

**For discussion  
on 17 July 2015**

## **Legislative Council Panel on Transport**

### **Public Transport Strategy Study - Taxi Fuel Surcharge**

#### **Purpose**

Eight topical issues will be covered by the Topical Study under the Public Transport Strategy Study (“PTSS”). Earlier this year, we reported to the Panel on the findings on four of the topics. This paper reports the findings of the Topical Study on the introduction of a taxi fuel surcharge as proposed by the taxi trade. In the course of the study, we have looked closely into the experience of other cities in implementing and not implementing a taxi fuel surcharge. We have also collected the views of some academics and the passengers.

#### **Background**

2. Under the current public transport policy, railway is the backbone of our public transport system complemented by other public transport services. In tandem with the further development of the heavy rail network, it is necessary to examine the overall strategic arrangements of the public transport system so as to enhance the complementarity amongst the various public transport services, having regard to the availability of multi-modal choices and balance of operating environment of our public transport system. This is to ensure that the public can enjoy efficient services with reasonable modal choices on the one hand, and public transport operators can have sustainability on the other. To this end, the Government has commenced the PTSS. As explained in our PTSS work plan presented to the Legislative Council (“LegCo”) Panel on Transport on 25 November last year, the PTSS comprises two parts, namely the Role and Positioning Review (“RPR”) and the Topical Study. The RPR will review the roles and positioning of various public transport services, while the Topical Study will look into important topics that are of concern to LegCo Members, the public

and the public transport trades. The workflow of the two parts as explained to the Panel before is repeated at [Annex 1](#).

3. There are a total of 18 138 taxis in Hong Kong, providing around 1 million passenger trips per day. The vast majority of taxis (over 99%) uses liquefied petroleum gas (“LPG”)<sup>1</sup>. Same as that of other fuel types, LPG price in Hong Kong basically moves along with international fuel prices. According to some members of the taxi trade, occasional short-term fluctuations of LPG price brought about by the change in international gas prices can exert certain pressure on their operation. They therefore hope to introduce a fuel surcharge so that there can be an additional channel for collecting extra fare outside the regular taxi fare adjustment mechanism in times of fuel price fluctuations.

4. In the past three years (i.e. 2012 to 2014), LPG price had once reached \$6.15 per litre. Yet, the annual average LPG price was \$4.75, \$4.79 and \$4.90 per litre respectively. As at July this year, the average LPG price for 2015 is \$3.20 per litre. Generally speaking, the average LPG consumption per shift of taxi service is around 30 litres. As regards the fuel surcharge mechanism as proposed by the taxi trade, the basic concept is that passengers will have to pay a certain amount of fuel surcharge when fuel price reaches or exceeds a pre-set triggering point, and the surcharge amount will increase along with fuel price. When fuel price has not reached or has fallen below the pre-set triggering point, passengers will not have to pay any fuel surcharge. However, the trade has not suggested that metered fare can be reduced even when fuel price falls substantially<sup>2</sup>.

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<sup>1</sup> To reduce roadside emissions, the Air Pollution Control (Vehicle Design Standards) (Emission) Regulations (Cap. 311J) stipulates that any taxi registered on or after 1 August 2001 shall be operated on LPG or unleaded petrol unless the vehicle concerned is not powered by a positive-ignition engine (such as an electric taxi).

There are currently 18 085 LPG taxis, 16 petrol taxis, and 36 electric taxis.

<sup>2</sup> For example, when LPG price reaches \$5 per litre, a passenger will have to pay a fuel surcharge of \$1 per journey trip. When LPG price reaches \$6 per litre, a fuel surcharge of \$2 will be imposed, and so on and so forth. If LPG price has not reached \$5 per litre, a passenger will not have to pay any fuel surcharge. But neither will a passenger enjoy any fare reduction even when LPG price falls substantially (say, to \$3 per litre).

5. Currently, the taxi trade has to make an application to the Government to increase fare. As per the established practice, the Government will take into account a number of factors when processing the application (see paragraph 6 below). These factors include the changes in various cost (including fuel cost) and revenue components. This arrangement has so far been able to cater for and balance the needs of different stakeholders as well as the actual operating conditions of the trade. Introducing a fuel surcharge will in practice single out fuel cost. A surcharge system which allows automatic adjustment would mean a circumvention of the gate-keeping function that the Government has been performing each time when it vets a fare increase application. The expenses incurred by an increase in fuel price will also be fully or partially transferred to the passengers. The Government has to carefully consider if this is the most appropriate arrangement. In the course of doing so, the Transport Department (“TD”) has drawn reference from the experience of other cities in implementing and not implementing a taxi fuel surcharge and studied the impacts of such a surcharge. TD has also collected views from the stakeholders, including taxi passengers, taxi drivers and some academics, on the proposal to introduce a taxi fuel surcharge. The findings of the study and consultation are set out in paragraphs 7 to 16 below.

