao and the Western Pearl River Delta region and it would significantly reduce transportation costs and time for travellers and goods on the road. The connectivity brought about by HZMB would benefit various sectors in Hong Kong. On the release of the report prepared by the consultants to the project, she said that as the study was jointly commissioned by the three Governments, the Administration could not unilaterally release the report. DS/TH added that the Economic Internal Rate of Return (EIRR), which reflected the difference between the discounted present value of economic benefits and the discounted present value of costs of the project, was 8.8% in respect of Hong Kong over a 20-year period, or 12% over a 40-year period. The projected EIRR had not taken into account the additional investments that could be brought to Hong Kong.

47. Mr Albert HO remarked that whilst closer rail and road transport links between Hong Kong and the neighbouring regions of Shenzhen and Pearl River Delta could foster further cross-boundary integration, he could not agree that the added value to Hong Kong brought about by these projects would far exceed that to the neighbouring regions. In the absence of information on traffic forecast and the planning of the neighbouring regions, he considered it difficult for members to judge whether the proposed financing arrangement and contribution ratio were appropriate and could serve the interest of Hong Kong.

48. Referring to the strategic value of HZMB, Mr James TO said that the Administration had yet to provide further information to justify the construction of HZMB. In this regard, he asked the Administration to provide a paper to elaborate on and quantify the strategic value of HZMB as set out in paragraph 5 of LC Paper No. CB(1) 1317/07-08(04), and provide the relevant study reports as appropriate.

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49. On Mr TO's query about whether the implementation of HZMB was a move to assist the neighbouring regions at the expense of Hong Kong, STH said that the general sentiment was that Hong Kong might lag behind in the regional development, therefore measures should be taken to enhance economic integration so as to avoid Hong Kong being marginalized. She would provide further information to account for the need and strategic value of HZMB as requested.

50. Mr LEUNG Kwok-hung had reservation about the determination on the split of contribution to the funding gap of the HZMB project among the three governments. He considered that Hong Kong was in a relatively disadvantaged position when negotiating with the Mainland authority. As a result, the financing arrangements for HZMB would not serve the best interest of Hong Kong. He asked whether the financing arrangement could be amended at this stage.

51. STH reiterated that the project EIRR was calculated based on an internationally accepted approach. She clarified that the three governments were not responsible for the whole project but to contribute to the funding gap of the Main Bridge if necessary. As she had explained, the split of contribution was determined having regard to the principle of Equalization of Benefit to Cost Ratio.

52. Mr Albert CHAN considered that it was necessary to examine in detail the financing arrangement for HZMB, before consideration could be given to the funding proposals for preconstruction works and to undertake the investigation and preliminary design for HZMB HKBCF. He remarked that in examining the 10 airport core programme projects, the Administration had provided detailed information to justify the needs of the projects with copies of financial reports for members' information. He urged the Administration to provide adequate information on HZMB to facilitate members' consideration.

53. To enable members to consider the funding applications, the Chairman requested the Administration to provide further information on the following:

- (a) to elaborate on and quantify the strategic value of HZMB as set out in paragraph 5 of LC Paper No. CB(1) 1317/07-08(04), and provide the relevant study reports as appropriate;
- (b) to explain further how the split of contribution to the funding gap of the HZMB project among the three governments was determined, and provide the relevant study reports as appropriate;
- (c) to explain whether in the end of the concession period the shares in the ownership of HZMB would be allocated to the three governments in accordance with the contribution ratio to the funding gap of the project among the three governments, and likewise in case of default, whether the financial burden arising from the construction of HZMB would be shouldered by the three governments in accordance with the same ratio;

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- (d) to provide the forecast passenger and freight traffic flow between Hong Kong and the western bank of the Pearl River Delta and other relevant information to facilitate members' consideration of the financing arrangements of HZMB; and
- (e) to provide detailed breakdown and explanation of the cost items in the relevant PWSC submissions.

54. STH advised that the financing arrangement for HZMB had yet to be worked out, pending further studies on the tendering arrangements. In order to take forward the related works, the Administration needed to seek members' support for approving the relevant PWSC submissions. Before then, the Administration could not advise the details of the financing arrangements. Notwithstanding, she would provide further information on the need and strategic value of HZMB, and explain the methodology for the calculation of EIRR and the determination of the split of contribution among the three governments.

