

立法會

Legislative Council

LC Paper No. CB(1)2320/09-10
(These minutes have been seen
by the Administration)

Ref : CB1/PL/TP/1

Panel on Transport

**Minutes of meeting held on
Friday, 23 April 2010, at 8:30 am
in Conference Room A of the Legislative Council Building**

Members present : Hon CHEUNG Hok-ming, GBS, JP (Chairman)
Hon Andrew CHENG Kar-foo (Deputy Chairman)
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon LAU Kong-wah, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon LI Fung-ying, BBS, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Ronny TONG Ka-wah, SC
Hon KAM Nai-wai, MH
Hon WONG Sing-chi
Hon IP Wai-ming, MH
Hon Mrs Regina IP LAU Suk-ye, GBS, JP

Public officers attending : **Agenda item IV**

Miss Erica NG
Principal Assistant Secretary for Transport and
Housing (Transport) 2

Miss Cinderella LAW
Assistant Commissioner / NT

Mr Ambrose CHEONG
Chief Traffic Engineer / New Territories East
Transport Department

Agenda item V

Ms Eva CHENG, JP
Secretary for Transport & Housing

Miss Shirley YUEN
Deputy Secretary for Transport & Housing
(Transport) 2

Mrs Hedy CHU
Principal Assistant Secretary for Transport and
Housing (Transport) 4

Mr Joseph LAI
Commissioner for Transport

Mr Don HO
Assistant Commissioner for Transport /
Management & Paratransit

Agenda item VI

Ms Eva CHENG, JP
Secretary for Transport & Housing

Miss Shirley YUEN
Deputy Secretary for Transport & Housing
(Transport) 2

Mrs Hedy CHU
Principal Assistant Secretary for Transport and
Housing (Transport) 4

Mr Joseph LAI
Commissioner for Transport

Mr Albert YUEN
Assistant Commissioner for Transport / Bus and
Railway

Attendance by invitation : Agenda item VI

MTR Corporation Limited

Mr C K CHOW
Chief Executive Officer

Mrs Miranda LEUNG
General Manager - Corporate Relations

Ms Jeny YEUNG
General Manager - Marketing and Station
Commercial

Clerk in attendance : Ms Joanne MAK
Chief Council Secretary (1)2

Staff in attendance : Mr Kelvin LEE
Assistant Legal Adviser 1 (agenda item VI only)

Ms Sarah YUEN
Senior Council Secretary (1)6

Miss Angela LAM
Legislative Assistant (1)5

Action

- I Confirmation of minutes**
(LC Paper No. CB(1)1596/09-10 — Minutes of the meeting held
on 26 February 2010)

The minutes of the meeting held on 26 February 2010 were confirmed.

- II Information papers issued since last meeting**
(LC Paper No. CB(1)1524/09-10(01) — Administration's response
to the submission dated 7
February 2010 on Hong
Kong Resorts' proposal to
allow taxis and buses into
Discovery Bay from a
member of the public (LC

	Paper	No.
	CB(1)1177/09-10(01) dated 19 February 2010)	
LC Paper No. CB(1)1621/09-10(01)	— Submission on the Bus Route Development Programme from a Peng Chau resident	
LC Paper No. CB(1)1621/09-10(02)	Submission on the need to retain the Central Ferry Piers Bus Terminus from a Peng Chau resident)	

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

- III Items for discussion at the next meeting scheduled for 28 May 2010**
(LC Paper No. CB(1)1648/09-10(01) — List of outstanding items for discussion
LC Paper No. CB(1)1648/09-10(02) — List of follow-up actions)

3. Members agreed that a joint meeting would be held with the Panel on Environmental Affairs to discuss "Rationalization of bus routes to improve air quality" on Friday, 28 May 2010, from 8:30 am to 9:30 am, and that the next regular meeting of the Panel would be held at 9:30 am, or immediately after the joint meeting, to discuss the following items –

- (a) Provision of Traffic and Incident Management System in Transport Department (TD); and
- (b) General improvement measures to cycling tracks.

4. At the suggestion of the Deputy Chairman, members agreed to add to the Panel's list of outstanding items for discussion the item on "Transport-related initiatives under the Framework Agreement on Hong Kong/Guangdong Co-operation" for discussion in June 2010 if possible.

- IV Traffic and transport arrangements in South Lantau including Tung Chung Road**
(LC Paper No. CB(1)1648/09-10(03) — Administration's paper on traffic and transport arrangements in South Lantau including Tung Chung Road)

5. The Assistant Commissioner for Transport/NT (AC for T/NT) briefed members on the findings of the review (the Review) conducted by TD on the traffic and transport arrangements for the Tung Chung Road (TCR) and south Lantau upon the completion of improvement works on TCR, and the consultation results on the Review findings.

Proposed quota system in respect of the number of coaches accessing south Lantau

6. Mr WONG Kwok-hing considered the proposed arrangements agreeable in general. He, however, considered it impractical and unreasonable to continue the current arrangement of allowing only 30 tour coaches or below per day access to south Lantau via TCR (the Quota). He said that the Quota, being arbitrarily set, had failed to respond to the great traffic demand concerned, in particular local residents' strong request to allow more coaches access to south Lantau upon full opening of the improved TCR to promote tourism and local economy. He agreed to the Hong Kong Tourism Board's view that tour coaches in Lantau should not be limited by a "quota" system.

