

政府總部  
運輸及房屋局  
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26 July 2010

The Chartered Institute of Logistics and Transport,  
7/F, Yue Hing Building,  
103 Hennessy Road,  
Wanchai,  
Hong Kong.  
(Attn : Ir Prof. Wong Sze-chun)

Dear Ir Professor Wong,

### **Subsidies for Ferry Services in Hong Kong**

Thank you for your letter of 8 July 2010 to the Secretary for Transport and Housing. I am authorized to reply on her behalf.

It is the Government's established policy that public transport services should be run by the private sector or public corporations in accordance with commercial principles. This policy should equally apply to the provision of ferry services. However, ferry services are unique in that they are the only means of transport for some of these outlying islands. Therefore, we have to ensure that these essential services could be provided to the residents and that fare stability could be maintained. In order to achieve this, we conducted a review of the ferry services for outlying islands in May 2008.

The chronic problem faced by the outlying islands ferry services is two-fold : lack of growth in demand and highly volatile fuel costs. As such, stagnant operating revenue is not able to sustain increasing recurrent costs. On the demand side, patronage has been relatively small. The population projection up to 2012 does not support much growth in demand. On the cost side, the major components are staff remuneration, and

maintenance and fuel costs. Whereas fuel cost constitutes a significant portion of total operating expenditure, it is outside the operators' control and puts the business at high risk.

The Government has been providing various helping measures to enable ferry operators to reduce operating cost by taking over pier maintenance responsibility, waiving fuel duty, reimbursing pier rentals and exempting vessel licence fees for ferry services under the Elderly Concessionary Fares Scheme; and to allow them to sublet the piers in order to increase non-fare box revenue. In view of the characteristics and the problems faced by outlying island ferry services, we consider that the existing measures are not enough and there is a need to step up the measures. In formulating our proposals, our basic premise is to follow as far as possible the existing policy of allowing the private sector to operate public transport services on commercial principles. We have also borne in mind the need for prudent use of public funds. We also need to strike a balance between the need to support essential services which otherwise would not be financially viable and the need to let those individuals shoulder the appropriate responsibility for choosing to live on the outlying islands.

On the above basis, we propose that further support should be extended to the six major trunk routes in order to share some of the burden of the commuters when fare increases are necessary. In effect, this would mean one route for each of the major islands except for Lamma Island where we propose to support two routes because of the geographical distance between Yung Shue Wan and Sok Kwu Wan. We propose to share the burden of the commuters to the extent that the rate of fare increase could be reduced by half (after netting off the rate of general inflation). In line with the existing helping measures that the Government has been providing, we propose that this would be done by reimbursing to the operators the vessel maintenance cost that has been incurred.

We propose to use reimbursement of vessel maintenance cost because vessel maintenance is an essential and regular part of operating ferry services. Such costs would only be reimbursed if and when justified fare increases are approved by the Commissioner for Transport and only actual expenses already incurred will be reimbursed to avoid abuse. In order to monitor the proper spending of public funds and ensure that fare levels should be appropriately adjusted when operating costs are projected to be reduced, a mid-term review will be conducted during the 3-year licensing period. We will also review the effectiveness and appropriateness of these measures before the expiry of the 3-year licensing period. We need to seek the funding approval of the Finance Committee

of the Legislative Council before we can implement the measure and indeed, if the measure is to be adopted beyond the 3-year cycle, funding approval has to be sought again.

We have also explored other possible options, including reducing cost through route and service rationalization, the Government to purchase vessels and contracting them out for operators and using fuel-related mechanisms etc. However, these options were found to be infeasible because they would either not be able to improve the long-term financial viability of the ferry services or would violate our established policy and have wide read-across implications. We believe that our proposal can strike a balance between the need to support essential services which otherwise would not be financially viable and the need to let those individuals shoulder the appropriate responsibility for choosing to live on the outlying islands. We will continue to provide various measures to help operators increase their non-fare box revenue so as to alleviate pressure on fare increases and will ensure that sufficient safeguards are in place to avoid abuse of the new helping measure.

Thank you once again for sharing with us your views on ferry services in Hong Kong.

Yours sincerely,



( Miss Carol Or )  
for Secretary for Transport and Housing

cc: Transport Advisory Committee