

**For discussion  
on 16 March 2018**

## **LEGISLATIVE COUNCIL PANEL ON TRANSPORT**

### **Ferry Services Ordinance (Cap. 104)**

#### **Duration of Ferry Service Licences**

#### **PURPOSE**

This paper seeks Members' views on the Government's proposal to relax the cap on the period of newly granted licences for ferry services and also that on the period of each licence extension.

#### **BACKGROUND**

2. Apart from providing essential external links for outlying islands, ferries serve as an alternative to road-based transport modes for passengers who travel across the territory and Victoria Harbour. There are currently 13 licensed ferry operators<sup>1</sup> in Hong Kong, operating a total of 19 regular passenger ferry routes, two dangerous goods vehicular ferry routes and two special ferry routes<sup>2</sup> to provide services among different areas and outlying islands. In addition, there are 66 "kaitos" ferry services providing irregular services mainly to remote areas and operation of such services also requires ferry service licences.

3. Ferry service licences (licences) are granted by the Commissioner for Transport (the Commissioner) under Section 28 of the Ferry Services Ordinance (the Ordinance) (Cap. 104) to allow the licensees to operate ferry services. As

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<sup>1</sup> Excluding The "Star" Ferry Company Limited which is operating two ferry routes under franchise.

<sup>2</sup> Special services refer to a vehicular ferry service between North Point/Kwun Tong and Mui Wo provided for various types of vehicles under emergencies as notified by the Commissioner for Transport, and a passenger ferry service between North Point and Joss House Bay during the Tin Hau Festival.

currently required under Section 29<sup>3</sup> of the Ordinance, licences whether newly granted or extended may be granted for a maximum period of three years on each occasion, and the aggregate licence period (i.e. including all extended period(s)) shall not exceed 10 years. As mentioned in the Public Transport Strategy Study Final Report published by the Government in 7 June 2017, we are of the view that the requirement of capping the period for which a licence may be granted or extended on each occasion at three years is not conducive to the operators' longer-term planning and greater investment for running ferry services. We have undertaken to explore relaxing the three-year cap on licence period granted or extended on each occasion through legislative amendments. Noting that this Panel had proposed on a number of occasions a relaxation of the cap on licence period to enhance the business environment for ferry services, the Government briefed the Panel in January 2018 on our proposal to relax the cap on licence period granted or extended on each occasion in the paper on Public Transport Strategy Study – Implementation Progress of Measures (LC Paper No. CB(4)490/17-18(01)).

## **DETAILED PROPOSAL**

4. Having regard to factors such as local ferries' roles and positioning in public transport, their operational characteristics, business environment of the trade, public expectations on ferry services and fares as well as statutory requirements, the Government proposes to amend the Ordinance to relax the cap on licence period newly granted or extended on each occasion, i.e. from not exceeding three years to not exceeding five years, with the aggregate licence period remains to be capped at 10 years, thereby facilitating ferry operators' long-term planning and investment for enhancing the financial viability of ferry services and promoting continuous enhancement to service quality. For example, if the proposal comes into effect and assuming that an operator is granted a five-year licence on the first occasion, he may then apply for licence extension for five years at the maximum. As such, the operator only needs to apply for licence extension once within the whole ten-year period, i.e. fewer than the three extension applications as currently required (grant of a three-year new licence, followed by two licence extensions each at the maximum period of three years and then one licence extension of one year).

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<sup>3</sup> Section 29 of the Ordinance provides as follows:

- (1) A licence may be granted for any period not exceeding three years.
- (2) The Commissioner may, at the request of the licensee, during any period while the licence is in force, extend the period of the licence for a further period or periods not exceeding three years at any one time, so that the period for which the licence was granted together with all extensions thereof shall not in any case exceed in the aggregate a period of 10 years.

5. Specifically, we expect that upon relaxation of the cap on licence period newly granted or extended on each occasion and subject to ferry operators' operational performance, ferry operators may apply less frequently for extension of their current licence period. This will encourage ferry operators to make longer-term investment and operational planning, as well as more efforts in generating non-fare box revenue, with a view to enhancing the business environment and ferry services, as well as alleviating the pressure of fare increases. For instance, procurement of new ferries or major retrofitting works for the ferry fleet will involve substantial investment and take months to complete. Ferry operators will thus have to give prudent and long-term consideration to the financial arrangement and return concerned. If granted a longer licence period, ferry operators may consider more positively about retrofitting their ferry fleet for better ferry services or introducing greener technologies for higher energy efficiency.

6. Moreover, we expect that the proposal will enable ferry operators to strengthen their staff training and reduce uncertainties in employment and promotion prospects, thereby facilitating more flexible manpower deployment in the long run for better ferry services to address different passenger needs. Relaxing the cap on each licence period will also help ferry operators control their operational cost. An example is that ferry operators may enter into maintenance contracts of a longer contract period for their ferry fleet in exchange for more affordable contract sums and more favourable terms and conditions.

7. Ferry operators<sup>4</sup> currently using and managing ferry piers are allowed to sub-let certain premises at the piers for commercial activities during the licence period, with the aim of cross-subsidising ferry services to alleviate the pressure of fare increases. These ferry operators may, upon relaxation of the cap on each licence period, extend the period of their sub-let contracts accordingly to explore more sources of tenants, in particular those requiring a longer payback period (e.g. caterers).

8. We expect that this arrangement will allow operators more room to make longer term planning on the one hand and balance the need for an accurate financial projection on the other. A licence period not exceeding five years at the maximum aims at increasing its flexibility. Subject to individual situations, an operator may apply for a licence for a period of less than five years, while the

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<sup>4</sup> Ferry operators using ferry piers for providing ferry services are responsible for managing the piers, and may sub-let premises at the piers for commercial activities to generate non-fare box revenue, with the aim of cross-subsidising ferry services to alleviate the pressure of fare increase. As at December 2017, a total of 14 franchised or licensed ferry operators used 26 ferry piers and were cross-subsidised by non-fare box revenue. The 66 "kaito" ferry services using public piers/landing steps are not benefitted from such cross-subsidising as there is no space available for sub-letting at such public piers/landing steps.

Commissioner may, if she thinks fit, grant a licence for a period of less than five years under the Ordinance.

9. The Transport Department (TD) consulted the ferry trade in January 2018 on the Government's proposal to relax the cap on licence period newly granted or extended on each occasion to a maximum of five years. Ferry operators in general supported our proposal, and we also noted that individual operators proposed further relaxation of the cap on each licence or even the cap on the aggregate licence period. We suggest that the existing requirement of capping the aggregate licence period at 10 years be maintained. A licence period of excessive length may make it difficult for an operator to project its financial situations accurately, which may in turn affect service sustainability and fare stability. In particular, business environment of the ferry trade is subject to certain unstable factors, such as fluctuations in fuel cost under the global environment, tight manpower situation and evolving green technologies. In addition, the proposal will enable the Government to maintain a competitive environment among ferry operators. Under normal circumstances, the TD will select the most suitable operator for individual ferry routes by inviting expressions of interest or open tenders at an interval of 10 years the maximum. Other major views of the trade include concerns over possible impact on fare arrangements upon relaxation of the cap on licence period (if the proposal is accepted). Where necessary, licensed ferry operators may apply to the TD for fare increases, and the TD will process such applications under established procedures. In other words, fare adjustment and application for licence extension are two different processes and are not relevant to each other.

## **NEXT STEP**

10. We intend to table an amendment bill at the Legislative Council within the 2017-18 legislative year. Members are invited to offer views on our proposal.

**Transport and Housing Bureau  
Transport Department  
March 2018**