

**For discussion
on 17 March 2017**

**Legislative Council Panel on Transport
Public Transport Strategy Study - Role and Positioning Review
Personalised and Point-to-Point Transport Services**

Purpose

In June 2016, the Government reported to the Panel on Transport (“the Panel”) of the last term of the Legislative Council on the progress of the study and proposed directions of franchised taxis¹. Having regard to the latest development in relation to the provision of personalised and point-to-point transport services as well as stakeholders’ views canvassed, the Government has studied the matter further. This paper aims to report to Members on the outcomes of the study and canvass Members’ views.

Background

2. At present, there are two types of personalised and point-to-point transport services in Hong Kong, namely taxi service and hire car service (i.e. using private cars for carriage of passengers for hire or reward).

3. Taxis constitute the majority of personalised and point-to-point transport services and with the largest numbers in supply. At present, there are 18 000-odd taxis in total in Hong Kong. Ordinary taxi licences are permanent in nature, and held by as many as 9 000 licence holders. Apart from that the fares and operating areas are regulated by the Government, taxi licences have been issued without any conditions directly related to service quality. Regarding operating areas, taxis may pick up passengers on the street or at taxi stands, or provide pre-booked service. In respect of fares, taxis shall either charge according to the taximeter or be hired as a whole. The fares charged by the taximeter are regulated by the Government, whereas the fare for hire-as-a-whole service will, under existing legislation, be agreed between the parties providing and receiving the service to allow for more flexibility in

¹ “Franchised taxis” were referred to as “premium taxis” in previous government documents. “Premium taxis” are now renamed “franchised taxis” to make clearer the different regimes adopted by ordinary taxi service and the new taxi service to be introduced under a franchise model. Details are set out in paragraphs 15 to 19 below.

meeting different passenger needs. It is the Government's policy to issue new taxi licences on the basis of demand. The Government last issued new urban and New Territories taxi licences in 1994. As regards Lantau taxi licences, the Government issued 25 new ones in 2016 to meet the demand for taxi service on Lantau Island.

4. Hire cars provide another kind of personalised and point-to-point transport service. According to the established policies, hire cars do not come under the category of public transport services. A private car owner must obtain a hire car permit ("HCP") for operating the service under the law. The fare of hire cars is not subject to regulation. Generally speaking, the fare of hire cars is higher. The maximum number of HCPs for private service (including cross-boundary and local) is capped at 1 500 under the law. As of February this year, around 650 HCPs have been issued. In other words, there is still room for issuing more HCPs as and when necessary.

5. In recent years, taxi service and the conduct of some taxi drivers (such as refusal of hire, poor service attitude towards passengers and overcharging) have been subject to increasing criticisms in the community. There are views in the community asking the Government to strengthen monitoring and consider issuing more taxi licences² to enhance competition with a view to improving services. Meanwhile, a personalised and point-to-point passenger service of a higher fare in general but non-compliant with the legal requirement on provision of passenger services, was provided through the use of car-hailing mobile applications. There is a strong public demand on enhancing the personalised and point-to-point transport services. **On the premise that provision of any passenger services must be lawful**, we agree that that there is a certain demand in the community for personalised and point-to-point public transport services of higher quality and fare. **The Government is of the view that the existing regime on personalised and point-to-point transport services must move forward rather than standing still.** The community demands a change. We should not be tied down by certain trade interest. However, issuing more taxi licences alone is not an effective solution; nor should we give up the principle that the provision of any passenger services must be lawful. If passenger services are not regulated, they can be freely expanded. This may in effect encourage illegal passenger services. As a result, the planning of

² Since the last issue of urban and New Territories taxi licences in 1994, the population of Hong Kong has increased from over 6 million to over 7 million. There is an increasing passenger demand for taxis during peak hours. Meanwhile, the number of taxis in some nearby cities is more than that in Hong Kong.

public transport system would be disrupted, thereby affecting the foundation of the public transport services used by over 90% of the commuters as well as their efficient, reliable and long-term healthy development. We note that some considered that the Government should raise the penalties over illegal hire or reward services. The Government will continue to closely monitor the related prosecution figures and the use of private cars for the illegal carriage of passengers for reward, and will timely review the penalties for the related offences where necessary.

6. The Government has accorded priority to reviewing taxi service under the Role and Positioning Review of the Public Transport Strategy Study since November 2015. The key area of study is whether to introduce franchised taxis (formerly referred to as “premium taxis”). In the course of the study, we have been consulting the taxi trade and other stakeholders on the policy direction of franchised taxis through various channels. We met with the Hong Kong Taxi Council³ in March 2016, and canvassed the views of the taxi trade through the regular consultation mechanism between the Transport Department (“TD”) and the trade (i.e. the Trade Conferences for urban, New Territories and Lantau Taxis) in April and May 2016.

7. In June 2016, the Government reported the work progress and the proposed directions of introducing franchised taxis to the Panel of the last term and canvassed Members’ views. Subsequently, the Government met with various taxi associations regarding the proposed directions of introducing franchised taxis. We note that the Panel and the taxi trade generally have reservation on the Government’s proposal to introducing a trial scheme on franchised taxis. Areas of particular concern include introducing franchised taxis through a franchise model, the requirement for the operators to maintain an employer-employee relationship with their drivers, the numbers of franchised taxis and franchise fees, etc.

