

LCQ6: 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 (November 9):

Question:

It has been learnt that upon the expiry of its licence on March 31 this year, the Star Ferry Company Limited had ceased operating the "Hung Hom - Central" and "Hung Hom - Wan Chai" ferry services. The Transport Department conducted two public tender exercises between end of last year and early this year respectively to invite bids for the operation of the two ferry routes, but no tender submission was received. In this connection, will the Government inform this Council:

(a) given that the 500-metre long promenade near the Hung Hom Ferry Pier has been opened for public use since early September this year, which connects a 4-kilometre waterfront walkway from Hung Hom to Tsim Sha Tsui where members of the public and tourists can stroll around and enjoy the magnificent views on the two sides of the Victoria Harbour, whether the authorities will consider adding tourism elements to the two aforesaid ferry routes, so that the ferry services and the waterfront promenade can complement each other and become an attraction benefiting the tourism industry, as well as conduct a tender exercise for the third time for the two ferry routes to help promote the development of the public space and tourist attractions on both sides of the Harbour;

(b) given that the authorities obtained approval from the Finance Committee of this Council in November 2010 for a commitment of about \$110 million to provide helping measures to the operators of six outlying island ferry routes during the three-year new license period commencing 2011, including reimbursing the vessel maintenance and repair cost incurred by the ferry operators, whether the authorities will consider afresh providing similar helping measures to the operators interested in operating the "Hung Hum - Central" and "Hung Hom - Wan Chai" routes in the future, so as to encourage suitable operators to operate these two ferry routes; and if not, of the reasons for that; and

(c) given that under the Ferry Services Ordinance, in addition to invitation for tender,

the Commissioner for Transport may, upon consultation with the Director of Marine and the Director of Civil Engineering and Development, consider granting a licence to operate a ferry service to any interested operators which the Commissioner thinks fit, whether the authorities will consider exercising the power under the Ordinance to proactively identify suitable operators to run the two aforesaid ferry routes; if not, of the reasons for that?

Reply:

President,

(a) The "Star" Ferry Company, Limited (Star Ferry) operated the "Hung Hom - Central" and "Hung Hom - Wan Chai" licensed ferry services from April 1, 1999. 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 "Hung Hom - Central" route reduced by about 44% from about 5,000 in 1999 to about 2,800 in 2010. On the other hand, the actual patronage of the "Hung Hom - Wan Chai" route was on a low side with an average daily patronage of about 2,700. The patronage per trip during peak hours for the two services was only around 20 to 100 while on certain non-peak sailings, there were only a few passengers. As a result of the continuous reduction in patronage and increasing operating costs, Star Ferry suffered from financial loss in operating the two ferry services since 2001.

To enhance the long-term financial viability of ferry services, the Government has been providing various helping measures to ferry operators, including taking over pier maintenance responsibility, waiving fuel duty, and reimbursing pier rentals and exempting vessel licence fees for ferry services under the Elderly Concessionary Fares Scheme. The Government has also allowed ferry operators to sublet pier areas not used for ferry operation for commercial and retail activities in order to generate non-fare box revenue to cross-subsidise the ferry operation. Despite implementation of the above helping measures, and approval granted to Star Ferry for fare adjustment during its operation, the financial position of the two services was still unsatisfactory. Due to persistent financial loss of the two services, and in anticipation of a lack of significant growth in patronage, Star Ferry ceased operating the two services upon expiry of licences on March 31, 2011.

The Transport Department (TD) conducted two tender exercises between September 2010 and December 2010 with a view to selecting suitable ferry operators

to continue the operation of the two services. Prior to the second tender exercise, TD consulted the relevant District Councils and locals of the concerned districts on how to enhance the viability of the two services so as to attract prospective ferry operators to bid for the operation. Subsequently, TD relaxed the service requirements, including:

- (i) splitting the two services into two packages (i.e. individual route or combined operation) to allow more flexibility;
- (ii) slightly shortening the operating periods and allowing a reduction in service frequency to better match the passenger demand pattern; and
- (iii) allowing deployment of vessels with smaller seating capacity to operate the licensed services to save costs, etc.

Nevertheless, same as the first tender exercise, no tender submission was received by TD when the second tender closed.

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. Since TD had published notices in the Gazette and newspapers during the two tender exercises, and sent letters of notification to all licensed ferry operators, we consider that ample opportunities were given to interested parties or prospective ferry operators to express their interest in the operation of the services.

