

**立法會**  
**Legislative Council**

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**Panel on Transport**  
**Meeting on 19 January 2018**

**Updated Background brief on franchised ferry services in Hong Kong**

**Purpose**

This paper gives a brief account of the development of ferry services in Hong Kong and summarizes members' concerns expressed in the past when matters related to the franchised ferry services provided by the "Star" Ferry Company Limited ("SF") were discussed by the Panel on Transport (the Panel).

**Government's waterborne transport policy**

2. In February 1998, the Administration briefed the Panel on the Government's waterborne transport policy. In gist, the Administration advised that it would maintain the essential link to serve the transport needs of commuters on the outlying islands where land transport alternatives were not available. But for those non-essential and supplementary inner harbour services, the Administration considered it more appropriate to let market forces determine the future of such routes, the service and fare levels and the scale of operation.

3. Ferry services in Hong Kong may be regulated by means of franchises or licences.

Franchised ferry services

4. Ferry franchises normally cover a network of services and are granted by the Chief Executive-in-Council (CE-in-Council) for a certain period, say 10 to 15 years<sup>1</sup>. A franchise shall be subject to such conditions as the CE-in-Council

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<sup>1</sup> Under the Ferry Services Ordinance ("FSO") (Cap. 104), the CE-in-Council may grant a franchise conferring the right to operate a ferry service to any company for an initial period not exceeding 15 years. The CE-in-Council may, at the request of the grantee, extend the franchise for a period or periods not exceeding 15 years, if he is satisfied that the grantee is capable of maintaining a proper and efficient ferry service and it is in the public interest to continue the franchised service.

specifies, which may include the management and commercial development of piers, pier rental and the maintenance of a proper and efficient ferry service generally. The CE-in-Council may also by order determine the maximum fares that may be charged for the carriage of passengers on any franchised ferry service and may determine such fares in relation to classes of passengers, times of operation of the franchised services, and standards of ferry vessel accommodation. Increase in the maximum fare is subject to the CE-in-Council's approval.

### Licensed ferry services

5. Ferry licences, which are used to cater for services whose patronage is lower or which serve localised communities, are granted by the Commissioner for Transport ("C for T") for a maximum period of three years, but could be extended for a further period of three years at any one time, with the aggregate continuous period of licence not exceeding 10 years. In providing ferry services, a licensee shall maintain to the satisfaction of C for T a proper and efficient ferry service. As regards regulation on ferry fares, C for T may by notice in the Gazette determine the maximum fares that may be charged on licensed ferry services. Any fare increase requires prior approval from C for T.

### **Development of ferry services in Hong Kong**

6. In the past, ferry services in Hong Kong were mainly provided by two franchisees, the Hongkong & Yaumati Ferry Company Limited (HYF) and SF. With the expiry of the HYF's franchise on 31 March 1999, all its outlying island, new town and inner-harbour ferry services together with the Central-Hung Hom route previously operated by SF under franchise had been tendered out as licensed services in several packages in 1998. These licensed services<sup>2</sup>, of which eight routes were awarded to HYF and two to SF, started operations in April 1999. Following a spate of complaints on HYF's services, HYF subsequently transferred its licences, with the approval of C for T, to New World First Ferry Services Limited ("First Ferry" ) which had taken over the operation of these services from mid-January 2000.

7. Currently, First Ferry is operating six inner harbour and outlying island ferry services. The Hong Kong and Kowloon Ferry Limited, Discovery Bay Transportation Services Limited, Park Island Transport Company Limited and some other operators operate other cross-harbour and outlying island passenger ferry services.

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<sup>2</sup> The two licensed ferry services, viz. the Hung Hom-Central and Hung Hom-Wanchai routes had been operated by SF since 1 April 1999. These two routes ceased operation after the expiry of their licences on 31 March 2011.

8. Meanwhile, SF is the only franchised ferry operator in the territory. It operates two franchised ferry services, namely the "Central – Kowloon Point"<sup>3</sup> and the "Wan Chai – Kowloon Point" routes.

9. According to the Administration, the existing franchise of SF will expire on 31 March 2018 and that the Star Ferry applied in January 2016 for extension of its franchise in accordance with the requirement as set out in the FSO<sup>4</sup>. In February 2017, the Administration planned to engage SF for discussion on the arrangements for the new franchise of the two franchised ferry routes that it operated, preceded by public consultation<sup>5</sup>.