8. Having regard to the views of various stakeholders and the latest analysis of the consultancy study, the Government has completed the study on the policy framework and key implementation arrangements on franchised taxis. This paper sets out the findings in detail, including suitable adjustments to the preliminary proposals submitted to the Panel of the last term in June 2016.

³ The Hong Kong Taxi Council comprises 17 taxi associations with an objective to improve service quality through self-regulation by the trade.

9. We must stress that **given the limitations of the existing taxi operation model in ensuring the overall quality of taxi service in a sustained fashion, the problems widely criticised by the public cannot be resolved under the existing taxi regime.** At present, over 18 000 ordinary taxi licences have been issued. They are all permanent in nature. Renewal of the licences is not required. These licences have been issued without any conditions directly related to service quality. As such, we cannot impose any penalty against unsatisfactory service of taxi drivers or owners through the licence conditions. Since the existing taxi licences are permanent in nature, it is legally infeasible to impose new licence conditions for regulating the taxi services on the issued licences through legislative amendments⁴. Moreover, under the present licensing regime, regulation of taxi services can only be carried out by enforcement action under the Road Traffic Ordinance (Cap. 374) and its subsidiary legislations. Yet, malpractices of drivers usually occur with the presence of the drivers and passengers only. The absence of other independent corroborating evidence renders it difficult to gather evidence for prosecution. At present, enforcement actions are usually conducted by carrying out decoy operations. Even if the existing legislation is amended to impose heavier penalties on malpractices of taxi drivers, the effectiveness of enforcement is still subject to constraints arising from the aforesaid high threshold for gathering of evidence for prosecution. Given the limitations of the existing regulatory regime and enforcement actions, the quality of the existing taxi services can only depend on the willingness or performance of individual owners or drivers. However, the ownership of ordinary taxi licences is scattered. There are over 9 000 licence holders. It is difficult for the taxi owners to centrally manage the service quality. Incomes of taxi drivers are not directly related to their service quality. Thus, there is a lack of an incentive mechanism to ensure drivers' service quality, resulting in variation of service quality. Taxi owners and drivers do not usually have an employer-employee relationship. It is thus difficult to maintain the service quality of the drivers in the long run. Without an employer-employee relationship, the drivers' remuneration would be less stable thereby making it hard to attract new blood to the trade.

⁴ Different from taxi licences, existing passenger service trades are regulated by the passenger service licences ("PSLs"). The PSLs are time-limited (for 1 to 3 years in general). The Government may add new licence conditions when issuing new PSLs (i.e. renewing the PSLs). If the PSL holders do not comply with the licence conditions, the PSLs may be suspended or revoked in serious cases. At present, the taxi licences issued are permanent in nature. No renewal is required. Hence, it is legally infeasible to add new licence conditions on these licences.

10. Moreover, there is a lack of incentive for developing online car hailing service under the existing regime. As such, the taxi trade can hardly keep pace with the changing circumstances. Without reforming the existing regime of taxi services, the community's demand for a new type of quality personalised and point-to-point public transport services cannot be met. **Our proposal aims to maintain the positioning of various personalised and point-to-point services, while introducing the online car hailing model which is becoming increasingly popular around the world in an appropriate and timely manner. It should be a win-win proposal for both the public and the trade.**

Franchised taxis

11. The Government reiterates that the policy objectives of introducing franchised taxis are to provide passengers with an additional choice other than ordinary taxis and address the needs of passenger groups with higher disposable income. The Government has commissioned a consultancy to conduct a telephone survey in May 2016. The outcome of the survey indicates that, even without knowing how much the fare of franchised taxis⁵ would be higher than that of ordinary taxis, over 60% of the respondents already indicate that they will consider using franchised taxis of higher quality than ordinary taxis and expect to use franchised taxis at least once a month. This suggests that there is demand for better quality personalised point-to-point public transport services of higher fares. The survey results are summarised at **Annex 1**.

12. **It must be stressed that the objective of introducing franchised taxis is not to replace ordinary taxis but enhancing their complementarity.** The public will be provided with the choices of two types of taxi services:

- (i) **Ordinary taxis:** it charges fares according to meters at a level more affordable to the public or be hired as a whole in accordance with the law (i.e. fares to be agreed between passengers and service-providers). As mentioned above, this type of taxi will constitute the majority of taxi service and with the largest numbers in supply; and

⁵ "Franchised taxis" were referred to as "premium taxis" in the telephone survey conducted earlier on.

- (ii) **Franchised taxis:** the choice of franchised taxis will be in future made available to members of the public who have higher expectation of service quality and willing to pay higher fares. The supply of this type of taxis will not be significant. Details are set out in paragraph 23 below.

13. Apart from the two types of taxis, **hire cars** (i.e. using private cars for carriage of passengers for hire or reward) will continue to provide another type of personalised and point-to-point transport service. For those members of the public who prefer higher quality personalised and point-to-point transport services, they can book hire car services. In response to the community views on hire car services, the Government has completed the study on how to enhance the processing of applications for HCPs. On the premise of maintaining the cap of the HCPs (as mentioned in paragraph 4 above), new measures have been implemented starting from 1 February this year to facilitate new market entrants and ensure quality of vehicles. These measures include: interested parties may make a request for “pre-application assessment” without the need to submit private car registration documents; special consideration on individual merits may be given to applicants for Private Service (Limousine) Hire Car Permits who are unable to produce the required hiring records or future service contracts; and introducing the vehicle age requirement of Private Service (Limousine) Hire Car⁶.

