

Islands District Council
Licence Extension of the Six Major Outlying Island Ferry Routes

Purpose

This paper briefs the Islands District Council on the arrangements for extension of the licences of the six major outlying island ferry routes, and consults the members on the proposed fare adjustments of the ferry routes.

Background

2. The Transport Department briefed the Islands District Council in the meeting on 22 April 2013 on the preliminary results of the Mid-term Review on the six major outlying island ferry routes. (Please refer to the Islands District Council paper no. IDC 46/2013.)

3. The Government then briefed the Legislative Council Panel on Transport on 24 May 2013 on the results of the Mid-term Review on the six major outlying island ferry routes and the proposed arrangements for the next three-year licence period (i.e. from mid-2014 to mid-2017), including –

- (a) the special helping measure policy would be maintained and the financial cap would be adjusted upwards with regard to rising costs (the items covered by the special helping measures are in **Annex 1**);
- (b) noting that the services provided by the incumbent ferry operators are generally satisfactory and bidders would ask for unsatisfactory conditions and even request for huge fare increase in public tenders due to the operating difficulties faced by the six major outlying island ferry routes, the Government considers it preferable to maintain the services of the six ferry routes through extension of the current licences; and
- (c) the Government anticipates that the financial viability of the six major outlying island ferry routes in the next three-year licence period would be better assured through implementation of the above proposed arrangements. The Government would carry out

its stringent gate-keeping duties if fare increase applications are submitted by the incumbent ferry operators.

4. The Legislative Council Panel on Transport supported the above recommendations and the Legislative Council Finance Committee approved a commitment of about \$190 million in the meeting on 5 July 2013 for continued provision of the special helping measures to the six major outlying island ferry routes during the three-year licence period from mid-2014 to mid-2017, with a view to enhancing the long term financial viability of these services and reducing the burden on passengers in association with fare increase.

Arrangements for Extension of Licences of Incumbent Operators

5. The Transport Department received applications from the incumbent operators of the six major outlying island ferry routes for licence extension in August 2013.

6. With due consideration of the results of the Mid-term Review, the opinion of the Legislative Council, and that the current licences of the six ferry routes started from mid-2011 and further extension of these licences for three years would still meet the 10-year aggregate period rule; the Transport Department has in principle agreed to extend the current licences of the six ferry routes for three years in accordance with the stipulation of section 29(2) of Ferry Services Ordinance. The extended licence of “Central – Mui Wo” routes will be effective from 1 April 2014 and expire on 31 March 2017 whereas the extended licences of the remaining five routes will be effective from 1 July 2014 and expire on 30 June 2017. The details are as follows –

Ferry Routes	Ferry Operators with Licences Extended
“Central – Cheung Chau”	New World First Ferry Services Limited
“Inter-islands” serving Peng Chau, Mui Wo, Chi Ma Wan and Cheung Chau	
“Central – Mui Wo”	
“Central – Peng Chau”	Hong Kong & Kowloon Ferry Limited ¹
“Central – Yung Shue Wan”	Islands Ferry Company Limited ¹
“Central – Sok Kwu Wan”	Winnertex Limited ¹

¹ Subsidiaries of Hong Kong and Kowloon Ferry Holdings Limited.

Applications for Fare Adjustment

7. The concerned ferry operators will maintain the existing service level of the six major outlying island ferry routes during the extended three-year licence period. Though with the continued provision of special helping measures by the Government, the ferry operators express that there is still pressure on fares owing to persistently high fuel price and significant increase in marine labour remunerations resulting from a large amount of marine construction works, which are not covered by the special helping measures. The concerned ferry operators therefore apply for a fare increase of about 10% in their respective applications for licence extension.

8. In handling the fare increase applications, the Transport Department has taken into account the following factors –

- (a) the financial conditions of the ferry operators;
- (b) the performance of the ferry operators;
- (c) the increase in operating costs;
- (d) public affordability and acceptability of the proposed increase; and
- (e) other measures adopted by the ferry operators to save costs and generate additional revenue.

9. The Transport Department understands residents' concern on the fares of the outlying island ferry services. The Transport Department has carefully examined and assessed in details the financial information and data submitted by the concerned ferry operators, and their proposed fare increase rates. It has also taken into account the special helping measures amounted to \$190 million in order to reduce the burden of fare increase on passengers.

10. The Transport Department recommends approving the operators of the six major outlying island ferry routes to increase the fares for about 5-6% in the extended three-year licence period commencing from mid-2014. The current fares of the six ferry routes were imposed from mid-2011 as the results of the then public tenders. In the past two years (i.e. from July 2011 to December 2013), the accumulated increase in the Composite Consumer Price Index is 10.5%. On the other hand, there is an increase of 12.5% in the Median Monthly Household Income of Domestic Households in the past two years (i.e. from Quarter 3 of 2011 to Quarter 3 of 2013). In light of the above, the Transport Department considers the approved fare increase rate as proposed above mild.

11. The proposed fare increase rates of the six major outlying island ferry routes are summarized as follows –

Ferry Routes	Proposed Increase Rates for Adult Single Journey Fares	Proposed Increase Rates for Monthly Tickets	Proposed Average Fare Increase Rates	Implementation Dates of the Proposed New Fares
“Central – Cheung Chau”	4.8-5.4%	4.9%	5.0%	1 July 2014
“Inter-islands” serving Peng Chau, Mui Wo, Chi Ma Wan and Cheung Chau	4.9%	Not Applicable	4.9%	
“Central – Mui Wo”	4.8-5.4%	4.8%	5.2%	1 April 2014
“Central – Peng Chau”	5.8-6.3%	5.9%	6.2%	1 July 2014
“Central – Yung Shue Wan”	6.2-6.3%	6.0%	6.2%	
“Central – Sok Kwu Wan”	6.1-6.4%	5.9%	6.2%	

The proposed fares of the above six ferry routes are detailed in **Annex 2**.

Consultation

12. Members are invited to note the above arrangements for extension of the current licences of the six major outlying island ferry routes and offer advices.

Transport Department
February 2014