## **Previous discussions by Panel on Transport on franchised ferry services**

### The previous franchise extension applications of SF

10. The Panel discussed the franchise extension application of SF in 1997. At its meeting in October 1997, some members took the view that as SF was part of Hong Kong's heritage, representing an important aspect of Hong Kong's transport culture, ferry services provided by SF, including their vessels, should be retained. Whilst urging the Administration to extend the franchise of SF, members called on the Administration to monitor the service level and avoid upsurge of ferry fares by SF.

11. The Panel last discussed the franchise extension application of SF at the Panel meeting held on 30 October 2007. At this meeting, members were briefed on the Administration's proposal to grant a 10-year new franchise, with effect from 1 April 2008, to SF to operate two cross-harbour ferry routes, namely "Central-Kowloon Point" and "Wanchai-Kowloon Point", upon the expiry of the franchise at the end of March 2008.

12. Members noted that the Administration had conducted assessments on the performance of SF before making the above proposal and that the Administration considered SF had been providing proper and efficient ferry service<sup>6</sup>. Members also noted that SF had committed to improving services standards and complying with new franchise terms for better regulation of its

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<sup>3</sup> Kowloon Point is the wording used in the existing franchise, and refers to Tsim Sha Tsui.

<sup>4</sup> According to the FSO (Cap. 104), the grantee may make a request for extension of its franchise not less than two years before the expiration of the franchise period.

<sup>5</sup> The public consultation took place between 23 February and 22 April 2017. The Administration had submitted to the Panel a paper reporting the public views collected during the public consultation (LC Paper CB(4)1274/16-17(01)).

<sup>6</sup> The assessment of SF's application for franchise extension was set out in the Administration's paper (LC Paper No. CB(1)96/07-08(03))

operation. The additional commitments by SF in the new franchise for further improving its services included implementing environmental improvement measures, enhancing service standards and enhancing service control.

13. Members in general supported granting of a new franchise to SF. A few members expressed that SF was able to maintain a high service standard. Notwithstanding the indication of support, members also expressed various views and concerns about SF's new franchise. Their major views and concerns are summarized in the ensuing paragraphs.

*Concerns about the period of franchise/ license*

14. Pointing out that the licence period for the operation of outlying island ferry services was only three years, a member criticized the Administration of adopting a double standard by granting SF a 10-year new franchise while ignoring members' repeated calls for a longer licence period for outlying island ferry services to assist the operator(s) concerned to recover their investment in ferry operation.

15. The Administration explained that the franchise granted for SF's franchised services had all along been 10-year long. Given the stable operating environment of SF's franchised services, the granting of a 10-year franchise was appropriate. On the other hand, a three-year licence with a renewable arrangement up to an aggregated period of ten years was more suitable for outlying ferry services because it could facilitate service monitoring by the Government while providing ferry operators the flexibility for reviewing the services so as to cater for any change in the operating environment. Noting the Administration's explanation, the member asked the Administration to note the operators' wish for a longer licenced period so as to enable them to recover their investment over a longer period.

*Concerns about the requirement to use cleaner fuels*

16. In response to a member's enquiry about the availability of a mechanism to monitor SF's performance in honouring the additional commitment in the new franchise with regard to the use of cleaner fuel, the Administration advised that a proposal could be put forward to CE-in-Council for imposing penalties on SF in case of failure to honour the commitment. The Administration further advised that SF would conduct trial on the technical and operational feasibility of using more environmental-friendly fuels (such as emulsified fuels and ultra low sulphur diesel) and adopt the most appropriate fuel subject to the trial results. The Administration emphasized that the above commitment was a condition for granting SF the new franchise.

17. In response to another member's enquiry on penalties which the Administration could impose if SF did not honour its commitment to using cleaner fuels, the Administration advised that a financial penalty of up to \$10,000 could be imposed on SF in the first imposition of such penalty for failure to comply with its franchise. The fines could be doubled and even tripled in subsequent imposition of such penalty. CE-in-Council might even revoke the right of the grantee to operate the franchised services.

18. Another member expressed concern about the implications of requiring SF to use cleaner fuels on the operating cost and hence fare levels of SF's franchised services. In reply, the Administration explained that according to SF, the cost of using emulsified fuel would be similar to that for the presently used industrial diesel.