14. As personalised and point-to-point transport services, ordinary taxis, franchised taxis and hire cars will have different roles and positioning as well as complement with each other. This is our basic policy consideration in introducing franchised taxis. As franchised taxis will be a new type of service, its effectiveness can only be ascertained by the market response after its introduction. Therefore, the Government will introduce franchised taxis on a trial basis. Upon completion of the trial scheme, the Government will conduct a review and decide on the way forward having regard to the review results.

Franchise Model

15. We understand that some Members and the taxi trade have reservation on the Government’s proposal to introduce franchised taxis through a franchise model on a trial basis. Some opined that making use

⁶ Vehicles to be deployed under new applications for a Private Service (Limousine) Hire Car Permit should be less than seven years old from the date of first registration as a "brand new vehicle" in Hong Kong at the time of the application. Upon replacement of a vehicle, if any, the replacement vehicle should not be older than the vehicle being replaced.

of some ordinary taxis to operate higher quality taxi service would suffice to meet the passenger demand. There was no need to increase the number of taxis nor introduce franchises so as to avoid adversely affecting the operating environment and long-term development of ordinary taxis.

16. As mentioned in paragraph 9 above, introducing franchised taxis through a franchise model is to overcome the limitations of the existing taxi operation model in ensuring the overall quality of taxi service in a sustained fashion. If the Government introduces higher quality taxi services through the existing taxi licensing regime, the limitations will persist, which will make it difficult for the new services to give full play to its new features.

17. As opposed to the existing licensing regime of ordinary taxis, granting franchises to operators to operate franchised taxis, similar to franchised bus services, will enable the Government to monitor the operators' performance through franchise terms. The operators will be responsible for ensuring that their services (including the performance of the drivers) will be proper and efficient as prescribed in the franchise. This will help address the current difficulty in managing centrally the service quality of ordinary taxis due to scattered ownership. Meanwhile, through franchise terms, the Government will be able to clearly prescribe the service level and set service standards in respect of vehicle types, compartment facilities, limit on vehicle age, arrangement of mobile hailing applications (the so-called "online hailing"), service quality of drivers, etc. If an operator fails to meet the service level or standards prescribed under the franchise, the Government will be able to impose penalties through franchise terms or even revoke the franchise. Meanwhile, the franchise terms would be reviewed and amended having regard to prevailing circumstances when new franchises are to be issued.

18. In view of the limitations of the existing regime of permanent licences, we also propose that the franchise should be time-limited, non-transferrable and non-renewable. Having regard to the need for the Government to review the trial scheme as soon as possible and make necessary adjustments as well as the effect of any proposed franchise duration on operators' ability to maintain financial viability, we propose that the duration of the trial scheme should be 5 years. Upon the expiry of the franchise, an operator of franchised taxis must compete with other interested parties in bidding for a new franchise. Applications for a franchise will be processed according to the arrangements set out in paragraphs 27 to 29 below.

19. The franchise model will enable the Government to monitor the franchised taxi service more effectively. As opposed to the existing taxi licensing regime which relies solely on the willingness or performance of individual car owners or drivers in maintaining service quality, a franchise model can provide better assurance in maintaining service quality and meet the public expectation for better quality personalised and point-to-point service nowadays. Therefore, the introduction of franchised taxi through a franchise model is an integral part of the policy consideration.

Employer-employee relationship

20. We are aware of the concerns of some members of the taxi trade that the requirement on operators to maintain an employer-employee relationship with taxi drivers will increase the operating cost of franchised taxis. They indicated that even under the prevailing rental model between the operators and drivers, the operators can introduce appropriate monitoring as well as reward and penalty mechanism to ensure drivers' service quality. We note that some members of the taxi trade have operated taxi service in fleets with various measures introduced to monitor the drivers' service quality in recent years.

21. We have explained to the taxi trade earlier the objective of our proposal to require operators to maintain an employer-employee relationship with their drivers. On one hand, drivers of franchised taxis will be protected by the Employment Ordinance (Cap. 57) and other ordinances relating to employees' rights. Compared with those of the ordinary drivers, their job and income will be more stable. It will help attract new blood to the trade. On the other hand, drivers' service quality will be linked with their incentive to maintain a more stable and attractive job. This will help encourage the drivers to maintain good service quality.

22. Having regard to the trade's concerns and the experiences of taxi trade in operating taxi fleets in recent years, the Government agrees that maintaining an employer-employee relationship is not the only effective means to maintain drivers' service quality. Yet, maintaining an employer-employee relationship should provide the most effective mechanism for ensuring the drivers' service quality, enhancing the protection on drivers relating to employees' rights and attracting new blood to the trade. Therefore, it is more desirable for operators and their drivers to maintain an employer-employee relationship. We propose

that maintaining an employer-employee relationship would not be a mandatory requirement. Yet, if applicants for franchised taxis propose to maintain an employer-employee relationship with their drivers, their applications will be accorded with a higher score in the tender assessment. Moreover, the applicants' proposed measures for monitoring driver's service quality as well as reward and penalty system will be considerations for assessment.