7. AC for T/NT responded that diverse views had been collected during the Review. While there were calls for lifting the Quota, there were also views that it should remain unchanged to ensure nature conservation and sustainable development. Moreover, south Lantau had always been designated as a conservation area and, according to the Revised Concept Plan for the development of Lantau, south Lantau should be preserved for recreational and visitor uses under the overall conservation objectives and the principle of environmental sustainability. Explaining the reason for setting the Quota at 30, AC for T/NT further elaborated that during the 12-month period after the full opening of the improved TCR, the average number of applications from tour coaches for access to south Lantau via TCR was 11 on Sundays and public holidays, and five on weekdays. Only on two days during the said period did the number exceed 25 and reach 26 and 27 respectively. As such, the Quota should be able to cater for the demand of tour groups to south Lantau. Notwithstanding, the Administration would continue to monitor the situation and where necessary, consider increasing the Quota.

8. Mr WONG Kwok-hing expressed strong opposition to maintaining the Quota at 30, considering that substantial public resources had been allocated to conduct improvement works on TCR to enable it to accommodate greater traffic flow. Ms LI Fung-ying added that if the demand of tour groups to south Lantau was so small as reported in paragraph 7 above, there was no need for continuing the Quota. Mr Jeffrey LAM shared Ms LI's view. AC for T/NT responded that the major purpose of the improvement works, which involved widening of TCR from a 3.5m wide single-lane carriageway to a 7.3m wide single two-lane carriageway for two-way traffic, was to enhance

road safety by improving some sections which had steep gradients. She also recapitulated the above overall planning objectives of south Lantau.

9. Mr Jeffrey LAM enquired whether Lantau residents, which in his view should include ordinary residents, business operators and operators of tourist attractions, had been consulted on whether the Quota could meet demand. He also enquired about the rationale for setting 15 for local visitors and 15 for overseas and mainland visitors among the daily maximum of 30 tour coaches. AC for T/NT responded that the Traffic and Transport Committee of the Islands District Council (Islands DCTTC) had been consulted. It accepted the Quota and the above split arrangement, which had been introduced upon consultation with the tourism trade. Notwithstanding the arrangement, in order to fully utilize the Quota to meet demand, any unused quota for one group would be flexibly re-allocated, after the closing date of application, to the other group if the latter had applications exceeding its own quota limit. Mr LAM remained of the view that it might not be necessary to have the split arrangement. Highlighting the policy objective of promoting green tourism in Hong Kong, he also questioned the justification for maintaining the Quota, especially as the number of applications already reached 26 and 27 respectively on two days.

10. Mr Jeffrey LAM and Ms Miriam LAU asked how applications in excess of the Quota would be handled, and whether discretion would be exercised to approve them. AC for T/NT responded that flexibility would be exercised to cater for genuine needs, such as when events were organized in south Lantau.

11. Ms Miriam LAU enquired whether all south Lantau residents and business operators in need of closed road permits would be issued the permits. AC for T/NT replied in the affirmative, and confirmed that in principle, every residential unit or shop meeting the criteria of residing or operating business in south Lantau would be issued with one Lantau Closed Road Permit and one TCR Prohibited Zone Permit. Should there be actual operational needs, consideration would be given to issuing more permits to the residential unit or shop concerned upon production of proof.

12. Mr LEE Wing-tat did not consider it necessary to lift the Quota unless strongly requested by business operators, residents of south Lantau and the tourism trade. He pointed out that the number of applications for access to south Lantau via TCR was already far below the Quota. Moreover, there was a need to guard against unfavourable environmental impacts arising from uncontrolled access of tour coaches; and in general south Lantau was not intended for urban development. As such, instead of really lifting the Quota, greater flexibility should be exercised in approving applications which might occasionally exceed the Quota, as long as the daily average would be kept within the Quota. In response, AC for T/NT said that approval would be

granted to applications fairly on a "first come, first served" basis as long as the Quota was not exhausted. On special occasions such as when the Water Lantern and Sky Lantern Festival was organized in Mui Wo, special arrangement would be made to meet the upsurge in demand.

13. In reply to Mr LEE Wing-tat on whether any application for access to south Lantau via TCR had been turned down before, AC for T/NT explained that all applications received had been approved except for those which failed to provide the required details or failing to meet the criteria. She reiterated that never had the Quota been reached in the 12-month period after opening of the improved TCR. Mr LEE and Ms Miriam LAU urged the Administration to review the Quota when it showed signs of saturation. AC for T/NT responded that close liaison had been kept up with all stakeholders. Their views on the Quota would all be followed up in the light of the relevant statistics.

14. Mr WONG Kwok-hing cautioned that the Quota might only serve to maintain the monopoly presently enjoyed by the New Lantao Bus Company (1973) Limited (NLB) and Ngong Ping 360. Noting that NLB had strongly objected to any further relaxation of the Quota during consultation on the findings and proposals of the Review, Ms LI Fung-ying also questioned whether this was the major reason for deciding to maintain the Quota and if so, there was conflict of interest on the part of NLB. AC for T/NT responded that apart from NLB, certain green groups also considered that access of tour coaches should not give rise to unfavourable environmental impacts. She further explained that the Administration had in fact consulted all relevant stakeholders, including the Islands DCTTC, transport trade, the Hong Kong Tourism Board, the Travel Industry Council, and green groups. In deciding to maintain the Quota, the Administration had balanced all views received in the light of the application statistics. She assured members that the Administration would continue to keep up communication with the tourism industry and residents, and adjust the Quota where appropriate.

15. Ms Miriam LAU did not perceive any conflict of interest for NLB to raise objection to lifting the Quota because it was operating franchised bus service and not tour coaches. In reply to her on whether the Administration had consulted individual tourist agencies and non-franchised bus operators on the Quota, AC for T/NT said that the Administration had consulted the former through the Travel Industry Council and the latter through the Public Omnibus Operators Association. Both had no comments on maintaining the Quota.

16. Mr WONG Kwok-hing pointed out that NLB was also providing franchised services operated in the form of group hire on public holidays and days of higher traffic demand in competition with non-franchised bus operators. As such, the Quota might have not been reached simply because tour operators could not obtain Lantau Closed Road Permits and were forced to

use NLB's group hire service. He urged the Administration to provide figures in this regard. He queried whether the Administration was maintaining the Quota for protection of NLB's franchise.