55. Members agreed to advance the regular meeting in May to enable members to further discuss the project before the Administration put forward the submissions to PWSC on 21 May 2008.

(Post meeting note : The meeting in May was subsequently rescheduled for 5:00 pm on 16 May 2008).

VI Bus fare increase applications by Citybus Limited and New World First Bus Services Limited

(LC Paper No. CB(1)1317/07-08(05) - Administration's paper on fare increase applications by Citybus Limited and New World First Bus Services Limited

LC Paper No. CB(1)829/07-08 - Paper on fare increase applications by franchised bus companies prepared by the Legislative Council Secretariat (Background brief)

56. The Commissioner for Transport (C for T) briefed members on the applications for fare increases submitted by Citybus Limited (Citybus) and New World First Bus Services Limited (NWFB) (the bus fare increase applications), providing updated information relating to the bus fare adjustment arrangement and the franchised bus operations of these two companies.

57. With the aid of power-point, Mr Samuel CHENG, Managing Director of Citybus and NWFB, briefed members on the justifications for the bus fare increase applications.

The bus fare adjustment arrangement

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58. Miss TAM Heung-man expressed concern that the rates of bus fare increases were always higher than those worked out according to the bus fare adjustment formula (the Formula). Mr Samuel CHENG of Citybus and NWFB responded that this was because fuel cost, which had escalated in recent years and made the operating environment very difficult, had not been included in the Formula. The Deputy Secretary for Transport and Housing (Transport)2 (DS(T)2), however, pointed out that as stated in the relevant Legislative Council Brief, bus fare adjustments would not be purely based on the outcomes of the Formula but the Administration would take into account a basket of factors under the Modified Basket of Factors (MBOF) approach, including changes in the operating costs and revenue, forecasts of future costs, revenue and return, and public acceptability and affordability. As such, fuel cost would already be taken into account in the bus fare adjustment arrangement in the context of operating costs. She further explained that it was the Administration's conscious decision not to include fuel cost in the Formula in recognition that it was a fluctuating volatile cost element. The decision aimed to avoid as far as practicable passengers having to bear directly the impact of drastic changes in operating costs.

59. Mr WONG Kwok-hing cast doubt on the use of the change in the Composite Consumer Price Index from January 2006 to March 2008 but the change in wage index for the transport sector from the first quarter of 2006 to the fourth quarter of 2007 when applying the Formula to work out the reference indicator. In his view, to ensure fairness, figures during the same period should be used instead of selectively using figures that would produce a higher reference indicator. The Administration noted his views.

60. Dr Fernando CHEUNG asked how impacts of fare increase on inflation and people's livelihood were taken into account under the present bus fare adjustment arrangement, in particular where residents in remote areas were concerned. C for T responded that public acceptability and affordability was already one of the factors included in the arrangement. CE-in-Council would also give due regard to the quoted impacts when vetting bus fare adjustment applications.

61. Ms Miriam LAU pointed out that the bus fare adjustment arrangement had been debated upon for a long time before it was approved by CE-in-Council. As such, it should be adhered to unless replaced. She however saw a need for the two bus companies to provide more details on two factors under the arrangement, namely, changes in operating costs and revenue since the last fare adjustment, and forecasts of future costs, revenue and return, in particular those on the revenue. In response, Mr Samuel CHENG of Citybus and NWFB emphasized that the operating environment had deteriorated greatly during recent years due to rising operating costs such as fuel and staff costs as well as tunnel tolls. Even if fares could be increased as proposed, return would still be insignificant. In fact, although the two bus companies incurred losses in February 2008 but managed to break even in March 2008, losses were again incurred in April 2008.

62. In reply to Ms Miriam LAU on the weightings for each factor under the bus fare

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adjustment arrangement, DS(T)2 said that all the parameters were equally important and all would be taken into account when the Administration vetted bus fare adjustment applications.

The need to perform corporate social responsibility

63. Miss TAM Heung-man considered it undesirable that though making profits, Citybus and NWFB still sought to increase their fares regardless of the pressure of inflation on the public. In this regard, Mr WONG Kwok-hing and Mr LEE Wing-tat sought details on the two bus companies' financial situation to ascertain whether the bus fare increase applications were justified and not against the spirit of CSR. In response, Mr Samuel CHENG of Citybus and NWFB pointed out that the two companies had already been performing CSR by organizing volunteer teams to provide various community services.