Number of franchises and number of franchised taxis

23. We are aware of the taxi trade's concerns that introducing franchised taxis would increase the total numbers of taxis, aggravate the road burden and adversely affect the development of ordinary taxis. Having regard to the demand for better quality personalised and point-to-point public transport services at higher fares in the community as stipulated in paragraph 11 above, a certain number of franchised taxis must be introduced, rather than making use of the present 18 000-odd ordinary taxis, to meet the passenger demand. Under the trial scheme, we propose to introduce 600 franchised taxis in total (i.e. about 3% of the 18000-odd taxis in Hong Kong).⁷ Considering the uncertainties of the passengers' demand for the new services under the trial scheme and the taxi trade's concern on the number of franchised taxis, we are of the view that the present proposal (i.e. 600 vehicles) can strike a balance between various considerations. Meanwhile, we propose to stipulate the cap on the number of franchised taxis (i.e. 600 vehicles) in the law. In other words, any changes in the cap will require legislative amendments in future. In the course of taking forward the legislative amendments, the Government will thoroughly consult various stakeholders, including the taxi trade. This is similar to the current practice on the cap on the number of public light buses. Moreover, we propose that each franchise should comprise 200 vehicles. In proposing this vehicle number, we have made reference to the present fleet operation experience of the taxi trade and taken into account that the fact that a fleet must be of certain scale for serving passengers and maintaining operation efficiency. To this end, we propose to grant 3 franchises. In proposing this number, we consider that the number of franchise should not be too many nor too few so as to maintain a healthy competition in the franchised taxi market.

⁷ According to a telephone survey conducted by the Government earlier, 3% of the respondents indicated that they would definitely use franchised taxis if their fares were 60% to 100% higher than that of ordinary taxis; 9% of the respondents indicated that they would definitely use franchised taxis if their fares were 30% to 50% higher than that of ordinary taxis.

Other details of the proposal on franchised taxis

24. Other details of the proposal on franchised taxis, including the permitted operating areas, vehicle types, compartment facilities, limit on vehicle age, the required number of vehicles in operation, mobile hailing applications, drivers' training, customer services and complaint handling as well as payment methods, etc., are set out at **Annex 2**.

Fares

25. We are aware of the concerns of some Members and the taxi trade about the fare level of franchised taxis. To this end, the Government has earlier engaged a financial consultant to conduct a study on the fare structure and level of franchised taxis⁸. In the course of the study, the Government has carefully struck a balance between the following considerations:

- (a) Since the service standards of franchised taxis will be higher and their service level will be subject to more stringent requirements, the operating cost of franchised taxis will be higher. Thus, the fare level of franchised taxis should be able to offset the higher operating cost, while providing adequate and reasonable incentives for operators and drivers to maintain quality service in a sustained fashion; and
- (b) Although the target clientele of franchised taxis is a group of passengers with higher disposable income, the fares cannot be set at an excessive level as franchised taxis will remain a type of public transport services. Meanwhile, ordinary taxis will remain the major source of supply of personalised and point-to-point public transport services, while hire cars, which are not a type of public transport services, will cater for passengers who prefer higher quality and more personalised and point-to-point transport services. Ordinary taxis, franchised taxis and hire cars will have

⁸ When studying the fare structure and level, the consultant has considered how factors (including the projected passenger demand for and supply of franchised taxis, the travel patterns of passengers, and the effect of different fare levels on the projected passenger demand) would affect the incomes of franchised taxis. Regarding the operating cost of franchised taxis, the consultant has taken into account that the operating cost for franchised taxis would be higher than that of ordinary taxis having regard to the higher service standards of franchised taxis as well as the more stringent requirements governing their service level.

distinct positioning. Hence, there is a need to maintain a certain differential between the fares of franchised taxis, ordinary taxis and hire cars so as to reaffirm their different market positioning.

Having regard to the considerations mentioned in paragraph 23 above and some possible operational uncertainties when launching the new service (such as passenger demands, adaptation during the initial operation of new service, and fluctuation of fuel prices), the Government is of the view that the overall fare level of franchised taxis should be about 35% to 50% above the ordinary taxi fare; On the basis of new flagfall fare of urban taxi at \$24 to be effective on 9 April this year⁹, the flagfall fare of franchised taxi can be around \$32 to \$36. According to the outcome of a telephone survey conducted by the Government earlier, if the overall fares of franchised taxis will be 30% to 50% higher than that of ordinary taxis, around 9% of the respondents indicate that they will definitely use franchised taxis. Prior to the launch of franchised taxis, the Government will separately engage a consultancy to ascertain the definite fare level having regard to the prevailing circumstances¹⁰.

26. We propose the fare adjustment mechanism and fare structure of franchised taxis to be largely the same as the existing arrangements of ordinary taxis. Details are set out at **Annex 3**.

Tender of franchise and franchise fee

27. We propose the franchises of franchised taxis to be granted by open tender. The Government welcomes any companies (including existing taxi operators) to apply for the operating rights for franchised taxis.