17. AC for T/NT explained that NLB had been operating group hire service since the early days, when TCR was closed to all non-franchised buses because of its road condition. However, after completion of the improvement works on TCR, the quota system was immediately introduced to provide the public with the choice of using non-franchised bus service instead, and all non-franchised bus operators were free to apply for access to south Lantau. In fact, NLB's group hire service had reduced with introduction of the quota system. She reiterated that never had the Quota been exhausted or valid applications from non-franchised bus operators been rejected. Mr LEE Wing-tat opined that as long as all bus operators, franchised or non-franchised, were treated equally in applying for access to south Lantau via TCR, he did not consider that the Administration was acting in favour of NLB.

18. Mr WONG Kwok-hing and Mr IP Wai-ming queried whether NLB's group hire service was subject to the Quota and if not, there might be conflict of interest for NLB to oppose lifting of the Quota. Moreover, if NLB was operating tour bus service without being subject to any restrictions, the Administration's claim that the Quota was imposed to protect the environment could not stand. AC for T/NT responded that since NLB would not compete with non-franchised bus operators under the quota system, the number of group hire NLB buses as well as that of non-franchised buses would all be determined by demand.

Motion

19. After discussion, Mr WONG Kwok-hing moved the following motion, which was seconded by Ms LI Fung-ying –

"促請政府取消大嶼山旅遊巴士配額制度，促進發展本土旅遊經濟。"

(Translation)

"That (this Panel) urges the Government to abolish the quota system for tour coaches for Lantau so as to facilitate the development of local tourism economy."

20. Elaborating on the motion, Mr WONG Kwok-hing said that the Quota was not conducive to promotion of green tourism highlighted as one of the initiatives under the Revised Concept Plan for the development of Lantau. He further pointed out that the development of green tourism in south Lantau had long been requested by residents and would not affect the environment. Mr LEE Wing-tat, however, stressed the need to strike a balance between the

development of local tourism and conservation. While in support of the development of local tourism, Ms Miriam LAU also opined that it did not hinge on lifting of the Quota but on the development and promotion of the tourism facilities and attractions in south Lantau.

Admin

21. The Chairman put the motion to vote. Four members voted for the motion, three members voted against it and two members abstained from voting. The Chairman declared that the motion was carried.

V **Review on ferry services for outlying islands**

- (LC Paper No. CB(1)1648/09-10(04) — Administration's paper on review on ferry services for outlying islands
- LC Paper No. CB(1)1626/09-10 — Background brief on the development of major outlying island licensed ferry services prepared by the Legislative Council Secretariat
- LC Paper No. CB(1)1075/08-09(01) — Referral from Complaints Division on policy on outlying island ferry services
- LC Paper No. CB(1)443/09-10 — Submission from "Living Islands movement"
- LC Paper No. CB(1)1693/09-10(01) and (02) — Two submissions from a Peng Chau resident
- LC Paper No. CB(1)1693/09-10(03) — Submission from Mr Phill Smith
- LC Paper No. CB(1)1693/09-10(04) — Submission from Mr Huw Harries
- LC Paper No. CB(1)1693/09-10(05) — Submission from Mr Michael Price)

22. The Secretary for Transport and Housing (STH) and the Deputy Secretary for Transport and Housing (Transport)2 (DS(T)2) briefed members on the progress of the review on the ferry services for outlying islands (the ferry services) and the Administration's proposals. STH briefed members on the principles and concepts adopted in the course of the review and formulation of the proposals. These included:

- (a) Public transport services should be operated by the private sector on commercial principles as far as possible;
- (b) The need to ensure the long-term financial viability and maintain

fare stability of outlying ferry services as they were the only means of transport for some of these outlying islands; and

- (c) The need to strike a balance between the need to support essential services which otherwise would not be financially viable and the need to let those individuals shoulder the appropriate responsibility for choosing to live on the outlying islands.

DS(T)2 also highlighted the following proposals (including the two new proposals in (d) and (e) below) –

- (a) Supporting the six major trunk routes when such a need arose;
- (b) Maintaining the existing service levels of the ferry services;
- (c) Reducing holiday fare differential to a maximum of 20%;
- (d) Extending the special ad hoc helping measures currently provided to four major trunk routes as detailed in Annex B to the Administration's paper (LC Paper No. CB(1)1648/09-10(04) to two more major trunk routes. In other words, the measures would be provided to six routes altogether; and
- (e) Reducing the magnitude of fare increases through sharing part of the burden of the commuters (the sharing proposal), so that the rate of fare increase could be reduced by half (after netting of the rate of general inflation) by reimbursing to the operators the vessel maintenance cost that had been incurred. In other words, when there was a need to increase fare, passengers would bear the fare increase up to the rate of general inflation since the previous fare increase as well as half of the residual rate of the fare increase. The other half would be subsidized by the Government.

Members' views and concerns about the two new proposals

23. Mr LEE Wing-tat considered it unfair that under the sharing proposal, residents of the outlying islands would be required to bear fare increase up to the rate of general inflation as well as half of the residual rate of the fare increase, while residents of other areas of Hong Kong using other modes of public transport might bear fare increase up to the rate of inflation only. Moreover, ferry operators were already helped to enhance their non-fare box revenue through various measures, such as the planned construction of one-and-a-half additional floors at each of Central Piers No. 4 to 6 for subletting for commercial or retail activities. As such, instead of requiring

passengers to bear half of the residual rate of the fare increase, ferry operators should be encouraged to take more cost cutting and revenue generation measures to avoid increasing fares. Even when fare increase was inevitable, the operators concerned should still be restricted from increasing fares in excess of the rate of inflation.