**Existing fare adjustment mechanism and how changes in fuel expense are addressed**

6. Taxi fare is determined by the Chief Executive (“CE”) in Council and is subject to negative vetting by LegCo before it can be implemented as per the law. Upon receiving an application for a taxi fare increase, the Government will consider it in accordance with the following guiding principles -

- (a) to ensure the financial viability of taxi operation, taking into consideration changes in revenue and operating costs;
- (b) to maintain a satisfactory level of taxi service in terms of vehicle availability, as well as passengers’ waiting time and feedback;

- (c) to maintain a reasonable gap between taxi fare and the fares of other public transport services;
- (d) to take into account the public acceptability of the proposed fare; and
- (e) to maintain the existing basic structure of taxi fare – it should be “front-loaded” and thereafter on a varying descending scale for incremental charges.

The Government will consult the LegCo Panel on Transport and the Transport Advisory Committee before submitting its recommendation on fare adjustment to CE in Council.

7. Under the existing mechanism, the Government will not recommend a taxi fare increase merely on account of the change of a single cost component in considering a fare adjustment application. Neither will a fare increase carry any retrospective effect. This practice is similar to those for other public transport services fuelled by oil products and with regulated fares (such as franchised buses). During the process, the Government will consider such factors as overall cost, overall revenue and net income in holistic terms. In general, the present taxi fare adjustment mechanism is effective and can maintain a balance between the expectations of the public and the taxi trade. Meanwhile, there is no legal provision for a taxi fuel surcharge to be implemented.

### **TD’s Study**

(a) *Experience of other cities*

8. TD collected information from the following 17 cities on their experience in implementing and not implementing a taxi fuel surcharge by means of a survey -

- (a) nine in Asia : Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Macao, Taipei, Singapore and Tokyo;

- (b) three in Europe : London, Frankfurt and Amsterdam;
- (c) three in Australia and New Zealand : Melbourne, Sydney and Auckland; and
- (d) two in the United States : Washington D.C. and New York City.

#### Cities with taxi fuel surcharge mechanisms

9. Among the 17 cities above, only Beijing, Shanghai, Guangzhou, Shenzhen and Hangzhou have taxi fuel surcharge mechanisms in place. The purpose is for passengers to share some of the increase in fuel price at times of a sudden surge.

10. Of these five cities, Shenzhen and Hangzhou have a simpler mechanism. When fuel price rises beyond a pre-set triggering point, a fuel surcharge of \$1 per journey trip will be imposed. When fuel price rises further and reaches the next triggering point, the amount of surcharge will further increase by \$1, and so on and so forth. In the meantime, the mechanisms adopted by Beijing, Shanghai and Guangzhou are more complicated. There are different implementation cycles for a fuel surcharge (one year for Shanghai; six months for Guangzhou; three months for Beijing). When the average fuel price of the last cycle is higher than the pre-set triggering point, a fuel surcharge will be levied. The amount of surcharge is based on the difference between the average fuel price of the last cycle and the pre-set triggering point. The amount of fuel surcharge will remain unchanged until the next cycle. Passengers need not pay any surcharge if fuel price has not reached the triggering point. There is no information suggesting that taxi fare will be reduced when fuel price falls substantially.

#### Cities with taxi fuel surcharge mechanisms which have been triggered/never been triggered

11. Among the 17 cities mentioned in paragraph 8 above, two

levied a taxi fuel surcharge before but have stopped doing so. Washington D.C. levied a fuel surcharge at US\$1 per journey trip between 3 March 2011 and 19 June 2012. Two taxi companies in Singapore<sup>3</sup> levied a fuel surcharge of SG\$0.3 per journey trip between 17 July 2008 and 12 November 2008. It is understood that the collection of a fuel surcharge was stopped in these places after fuel price went down. The surcharge has also not been re-imposed. This is similar to what happened in Hong Kong in 1990 when a taxi fuel surcharge was levied in the light of an unstable oil price because of the Gulf War that broke out in August that year. At the time, diesel price surged within a short period of time (with a sharp increase of 26% from August to November 1990) and the Government approved a “temporary fuel supplement” of \$1 per journey trip<sup>4</sup>. Subsequently, when oil price went down after the end of the Gulf War, the Government withdrew the “temporary fuel supplement” in June 1991. However, this caused discontent within the taxi trade and resulted in a protest-cum-slow drive. In the end, the Government subsumed the surcharge fully into the taxi flagfall charge.

