

LCQ2: Hung Hom ferry services

Following is a question by the Dr Hon Priscilla Leung and a reply by the Secretary for Transport and Housing, Ms Eva Cheng, at the Legislative Council meeting today (March 2):

Question:

It has been learnt that the Star Ferry Company Limited (Star Ferry) indicated in September last year that it had no intention to continue operating the Hung Hom/Central and Hung Hom/Wan Chai ferry services upon expiry of its franchise at the end of March this year. To find a new operator, the Transport Department (TD) had twice invited tender on the franchise for the two ferry services, which ended with no operator submitting tender. The Government has given up tendering for the third time and the two ferry services will be discontinued from April 1 this year. In this connection, will the Government inform this Council:

(a) of the detailed justifications for the Government giving up tendering for the third time on the franchise for the aforesaid two ferry services, and whether it has consulted the residents on such a decision; if it has, what views it has received; after deciding to give up re-tendering, whether the Government has further liaised with Star Ferry to jointly explore if the company can continue operating the two ferry services before the official commissioning of the Shatin to Central Link and the Kwun Tong Line Extension of the MTR Corporation Limited so as to demonstrate its social responsibility;

(b) whether the Government has any statistical data for understanding the impact of discontinuation of the two ferry services on traffic during peak hours in the relevant districts and areas around the Cross-Harbour Tunnel in Hung Hom; whether TD has drawn up any additional contingency measures to cope with the residents' demand for other means of cross-harbour transport after the two ferry services are discontinued; if TD has, of such measures; and

(c) given that the Government applied to the Finance Committee of this Council for a funding of \$114.96 million and was given approval on November 5 last year for subsidising six major outlying island ferry trunk routes for three years (the press estimated that each passenger would be subsidised an average of \$2.7 per trip)

through measures including reimbursement of vessel maintenance cost to the operators, whether the Government will study allocating funds to subsidise the operator of the two ferry services in the same way as that for the aforesaid outlying island ferry trunk routes, in addition to the existing measures such as waiving fuel duty, exempting license fees, relaxing the use of piers for commercial activities and taking over the responsibility of pier maintenance, in order that the two ferry services may continue; if it will not, of the reasons for that?

Reply:

President,

(a) The Star Ferry Company Limited (Star Ferry) has been operating the "Hung Hom - Central" and "Hung Hom - Wan Chai" licensed ferry services since April 1, 1999. The current three-year licences of the two ferry services granted to Star Ferry on April 1, 2008 will expire on March 31, 2011. Due to the enhancement of the public transport network and the relocation of the ferry pier in Central in 2006, the average daily patronage of the two services reduced by about 26% from about 7,500 in 1999 to about 5,500 in 2010. As a result of the reduction in patronage, Star Ferry has been suffering from financial loss in operating the two ferry services since 2001.

To help improve the financial viability of the two ferry services and stabilise their fares, the Administration has been providing various helping measures to ferry operators, including Star Ferry, as follows:

- (i) taking over pier maintenance responsibility;
- (ii) waiving fuel duty;
- (iii) reimbursing pier rentals and exempting vessel licence fees for ferry services under the Elderly Concessionary Fares Scheme;
- (iv) allowing ferry operators to sublet ferry pier areas for commercial concession to generate non-fare box revenue to cross-subsidise the ferry operation; and
- (v) streamlining the subletting approval procedures to help expedite generation of non-fare box revenue.

Despite implementation of the above helping measures, and approval granted to Star Ferry for a fare increase of 5% with effect from January 1, 2010, the financial position of the two services is still unsatisfactory. We understand due to poor financial performance of the two services, and in anticipation of a lack of growth in patronage, Star Ferry did not apply to Transport Department (TD) to extend the licences for the operation of the two services. As such, TD conducted the first tender exercise from September 10, 2010 to October 8, 2010 to select a suitable ferry operator to operate the two services from April 1, 2011 onwards. However, there was no tender submission.