24. In response, STH explained as follows the rationale of the sharing proposal, which in her view would be able to balance the interests of operators, the general public and the Government –

- (a) Fare increases of the ferry services might not necessarily be greater than those of other public transport services. Moreover, the cost structure and the patronage of the two were very different, and direct comparison might not be appropriate;
- (b) All fare increases of the ferry services would need to be justified. In determining the need and rate of increase, cross-subsidy of ferry operation using non-fare box revenue would be taken into account; and
- (c) The Administration planned to construct one-and-a-half additional floors at each of Central Piers No. 4 to 6 for subletting by the ferry operators for commercial or retail activities in order to generate more non-fare box revenue to cross-subsidize the ferry operation. However, construction of more additional floors would be against the Harbour Planning Principles and not be acceptable to the public. Therefore, the non-fare box revenue so generated might not be sufficient to cross-subsidize ferry operation and more helping measures were necessary.

25. Pointing out that the salary increase for the general public might not be able to catch up with inflation, Mr LEE Wing-tat reiterated his concern that the sharing proposal might lead to increases in the fares of the ferry services in excess of the inflation rate.

26. Declaring interests that she was a resident of the New Territories (NT), Ms LI Fung-ying pointed out that the two new proposals, which involved substantial Government subsidy, might be unfair. She pointed out that many villages in NT (e.g. Luk Keng and Kut O) were similarly not provided with any public transport service or even a proper access road but their repeated requests for improvement were unheeded. In response to Ms LI on how the Administration planned to address the transport needs of such remote NT villages, STH and DS(T)2 said that the following points should be noted –

- (a) There was a need for special measures to help sustain the financial viability of the ferry services considering their two-fold

chronic problem, namely, the lack of growth in demand and highly volatile fuel costs, which left little room for cost cutting and revenue generation or cost containment. In fact, the Government had already been taking many special ad hoc helping measures to assist the operation of the ferry services. The sharing proposal was but one more such measures;

- (b) Some members found it justified to subsidize the ferry services on grounds that the six major trunk routes selected for subsidy were the only means of transport to work and school for residents of the outlying islands concerned. In fact, selection of the six routes would in effect only mean one route for each of the major islands except for Lamma Island, where two routes would be supported because of the geographical distance between Yung Shue Wan and Sok Kwu Wan; and
- (c) Other helping measures that did not incur Government subsidy had in fact been explored but were found infeasible. For example, frequency reduction was infeasible because it had been strongly opposed to for affecting islanders' daily life. The Administration had also examined whether some of the routings could be combined or if a hopper service could be provided so that patronage could be strengthened by channeling passengers to a couple of main routes. The geographical location of the islands, however, made such options infeasible because the options would either require the use of extra vessels or would result in longer journey time.

27. Mr Ronny TONG highlighted the need to ensure fair treatment for all, and expressed concern that because the Discovery Bay-Central route was not subsidized but the Central-Mui Wo route was, the operator of the former route might be unwilling to continue operating the route for fear that, to save travelling costs, residents of Discovery Bay might choose to travel to Mui Wo to take the subsidized Central-Mui Wo route instead. STH responded that considering the much longer journey time incurred, it was unlikely that these residents would take the above detour. They might instead use bus service presently available in Discovery Bay.

28. Mr Jeffrey LAM questioned why the Administration had not selected for further support the Hei Ling Chau - Peng Chau route and the Tuen Mun - Tung Chung - Sha Lo Wan - Tai O route which, like the six selected routes, were struggling to make ends meet because of their low patronage as reported in Annex A to the Administration's paper on this item [LC Paper No. CB(1)1648/09-10(04)]. He also sought figures which could support the selection of the six routes concerned. DS(T)2 responded that while all outlying island ferry routes were struggling to make ends meet, the six routes

selected were major trunk routes and the only means of transport for some of the outlying islands concerned.

29. The Deputy Chairman pointed out that the chronic problems of ferry operation were hard to tackle, and questioned whether the Government subsidy incurred under the two new proposals was well justified. He asked whether any measures were in place to prevent that the ferry operators concerned might inflate vessel maintenance costs to secure more subsidies. He enquired how the Administration planned to prevent abuse and ensure that the two new proposals could effectively maintain fare stability and obviate the need for further assistance from the Government.

30. STH responded that it was in recognition that the ferry services were the only means of transport for some of the outlying islands that Government was willing to subsidize the services. TD would play a gate-keeper role in vetting the accounts concerned. Provision of the subsidy in the form of actual cost reimbursement instead of a fixed amount of funding could also help prevent abuses. Since TD had been monitoring the maintenance costs of ferry operation, it was well-equipped to ensure the validity of the costs reported for reimbursement. Notwithstanding, STH agreed to explain more about the above safeguards to prevent abuses when the relevant funding proposal was submitted to the Finance Committee (FC).

Admin

31. Ms LI Fung-ying stated that the two new proposals would be welcome if proper use of the public funds involved could be ensured. She therefore enquired about the criteria adopted for determining the reimbursement amount. Pointing out that there were 14 outlying island ferry routes, she also enquired about the availability of any ceiling on the Government subsidy incurred. She suggested that the Administration might need to give thought to how requests for assistance from operators of routes other than the six selected routes would be handled. STH responded that the \$120 million earmarked for the three-year licensing period was the subsidy ceiling.

32. Mr Ronny TONG appreciated the complicated problems facing ferry operation and the great difficulty in tackling them. As such, while the long-term solution might lie in Government investing in the hardware, meanwhile the two new proposals were necessary as medium-term measures. He however opined that there should be safeguards to ensure that Government subsidy would only be used to subsidize the six selected routes and not to subsidize other routes. STH responded that since Government subsidy would be provided through reimbursing the actual vessel maintenance costs incurred, the above could be ensured.

