

立法會
Legislative Council

LC Paper No. CB(4)719/17-18(05)

Ref. : CB4/PL/TP

Panel on Transport
Meeting on 16 March 2018

Background brief on duration of ferry service licences

Purpose

This paper provides a brief account of the views and concerns expressed by members of the Panel on Transport ("the Panel") concerning the duration of ferry service licences granted under the Ferry Services Ordinance (Cap. 104) and related issues.

Background

Licensed ferry services

2. Ferries provide essential links to the outlying island and offer an alternative choice for passengers who travel to/from other areas and across the harbour. Starting from 1 April 1999, most of the ferry services are provided by licensed ferry operators. There are 12 ferry operators in Hong Kong providing 19 licensed passenger ferry services, with 14 outlying island licensed ferry routes and five in-harbour licensed ferry routes (**Appendix I**). In 2017, licensed ferries carry around 75 400 passenger trips per day. The above licensed ferry services are supplemented by "kaitos" which are licensed to provide waterborne transport services to the remote areas which are generally inaccessible by land in the territories. There were 69 "kaito" routes in 2016.

Duration of ferry service licences

3. In accordance with section 29 of Cap. 104, a licence to operate ferry service may be granted by the Commissioner for Transport ("C for T") for any period not exceeding three years. C for T 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.

4. According to the Administration, the current three-year licence period of the six major outlying island ferry routes ("the six routes") (see Appendix I) has commenced in mid-2017 and will end in mid-2020. The duration of the licence periods of the eight other outlying island ferry routes is not the same, ranging from one year to three years.

Special Helping Measures

5. It is the Administration's established policy that public transport services should be run by the private sector in accordance with commercial principles to enhance efficiency and cost-effectiveness. There is no direct subsidy from the Administration for the ferry services save for the six routes in Appendix I which are provided with the Special Helping Measures ("SHM") in **Appendix II**. According to the Administration, SHM are provided because, in the areas served by the six routes, there is basically no alternative to the ferry services available as a means of public transport, and short of SHM, the ferry services cannot be maintained without periodic hefty fare increases.

6. The Administration also advised that it had implemented various measures for all ferry routes where applicable to reduce the operating costs of ferry services. They included taking over the responsibility of pier maintenance, waiving fuel duty as well as reimbursing pier rental and exempting vessel licence fees under the Elderly Concessionary Fares Scheme. In addition, ferry service operators were allowed to sub-let premises at piers for commercial and retail activities to generate non-fare box revenues for cross-subsidizing the ferry operation so as to alleviate pressure for fare increase.

Major views and concerns of members

7. Over the years, members of the Panel have expressed concerns about the duration of ferry service licences and considered it too short for the ferry operators.

8. When the Panel considered fare increases for outlying island ferry services at its meeting on 2 June 2011, a member opined that the Administration had discouraged new operators from bidding for the outlying island ferry services by setting the licence period for ferry operators to three years, which might be too short for recovery of the investment required, which was substantial if new vessels were to be purchased.

9. At the Panel meeting on 11 July 2011, after hearing deputations' views regarding the outlying island ferry services, a member pointed out that the licence period should be set at ten years instead of only three years which might be too short for recovery of the investment required. It was also not conducive to attracting tenants to hire pier areas. The Administration responded that, although the validity period of all licences was three years, C for T might, at the request of the licensee, during any period while the licence was in force, extend the licence for a further period not exceeding three years at any one time up to an aggregate period of ten years. As such, ferry operators should be able to carry out long-term planning to achieve a fair return.

10. At the Panel meeting on 15 April 2016, members noted that the Administration had completed the mid-term review on the provision of SHM to the six routes for the three-year licence period from mid-2014 to mid-2017. They noted that, pursuant to the major outcome of the mid-term review, the Administration would (a) decide in the context of the next mid-term review in 2019 whether SHM should become a permanent subsidy to maintain ferry services and fare stability for the long term; (b) examine whether the current duration of each licence period of only three years was too short, and would hinder ferry operators' capability to make longer term planning; and (c) look into whether SHM should be expanded to the other eight outlying island ferry routes.

11. At the Panel meeting on 18 November 2016, members were briefed on the licence extension arrangements of the six routes and the expanded scope of SHM to be provided to them. Deputations' views were also received on this subject at the Panel meeting on 2 December 2016 during which members reiterated the views that the current three-year licence duration for ferry services should be lengthened to encourage long-term investment by ferry operators. Some members suggested that the licences should be lengthened to at least five years or ideally ten years. There was also a view that if the licence period was to be extended, the new licence should include a clause specifying the age of vessels to be used.