In view of this, prior to the second tender exercise, TD consulted the relevant District Councils and locals of the concerned districts between October and November 2010 on how to enhance the viability of the two services so as to attract prospective ferry operators to bid for the operation of the services. Having considered the views collected, TD made the following relaxations to the tender requirements:

- (i) splitting the two services into two packages (i.e. individual route or combined operation) to allow more flexibility in submitting service proposals;
- (ii) shortening slightly the operating periods and allowing a reduction in service frequency to better match the passenger demand pattern (for instance, there are only a few passengers on certain non-peak sailings under the existing service schedule) so as to save costs and for efficient use of resources;
- (iii) allowing deployment of vessels with smaller seating capacity to operate the licensed services to save costs; and
- (iv) allowing the offer of a lower rate of concessionary fare to elderly passengers to reduce the revenue foregone.

The two services were re-tendered on December 17, 2010. Nevertheless, no tender submission was received when the tender closed on January 14, 2011.

The Administration considers that the results of the two tender exercises have reflected the market assessment that the operation of the two services is not financially viable under the existing operating environment with persistently low level of patronage and highly volatile oil prices. We consider that ample opportunities

have been given to prospective ferry operators to express their interest in the operation of the services after the two tender exercises. As no tender submission was received in the second tender exercise even though the tender requirements on service had been relaxed, TD reckons that conducting a third tender exercise will serve little purpose. Besides, there will not be enough time for TD to conduct another round of tender exercise as the existing licences will expire on March 31, 2011.

The Administration is aware of the concerns expressed by the locals about the inconvenience which would arise upon the cessation of the two ferry services, and their requests to retain them. In this connection, TD has maintained contact with Star Ferry and the locals, to explore with Star Ferry the feasibility of the continuation of the two services. However, since the two services have been sustaining long-term losses, it is not easy to retain the two services having regard to their financial viability together with the minimum service level required to meet passenger demand and fare levels that will be acceptable to the public under the prevailing economic environment.

(b) According to the statistics provided by Star Ferry, the "Hung Hom - Central" route (Central bound) and "Hung Hom - Wan Chai" route (Wan Chai bound) have a patronage of about 400 and 500 passengers respectively during the peak period from 8am to 9am on weekdays. TD estimates that upon the cessation of the ferry services, most of the existing passengers will switch to franchised bus services for crossing the harbour direct from Whampoa or Hung Hom, or interchange with the ferry services for Wan Chai or Central at the Tsim Sha Tsui Star Ferry Pier.

At present, during the peak hours in the morning, the average occupancy rate of the cross-harbour bus route 115 heading for Central via Whampoa and Hung Hom is about 80%, while that of the bus routes (i.e. KMB routes 8A and 8P) heading for the Tsim Sha Tsui Star Ferry Pier from Whampoa or Hung Hom is only about 40%. TD considers that the current franchised bus routes are able to provide suitable alternative services in terms of routings to the existing passengers of the ferry services. To cater for the new passenger demand, TD is discussing with the bus companies to increase the frequency of the cross-harbour bus services. We believe that the increase in traffic flow arising from the switch of passengers from ferry services to road-based public transport will be insignificant. The road traffic of the Hung Hom District and the Cross Harbour Tunnel area in Hung Hom will not be affected.

(c) It is the Government's established policy that public transport services should be operated by the private sector in accordance with commercial principles to ensure their cost-effectiveness and efficiency. The Government would provide the necessary infrastructure, e.g. road links, ferry piers and bus termini to support the provision of the services. This policy should equally apply to the provision of ferry services. As mentioned above, to enhance the long-term financial viability of ferry services (including the "Hung Hom - Central" and "Hung Hom - Wan Chai" services), the Government has been providing various measures to enable ferry operators to reduce operating costs and increase non-fare box revenue.

However, taking into account that ferry services are the only means of transport for some of the outlying islands, we have to ensure that such essential transport services can be provided to the residents. As such, we carried out a review on the outlying island ferry services. In the course of the review, we bore in mind the need for prudent use of public funds. We took into account the need to support essential ferry services which otherwise would not be financially viable without financial support and the need to let those residents shoulder the appropriate responsibility for choosing to live on the outlying islands. Therefore, we decided to provide further helping measures to the six major outlying island services within the three-year new licensing period in order to share some of the burden of fare increase to passengers.

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