64. Miss TAM Heung-man urged Citybus and NWFB to follow the example of ferry operators and provide concessionary fares for persons with disabilities (PwDs). Mr Samuel CHENG of Citybus and NWFB responded that the provision of subsidies to PwDs in using public transport should be a welfare issue. The two bus companies were however glad to provide administrative support in this regard.

Possible measures to stabilize fares

65. Mr WONG Kwok-hing highlighted the present inflation which had not been matched by corresponding wage increase, and expressed concern that if Government would not take measures to check the rising trend of transport fares, there might be unrest and even riots. In this regard, he enquired about Government's stance regarding the bus fare increase applications.

66. In reply, C for T explained that the Administration was well aware of the need to contain inflation and to minimize the financial burden of public transport fares on the general public. Notwithstanding, there was also a need to give regard to the significant increase in fuel cost, which was an important cost item for bus operators, to maintain their financial viability and quality of service. As such, the Administration would draw the attention of TAC and CE-in-Council to public acceptability and all relevant factors when submitting the bus fare increase applications to them.

67. Mr LEE Cheuk-yan opined that public transport fares might need to be stabilized through adjusting Government's overall transport policy or introducing initiatives to assist bus operation with the Financial Secretary (FS) or CE taking the lead. For example, by providing fuel subsidy. DS(T)2 responded that in considering public transport fare increase applications, the Administration had already tried to strike a balance between public affordability and the need to enable the operators to continue to provide proper and efficient services, so that the fares so approved would be reasonable and acceptable. She also stated that it was the Government's established policy that public transport services should be operated by the private sector or by public corporations without direct Government subsidy (the established policy).

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68. Mr WONG Kwok-hing, Mr LEE Cheuk-yan, Mr LEE Wing-tat, Mr LEUNG Kwok-hung, Dr Fernando CHEUNG and Mr Ronny TONG highlighted FS's call upon corporations to pay particular attention to the possible impact on the low-income population in considering fare adjustments during a period of inflation. They opined that in keeping with FS's call, the Administration should encourage public transport operators (PTOs) to refrain from increasing fares.

69. C for T responded that he was equally concerned about the impacts of transport fare increases on inflation. However, PTOs were under pressure to increase fares because of increases in fuel, staff and maintenance costs. It was hoped that under the established policy, public transport services could be provided more efficiently and responsively to cater for changing demands, and PTOs would have the incentive to enhance their efficiency to minimize cost. He further explained that a bus fare increase application had to be considered by CE-in-Council, of which FS as a member would certainly convey his expert opinion on the impact of the proposed fare increases on inflation. Where the Transport Department was concerned, it could only vet the bus companies' accounts to assess the justifications for the fare increase, and help the companies to optimise their non-fare box revenue such as through bus body and shelter advertising, and introduce appropriate measures to help them save costs. For example, by helping them to improve network efficiency through bus rationalization and improvement of fleet utilization, and enhance the efficient use of bus depots. Through such efforts, the number of buses and bus trips of the two bus companies had already been reduced by 120 and by thousands during the past few years, resulting in significant cost savings. Government as a whole would also map out measures to contain inflation.

70. Mr LEUNG Kwok-hung opined that the established policy was not conducive to keeping public transport fares low because the private sector was inevitably intent on maximizing profits. Dr Fernando CHEUNG shared his view. Mr LEUNG further opined that franchised bus operators could enjoy certain extent of natural monopoly and as such market forces could not effect sufficient competition to keep bus fares low. He therefore urged Government to either subsidize or operate public transport services itself with funding from increasing the profits tax for companies. Alternatively, the Administration could require bus operators to provide fare concessions through issuing daily, weekly and monthly tickets. In this regard, Dr CHEUNG enquired about efforts made by the Administration to encourage bus operators to provide concessionary fares for PwDs, sectional fares, weekly and monthly tickets, bus-bus interchange concessions, and introduction of a monthly Free-ride Day for the elderly. In response, DS(T)2 emphasized that the established policy could best achieve operational efficiency to minimize cost.

71. Mr Albert HO queried the Administration's refusal to subsidize bus operation, pointing out that Government had been subsidizing rail operation with property development rights, and had allowed The Kowloon Motor Bus Company (1933) Limited (KMB) to change the land use of its depot sites, or charged it nominal rentals for use of the sites to help it stabilize fares. He opined that if the two bus companies enjoyed similar assistance, the details should be disclosed in their accounts for

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assessment of their operating costs and revenue.