12. In response, the Administration expressed that it held a positive view in respect of extending the licence period for ferry services. However, there were other issues that needed to be further studied, e.g. the impact on the financial arrangements, provision of SHM, review mechanism and fare level. The Administration undertook to report the outcome of the above study to the Panel in the context of the next mid-term review.

13. In a paper provided by the Administration to the Panel in January 2018 to report the implementation progress of measures in the Public Transport Strategy Study, the Administration stated that extending the duration of ferry

service licences could facilitate operators' long-term planning and investment which could in turn help improve the financial viability of ferry services and encourage the operators to keep on enhancing the service quality. The Administration planned to extend the ferry service licence duration from currently not exceeding three years at maximum to not exceeding five years at maximum, while the aggregate period of a licence (i.e. including licence extension(s)) should not exceed 10 years. Legislative amendment was required for extending the licence period for ferry service.

Latest development

14. The Administration will consult members' views on the extension of the duration of ferry service licences at the Panel meeting to be held on 16 March 2018.

Relevant papers

15. A list of relevant papers is in **Appendix III**.

Council Business Division 4
Legislative Council Secretariat
13 March 2018

Summary of the licensed passenger ferry routes¹

Outlying islands

Major routes

1. Central — Cheung Chau
2. Central — Mui Wo
3. Central — Peng Chau
4. Central — Sok Kwu Wan
5. Central — Yung Shue Wan
6. Peng Chau — Mui Wo — Chi Ma Wan — Cheung Chau

Other routes

1. Aberdeen — Pak Kok Tsuen — Yung Shue Wan
2. Aberdeen — Sok Kwu Wan (via Mo Tat)
3. Central — Discovery Bay
4. Cheung Chau — Aberdeen
5. Discovery Bay — Mui Wo
6. Ma Wan — Central
7. Ma Wan — Tsuen Wan
8. Tuen Mun — Tung Chung — Sha Lo Wan — Tai O

Inner harbour

1. North Point — Hung Hom
2. North Point — Kowloon City
3. North Point — Kwun Tong (via Kai Tak)
4. Sai Wan Ho — Kwun Tong
5. Sai Wan Ho — Sam Ka Tsuen

Source:

http://www.td.gov.hk/en/transport_in_hong_kong/public_transport/ferries/service_details/index.html [Accessed March 2018].

¹ Besides the licensed ferry services, there are two franchised ferry services operated by The "Star" Ferry Company, Limited plying between Central and Tsim Sha Tsui and between Wan Chai and Tsim Sha Tsui.

**Details of the Special Helping Measures for
the six major outlying island ferry routes**

- (a) reimbursing the operators of the concerned ferry services for the vessel survey fee and private mooring charge;
- (b) reimbursing the pier electricity, water and cleansing charges;
- (c) reimbursing the balance of revenue foregone due to provision of elderly fare concessions after netting off the amount of pier rental reimbursement and vessel licence fee exemption under the established arrangement;
- (d) reimbursing the vessel maintenance cost;
- (e) reimbursing the vessel related depreciation costs;
- (f) reimbursing the revenue foregone due to provision of child fare concessions;
- (g) reimbursing the vessel insurance cost; and
- (h) re-launching "Visiting Scheme to Outlying Islands".

Source: Annex C to LC Paper No. CB(4)108/16-17(05)

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List of relevant papers

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
23.4.2010	Panel on Transport	Administration's paper on the review on ferry services for outlying islands	CB(1)1648/09-10(04) http://www.legco.gov.hk/yr09-10/english/panels/tp/papers/tp0423cb1-1648-4-e.pdf
		Administration's supplementary information on the review on ferry services for outlying islands (Follow-up paper)	CB(1)2765/09-10(01) http://www.legco.gov.hk/yr09-10/english/panels/tp/papers/tp0423cb1-2765-1-e.pdf
		Minutes of meeting	CB(1)2320/09-10 http://www.legco.gov.hk/yr09-10/english/panels/tp/minutes/tp20100423.pdf
5.11.2010	Finance Committee	Administration's paper on the helping measures to assist the operation of six major outlying island ferry trunk routes	FCR(2010-11)44 http://www.legco.gov.hk/yr10-11/english/fc/fc/papers/f10-44e.pdf
		Minutes of meeting	FC71/10-11 http://www.legco.gov.hk/yr10-11/english/fc/fc/minutes/fc20101105.pdf
2.6.2011	Panel on Transport	Administration's paper on the fare increases for outlying island ferry services	CB(1)2275/10-11(07) http://www.legco.gov.hk/yr10-11/english/panels/tp/papers/tp0602cb1-2275-7-e.pdf
		Minutes of meeting	CB(1)2867/10-11 http://www.legco.gov.hk/yr10-11/english/panels/tp/minutes/tp20110602.pdf

