

Bills Committee on Franchised Taxi Services Bill

Government's Response to Issues Raised at the Meeting on 6 January 2020

In response to Members' request raised at the meeting on 6 January 2020, the Government's responses to the views submitted by the Competition Commission ("the Commission")(LC Paper No. CB(4)222/19-20(05)) are set out as follows.

2. The Government notes the views on the Franchised Taxi Services Bill ("the Bill") submitted by the Commission to the Bills Committee, which further elaborate its views on specific provisions of the Bill and provide references in relation to wider reform of the industry. In particular, Annex A sets out recommendations on (i) the manner in which fares are set; (ii) the number of franchised taxis and length of the trial period; (iii) tipping; and (iv) other considerations.

(i) Manner in which fares are set

3. The Commission opines that the Government should make use of a competitive process to encourage the bidders to compete on the fares instead of setting a higher fare for franchised taxis mandatorily. First, we must emphasise that ordinary taxis and franchised taxis have different positioning in the public transport system. Ordinary taxis constitute the majority of personalised and point-to-point public transport service with the largest number in supply and a more affordable fare level to the public. The target clientele of franchised taxis are passengers with higher disposable income while the supply of franchised taxis will be limited. They provide an additional choice other than ordinary taxis to the public to meet the new demand in the community for personalised and point-to-point public transport service of higher quality with online hailing features.

4. Since the service standards of franchised taxis will be higher and their service levels will be subject to more stringent requirements, the operating cost of franchised taxis will be higher. Thus, the fare level of franchised taxis should provide adequate and reasonable incentives for

operators and drivers to maintain quality service in a sustained manner. Meanwhile, setting a clear fare differential between ordinary taxis and franchised taxis helps achieve distinct market positioning between the two so as to avoid disrupting the existing delicate balance among public transport services because of unclear positioning. That said, the fare level of franchised taxis cannot be set at an excessive level given that they will remain a type of public transport services.

5. Having regard to the considerations mentioned above and possible operational uncertainties when launching the new service (such as passenger demands, adaption during the initial operation of new service and fluctuation of fuel prices), the Government now proposes that the fare level of franchised taxis should be set at around 50% above the ordinary taxi fare. We understand the Commission's view regarding the introduction of competitive element in the fare setting process. If the Bills Committee's final consensus on the Bill is that the fare of franchised taxis should allow certain flexibility or appropriate competitive process should be introduced to set the fare level during the tendering process, we are willing to further explore the feasibility of such arrangement when necessary and carefully consider and balance the views of stakeholders as well as the impact of such approach, especially considering how such suggestion can clearly distinguish the market positioning between franchised taxis and ordinary taxis.

(ii) Number of franchised taxis and length of the trial period

6. The Commission is of the view that the maximum number of franchised taxis should not be specified in the Bill, instead, it should be reviewed within two years of the trial period and suitably increased to reflect the market demand depending on the circumstances.

7. In principle, the Government agrees that the number of franchised taxis should be reviewed having regard to actual demand. However, since franchised taxis are a new service, the effectiveness and market feedback could only be ascertained after the service is launched. If we were to commence a review prematurely, it might not fully and accurately reflect the actual operating situation and will make it difficult for the operators to conduct valid financial assessment. Therefore, we consider it more

appropriate to adjust the cap through legislative amendments after the completion of the trial scheme having considered the community's response to franchised taxi services during the trial period and consulted various stakeholders so that the new franchises could meet the demand more effectively. In fact, there is no contradiction between clearly specifying the number of franchised taxis in the Bill and reviewing and adjusting such number where appropriate. Such practice could also help address the taxi trade's concern on the number of franchised taxis.