33. The Deputy Chairman expressed concern that, knowing they had government subsidies to fall back on, the ferry operators concerned might have no incentives for cost-cutting and retrenchment. Mrs Regina IP shared his

concern, and cautioned that since the Government might need to continue subsidizing the ferry services, the services might one day become semi-Government operated. STH responded that construction of the additional floors might help reduce the need for Government subsidy in due course. New developments in the planned use of the harbourfront where the piers were situated might also help improve the overall operating environment of the ferry services.

34. Mr Jeffrey LAM acknowledged the difficulties faced by the ferry services and hence the need for measures to increase their non-fare box revenue. He however expressed concern that the sharing proposal might set a precedent, so that other public transport operators having operational difficulties, such as bus operators, might follow suit and ask the Government for subsidy and if denied, might seek fare increase.

35. STH responded that to guard against the above consequence, the routes to be subsidized had been selected according to the principles that they were the only means of transport for some of the outlying islands concerned and that the routes were major trunk routes. She further pointed out that the economy of scale in bus operation could give bus operators greater flexibility in making ends meet. This however could hardly be achieved for the ferry services. For example, the proposal to group the "Central-Cheung Chau", "Inter-islands" and "Central-Mui Wo" routes into one single tender package to be run by a single ferry operator to achieve economy of scale had been met with strong objection and was subsequently withdrawn. STH further assured members that any adjustment of bus fares would follow the established fare adjustment mechanism under which any bus fare increase would only be approved with full justifications.

36. Mrs Regina IP recognized that there were examples of overseas governments subsidizing transport services where significant public interest was involved. However, as a result of the imposition of certain restrictions on the operators concerned in return, such as restrictions on salary increase, operational flexibility might be compromised, and these operators were discouraged from continuing to operate the services concerned. In response to Mrs IP on safeguards against that, STH explained that it was the Government's established policy that public transport services should be run by the private sector or public corporations in accordance with commercial principles. However, considering that the ferry services were the only means of transport for some of the outlying islands, the Administration had to ensure the continuation of such essential services by taking special measures to attract bidders for the relevant licences when they expired. It was for this reason that the two new proposals had been put forward to further enhance the financial viability of the ferry services. Since the sharing proposal by reimbursing the vessel maintenance cost was but one addition to the above special measures already in place, she did not see it would have any negative impact. In fact,

instead of being discouraged from operating the ferry services, operators' response to the two new proposals was positive.

37. Mrs Regina IP requested the Administration to clarify whether additional resources would be incurred in processing the reimbursement of vessel maintenance costs under the sharing proposal. STH responded that before the two new proposals were put forward, the Administration had all along been monitoring the accounts of the operators concerned.

Consideration of other options

Revitalization of the piers

38. Mr WONG Kwok-hing expressed concern about the lack of progress in constructing the additional floors at each of Central Piers No. 4 to 6, which had been proposed as early as 2008. STH responded that the Administration was well aware of the need for the early provision of the additional floors. However, there was a need to conduct consultation and to comply with the relevant statutory procedures before commencement of the construction works. DS(T)2 added that in ascertaining the feasibility of constructing the additional floors at the existing piers, loading had to be considered. There was also a need to seek the approval of the Harbour-front Enhancement Committee and the Town Planning Board (TPB). Notwithstanding, every effort had already been made to expedite the project with a view to seeking funding approval from FC in the near future. Mr WONG remained concerned that the additional floors might not be provided in time to attract bidders for the ferry services before commencement of the next operating period in 2011.

39. In response to Mr LEE Wing-tat, STH confirmed that one-and-a-half additional floors at each of Central Piers No. 4 to 6 would be constructed, and that more specific details on the additional floors would be provided in the relevant funding proposal. DS(T)2 added that the Administration had already proceeded to invite tenders for the design of the additional floors. It was estimated that some 2 000 square metres of additional floor area for each pier would be made available for a variety of commercial activities such as restaurants, fast food shops and retail shops. Mr LEE urged the Administration to seek assistance from the Independent Commission Against Corruption in working out measures to ensure subletting of the additional floor area at market rates to genuinely generate more non-fare box revenue to cross-subsidize ferry operation and hence minimize Government subsidy in the long run, instead of at concessionary rates to benefit parties related to the operators. STH agreed to take members' views and concerns into consideration in working out the relevant safeguard measures and monitoring mechanism.

40. Highlighting the various chronic and structural problems of ferry operation, such as the need for great investment, high maintenance and fuel costs, Ms Miriam LAU said that the two new proposals were necessary to attract bidders to continue the ferry services when the relevant licences expired. In the long run however, more efforts should be made by not only the Transport and Housing Bureau and TD but also by other bureaux and departments to help operators of the ferry services to generate more non-fare box revenue to cross subsidize ferry operation, so as to minimize their reliance on Government subsidy. Ms LAU further said that pending the construction of the additional floors, all relevant bureaux/departments should make greater efforts to revitalize the piers concerned in order to generate non-fare box revenue.

41. STH responded that various efforts had already been made to generate more non-fare box revenue for the ferry services. She also informed members that the funding proposal for the construction of the additional floors at each of Central Piers No. 4 to 6 would be submitted to FC for approval in due course.

42. Ms Miriam LAU highlighted complaints about the lack of response to applications from ferry operators for subletting the upper deck of piers for commercial activities, and called for improvements. DS(T)2 responded that similar applications had been approved in the past. The Administration would continue to make all possible efforts to expedite the approval process of such applications such as by streamlining the subletting approval procedures regarding pier premises. However, the earlier proposal of subletting pier premises for office use would unlikely be approved by TPB or accepted by the public because it would go against the Harbour Planning Principles.