12. Although London has a fuel surcharge mechanism in place, it has never invoked it. Since 2008, Transport for London has been reviewing taxi fare on an annual basis. Under the review, it will set a fuel price threshold<sup>5</sup> for activating the fuel surcharge and the amount of the surcharge. The two parameters come into effect in April every year. If the threshold for activation is reached within that year, the amount of the fuel surcharge will be in force throughout the rest of the year regardless of the movement of fuel price during the remaining period.

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<sup>3</sup> Taxi companies in Singapore can set their own fares. Fare adjustment is not subject to Government’s regulation.

<sup>4</sup> The mechanism for implementing the “temporary fuel supplement” was exactly the same as that for fare adjustment. Both its implementation and cancellation had to be approved by the then Executive Council and was subject to negative vetting by LegCo.

<sup>5</sup> With effect from 1 April 2014, the fuel surcharge would be triggered if diesel price reached 175.48 pence per litre. Diesel price was 136.3 pence per litre at that time.

### Cities that have not put in place any taxi fuel surcharge mechanisms

13. Among the 17 cities mentioned in paragraph 8 above, nine of them (Macao, Taipei, Tokyo, New York City, Frankfurt, Amsterdam, Auckland, Sydney and Melbourne) have never imposed a taxi fuel surcharge. The transport authorities of these cities consider fuel cost one of the basic operating costs of taxi operation. If necessary, changes in fuel price should be addressed through taxi fare adjustments instead of introducing a taxi fuel surcharge.

14. Experience from the above cities show that imposing a taxi fuel surcharge is not common. Some of the cities having a taxi fuel surcharge mechanism have either never made use of it or have abolished it.

#### *(b) Views on imposing a taxi fuel surcharge*

15. When deciding on whether to impose a taxi fuel surcharge, we have to consider the views of passengers in addition to those of the taxi trade. In this connection, TD carried out a survey in the fourth quarter in 2014 to collect public views towards a taxi fuel surcharge. 1 000 taxi passengers were interviewed at 18 main taxi stands throughout Hong Kong. Seven focus group meetings for taxi passengers and drivers were held. TD also consulted a few academics from different academic background. The key views gathered are set out at **Annex 2**.

### **Conclusion and Way Forward**

16. Having considered the views received, the Government is of the view that a taxi fuel surcharge mechanism should not be introduced. Our key considerations include –

- (a) the Government has all along been taking into account all operating revenue and costs when processing a taxi fare increase application, and any decision made will not be based solely on a single factor (such as fuel cost). This is a more comprehensive and well-balanced approach. There is no need to pursue an alternative approach in addressing any surge in the

operating costs caused by changes in fuel price (or any other single factor). Indeed, the trade can decide when to submit a fare increase application on its own accord. The law has no restrictions on how often such an application can be made. In processing a fare increase application, the Government will consider all relevant factors, whilst being mindful that there should be a balance of the interests of the different stakeholders;

- (b) if a fuel surcharge that would be adjusted automatically according to fuel price movement is introduced, the gate-keeping role of the Government in respect of taxi fare setting would be undermined. It should be noted that public acceptability is one of the factors that the Government would take into account when processing a fare increase application;
- (c) the imposition of any fuel surcharge will automatically transfer the burden of fuel cost to the passengers. This may not be acceptable by the public. If the existing fare adjustment mechanism and the automatically adjusted fare surcharge mechanism co-exist, it may cause confusion and give an impression that passengers are subject to a “double fare increase”;
- (d) the setting of the fuel price level that would trigger the taxi fuel surcharge and the exact surcharge amount entail rather complex arrangements and calculations. Consensus amongst all parties would not be easy to come by. We also note that short-term sharp fluctuations in international fuel price may lead to a sharp rise or fall of local LPG price. If a sharp rise of fuel price would warrant a swift imposition of a surcharge to (partially) compensate for the increase in fuel expense, we would also need to tackle the question as to whether taxi fare should be lowered swiftly when LPG price drops sharply to a low level. We note that in suggesting to introduce a fuel surcharge, the taxi trade has not indicated what should be done when there is a sharp drop in fuel price;
- (e) the introduction of a taxi fuel surcharge may lead to a chain



reaction in other public transport services (such as franchised buses and public light buses), thereby affecting a significant number of passengers; and