72. In reply, Mr Samuel CHENG of Citybus and NWFB said that although the two bus companies' depot sites were let to them at concessionary rates, the rentals had been nearly doubled in the past year. Moreover, their depot sites could only be used for bus maintenance and operation purposes. Mr Albert HO urged the Administration to maintain a consistent policy for all bus operators on the use of bus depots to generate additional incomes to stabilize fares. C for T responded that Government had already been helping bus operators to stabilize fares by waiving their fuel tax and First Registration Tax, and annual vehicle licence fees. As to the KMB group, its bus operation business and property development business were operated separately. Mr HO considered such separation undesirable, and said that all bus companies should be required to use incomes from depot sites to cross subsidize bus operation.

73. The Chairman saw a need for Government to put in place long-term bus fare stabilization measures, such as by setting up a fare stabilization fund, instead of relying on bus operators to perform their CSR. DS(T)2 responded that under the existing arrangement, any return achieved by a franchised bus operator exceeding the rate of return on average net fixed asset of 9.7% would already be shared equally on a 50/50 basis between the operator and passengers to relieve the pressure for future fare increase and to facilitate the offer of bus fare concessions.

Concern about the impacts of bus fare increase on inflation

74. On a broader front, Mr LEUNG Kwok-hung expressed dissatisfaction that the Administration had failed to anticipate that the inflation was so serious and adequately make preparations for it. More specifically, Mr Ronny TONG enquired about Government measures to combat inflation, and proposed that the measures could include providing transport subsidy, and maximizing the sources of goods to enhance competition and hence keep prices down. In his view, such measures were more effective in helping the low-income class, who were hardest hit by inflation, than the one-off concessions in the Budget. Mr Albert HO also highlighted public sentiment that Government was willing to boost the market when there was deflation but unwilling to assist the low-income class to cope with escalating housing, food and transport costs when there was inflation. The Administration noted their concerns and views.

75. Highlighting the series of increases in transport related fares and charges, the Chairman opined that although the rate of fare increase proposed by Citybus and NWFB was less significant than that by KMB, the Administration should still be mindful of its impacts on inflation.

76. Mr LEE Cheuk-yan suggested that as the recent increases in the prices of goods and services involved different policy areas, the Panel should request the Chairman of the House Committee (HC) to invite FS and the Chief Secretary for Administration (CS) to a meeting of HC to discuss Government measures to combat inflation. The Clerk advised that members might also consider referring the matter to the Panel on Financial Affairs since macro economic matters were under its purview. The Chairman

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considered it more preferable to refer the issue to HC for it to decide on the way forward.

(Post-meeting note: The Chairman's letter to the HC Chairman was issued on 28 April 2008, and was subsequently circulated to HC members vide LC Paper No. CB(2)1753/07-08(01) dated 29 April 2008.)

77. Summing up the discussion, the Chairman pointed out that most members had expressed grave concern about the bus fare increase applications in consideration of the worsening inflationary situation, and had made various suggestions on how to stabilize bus fares, including drawing HC's attention to the need to jointly meet with FS and CS on measures to address the problem of price escalation and inflation.

VII Outlying island ferry services in Hong Kong

Submission from the following organization/individual not attending the meeting

(LC Paper No. CB(1)1204/07-08(01) - Submission from Living Islands Movement)

Referral

(LC Paper No. CB(1)1321/07-08(04) - Referral from the Secretariat's Complaints Division dated 18 April 2008

LC Paper No. CB(1)1362/07-08(01) - Referral from the Secretariat's Complaints Division dated 23 April 2008)

Papers previously issued

(LC Paper No. CB(1)1070/07-08(01) - Administration's paper on the latest developments regarding the re-tendering arrangements of the "Central – Mui Wo", the "Central – Peng Chau", the "Central – Yung Shue Wan" and the "Central – Sok Kwu Wan" routes

LC Paper No. CB(1)818/07-08(01) - Administration's paper on outlying island ferry services

LC Paper No. CB(1)852/07-08 - Paper on the development and operation of major outlying island licensed ferry services in Hong Kong prepared by the Legislative Council Secretariat)

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78. In the temporary absence of the Chairman, the Deputy Chairman took over the Chair of this item.