28. Bidders are required to submit technical and financial proposals. The survey outcome indicates that the most important aspect of franchised taxis is good service quality. In light of the above, the technical proposal will be the key factor of consideration for assessment and constitute a higher weighting in the total score, while the financial

⁹ On 7 February 2017, the Chief Executive in Council approved adjustments to the urban, New Territories and Lantau taxi fares, with increases of \$2 in flagfall charges, \$0.1 in the incremental charge for the first-tier distance and \$0.2 in the incremental charge for the second-tier distance after flagfall. The new fares have been submitted to the Legislative Council for negative vetting and expected to be effective on 9 April 2017.

¹⁰ Similar to ordinary taxis, franchised taxis can provide hire-as-a-whole service. The fare will be agreed between the parties providing and receiving the service.

proposal will be of secondary consideration and constitute a lower weighting in the total score.

29. We are aware of the trade's views that operators of franchised taxis should pay a franchise fee so as to maintain a fair competition in the taxi market. According to the preliminary assessment of the consultant and subject to the operation efficiency of individual operator, the overall fare level now proposed (i.e. about 35% to 50% above the ordinary taxi fare) should be financially viable, while the return level should provide ample room for the Government to charge a franchise fee. On the basis of the above considerations, we propose that operators will be required to pay a franchise fee under the trial scheme. Bidders will have to propose a franchise fee level in their financial proposal. The proposal will be part of the tender assessment. Other details on tender of franchise taxis are set out at **Annex 4**.

30. We are aware of some Members and the taxi trade's concerns that franchised taxis, introduced through a franchise model might be monopolised by large-scale companies. We must stress that the objective of introducing franchise taxis through a franchise model is to maintain the taxi service quality through centralised management. Meanwhile, the operators' fleet must be of certain scale to enable them to maintain operation efficiency. Nevertheless, as explained in paragraph 28 above, the technical proposal submitted by bidders will be the key factor of consideration when assessing the franchise applications.

The views of the taxi trade

31. Apart from the aforesaid views, some members of the taxi trade have proposed that even if the franchised taxis are to be introduced, the Government should make use of some ordinary taxi licences to operate franchised taxis. Further implementation details were not provided. At the meeting with the taxi trade earlier, we have explained that this is not a simple issue. The problems that are difficult to resolve include:

- (a) as stated in paragraph 17 above, the Government is of the view that centralised management is the key to effectively maintain service quality. Introducing franchised taxis through a franchise model aims to achieve this goal. However, the trade's proposal of making use of some ordinary taxi licences to operate franchised taxis aims to provide passengers with a higher quality service at a higher fare under the existing taxi licensing regime, which is a

completely different arrangement. We encourage the trade to enhance service quality under the existing regime. Yet, having regard to the scattered ownership of ordinary taxi licences, making use of ordinary taxi licences to operate franchised taxis cannot resolve the difficulty in centrally managing the service quality. Therefore, the Government considers it necessary to introduce new taxi services through the franchise model. Moreover, the trade's proposal will in effect restrain the entry of new operators as well as the growth of taxi numbers in an orderly manner, thereby hindering the fair development of taxi market.

- (b) on the financial front, ordinary taxi licences are issued through an open tender and awarded to those who offer the highest prices. As such, the taxi licences carry a price. Moreover, as the licences can be traded freely, a market price also exists. As the taxi owners bought their taxi licences at different prices, the costs of each ordinary taxi to operate under the franchised taxi model are different. Meanwhile, franchises will be time-limited and non-transferable. The operators will be required to pay the franchise fee as proposed having regard to the anticipated operating conditions. It is thus difficult to arrive at a proposal financially acceptable to all parties.

32. However, the right to operate the proposed franchised taxis is open to existing taxi operators in the tender process. If their fleets fulfil the basic requirements, they are eligible to apply and compete for the franchises to operate the new franchised taxi service. In fact, as stipulated at Annex 4, we agree that experiences in operating taxi and other public transport services in Hong Kong would be beneficial to the operation of franchised taxi service. Hence, the technical proposal submitted by a company with such experiences would be given a higher score. Therefore, existing taxi operators are not excluded from participating in franchised taxi market.

Conclusion

33. The proposal mentioned in paragraphs 11 to 32 above is considered the most feasible one after the Government's in-depth study and having regard to the views of various parties. After canvassing the views of Members and stakeholders, we will report to the Panel and

public on how to take forward the work on franchised taxis in the Report on Public Transport Strategy Study to be released in June this year.

Enhancing ordinary taxi service

34. As mentioned in paragraph 12 above, ordinary taxis will remain the major source of supply of personalised and point-to-point public transport services and with the largest numbers in supply. The objective of introducing franchised taxis is not to resolve the existing problem of variation in service quality of ordinary taxis. As such, the Government and taxi trade will continue to enhance ordinary taxi service proactively under the current licensing regime.

35. There have been calls for more stringent monitoring over taxi drivers to eradicate malpractices such as refusal to hire and overcharging. The Police has stepped up enforcement actions in this regard, such as by carrying out decoy operations in different districts for stronger deterrent effect. Over the past 3 years, the Police initiated prosecutions in an average of over 1500 cases each year involving malpractices of taxi drivers. In regard to cases involving overcharging, the court has imposed significantly heavier punishment in recent years, such as suspension of licences up to 9 months and up to 3 months imprisonment. The Police will continue their work on this front. The Government would keep in view the judgements on these cases and review the penalty as and when necessary.