*Views and concerns about the need to regulate fare adjustments*

19. A member expressed concern that granting of a franchise of 10-year long might not be conducive to fare regulations. Members also enquired about the availability of restrictions on fare increase in SF's new franchise and the availability of a fare adjustment mechanism. Addressing members' concern, the Administration advised that the Legislative Council ("LegCo") would be consulted and briefed on any fare adjustment application and the rationale and figures concerned. The application would then need to go through CE-in-Council and negative vetting by LegCo. The Administration assured members that in examining SF's applications for fare increase, there was a need to give consideration to a basket of factors including the operator's service performance, cost reduction initiatives, public acceptability of the proposed fares, etc.

*Measures to help enhance the financial viability of SF's franchised services*

20. In recognition of the escalating fuel cost and its serious implications on the operation of SF, a member asked whether the Administration had granted greater flexibility in the new franchise to enable SF to increase its non-fare box revenue, so as to cross-subsidize ferry operation and minimize the need to increase fares. The Administration advised that fuel tax for ferry operators had been waived and that various measures had been taken to help them generate more non-fare revenue, for example, permitting them to sub-let premises at piers for commercial and retail activities and to grant commercial concessions for advertising purposes.

### *Other views and concerns*

21. Noting that SF's new franchise would straddle ten years, a member was keen to ensure that there would be conditions therein to accord better protection for the interests of SF's staff in keeping with new developments in labour welfare such as wage protection. The Administration confirmed that there were no such conditions in the franchise because it was the Administration's long established policy to allow public transport operators and their staff to work out staff benefits between themselves. The Administration further advised that the most important consideration in deciding whether to grant a franchise was the operator's ability to provide a proper and efficient service.

### The current discussion between the Administration and SF on the new franchise

22. At the Panel meeting held on 24 February 2017 when SF's application for fare increase was discussed, members also noted the Administration's plan to enter into direct negotiation with SF on the terms of new franchise. Service improvement would be a key requirement during the discussion with SF on the renewal of its franchise. No member raised objection to the above plan. Members also noted that the Administration had launched a public consultation (as mentioned in paragraph 9 above) on matters to be covered under the new franchise.

### **Latest position**

23. The Administration will brief members at the meeting scheduled for 19 January 2018 on the outcome of the Administration's discussion with SF on the franchise commencing on 1 April 2018 .

### **Relevant papers**

24. A list of papers is in **Appendix**.

Council Business Division 4  
Legislative Council Secretariat  
12 January 2018

## Updated background brief on franchised ferry services in Hong Kong

## List of relevant papers

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
22.10.97	Panel on Transport	Administration's paper on franchise of ferry services	CB(1)354/97-98(01) <a href="http://www.legco.gov.hk/yr97-98/english/panels/tp/papers/tp2210-4.htm">http://www.legco.gov.hk/yr97-98/english/panels/tp/papers/tp2210-4.htm</a>
12.12.97	Panel on Transport	Administration's paper on rationalization of Hongkong and Yaumati Ferry Company Limited's (HYF) franchised routes	CB(1)625/97-98(03) <a href="http://www.legco.gov.hk/yr97-98/english/panels/tp/papers/tp1212-6.htm">http://www.legco.gov.hk/yr97-98/english/panels/tp/papers/tp1212-6.htm</a>
25.9.98	Panel on Transport	Legislative Council Brief on franchise of the HYF and the pier development package	TBCR 2/3151/95(98)pt.23 <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp2509_4.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp2509_4.htm</a>
		Minutes of meeting	CB(1)340/98-99 <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp250998.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp250998.htm</a>
14.10.98	Council meeting	Hon Miriam LAU Kin-yeek raised a question on operation of licensed ferry services	<a href="http://www.legco.gov.hk/yr98-99/english/counmtg/hansard/981014fe.htm">http://www.legco.gov.hk/yr98-99/english/counmtg/hansard/981014fe.htm</a>
9.2.99	Panel on Transport	Letter from the Department of Justice on mechanism for fare adjustment of licensed ferry services	CB(1)866/98-99(02) <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/p866e2.pdf">http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/p866e2.pdf</a>
		Minutes of meeting	CB(1)1121/98-99 <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp090299.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp090299.htm</a>
26.3.99	Panel on Transport	Administration's paper on transitional arrangements for the outlying island, new town and inner-harbour ferry services	CB(1)1033/98-99(03) <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp2603_5.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp2603_5.htm</a>
		Information note on licensed ferry services	CB(1)1062/98-99(01) <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/t2631062.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/t2631062.htm</a>