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
11.7.2011	Panel on Transport	Administration's paper on the outlying island ferry services	CB(1)2647/10-11(02) http://www.legco.gov.hk/yr10-11/english/panels/tp/papers/tp0711cb1-2647-2-e.pdf
		Minutes of meeting	CB(1)220/11-12 http://www.legco.gov.hk/yr10-11/english/panels/tp/minutes/tp20110711.pdf
24.5.2013	Panel on Transport	Administration's paper on the mid-term review on the six major outlying island ferry routes	CB(1)1059/12-13(05) http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tp0524cb1-1059-5-e.pdf
		Administration's paper on the construction of additional floors at Central Piers Nos. 4, 5 and 6	CB(1)1059/12-13(07) http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tp0524cb1-1059-7-e.pdf
		Administration's follow-up papers	CB(1)1410/12-13(01) http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tp0524cb1-1410-1-e.pdf CB(1)1410/12-13(02) http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tp0524cb1-1410-2-e.pdf
		Minutes of meeting	CB(1)1769/12-13 http://www.legco.gov.hk/yr12-13/english/panels/tp/minutes/tp20130524.pdf
26.5.2014	Panel on Transport	Administration's paper on the outlying island ferry services and fare adjustments	CB(1)1208/13-14(07) http://www.legco.gov.hk/yr13-14/english/panels/tp/papers/tp0411cb1-1208-7-e.pdf

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
		Administration's follow-up paper	CB(4)84/15-16(01) http://www.legco.gov.hk/yr13-14/chinese/panels/tp/papers/tp0526cb4-84-1-c.pdf
		Minutes of meeting	CB(1)78/14-15 http://www.legco.gov.hk/yr13-14/english/panels/tp/minutes/tp20140526.pdf
15.4.2016	Panel on Transport	Administration's paper on Public Transport Strategy Study Topical Study — Mid-term review for ferry services of the current licence period	CB(4)831/15-16(03) http://www.legco.gov.hk/yr15-16/english/panels/tp/papers/tp20160415cb4-831-3-e.pdf
		Administration's follow-up paper	CB(4)53/16-17(01) http://www.legco.gov.hk/yr15-16/english/panels/tp/papers/tp20160415cb4-53-1-e.pdf
		Minutes of meeting	CB(4)1321/15-16 http://www.legco.gov.hk/yr15-16/english/panels/tp/minutes/tp20160415.pdf
18.11.2016 and 2.12.2016	Panel on Transport	Administration's paper on Special Helping Measures for six major outlying island ferry routes for the next three-year licence period 2017-2020	CB(4)108/16-17(05) https://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20161118cb4-108-5-e.pdf
		Administration's follow-up paper	CB(4)405/16-17(01) https://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20161118cb4-405-1-e.pdf

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
		Minutes of meetings	CB(4)612/16-17 https://www.legco.gov.hk/yr16-17/english/panels/tp/minutes/tp20161118.pdf CB(4)876/16-17 https://www.legco.gov.hk/yr16-17/english/panels/tp/minutes/tp20161202.pdf
16.6.2017	Panel on Transport	Administration's paper on Public Transport Strategy Study	CB(4)1176/16-17(03) https://www.legco.gov.hk/yr16-17/english/panels/tp/papers/tp20170616cb4-1176-3-e.pdf
		Minutes of meeting	CB(4)177/17-18 https://www.legco.gov.hk/yr16-17/english/panels/tp/minutes/tp20170616.pdf
22.1.2018	Panel on Transport	Administration's paper on Transport Public Transport Strategy Study — implementation progress of measures	CB(4)490/17-18(01) https://www.legco.gov.hk/yr17-18/english/panels/tp/papers/tp20180122cb4-490-1-e.pdf