Presentation by deputations

三島聯盟

(LC Paper No. CB(1)1263 /07-08(01))

79. Mr CHAN Chi-lin, Representative of the Association, said that the residents of Peng Chau requested that the first sailing departing Peng Chau should be advanced to 5:30 am. The higher ferry fares on Sundays and Public Holidays (the fare differential) should be abolished. The Government should formulate a long-term strategy and consider ways to ensure the provision of efficient outlying island ferry services (ferry services), as part of the broader aim in developing the community network and infrastructures of the outlying islands. Efficient and safe ferry services at reasonable prices affordable to the general public should be ensured. Where necessary, the Government should operate the island ferry services, or grant further subsidies so as to stabilize their fares.

80. Mr FUNG Kam-lam, Representative of the Association requested that there should not be any frequency reduction in the ferry services and the fare differential should be abolished. Additional sailing at 5:30am for the "Central-Peng Chau" route should be introduced in response to local requests. In view of the shrinking population on the outlying islands, he opined that the policy on ferry services should not be steered by purely commercial and market-driven principles. Similar to the financial arrangements for land-based transport infrastructures such as the Hong Kong-Zhuhai-Macao Bridge, the Government needed to invest in the provision of ferry services.

Miss Gisela CHEUNG, Lamma Island Resident

(LC Paper No. CB(1)1321/07-08(01))

81. Miss Gisela CHEUNG expressed disappointment with the lack of consultation and transparency on the tendering of ferry services. She urged the Government to announce as soon as possible the results of the last re-tendering exercise. Any reduction in the existing services was deemed unacceptable. The Government should consider funding the services and provide travel subsidies to commuters. At the same time, closer supervision of ferry operators was necessary, with a view to ensuring that non-fare box revenue generated would be ploughed back to their ferry accounts to cross-subsidize the ferry operation. In this regard, she also queried whether the Government's plan to develop the New Central Harbour front and to construct an additional floor for Central Ferry Piers (CFP) No. 4 to 6 would be able to enhance the financial viability of ferry services.

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Mr Robin PEARD

82. Mr Robin PEARD said that the Government, for purpose of constructive consultation, should give information to the residents and the public on the outcome of the re-tendering exercise. In reviewing ferry services, the Government should aim at bringing improvements to the existing operation and avoiding duplication of scheduled trips.

*Humanist Association of Hong Kong
(LC Paper No. CB(1)1251/07-08(01))*

83. Mr Anthony HENDERSON, Chairman of the Association, said that residents of the outlying islands should be provided with ferry services which were the only means of transport to and from the urban areas. They could not accept a higher fare in return for a lower level of service. The Government should look for ways to stabilize fares and enhance ferry services. Where practicable, travel subsidies should be granted to students. Considerations should be given to strengthening inter-island connection and community rapport by means of better planning of ferry services.

Mui Wo Rural Committee

84. Mr TSANG Wan-chuen, Vice-Chairman of the Mui Wo Rural Committee, said that the Government was unwise to leave out the "Central-Cheung Chau" route, being a more profitable route, from the re-tender package of other routes as this would affect the attractiveness of the latter. He opined that it would be inefficient to split the routes into different tender packages. If the same operator was selected for operating different routes, it would lead to unnecessary administration cost. In his views, the primary problem behind the viability of ferry services was the dwindling population of the outlying islands. The Government should focus on this problem by setting up an interdepartmental task force to come up with effective measures to develop and boost the economy of outlying islands. In this connection, the differential fare should be abolished so as to attract more patronage to ferry services.

Luk Tei Tong Village Office

85. Mr LEE Kwok-keung, Chairman of Luk Tei Tong Village Office, said that it was unfair that Government did not commit itself to invest in the development of ferry services to outlying islands. He urged the Government to promptly formulate new initiatives to improve the viability of ferry operation, such as the construction of an additional floor at CFP for commercial and retail activities. The Government should fast track the related work with a view to creating a more attractive environment for ferry operators to generate non-fare box revenue. Similarly, consideration should be given to face-lifting the piers on the outlying islands to boost various trades.