- (f) taxi owners may still increase taxi rental because of the introduction of a taxi fuel surcharge. It is thus open to question whether a taxi fuel surcharge can indeed increase the net income of taxi drivers.

In sum, the Government comes to the conclusion that the introduction of a taxi fuel surcharge is not meritorious. We should continue to address changes in operating costs caused by fluctuations in fuel price through the existing fare adjustment mechanism.

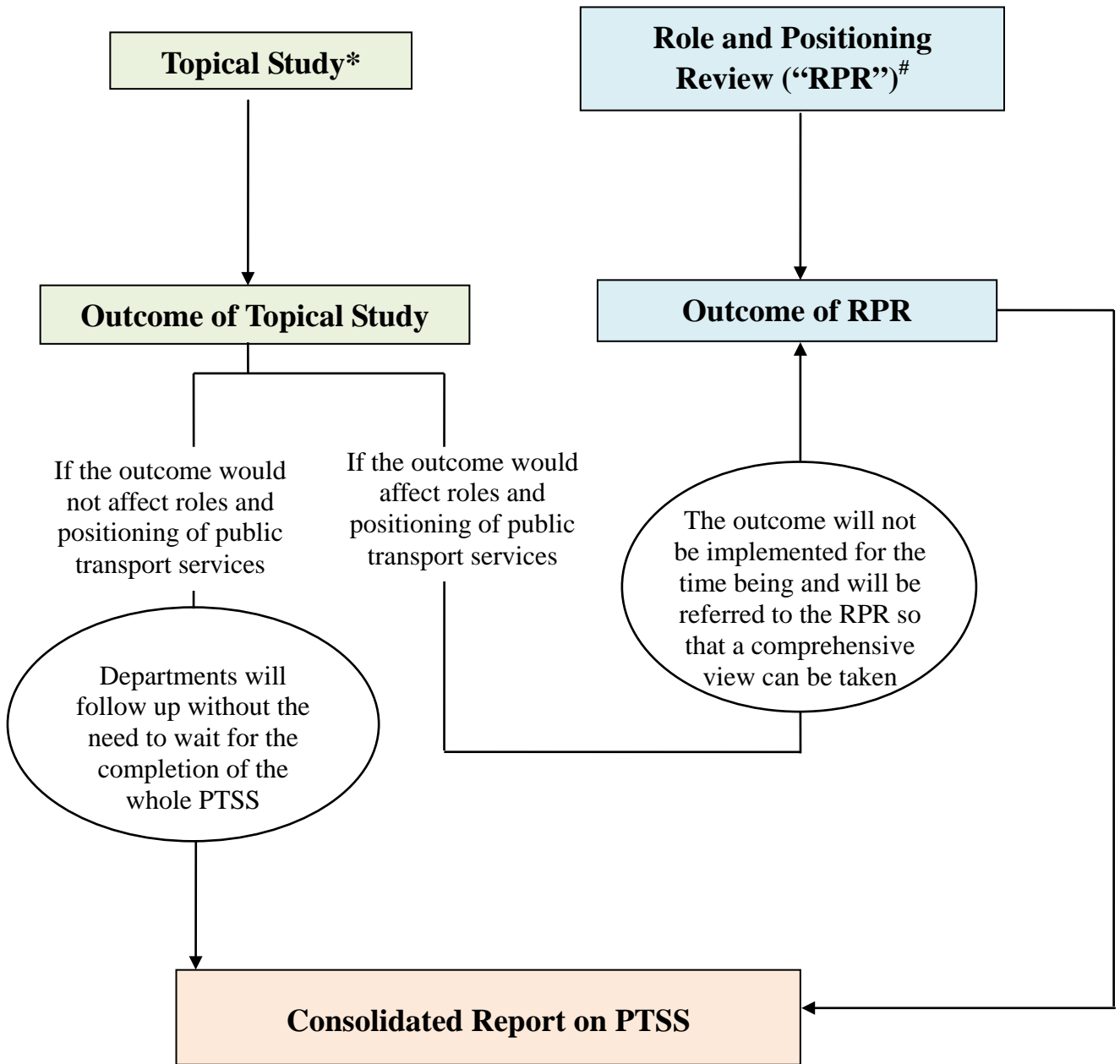
17. As a next step, we will look into the roles and positioning of taxis in the RPR under the PTSS. As explained in paragraph 11(b)(iii) of our PTSS work plan presented to the LegCo Panel on Transport in November 2014, a major issue to be reviewed is whether it is feasible and meritorious to introduce new type(s) of taxi service to meet different passenger demand, having regard to the implications over other public transport services. In the process, we have to carefully assess the implications on the supply and demand of taxis as well as on other trades. We also have to take into account the roles and positioning of other public transport services to ensure their complementarity, while affording passengers efficient services and reasonable modal choices. According to the present work plan, the entire RPR for reviewing the roles and positioning of various public transport services will commence later this year and is expected to be completed in about two years' time.

