

Subsidies for Ferry Services in Hong Kong

We understand that Government is considering subsidizing ferry services to Cheung Chau, Mui Wo, Peng Chau, Lamma (two services), and the inter-islands service. We understand that the basis for subsidy is that passengers would be expected to meet a proportion of any justified fare increase (inflation plus half the remainder) while Government would reimburse to the ferry operator the foregone part of the increase subject to a cap set by the total maintenance costs on the relevant service, totaling some \$40 million per annum for the six services. To qualify for the subsidy, the Sunday/public holiday “surcharge” would have to be reduced from the current level of about 40% to no more than 20%.

We understand the difficulties of maintaining the viability of these services, but have the following concerns:

Overview: Government’s long-standing policy has been to provide transport services at a reasonable fare without direct subsidies. To depart from this policy should not be undertaken lightly, nor without clear policy considerations and objectives.

There is nevertheless a variety of subsidy schemes in place, ranging from capital cost subsidies for some railways, to fare concession schemes for students and the elderly. The CSSA includes a component for travel costs. The costs of these subsidies are met in a variety of ways, but normally fall to Government.

The policy objectives of existing schemes are quite clear: to ensure the viability of a major new transport development which might not otherwise be built; to lessen the financial burden on a class of citizen, which cuts across the whole of society (students/their parents, the elderly); or to assist those in need.

The proposed scheme does not match any of the above broad objectives.

Policy: we are not clear on the rationale and aims of the proposed scheme:

- (a) **To ensure the viability of the essential outlying island ferry services?**
Once triggered, the scheme will inevitably tend towards full reimbursement of the maintenance costs. But then, the underlying viability of the ferry services will not have improved. Further measures will become necessary.
- (b) **Why have these ferry services been singled out?** In fact there may be many other ferry/kai-to type services with similar needs, and indeed many land-based public transport services may also qualify.

- (c) **To reduce the transport cost burden for outlying islands residents?** If so, what are the considerations? There are many in Hong Kong for whom the financial burden of transport fares is very heavy. If financial burden is to be the driver, surely it should be measured on an objective and fair basis, for individuals in need, under a comprehensive transport subsidy policy? Also there is a considerable proportion of tourist traffic; what is the rationale for subsidising tourists?
- (d) **To provide a temporary scheme to tide over foreseen high fuel costs?** But fuel costs are unlikely to reduce in the future – indeed the opposite is the case. We have seen the impact of fuel costs at US\$147 a barrel, and that undermines the viability of all oil-based transport operators. It would seem inappropriate to single out several ferry services to address this likely problem, without having a comprehensive policy for all oil-based transport operators.
- (e) **Who will benefit from the scheme?** On the face of it passengers will benefit, but in practice a reduction in daily expenses in one area may be offset by an increase in daily expenses in another for those who can afford it – for example, any reductions here may be swept up in time by an increase in rent for those who can afford it.

Practical aspects and implications:

- (a) The arrangement is set to last for three years, but once in place will surely prove impossible to remove.
- (b) The cap, set by reference to maintenance costs, is arbitrary. Its impact will be different for each service. It may also perversely reward those services which incur higher maintenance costs, for whatever reason. Older or more polluting vessels may qualify for higher subsidies.
- (c) The reduction of the Sunday/public holiday “surcharge” will have an adverse impact on regular fares. Given that it will be a condition of tender, the impact will be felt in an immediate upward adjustment to regular fares.
- (d) While reduction and indeed elimination of the “surcharge” may be desirable, it should not be considered at the expense of immediate upward adjustment in fares, nor of introducing subsidies.
- (e) The subsidy scheme will be administratively burdensome and subject to disputes. For example, how would reasonable maintenance costs be defined and allocated?
- (f) It seems that there is no mechanism to revise the subsidy down if costs drop.



Every alternative should be exhaustively considered. We support efforts to maximize revenue from non-ferry services, such as commercial concessions on piers. We have the following additional suggestions:

- (a) Each route has its special characteristics, for example varying passenger volumes (Cheung Chau has relatively high passenger numbers and should be viable), alternative transport (Mui Wo, where land transport is also available), alternative routes (Sok Kwu Wan, where the service could go to Aberdeen rather than Central). It is not appropriate to treat all the same.
- (b) Service types should be reviewed. Is it necessary to maintain fast and slow services where such are provided? Would a standard service offering be less expensive?
- (c) Does the freight requirement lead to additional costs/vessel requirements? If so, can it be met in different ways?
- (d) The services may be further marketed and promoted to local and overseas tourists, to increase passenger numbers through imaginative tourism packages with, if necessary, attractive concessions.

Conclusion: the policy objectives of the proposed scheme are not clear. The implications are far-reaching. Both the objectives and the implications need to be clearly set out and further analysed before proceeding.

In the meantime, if the impact of fares is deemed to be too great, it would seem sensible to consider a scheme to help those in need. Such a scheme may be built on the CSSA, should be based on objective criteria, and applicable to all forms of public transport rather than the ferries alone.

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