*South Lantau Liaison Group
(LC Paper No. CB(1)1335/07-08(01))*

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86. Ms Esta OVERMARS, Chairman of South Lantau Liaison Group, expressed her dissatisfaction with the Government for failing to realize their mission and vision in enhancing the well-being of the outlying islands and bringing out the best of the residents therein. The Government was unfair in tilting its investment and support towards land-based transport infrastructure, such as railway. Government investment and support in selected infrastructure projects had aggravated unfair competition. She urged the Government to consider subsidizing ferry operation so as to moderate the rate of fare increase, otherwise it was tantamount to imposing a double tax on the residents of the outlying islands.

Tai A Chau Fishermen Association
(LC Paper No. CB(1)1229/07-08(01))

87. Mr KWOK Cheuk-kin, Chairman of the Association, said that, in view of the "user-pay" principle, it was appropriate for the Government to separate the "Central-Cheung Chau" route from the "Central-Mui Wo" and "Central-Peng Chau" routes. In his opinion, awarding a ferry service licence (FSL) for a three-year term was acceptable so that any unsatisfactory ferry services could be timely and quickly rectified. It was important to enhance the viability of ferry operation by means of merging some of the less profitable routes, reducing the frequency during non-peak hours, i.e. two-hour headway for ordinary vessel and one-hour headway for fast vessels. In the long run, the Government should map out strategies to heighten commercial activities at the piers, with a view to increasing non-fare box revenue to ferry operators.

Lantau Island Association of Societies
(LC Paper No. CB(1)1335/07-08(02))

88. Mr NG Cheuk Wing, Chairman of the Association, said that, on top of the existing Cross-District Transport Allowance for up to six months granted to the outlying island residents earning a monthly income of \$5,600 or less, the Government should consider introducing monthly pass. In the long run, a Government fund should be set up to stabilize outlying island ferry fares. It would be prudent to consider setting up a ferry company with Government funds and operating ferry services in a mode similar to MTR.

離島渡輪關注組

89. Mr Steve GARDNER, Representative of the 關注組, said that Peng Chau residents took the view that the Government should shoulder its responsibility to devise a long-term strategy in the provision of transport infrastructure for the outlying islands. Where necessary, the Government should subsidize the operation of ferry services, especially when this was the sole transport mode. A recent questionnaire conducted with some 200 Peng Chau residents revealed that as many as 95% of them found that ordinary vessel arrangement basically met their needs and expectations. It would be unreasonable to pay higher fares for just insignificant and minimal improvement in fast vessel services.

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Mr Godfrey ROOKE

90. Mr Godfrey ROOKE, said that the Government should extend the existing ferry service licence for another three years whereas future licence should be awarded with a 10-year period so that ferry operators could have adequate time to recover its substantial investment. To stabilize fare level, he called on the Government to consider providing subsidy to the ferry services. At the same time, it should map out the development strategy of the outlying islands.

Pak Mong Village

91. Mr CHEUNG Chee-hung, Representative of the Village, said that the Government had not put in place appropriate policy and town planning initiatives for the outlying islands, resulting in a diminishing population size and hence low patronage of ferry routes. While there were some arrangements to help increase non-fare box revenue of ferry services, their efficacy and timeliness were doubtful. Even though pier tenancy conditions were relaxed to enable existing ferry operators to develop commercial premises on top of the piers, the short tenancy period for less than a year had de-motivated investment and business development. The mere construction of an additional floor at CFP would take some five years, so it could not lend prompt and timely remedy to the situation in the forthcoming three-year FSL period. Any drastic fare increase would only aggravate the problem of low patronage to ferry services, thus the Government should seriously consider funding ferry operation to boost its viability.

Lamma Island Residents Association
(LC Paper No. CB(1)1321/07-08(02))

92. Mr KWOK Ping, Secretary of the Association, requested the Government to consider a number of measures to improve the low patronage of outlying island ferry routes. The renewed FSL period should be 12 years, with a review conducted in the middle. The Government should fast track the development of an additional floor at CFP and consider linking up the MTR system with the Central Ferry Piers. A Government fund should be set up to guard against any unreasonable fare increase. Closer supervision of ferry services was deemed necessary, particularly on the running of non-fare box businesses and the fare adjustment mechanism. The fare differential should also be abolished. Above all, the Government should include, apart from the Islands District Council, residential associations and concern groups in the consultation process. An inter-departmental task force should be formed to examine ways to promote and develop outlying island tourism and economy.