### **Advice Sought**

18. Members are invited to take note of the findings of this study and express views.

**Transport and Housing Bureau**  
**Transport Department**  
**July 2015**

**Two-part Work Flow under the  
Public Transport Strategy Study (“PTSS”)**



\* The Government has started reporting the outcome of the individual topics to the Legislative Council Panel on Transport since the first quarter of 2015.

# The RPR will commence after the required manpower and funding are approved under the established procedures.

**Summary of views collected from the survey on the  
introduction of a taxi fuel surcharge**

Major reasons which lend support to the introduction of a taxi fuel surcharge are that -

- (a) an increase in operating costs owing to an increase in fuel price can be addressed by increasing the metered fare under the existing mechanism. However, this mechanism cannot address short-term sharp fluctuations in fuel price in a timely manner. A fuel surcharge can help offset the burden of any short-term sharp fluctuations in fuel price on taxi drivers. This helps stabilise their income;
- (b) a fuel surcharge can be implemented swiftly in face of any short-term sharp fluctuations in fuel price. The burden on drivers can thus be eased in a timely manner;
- (c) as a fuel surcharge is a transitional arrangement and differs from the long-term nature of a conventional fare adjustment, some drivers believe that this would weaken the taxi owners' case to share the additional income brought by the fuel surcharge. The chance for taxi owners to increase car rental would thus be lower; and
- (d) the fuel surcharge will go up or down along with fuel price. It will also cease to apply when fuel price falls below the triggering point. This should be more acceptable to the public given how a fuel surcharge differs from a conventional fare adjustment.

2. Major reasons opposing the introduction of a taxi fuel surcharge are as follows -

- (a) fuel cost has all along been one of the factors that the Government would take into consideration when processing an application for a taxi fare increase. This practice should continue. Nearly 70% of the passengers surveyed agree that in case that fuel price has stayed at a high level, the taxi trade should apply for a fare increase as per the existing mechanism, instead of through imposing a fuel surcharge;
- (b) the current taxi fare adjustment mechanism already requires an overall assessment be made by taking into account different factors (including the trade's operating conditions, service demand and level, as well as the acceptability of passengers). This is a fairer approach to all. Introducing a surcharge for an individual cost component would mean circumventing the gate-keeping role that the Government would play every time it processes a fare increase application. This would transfer the changes in an individual cost component to passengers direct. Since the existing taxi fare adjustment mechanism has already taken into account changes in different components of operating costs and revenue, the co-existence of this mechanism and the proposed fuel surcharge mechanism may eventually result in multiple fare increases. This will not only pose a heavier burden on passengers, but will be unfair to them;
- (c) taxi owners may still increase taxi rental as the drivers will get additional income from the fuel surcharge;
- (d) issues such as the setting of the fuel price level that would trigger the surcharge, the different surcharge amounts for different fuel prices, and whether taxi fare should be reduced when fuel price drops to a certain level are all very complex. Consensus amongst all parties would not be easy to come by;
- (e) the taxi fare structure should remain simple as far as possible. Introducing a fuel surcharge that may be subject to frequent

adjustments would complicate the existing taxi fare structure;  
and

- (f) a surcharge with an amount that changes with the fluctuations in fuel price will cause confusion on the part of passengers and lead to more disputes between drivers and passengers. There may also be cases of incorrect or over charging, giving rise to enforcement issues.