Fare stabilization fund

43. Mr WONG Kwok-hing asked the Administration to explore using the some \$120 million, earmarked for implementing the two new proposals for the three-year licensing period, to set up a fund to stabilize outlying island ferry fares instead, so that if fuel cost and hence the need for subsidy decreased significantly, the \$120 million could be used to stabilize ferry fares for a period longer than three years.

44. STH responded that the fare stabilization fund proposal represented a significant deviation from the established principles of management of public finance and hence required careful examination, whereas the sharing proposal was only a new addition to the many special ad hoc helping measures already provided for the ferry services. She added that the \$120 million earmarked for implementing the two new proposals might not necessarily be used up during the three-year licensing period.

Extension of the licence period

45. Mr WONG Kwok-hing opined that, to obviate fare increase of the ferry services, their three-year licencing period should be extended to six or even 10 years to facilitate longer-term planning and recovery of investment, and to enable the operators concerned to benefit from the completion of the additional floors at each of Central Piers No. 4 to 6. STH responded that the licences for the ferry services were normally granted for a period of three years and could be extended for a further period or periods of up to three years, with the aggregate continuous period of licence not exceeding 10 years.

Purchase of vessels by the Government

Admin

46. The Deputy Chairman requested the Administration to provide, before submitting the relevant funding proposal to FC for consideration, a paper on the financial implications of the option of continuing the ferry services by Government purchasing the vessels itself and contracting out their daily operation to private operators, taking into account the annual maintenance costs as well. STH responded that this option might entail the purchase of more than 20 vessels that cost some sixty million dollars each.

47. The Deputy Chairman, however, pointed out that the Administration could purchase the existing fleet instead of new vessels. In his view, the above option should in the long run be pursued to address the above concerns about the two new proposals. In addition, greater efforts should also be made to promote local tourism to create demands for the ferry services. Mr Ronny TONG shared his view on the need to pursue the vessel purchase option in the long run.

Other options

Admin

48. The Deputy Chairman urged the Administration to continue to explore other options in recognition of concerns about the provision of Government subsidy for the ferry services. In this connection, he asked the Administration to analyze the financial implications of each of the options that had been explored but not adopted as highlighted in paragraphs 13(a) to 13(e) of the Administration's paper [LC Paper No. CB(1)1648/09-10(04)], in particular the option on Government purchasing vessels for operators in paragraph 13(c), and to provide a comparison of these explored options with the two new proposals to facilitate members' consideration. In presenting the financial implications of the two new proposals, the Administration should also explain the financial implications of each of the existing helping measures listed in Annex B to the same paper from the Administration.

Admin

49. STH responded that the \$120 million required for implementing the two new proposals for the three-year licensing period, i.e. \$40 million per year, could cover all costs incurred by the proposal of extending the existing measures to cover six routes and the sharing proposal. DS(T)2 added that of

the annual provision of \$40 million, \$30 million was for the reimbursement of vessel maintenance costs under the sharing proposal, while \$10 million was the provision for the existing measures to be extended to cover six instead of four routes.

50. The Chairman invited members to note that it was the Administration's plan that a series of consultations would be launched immediately afterwards, with a view to finalizing the measures as soon as possible, so that funding approval could be sought from FC before the next tendering exercise began. He also requested the Administration to take into consideration the views and comments raised by members in finalizing the measures.

VI Proposed fare increase by the MTR Corporation Limited

- | | |
|-----------------------------------|---|
| (LC Paper No. CB(1)1648/09-10(05) | — Administration's paper on adjustment to MTR fares in 2010 |
| LC Paper No. CB(1)1648/09-10(06) | — Paper on adjustment to MTR fares in 2010 from MTR Corporation Limited |
| LC Paper No. CB(1)1649/09-10 | — Extract from the report of the former Bills Committee on Rail Merger Bill |
| LC Paper No. CB(1)1662/09-10(01) | — Submission from Tseung Kwan O Transport Concern Group |
| LC Paper No. CB(1)1714/09-10(01) | — Submission from a District Council member) |

51. STH and the Chief Executive Officer of MTR Corporation Limited (CEO/MTRCL) briefed members on the adjustment to MTR fares in 2010 (the 2010 fare adjustment) in accordance with the Fare Adjustment Mechanism (FAM) adopted as a result of the rail merger. Under the mechanism, fare adjustments would be made in accordance with a direct-drive formula linked to changes in the Composite Consumer Price Index (CCPI), Nominal Wage Index (Transport Services Sector) (the Wage Index) and a fixed productivity factor. The CCPI used in the FAM reflected the macroeconomic environment and public affordability. The Wage index reflected staff cost. Based on the latest data of these indices under the FAM, fares would be maintained, or adjusted upwards or downwards.

52. Mr Abraham SHEK declared interests as an independent non-executive director of MTRCL.

Views and concerns about the 2010 fare adjustment

53. Though unhappy to see increases in MTR fares, Mr Jeffrey LAM recognized the need to adjust the fares in accordance with the FAM. Mr WONG Kwok-hing, however, opined that though legitimate, the 2010 fare adjustment was unreasonable, and urged MTRCL to reconsider it in the light of the following three factors –

- (a) While the salaries of the general public had only increased 1 to 2%, the overall rate of the 2010 fare adjustment was +2.05%. Moreover, MTRCL had the flexibility to adjust individual Controlled Fares within the range of ± 5 percentage points from the overall fare adjustment rate under the FAM;
- (b) The 2010 fare adjustment would off-set the effect of the \$20-billion relief package recently announced by the Financial Secretary, which included tax rebates, rates concessions and public housing rental waivers to provide financial assistance to the community to build a caring society; and
- (c) MTRCL had assets valued over \$150 billion and was expanding business beyond Hong Kong. Under the circumstances, MTRCL had the financial means to offer more fare concessions instead of increasing fares.