36. Apart from enforcement actions, publicity and public education are important. The TD has been promoting quality taxi service through publicity and public education. It has set up information boards and large banners at major taxi stands and tourist spots with higher pedestrian flow to display information on taxi fares and reference fares for traveling to major destinations. The TD has also published leaflets with information such as taxi fares and telephone helplines for distribution at the airport, cruise terminals, major border crossings, Disneyland and Hong Kong Tourism Board's visitor centres. Furthermore, the TD formed the Quality Taxi Services Steering Committee ("Steering Committee") in 1999 with the aim to enhancing the service quality. The TD and the Steering Committee provide useful taxi information and guidelines for lodging complaints to taxi passengers through various channels. A Taxi Driver Commendation Scheme has also been in place since 2002 to give recognition to taxi drivers who have delivered quality service. To remind the taxi trade to maintain their service quality, the

TD has published a guide setting out points to note concerning the obligations and conduct of taxi drivers.

37. Indeed, it is necessary to actively improve the service quality of taxis, particularly in relation to the widely criticised behaviours such as refusal to hire and poor attitude of drivers. This view is shared by the Government and taxi trade. In this regard, 17 taxi associations have formed the Hong Kong Taxi Council in November 2015. Members include taxi drivers, radio call stations, owners, taxi companies and keepers, etc. The objective is to improve service quality through self-regulation by the trade. The Hong Kong Taxi Council launched a mobile application for hailing taxi service in May 2016¹¹. Passengers may hail taxis through the application as well as rate and comment on drivers' performance. The Hong Kong Taxi Council is now updating the application with reference to the experience obtained. Meanwhile, the Hong Kong Taxi Council has organised retraining programme for taxi drivers with the Employees Retraining Board in order to enhance their service standards and attract new blood to the trade. The first two programmes have commenced in February 2017.

38. Moreover, there is an increasing number of operators providing ordinary taxi service of higher quality in the form of hire-as-a-whole service as permitted by law (e.g. Diamond Cab, SynCab, Prime Cab and Jumbo Cab). Under this model, taxis can provide pre-booked hire-as-a-whole service and the fare will be agreed between the parties providing and receiving the service. This mode of service can meet the needs of different passengers more flexibly. The operators concerned generally provide hire-as-a-whole service by using vehicles with larger compartments and better facilities. The number of such taxis has increased from about 20 in early 2015 to more than 150 at present. 80 of them are wheelchair accessible taxis.

39. In addition to the effort to assist the taxi trade in improving service quality, the Government is considering various measures conducive to improving the operating environment of taxis so as to better meet the needs of the public and facilitate long-term, healthy development of the trade. The Government has studied the following issues:

¹¹ As far as we understand, about 3 800 drivers are registered users of the mobile hailing applications, involving about 1 000 taxis.

- (i) whether to relax permanently the no-stopping restrictions for taxis from peak hours and “7am to 7 or 8pm” on roads with speed limits less than 70 kilometres per hour so as to enable taxis to provide better point-to-point service to passengers;
- (ii) at present, the law requires that a taxi driver identity plate shall bear the driver's photograph taken not earlier than 12 months before the day of display. This in effect means that a driver needs to renew his/her identity plate annually. The Government is studying whether the validity period of a driver identity plate could be extended so that renewal can take place less frequently; and
- (iii) at present, applicants for taxi driving licence must hold a valid driving licence for driving a private car or light goods vehicle for 3 years and above. The Government is studying whether the requirement can be relaxed so as to ease the problem of driver shortage.

40. As regards items (i) and (ii) above, we are now undertaking preparatory work for legislative amendments and plan to roll out these facilitative measures around early next year. The Government is also consulting the trade on item (iii).

Advice sought

41. Members are invited to comment on the proposals in paragraphs 11 to 40 above.

Transport and Housing Bureau
March 2017

Summary of survey findings on franchised taxi service¹

To gauge the public views on the introduction of franchised taxi service, the consultant conducted a telephone survey in May 2016. There were some 2 000 successfully interviewed respondents. The summary of the survey findings are as follows -

1. Public acceptability of franchised taxis

- Even without knowing how much the fare of franchised taxis would be higher than that of ordinary taxis, over 60% of the respondents already indicate that they would consider using franchised taxis of higher quality than ordinary taxis.

2. Expectations on franchised taxis

- The respondents indicate the most important aspects of franchised taxis are as follows:
 - (a) good attitude of drivers
 - (b) no refusal to hire nor cherry-picking of passengers
 - (c) using the most direct practicable route
 - (d) more spacious compartment
 - (e) better equipped with compartment facilities

3. Fare

- Over 70% of the respondents consider it reasonable for franchised taxis to charge a higher fare.
- If the fares of franchised taxis will be 60% to 100% higher than that of ordinary taxis, over 3% of the respondents in total indicate that they will definitely use franchised taxis². If the fares of franchised taxis will be 30% to 50% higher than that of ordinary taxis, around

¹ “Franchised taxis” were referred to as “premium taxis” in the telephone survey.