(iii) Tipping

8. As regards the Commission's concern about the acceptance of tips by franchised taxi operators, we must emphasize that such tips must be voluntarily offered by the passengers to the operators in compliance with statutory requirements. The operators shall under no circumstances request tips from passengers, which is same as the current practice of ordinary taxis. In fact, we require the franchised taxi operators to provide mobile applications for hailing and to dispatch taxis according to passengers' locations. The mobile applications will not be allowed to require passengers to provide their designations unless the passengers opt to do so on their own volition. These arrangements serve to tackle the problems of refusal to hire and "cherry-picking" of passengers by some individual drivers that are commonly criticised by the public. In addition, to ensure that the operators will maintain appropriate service levels to meet passengers' demand throughout the day, they will be required under the franchise terms to meet different franchised taxi availability rates during different periods of the day, e.g. over 90% of the franchised taxis must be available for operation during peak periods. Hence, we are of the view that there should not be cases where franchised taxi operators or drivers selectively provide service to passengers who are willing to provide tips.

(iv) Other considerations

9. The Commission considers that the franchise arrangement might lead to a situation where the franchisees in the first round would hold the franchises permanently. In fact, the franchise period for franchised taxis (proposed at 5 years) aims to break the existing framework of permanent ordinary taxi licenses. Under the current proposal, upon the expiry of the

franchise, an operator of franchised taxis must compete with other interested parties in bidding for a new franchise. During the tendering of new franchises, the Government will suitably adjust the assessment criteria having regard to the prevailing operating environment, concerns of the public, etc. so that the tender arrangement and assessment process could be carried out in a fair and open manner with a view to providing a level playing field for all bidders so as to select the bidders with higher quality. If the new entrants' technical proposals are of better quality compared with other bidders (including operators who have operated franchised taxis or other public transport), it is possible that they can be granted new franchises to join the franchised taxi market under the mechanism of tendering of franchises. This could help promote competition among operators, thereby enhancing the quality of franchised taxi service in a sustained fashion.

10. As regards the minimum capital requirement, when deciding on the appropriate level, the Government has to consider that such level could ensure the operators' financial capability in operating franchised taxis, while not imposing an excessively high entry threshold. We are of the view that the proposed minimum capital requirement of \$50 million could strike a balance of the considerations above. The precise minimum capital requirement will be set when the Government formally invites tender for the franchises.

11. On the requirements of service quality, the Government can clearly prescribe the service standards and service levels through franchise terms under the franchise model. These requirements could be kept up-to-date under the system and the Government could review or amend them before tendering new franchises in order to meet the public demand at that time. The proposed service standards (such as compartment facilities¹, at least 50% wheelchair accessible vehicles, online hailing arrangement, 24-hour manned customer service hotline, etc.) aim to provide higher service quality to passengers to facilitate their use of franchised taxis.

¹ The Government encourages franchised taxi operators to use more diversified vehicle types and compartment facilities to provide service, however, they should comply with the existing requirement on maximum passenger seating capacity of taxi to carry at most 5 passengers.

Conclusion

12. As we have mentioned earlier in the Legislative Council Brief on the Bill, while we understand the Commission's views from the competition angle, we would like to stress that, fundamentally the introduction of franchised taxis will not make the taxi market any less competitive. On the contrary, it may drive the ordinary taxi trade to further improve their service quality. The franchised taxi proposal in the Bill, including the proposed fare structure and level, number of franchised taxis and operational details, is the outcome of years of consultation with the trade and different stakeholders, which has struck a balance among various considerations. It aims to meet the new demand in the community for personalised and point-to-point public transport service of higher quality with online hailing features and to provide the public with an additional choice other than ordinary taxis. In formulating the policy, apart from the consideration from competition angle, the Government must also consider various factors including views canvassed from the taxi trade, passenger demand, service standards and requirements, operational efficiency and financial viability of franchised taxi operators, etc..

13. Meanwhile, the Government will continue to collaborate with the taxi trade to discuss various strategies and measures under existing taxi licensing regime to enhance the overall taxi service quality through the Committee on Taxi Service Quality.

**Transport and Housing Bureau
Transport Department
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