Lamma Island (North) Rural Committee
(LC Paper No. CB(1)1321/07-08(03))

93. Mr CHAN Lin-wai, Chairman of the Committee, expressed grave concerns about the exclusion of additional early morning sailing at 5:30 am and overnight sailing at 12:30 am for the "Central-Yung Shue Wan" route, when such sailings were provided in

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other routes. He urged the Government to address such injustice and other problems such as reduction in the frequency of sailings and vessel quality for this route.

Residents of Yung Shue Wan Lamma Island Ferry Service Concern Group

94. Mr TSE Chung, Representative of the Group, said that Lamma Island residents requested for maintaining the existing level of ferry services, with additional sailings in early morning and overnight. They generally objected to a reduction in the existing frequency. There should be broader consultation to grasp the needs of residents, with an aim to improving their quality of life. It was obligatory for the Government to impart subsidy in order to ensure a viable ferry operation. Ferry operation should be treated as a kind of public utility which should be subject to stringent regulation.

Waterfront Business Group

95. Mr Dan PETERSON, Director of the Group, said that the provision of transport infrastructure required Government's support and should not be viewed as a kind of business. To make ferry operation sustainable, it was inevitable that the Government should give subsidy as well as to open up sources of non-fare box revenue to ferry operators. Prompt measures ought to be taken to address the various problems, in response to the needs of the residents.

Pak Kok Community Association

96. Mr Andrew WILCOCKSON, Associate Member of the Association, said that the existing level of ferry services had adequately served the needs of the Pak Kok community and brought about a growth in the village's population. He however was concerned that reduction in the frequency of sailings and increase in fares would curtail further growth in the community. While the profitability of ferry services was bound to be the primary concern to ferry operators, it was just as undeniable that the Government was obliged to devise measures to cater for the needs of the outlying island residents.

Mr LEE Chi-fung, Islands District Councillor

97. Mr LEE Chi-fung said that the outlying island residents were concerned that separate tenders for individual routes would give rise to a reduction in the quality and efficiency of ferry services. The Government's measures, such as the construction of an additional floor at CFP would not offer a speedy solution to the immediate problems in the forthcoming three-year FSL period. The Government should give thoughts to other methods so that the existing level of ferry services could be maintained without fare increase. To this end, an inter-departmental task force should be set up to explore means to stabilize fares with Government funding support. It was also deemed imperative for the Government to set up a fund for promoting tourism of the outlying islands. Where FSL was concerned, the licence period should be 10 years.

*Mr WONG Fuk-kan, Island District Councillor
(LC Paper No. CB(1)1335/07-08(03))*

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98. Mr WONG Fuk-kan said that the Government should go beyond the existing measures to improve ferry services. One consideration was that the Government should take over the operation for three years and defer re-tendering to the time when an additional floor at CFP had been constructed, so that ferry operators had a better prospect to enhance non-fare box revenue with the new commercial premises. To keep down operating costs during the takeover, the Government might utilize existing resources and manpower from ferry operators on a charter basis. The Government should consider setting up a government-owned company for the provision of ferry services and grant property development right to the company in the same manner as MTR Corporation Limited so as to sustain the operation of ferry service.

Ms Jackie SIMPSON, Lo So Shing Resident

99. Ms Jackie SIMPSON said that with the changeover from the Hong Kong & Yaumati Ferry Company Limited to the Hong Kong and Kowloon Ferry Ltd. some years ago, there had already been a reduction in the frequency of sailings for Sok Kwu Wan. Residents were concerned that there would be a deterioration in the existing services after the re-tendering exercise. While a fare increase was inevitable in the context of higher fuel costs, the increase should be affordable to the residents. It was necessary for the Government to consider cross-district travel subsidies to students. Having regard to the indispensability of ferry services to the livelihood of residents in Sok Kwu Wan, the Government must review its policy and measures, with a view to maintaining the existing level of ferry services.

Neighbourhood and Worker's Service Centre

100. Mr WONG Yun-tat, Chief Community Organizer of the Centre, said that the Government was obliged to improve ferry services which was the only mode of public transport for the residents of the outlying islands. The recent street demonstration on 9 March 2008 showed that the residents had strong dissatisfaction with the anticipated drastic increase in ferry fares. To curb further rise in fares and maintain existing services, the Government should step in and implement appropriate measures. It was necessary to determine a long-term policy for the development of the outlying islands.