² This ratio matches with the percentage that several hundred franchised taxis amount to about 3% of 18 000-odd taxis in Hong Kong.

9% of the respondents indicate that they will definitely use franchised taxis³.

4. Expected usage

- In general, over 60% of the respondents indicate that they will use franchised taxi service at least once a month. Among them, over 40% indicate that they will use franchised taxi service at least once a week.
- For the peak hours during the weekdays, about 60% of the respondents indicate that they will use franchised taxi service at least once a month. Among them, around 40% indicate that they will use franchised taxi service at least once a week.
- For weekends, non-peak hours during the weekdays and public holidays, about 50% of the respondents indicate that they will use franchised taxi service at least once a month. Among them, over 35% indicate that they will use franchised taxi service at least once a week.
- Over 40% of the respondents indicate that they will use both franchised taxis and ordinary taxis at the same time (albeit unsure about whether they will reduce the use of ordinary taxis). More than 30% of the respondents indicate that they will not reduce the use of ordinary taxis if they use franchised taxis⁴. Over 80% of the respondents indicate that they will not reduce the use of their usual means of public transport (other than ordinary taxis) if they use franchised taxis. The remaining some 20% of the respondents indicate that they will reduce the use of public transport services

³ The relevant survey question is – If the fare of franchised taxis is higher than that of current ordinary taxis by the following level, would you consider taking a franchised taxi?
(1) Double, i.e. 100%
(2) 60%-90% higher
(3) 30%-50% higher

⁴ The relevant survey question is – If franchised taxis are launched, how would you expect your usage of franchised taxis and current ordinary taxis respectively on (a) peak hours on weekdays, (b) weekends, public holidays or non-peak hours on weekdays?
(1) would try both, but not sure whether the use of ordinary taxis would be reduced;
(2) would use franchised taxis, but unlikely reduce the use of ordinary taxis;
(3) would use more franchised taxis and reduce the use of ordinary taxis; and
(4) not sure.

(other than ordinary taxis) if they use franchised taxis. Of these respondents, about 3% of them indicate that they would reduce of use of private cars⁵.

- Nearly 40% of the respondents indicate that they will use franchised taxis more frequently if their income remains stable or on the rise in future and they find franchised taxi service satisfactory after use.

⁵ The relevant survey question is –Would you expect your usage of transport modes other than ordinary taxis would be reduced because of taking franchised taxis on (a) peak hours on weekdays and (b) weekends, public holidays or non-peak hours on weekdays?
(1) would reduce the use of other transport modes: (a) railway; (b) franchised bus; (c) resident's bus service; (d) minibus; (e) ferry; (f) private car; (g) other (please specify); and
(2) would not reduce the use of other transport modes.

Other details of the proposal on franchised taxis

Other details of the proposal on franchised taxis are as follows:

Permitted operating areas

2. We propose the permitted operating areas of franchised taxis should be the same as those of existing urban taxis. Moreover, having regard to the possible passenger demand of franchised taxis in South Lantau, the Transport Department (“TD”) will consider granting 3-5 Lantau Closed Road Permits for each operator. We also propose that franchised taxis can only pick up and drop off passengers at designated taxi stands, but not at ordinary taxi stands.

Vehicle types, compartment facilities, limit on vehicle age and required number of vehicles in operation

3. We propose to set basic service standards and compartment facilities requirements in respect of vehicle types under a franchise. For instance, the operators’ fleets will be required to comprise at least 50% of wheelchair-accessible taxis. If a bidder of franchised taxis propose a percentage of wheelchair accessible vehicles higher than the requirement, his application will be accorded with a higher score under the assessment. Operators will be required to provide free wi-fi and mobile phone charging facilities. Having regard to the different market positioning of ordinary taxis and franchised taxis and to respond to the need of the passenger group for franchised taxis, we propose to set a minimum vehicle price requirement. Apart from the basic standards, we propose that the operators can decide on its own the type of vehicles to be used, such as the use of environment-friendly vehicles (including electric vehicles), vehicles with larger compartment and luggage storage space, etc. as well as other compartment facilities. The type of vehicles and compartment facilities proposed by the applicant will be assessed for granting the franchises. The idea is to encourage operators to provide a wider variety of vehicle types and compartment facilities.

4. To enhance driving safety and the appeal of vehicle appearance, we propose to set an age limit on vehicles under the franchise. We propose that the age limit should not exceed the franchise period, i.e. 5

years. In fact, age limits are imposed on taxis in our neighbouring cities. For example, decommissioning is mandatory for a taxi after 5 years, 6.5 years, and 8 years of service in Japan, Sydney and Singapore respectively.

5. As regards the livery and the identification marking of franchised, two options are available. The first is to standardise the requirements, while allowing individual operators to attach company logos to vehicles in their fleets in an appropriate manner. Based on experiences abroad, a livery in black should be in order. The other option is to allow operators to make their own arrangements without standardisation. This is the practice of Singapore. Both options are conceptually feasible. We will make a decision after canvassing the views of the public and trade.

6. As franchised taxis are a new service, operators may have to make necessary adjustment in the initial stage of operation. To this end, we propose to allow operators of franchise to launch their franchised taxis in phases. For instance, operators will be required to put in place no less than 150 franchised taxis upon commencement of its franchise, while the remaining 50 franchised taxis will have to be put in place within the first two years of operation.