Regarding the proposal of adding tourism elements to the "Hung Hom - Central" and "Hung Hom - Wan Chai" ferry services so that they can combine with tourism development and complement with the newly opened Hung Hum Promenade, there are at present sightseeing tour services operated by ferry service operators in the market. For instance, Star Ferry has been operating the "Harbour Tour Service" mainly for tourists to enjoy the views on the two sides of the Victoria Harbour. Moreover, its "Tsim Sha Tsui - Central" and "Tsim Sha Tsui - Wan Chai" ferry services have also attracted many tourists to enjoy the beautiful scenery of the harbour. As an open space, the Hung Hum Promenade provides footpaths for walking or jogging, and amenity lawn for residents to enjoy the scenery of Victoria Harbour and fireworks displays during festivals. Since the major design concept of the

promenade is to provide a tranquil and pleasant waterfront area for public enjoyment, its opening is not expected to attract a significant volume of additional ferry passengers.

We will keep in view the inclination of the ferry trade. In the event that ferry operators in the market put forward detailed proposals on the above two routes to the Government, we would study and assess the feasibility of such proposals. However, no operator has expressed interest to TD in introducing ferry routes between Hung Hom, Central and Wan Chai with tourism elements so far.

(b) 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 equally applies to the provision of ferry services.

As mentioned in part (a) above, to enhance the long-term financial viability of ferry services (including the "Hung Hom - Central" and "Hung Hom - Wan Chai" services which have ceased operation), the Government has been providing various measures to enable ferry operators to reduce operating costs and increase non-fare box revenue. Should there be any new ferry operators running these routes in future, the Government will provide them with the same helping measures.

With regard to the further helping measures provided to the six major outlying island ferry services within the three-year new licensing period commencing 2011 for sharing some of the burden of fare increase to passengers, the Administration has taken into account that ferry services are the only means of transport for some of the outlying islands. Therefore, we have to ensure that such essential transport services are provided to the residents. Compared with the six major outlying island ferry services, inner harbour ferry services are regarded as supplementary transport services and there are other alternative modes for the public to choose from.

In fact, when the two services ceased operation on April 1 this year, bus companies have since increased the frequency of cross-harbour bus route 115 heading for Hong Kong Island and that of KMB route 8P during morning peak hours to cater for the demand arising from passengers affected by the cessation of the ferry services. In addition, affected passengers heading for the Hong Kong Island may take red

minibuses and the three green minibus routes in Hung Hom District to Mong Kok, Jordan and Tsim Sha Tsui to interchange with MTR or other public transport modes.

According to TD's observation, the alternative bus and minibus services are able to cope with the passenger demand after the cessation of the two services. For instance, during the morning peak hours, the average spare capacity of the cross-harbour bus route 115 heading for the Hong Kong Island stands at around 20%. Moreover, the increase in traffic flow arising from the switch of passengers from ferry services to road-based public transport does not affect the road traffic of the Hung Hom District and the Cross Harbour Tunnel area in Hung Hom.

(c) After Star Ferry had indicated to TD that it would not apply for extension of licences to operate the "Hung Hom - Central" and "Hung Hom - Wan Chai" services, TD proactively liaised with Star Ferry to explore the feasibility of the continuation of the two services. However, since the two services had been sustaining losses, Star Ferry indicated that it was difficult to retain the two services having regard to the need to maintain a minimum service level required to meet passenger demand, their financial viability and fare levels that would be acceptable to the passengers. As a result, TD conducted tender exercises for the services but no tender submission was received in the two exercises.

According to Section 28 of the Ferry Services Ordinance, the Commissioner for Transport may consider granting licences to any interested operators to which the Commissioner thinks fit to operate these two ferry services. Nevertheless, the Commissioner shall, before granting a licence, consult with the Director of Marine and the Director of Civil Engineering and Development with respect to the proposed grant and the proposed conditions of such licence. As ferry services should be operated by the private sector in accordance with commercial principles to ensure their cost-effectiveness and efficiency, TD will keep in view the inclination of the ferry trade and interested operators are welcome to make direct application to TD for the operation of the above ferry services. Up till now, no operator has expressed interest to TD in operating the concerned ferry services.

Ends/Wednesday, November 9, 2011

Issued at HKT 15:01