54. In response, CEO/MTRCL made the following points –

- (a) The 2010 fare adjustment might not be unreasonable considering that it would be the first upward adjustment in MTR fares since 1997, or the first increase in 13 years;
- (b) When the FAM was implemented for the first time in 2009, the overall fare adjustment rate calculated was +0.7%. As it was smaller than $\pm 1.5\%$, no fare adjustment was made in 2009 and the +0.7% was carried over to be incorporated into the 2010 overall fare adjustment rate. The overall fare adjustment for 2010 of +2.05% was therefore the sum of the outcome of the fare adjustment under the FAM of +1.35% in 2010 and the +0.70% carried forward from 2009; and
- (c) Even if MTRCL decided to exercise flexibility in adjusting individual fares at different rates within a range of $\pm 5\%$ from the overall fare adjustment rate, the overall fare adjustment rate would still be capped at that derived from the FAM formula, i.e. the adjustment rate of the weighted average fare of all individual fares should be equal to the overall fare adjustment rate derived from the FAM formula.

55. Mr LEE Wing-tat, however, pointed out that although the 2010 fare adjustment would be the first upward adjustment in MTR fares in 13 years, the salaries of the grassroots had similarly not increased for a long time. In some cases, their salaries were even lower than the 1997 level. As such, although the overall rate of adjustment was only +2.05%, the grassroots might not be able to afford it. Ms LI Fung-ying and Mr IP Wai-ming shared his views. Mr IP further quoted that according to the Census and Statistics Department, the average monthly wage of workers belonging to the lowest income group had decreased more than 20% from some \$4,400 in 1998 to only \$3,500 in 2008.

Admin

56. At Mr WONG Kwok-hing's request, STH agreed that MTRCL would provide information on fares with rate of increase higher than the overall fare adjustment rate within the permitted range but MTRCL would need some time to compile the information. .

57. While acknowledging MTRCL's right to increase its fares, the Deputy Chairman urged the Administration to seriously consider the following public views –

- (a) MTRCL had accumulated a net profit of over \$77 billion over the past ten years because of Government subsidy in the form of property development rights. In 2009 alone, MTRCL's net profit was some \$9.6 billion. The 2010 fare adjustment might therefore cause resentment and give rise to social discords unless fare concessions could be offered in parallel. In the longer term, the Administration should review the FAM in recognition that it had failed to take into account public affordability and MTRCL's profits from property development, which should help moderate the rate of fare increase or even obviate fare increase when MTRCL was making huge profits; and
- (b) The Administration should consider using the large amounts of dividends it received as a MTRCL shareholder to set up a fare stabilization fund to moderate MTRCL's rate of fare increase.

58. In response, STH made the following points –

- (a) The FAM was adopted in place of MTRCL's fare autonomy to achieve greater transparency in fare adjustment. Moreover, CCPI could reflect the macroeconomic environment and hence indirectly reflect public affordability to a certain extent. Nevertheless, the FAM could be subject to review every five years upon request by either MTRCL or the Government; and
- (b) The above proposal to set up a fare stabilization fund was not in

keeping with the general framework of public finance management, under which income received by the Government should be paid directly into the general revenue, and withdrawal of money from the general revenue should be subject to the approval of FC. Moreover, the FAM could already help determine whether adjustments to MTR fares should be made.

59. Highlighting the high patronage of MTR service, Ms LI Fung-ying pointed out that the 2010 fare adjustment would affect many people, and warned the Administration and MTRCL of public resentment against the introduction of the 2010 fare adjustment which, though legitimate might in their mind be insensitive to the hardship of the grassroots and represent a lack of corporate social responsibility. The Administration and MTRCL noted her concern.

60. Ms Miriam LAU agreed that adjustment of MTR fares should be made according to the FAM, which had replaced MTRCL's fare autonomy and was formulated after extensive discussion in the community and at the Legislative Council. She however opined that before proposing to increase fares, MTRCL should undertake to improve its service in response to such complaints as that highlighted in the submission from Tseung Kwan O Transport Concern Group [LC Paper No. CB(1)1662/09-10(01)], which pointed out that MTRCL had failed to ensure that the headway of trains for the Tseung Kwan O Line was the shortest at 2 minutes 30 seconds and 5 minutes at most. The Administration and MTRCL noted her view for consideration.

Call for fare concessions

61. Mr Jeffrey LAM urged MTRCL to provide more fare concessions to mitigate the impacts of the 2010 fare adjustment on grounds that the economy was only beginning to recover, and that the charges for many goods and services were increasing. Mr WONG Kwok-hing and the Deputy Chairman shared his views. In particular, the Deputy Chairman called upon MTRCL to provide the \$2 concessionary elderly fare on all days instead of only on Wednesdays, and to introduce monthly and weekly passes for residents of remote new towns.

62. CEO/MTRCL responded that MTRCL had already been providing various fare promotions from time to time after taking into account market circumstances and commercial considerations as appropriate, and that such efforts would continue. In fact, the above fare promotions amounted to an annual cost of some \$ 1.1 billion, a sum greater than those offered by any other companies in this regard. He however noted the members' views above for consideration and, in response to Mr Jeffrey LAM, further confirmed that MTRCL was the only public transport operator offering half-fare concession to full-time Hong Kong students. The Deputy Chairman, however, said that

there was also no company enjoying as much subsidy from the Government in the form of property development rights.

63. Mr WONG Kwok-hing called for clearer undertakings from MTRCL to continue to offer existing fare concessions and introduce new concessions. Pointing out that the Government was the majority shareholder of MTRCL, he also enquired how the Administration planned to effectively encourage MTRCL to offer more fare concessions.