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
		Minutes of meeting	CB(1)1329/98-99  <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp260399.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp260399.htm</a>
23.4.99	Panel on Transport	Administration's paper on the initial operations of the new licensed ferry services	CB(1)1169/98-99(04)  <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp23044a.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp23044a.htm</a>
		Administration's paper on carrying capacity and patronage of outlying island ferry services	CB(1)1287/98-99(01)  <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp2304a.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp2304a.htm</a>
		Minutes of meeting	CB(1)1563/98-99  <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp230499.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp230499.htm</a>
28.7.99	Panel on Transport	Information paper on ferry services of the HYF	CB(1)1751/98-99(04)  <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp28076c.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/papers/tp28076c.htm</a>
		Minutes of meeting	CB(1)186/99-00  <a href="http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp280799.htm">http://www.legco.gov.hk/yr98-99/english/panels/tp/minutes/tp280799.htm</a>
26.11.99	Panel on Transport	Administration's paper on transfer of ferry licences from the HYF to the New World First Ferry Services Limited (First Ferry)	CB(1)275/99-00  <a href="http://www.legco.gov.hk/yr99-00/english/panels/tp/papers/275e.pdf">http://www.legco.gov.hk/yr99-00/english/panels/tp/papers/275e.pdf</a>
		Administration's paper on review of incidents on 15-16 and 22-23 August 1999	CB(1)419/99-00(05)  <a href="http://www.legco.gov.hk/yr99-00/english/panels/tp/papers/a419e05.pdf">http://www.legco.gov.hk/yr99-00/english/panels/tp/papers/a419e05.pdf</a>
		Minutes of meeting	CB(1)869/99-00  <a href="http://www.legco.gov.hk/yr99-00/english/panels/tp/minutes/tp261199.pdf">http://www.legco.gov.hk/yr99-00/english/panels/tp/minutes/tp261199.pdf</a>
26.1.00	Council meeting	Hon LAU Kong-wah raised a question on a ferry accident	<a href="http://www.legco.gov.hk/yr99-00/english/counmtg/hansard/000126fe.pdf">http://www.legco.gov.hk/yr99-00/english/counmtg/hansard/000126fe.pdf</a>



Date of meeting	Meeting	Minutes/Paper	LC Paper No.
28.1.00	Panel on Transport	Administration's paper on transitional arrangements for the changeover of HYF's licensed ferry services to First Ferry on 15 January 2000	CB(1)780/99-00  <a href="http://www.legco.gov.hk/yr99-00/english/panels/tp/papers/a780e.pdf">http://www.legco.gov.hk/yr99-00/english/panels/tp/papers/a780e.pdf</a>
		Minutes of meeting	CB(1)1043/99-00  <a href="http://www.legco.gov.hk/yr99-00/english/panels/tp/minutes/tp280100.pdf">http://www.legco.gov.hk/yr99-00/english/panels/tp/minutes/tp280100.pdf</a>
	Panel on Transport	Administration's paper on application for fare increase by the "Star" Ferry Company Limited	CB(1)1779/00-01(01)  <a href="http://www.legco.gov.hk/yr00-01/english/panels/tp/papers/a1779e01.pdf">http://www.legco.gov.hk/yr00-01/english/panels/tp/papers/a1779e01.pdf</a>
25.10.00	Council meeting	Hon LEUNG Yiu-chung raised a question on plan to standardize weekday and holiday fares for ferry routes plying the outlying islands	<a href="http://www.legco.gov.hk/yr00-01/english/counmtg/hansard/001025fe.pdf">http://www.legco.gov.hk/yr00-01/english/counmtg/hansard/001025fe.pdf</a>
9.11.05	Council meeting	Hon LAU Kong-wah raised a question on rise in ferry fares	<a href="http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm1109ti-translate-e.pdf">http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm1109ti-translate-e.pdf</a>
20.7.07	Panel on Transport	Administration's paper on fare increase application by the "Star" Ferry Company, Limited and arrangements for the operation of major licensed ferry services of the outlying islands to be tendered	CB(1)2111/06-07(02)  <a href="http://www.legco.gov.hk/yr06-07/english/panels/tp/papers/tp0720cb1-2111-2-e.pdf">http://www.legco.gov.hk/yr06-07/english/panels/tp/papers/tp0720cb1-2111-2-e.pdf</a>
		Minutes of meeting	CB(1)146/07-08  <a href="http://www.legco.gov.hk/yr06-07/english/panels/tp/minutes/tp070720.pdf">http://www.legco.gov.hk/yr06-07/english/panels/tp/minutes/tp070720.pdf</a>
29.8.07	Panel on Transport	Administration's paper on arrangements for the operation of major outlying island licensed ferry services in the coming tender exercise	CB(1)2292/06-07  <a href="http://www.legco.gov.hk/yr06-07/english/panels/tp/papers/tp0829cb1-2292-1-e.pdf">http://www.legco.gov.hk/yr06-07/english/panels/tp/papers/tp0829cb1-2292-1-e.pdf</a>
30.10.07	Panel on Transport	Administration's paper on Star Ferry's application for franchise extension	CB(1)96/07-08(03)  <a href="http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp1030cb1-96-3-e.pdf">http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp1030cb1-96-3-e.pdf</a>