Mobile Applications

7. We propose to require operators to provide mobile applications for hailing franchised taxis. Operators may develop their own mobile applications or use the existing ones. The TD will provide, in its webpage, hyperlinks to the mobile applications of different franchised taxi operators. The operators' mobile applications will have to meet the standard requirements under the franchises, including functions to lodge complaints, express opinions and rate drivers. This will also help the operators to monitor the service quality more effectively. The mobile applications will not be allowed to require passengers to provide their destinations unless the passengers opt to do so on their own volition. The operators will be required to dispatch taxis according to passengers' locations. Refusal of hire will not be allowed. Moreover, we propose that the franchises should require all franchised taxis to be equipped with GPS devices. The real-time operating data of each franchised taxi, including hires for services, charges, routes and drivers' information, will be recorded by the GPS devices for the Government's inspection. In deciding the scope of operating data to be collected, the Government will carefully assess whether such operating data will contain personal information. To ensure protection on passengers' personal data, we will

carefully handle the information involving personal data in accordance with the six data protection principles under the Personal Data (Privacy) Ordinance if necessary.

Drivers' training

8. We propose to require the franchise operators to provide training courses to the drivers. The training courses should cover customer service skills, driving attitude, handling of emergencies and traffic accidents, handling of customer complaints, basic vocational English and Mandarin, etc. Drivers' training courses proposed by the applicants will be an important factor to be assessed for granting the franchises.

Customer service and complaint handling

9. We propose to require the franchise operators to provide 24-hour customer service hotlines and electronic channels (e.g. email, online comment form or mobile applications) as platforms for lodging complaints and providing comment. We also propose to require the operators to handle the passengers' complaints or respond to their opinions within a reasonable period.

Payment method

10. We propose to require the franchise operators to provide at least one means of electronic payment, such as credit card, mobile payment applications, or octopus card payment, other than cash payment.

The fare adjustment mechanism and structure of franchised taxis

The details of the proposed fare adjustment mechanism and structure of franchised taxis are as follows-

Fare adjustment mechanism

2. With reference to the existing fare adjustment mechanism of ordinary taxis, we propose the fare adjustment should be approved by the Executive Council. The new fares will have to go through negative vetting by Legislative Council before implementation. Factors for considering fare adjustment applications can include-

- (a) the need to ensure the financial viability of taxi operations, taking into consideration changes in revenue and operating costs;
- (b) the need to maintain an acceptable level of taxi service in terms of vehicle availability, passenger waiting time and passengers' feedback on service;
- (c) the need to maintain a reasonable differential between the fares of ordinary taxis, hire cars and other public transport services;
- (d) public acceptability of the proposed fares; and
- (e) that the taxi fare structure should be "front-loaded" and thereafter on a varying descending scale for incremental charges.

3. We propose that the operators will not be allowed to make application for fare increase within the first year of operation upon the commencement of the franchise as the operation and financial situation of the operators can only be ascertained after a period of operation. Operators are allowed to make application subsequently if necessary.

Fare structure

4. We propose adopting the same fare structure of ordinary taxis for franchised taxis. The fares will include flagfall fare, incremental fares after flagfall and other charges¹. Having regard to the fact that franchised taxis will be public transport service and the experiences of other cities, the fare structure should be simple and clear for passenger's convenience in using the service. We are aware of the suggestions to introduce a peak-hour surcharge to facilitate better matching of passenger demand by the operators during peak-hour. In fact, passengers can provide tips in the existing taxi hailing through telephone call or mobile applications currently under the law to facilitate the matching process during peak-hour or for passengers with special needs. We consider the existing arrangement can provide sufficient flexibility for operators to efficiently respond to the passenger demand. Hence, we do not propose to introduce peak-hour surcharge in the trial scheme.

¹ Other charges include additional charge for baggage, animal or birds, hiring arranged through telephone booking and other surcharges for every hiring involving the use of toll tunnel, toll road or toll area.

Other details of open tender of franchised taxis

Bidders for franchised taxis must meet the Government's requirement on minimum capital requirement. In deciding the minimum capital requirement, the Government will take into account that minimum capital level should help ensure the operators' financial capability in operating the franchised taxis, while not imposing an excessively high entry threshold.

2. Bidders will be required to submit technical and financial proposals. The technical proposals will include the bidder's company structure, proposed vehicles to be used¹ and compartment facilities, monitoring as well as reward and penalty mechanism, drivers' training, customer service and complaint handling system, etc. We agree that the experience of operating ordinary taxis and other public transport services in Hong Kong will be beneficial for the efficient operation of franchised taxis. Applicants with such experiences will be accorded with a higher score. The financial proposal refers to the bidder's proposed level of franchise fee.

3. Moreover, we propose that operators of franchised taxis will be required to deposit a guarantee. The Government may deduct the penalty overdue by the franchisees from the guarantee. Upon completion of the franchises, the guarantee will be returned to the operators after deducting any overdue penalty.

¹ If a bidder of franchised taxis propose a percentage of wheelchair accessible vehicles higher than the requirement (i.e. 50% of the vehicles in the fleet must be wheelchair accessible vehicles), his application will be accorded with a higher score under the assessment.