Admin

64. CEO/MTRCL responded that MTRCL was aiming to maintain as many existing fare promotions as practicable, and would seriously consider members' proposals on additional fare promotions. STH also assured members that the Administration would continue to actively encourage MTRCL to provide fare concessions. For example, fare concessions for PwDs had been introduced after long discussion with MTRCL, and more MTR fare savers had been installed to encourage people to use MTR service. At Mr WONG Kwok-hing's request, STH agreed to arrange for MTRCL to provide in due course a paper, listing out all existing fare promotions and whether they would be continued, and all additional fare promotions, if any, that would be introduced when the 2010 fare adjustment took effect.

65. Mr LEE Wing-tat pointed out that as different from Hong Kong, there was direct Government subsidy for the daily operation of public transport services in many places. Monthly passes for urban routes were also commonly available overseas, so that the fare per trip could be greatly reduced. Pointing out that the elderly could travel free of charge on the Shenzhen subway, he urged MTRCL to follow suit and extend the \$2 concessionary elderly fare presently available on Wednesdays only to one more day of the week. He further opined that the offer of fare concessions should be written in MTRCL's Operating Agreement, so that MTRCL would be obliged to offer fare concessions instead of granting such as favors.

66. STH responded that while the Government would continue to encourage MTRCL to introduce fare concessions as far as possible, it might not be appropriate to compare the concessions with those of other places because, as different from Hong Kong, there might be substantial direct Government subsidy for the daily operation of public transport services in these places.

67. Ms LI Fung-ying was disappointed to note that neither the Administration nor MTRCL was willing to give any clear undertaking on fare concessions, not even the offer of the \$2 concessionary elderly fare on Sundays, which were family days for most elderly people. She called upon MTRCL to adopt a caring approach as highlighted in its advertising materials, and called for greater efforts from the Administration to ensure MTRCL would offer more fare concessions.

68. STH and the General Manager – Marketing and Station Commercial, MTRCL responded that MTRCL had already been providing up to a half-fare concession to the elderly every day through the elderly Octopus card. Some elderly people also preferred the offer of the \$2 elderly fare on Wednesdays instead of Sundays for the greater flexibility it could provide, considering that fare promotion for use of certain public facilities were also offered on Wednesdays, and that bus companies were already providing discounts on Sundays. In fact, up to 210 000 elderly people rode on MTR for \$2 per journey on Wednesdays as compared to the figure of some 170 000 when the fare promotion was provided on Sundays. Ms LI Fung-ying, however, said that since not as many elderly people rode on MTR on Sundays, MTRCL might as well extend the \$2 concessionary elderly fare to Sundays. Mr IP Wai-ming also pointed out that the higher usage on Wednesdays had in fact been caused by the greater inclination on the part of elderly centres and the like to organize activities on Wednesdays to benefit from the \$2 concessionary elderly fare.

69. Ms Miriam LAU opined that although MTRCL had the commercial responsibility to provide a return to its shareholders commensurate with its business nature, the responsibility should not restrain it from providing such fare concessions as monthly or weekly pass commonly available overseas. In particular, monthly pass should be introduced for residents of remote new towns. Considering the huge profits it had made, MTRCL should also provide the \$2 concessionary elderly fare during non-peak hours, and on Sundays and public holidays. It should also install more fare savers, which could in turn benefit MTRCL by encouraging more people to travel by MTR.

70. CEO/MTRCL responded that to ensure the maintenance of a safe, reliable and efficient urban metro system, Hong Kong had chosen to operate rail service under prudent commercial principles. As a result, MTRCL had to carefully take into account market circumstances and commercial considerations as appropriate when considering whether to provide fare promotions. If a win-win situation in this regard could not be achieved, MTRCL could only provide concessions to the disadvantaged as far as practicable. As such, MTRCL should not be relied upon to take up the sole responsibility of responding to the needs of the disadvantaged.

71. Mr IP Wai-ming maintained that even from a commercial perspective, MTRCL could still provide more fare concessions. This was because firstly, MTRCL's offer of fare concessions amounting to an annual cost of some \$ 110 million was in fact insignificant when compared with the huge profits it had made as a result of Government subsidy in the form of property development rights. Secondly, the Government was the major shareholder of MTRCL. Thirdly, under the policy of positioning railways as the backbone of the public transport network, the Administration had always turned down requests to open new bus routes, so that MTRCL was in effect enjoying a certain degree of monopoly. As such, he strongly requested MTRCL to provide more fare

concessions, particularly to the elderly and persons with disabilities. If not, consideration should be given to allowing bus companies to compete with MTRCL.

72. STH responded that there was already a clear community consensus on the use of rail as the backbone of Hong Kong's transport system in recognition of its efficiency and the need to protect the environment, and also in recognition of the need for mass transportation in Hong Kong, whose small size meant that road resources were limited. Moreover, MTRCL had already offered various fare concessions in response to members' views. For example, fare concessions for PwDs. She believed MTRCL would continue to seriously examine and actively consider members' calls for fare concessions.

Admin 73. Mr WONG Kwok-hing reiterated his request for information in paragraph 64 above, and further requested the Administration to take the following actions –

- (a) To advise before the next meeting in May whether fare concessions, such as the "Ride-10-Get-One-Free" fare concession, monthly travel passes that were valid among various railway lines, elderly fare promotions, etc would be continued/provided when the 2010 fare adjustment took effect, so as to enable members to ascertain how effective the Administration had been in encouraging MTRCL to provide fare concessions;
- (b) To exercise care to ensure that notwithstanding the 2010 fare adjustment, increases in the fares of railway lines serving remote new towns such as Tung Chung and Tin Shui Wai would be minimized; and
- (c) To respond to the complaint that the fare for going from Tai Wai to Mong Kok was \$7, which was 42% higher than the \$4.9 from Tai Wai to Mong Kok East.

74. STH agreed to provide the information requested as soon as practicable. CEO/MTRCL said that MTRCL would co-operate with the Government in providing the information.

VII Any other business

75. There being no other business, the meeting ended at 11:30 am.