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
		Background brief on ferry service in Hong Kong prepared by the Legislative Council Secretariat	CB(1)97/07-08 <a href="http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp1030cb1-97-e.pdf">http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp1030cb1-97-e.pdf</a>
		Minutes of meeting	CB(1)390/07-08 <a href="http://www.legco.gov.hk/yr07-08/english/panels/tp/minutes/tp071030.pdf">http://www.legco.gov.hk/yr07-08/english/panels/tp/minutes/tp071030.pdf</a>
30.6.08	Panel on Transport	Administration's paper on Star Ferry's fare increase application for franchised services	CB(1)1977/07-08(01) <a href="http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp0630cb1-1977-1-e.pdf">http://www.legco.gov.hk/yr07-08/english/panels/tp/papers/tp0630cb1-1977-1-e.pdf</a>
		Minutes of meeting	CB(1)2301/07-08 <a href="http://www.legco.gov.hk/yr07-08/english/panels/tp/minutes/tp080630.pdf">http://www.legco.gov.hk/yr07-08/english/panels/tp/minutes/tp080630.pdf</a>
5.12.11	Panel on Transport	Administration's paper on "Star Ferry's fare increase application for franchised ferry services"	CB(1)464/11-12(03) <a href="http://www.legco.gov.hk/yr11-12/english/panels/tp/papers/tp1205cb1-464-3-e.pdf">http://www.legco.gov.hk/yr11-12/english/panels/tp/papers/tp1205cb1-464-3-e.pdf</a>
		Background brief on Star Ferry's fare increase application for franchised ferry services prepared by the Legislative Council Secretariat	CB(1)450/11-12 <a href="http://www.legco.gov.hk/yr11-12/english/panels/tp/papers/tp1205cb1-450-e.pdf">http://www.legco.gov.hk/yr11-12/english/panels/tp/papers/tp1205cb1-450-e.pdf</a>
		Minutes of meeting	CB(1) 1482/11-12 <a href="http://www.legco.gov.hk/yr11-12/english/panels/tp/minutes/tp20111205.pdf">http://www.legco.gov.hk/yr11-12/english/panels/tp/minutes/tp20111205.pdf</a>
24.2.17	Panel on Transport	Administration's paper on Star Ferry's application for fare increases	CB(4)578/16-17(07) <a href="http://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170224cb4-578-7-e.pdf">http://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170224cb4-578-7-e.pdf</a>
		Background Brief on Star Ferry's fare increase application prepared by the Legislative	CB(4)578/16-17(08) <a href="http://www.legco.gov.hk/yr16-17/eng">http://www.legco.gov.hk/yr16-17/eng</a>

<b>Date of meeting</b>	<b>Meeting</b>	<b>Minutes/Paper</b>	<b>LC Paper No.</b>
		Council Secretariat	<a href="http://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170224cb4-578-8-e.pdf">lish/panels/tp/papers/tp20170224cb4-578-8-e.pdf</a>
		Administration's paper on Report on Findings of Public Consultation on New Franchise for The "Star" Ferry Company Limited	<a href="http://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170224cb4-1274-1-e.pdf">http://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170224cb4-1274-1-e.pdf</a>
		Minutes of meeting	CB(4)1425/16-17  <a href="http://www.legco.gov.hk/yr16-17/english/panels/tp/minutes/tp20170224.pdf">http://www.legco.gov.hk/yr16-17/english/panels/tp/minutes/tp20170224.pdf</a>

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