The Administration's response

101. The Commissioner for Transport (C for T) responded that the Administration had attended consultation meetings with the Islands District Council, the Lamma (South) Rural Committee (RC), the Lamma (North) RC, the Peng Chau RC, the Mui Wo RC, and had public forums and meetings with various local groups to listen to the views of local residents. In view of the proposed drastic increases put forward in the bids for some of the route packages and having regard to the views received, the Administration had decided to conduct a re-tender exercise for the "Central-Mui Wo" route, the "Central-Peng Chau" route, the "Central-Yung Shue Wan" route and the "Central-Sok Kwu Wan" route. The Administration also liaised with ferry operators to ensure that ferry services would be maintained after expiry of the existing FSL on 1 April 2008 and

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before new services commenced from 1 July 2008. In the midst of higher operational costs due to increasing fuel costs and salary expenditure, ferry operators did face genuine difficulties and deficits in their operation. To address this problem, the Administration would continue to implement measures to help reduce the operating costs and increase non-fare box revenue of ferry services. These included taking over pier maintenance responsibility, waiving fuel duty, reimbursing pier rentals and exempting the vessel licence fees for ferry services under the Elderly Concessionary Fares Scheme and allowing ferry operators to sub-let premises at piers for commercial and retail activities.

Discussion

102. Mr WONG Kwok-hing expressed disappointment with the Administration's lack of financial support and long-term policy on ferry operation, which was discriminatory to the island residents. The Government should plough back the profits generated from rentals of the properties at CFP as well as from the New Central Harbour front project, to subsidize ferry services. In this connection, he requested the Administration to provide information on the projected income generated from the future developments at the CFP and New Central Harbour front. In his opinion, the construction works of an additional floor at CFP during the forthcoming three-year FSL period would give rise to nuisance and adverse impact on the non-fare business of ferry operators. He urged the Administration to consider extending an FSL period to 10 years so as to enhance the attractiveness of the tenders and hence a better deal for services at reasonable fares.

103. Mr LEUNG Kwok-hung pointed out that as in Greece, the Administration had the responsibility for mapping out a ferry policy to facilitate the provision of appropriate ferry services for the outlying islands by direct Government subsidy. Alternatively, the Administration might even consider taking over the ferry operation if other measures were deemed to be ineffective. In moving forward, a long-term ferry policy and viable solutions to the operational problems of the services should be formulated.

104. Mr LEE Cheuk-yan opined that the Transport and Housing Bureau should shoulder more responsibility to crack down the problems with ferry services by devising an appropriate policy to make way for direct Government subsidy on the operation. The Administration might switch to purchase of services from ferry operators, whereby the fare level would be determined by the Government and the difference between the costs of services so purchased and the fares collected from the public would be made up by Government direct subsidy. He requested that the Secretary for Transport and Housing should be invited to attend the next Panel meeting for further discussion on these issues.

105. Mr LEUNG Yiu Chung expressed his disappointment with the Administration for not having made timely and genuine efforts in the past decade to deal with the problem arising from the non-viable operation of ferry services. While the existing ferry services were not satisfactory, he worried that the results from the re-tender exercise would be even worse. He urged the Administration to resort to more viable solutions such as maintaining island ferry operation by provision of Government subsidy and purchase of services from operators.

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106. Dr Fernando CHEUNG said that given the deteriorating operating environment, the Administration should not let market force determine the future of ferry services. The Administration should have formulated suitable strategy to deal with the present day problem. He emphasized that it was of paramount importance to maintaining the existing level of services. Any retrogression in the quality of ferry services was intolerable.

107. In response, the Deputy Secretary for Transport and Housing (Transport) (DS(T)) emphasized that the Administration had already made various efforts to identify measures to enhance the long-term financial viability of ferry operation and hence ensure safe, proper and efficient ferry services for residents of the outlying islands. She restated that it was not the Government's policy to provide direct subsidy to cover the daily operating costs of ferry services. Nevertheless, the Administration would continue to help ferry operators enhance their ability to generate non-fare box revenue.

108. Concluding the discussion, the Deputy Chairman said that discussion on the outlying island ferry services would resume at the next Panel meeting in May 2008.

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VIII Any other business

109. There being no other business, the meeting ended at 1:30 pm.

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