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Panel on Transport
Meeting on 12 April 2024

Background brief on taxi fare increase applications

Purpose

This paper provides background information on the mechanism on which taxi fare adjustment applications are considered and approved. It also summarizes the major views and concerns expressed by the Panel on Transport (“the Panel”) on taxi fare increase applications.

Background of the taxi trade

2. According to the Administration, there are 18 000-odd taxis in Hong Kong. Ordinary taxi licences are permanent in nature. There are approximately 10 000 individual licence holders, while the remaining licences are held by companies. Taxi trade mainly consists of rentee-drivers who hire taxis from taxi owners, rentor-owners who do not drive their taxis but rent them out to rentee-drivers, and owner-drivers who own and drive the taxis themselves and some also rent their taxis out to rentee-drivers for one shift.

Assessment criteria for taxi fare increase applications

3. Taxi fare increase applications have been considered by the Administration in accordance with the following major criteria:

- (a) the need to ensure the financial viability of taxi operations, taking into consideration changes in revenue and operating costs;

- (b) the need to maintain an acceptable level of taxi service in terms of vehicle availability, passenger waiting time and feedback from passengers;
- (c) the need to maintain a reasonable differential between taxi fares and those of other public transport modes;
- (d) public acceptability of the proposed fares; and
- (e) the taxi fare structure which should be “front-loaded” and thereafter on a varying descending scale of incremental charges.

4. The scale of fares for the hiring of taxis is specified in Schedule 5 to the Road Traffic (Public Service Vehicles) Regulations (Cap. 374D). Under section 7(1C) of the Road Traffic Ordinance (Cap. 374), the Chief Executive in Council (“CE-in-Council”) may make Amendment Regulation to adjust the fares for hiring urban, the New Territories (“NT”) and Lantau taxis. In assessing the taxi fare increase applications, the Administration will take into account the views of the Panel and the Transport Advisory Committee (“TAC”) before submitting its recommendations to CE-in-Council. The relevant Amendment Regulation for implementing the new fares has to go through negative vetting by the Legislative Council.

Taxi fare increase applications in 2019

5. The urban, NT and Lantau taxi trade submitted fare increase applications to the Transport Department (“TD”) in September 2018. The Government briefed the Panel on the trade’s fare increase proposals and consulted TAC in March 2019. Yet, the Government did not further process the relevant applications having regard to the prevailing social circumstances.

6. In April 2022, the Government conducted an updated assessment of the taxi fare increase applications taking into account the latest economic situation and taxi operating environment, including factors such as the increases in taxi insurance premiums and fuel costs in recent years, as well as taxi drivers’ income. Operating and revenue data of taxi operators between 2019 and 2021 is set out in **Appendix 1**. The Panel was consulted on taxi fare increase in April 2022. CE-in-Council finally

approved taxi fare adjustments,¹ and the new fares took effect on 17 July 2022.

Major views and concerns expressed by the Panel

Views on taxi fare increase

7. At the Panel meeting held on 15 March 2019, some members considered that the proposed rate of increase was too high compared to the inflation rate and change in Monthly Median Household Income in the same period since the last taxi fare increase in 2017. On the other hand, members in support of the taxi fare increase application pointed out that the operating environment of the taxi trade had been becoming more difficult due to a number of factors, including the prevalence of illegal hire car services, the ageing problem of drivers and difficulties in attracting new blood to the trade. They opined that the fare level of taxis in Hong Kong was relatively low as compared to other cities in the world and had room for upward adjustment. In addition, the average salary of taxi drivers was far below the industry average. It was therefore necessary to increase taxi fare so as to improve the operating environment of the trade and the livelihood of frontline drivers.

8. The Government advised that it would consider a host of factors when considering the fare increase applications submitted by the taxi trade, including public acceptability of the proposed fares and the financial viability of taxi operations. In reply to members' enquiry on ways to alleviate the fare increase pressure resultant from the increase in fuel costs, the Government advised that it had been encouraging the taxi trade to switch their fleet to electric or hybrid vehicles which were more energy-saving. TD would continue to encourage the taxi trade to upgrade their fleet with a view to offering better service and reducing fuel costs.

¹ The average rates of fare increase for urban, NT and Lantau taxis are 11.54%, 13.02% and 13.83% respectively. After the adjustment, the flagfall charge for the first 2 kilometre is \$27 for urban taxis, \$23.5 for NT taxis and \$22 for Lantau taxis. The incremental charge for the first-tier distance of each 200 metre after flagfall is \$1.9 per jump for urban taxis and \$1.7 per jump for NT and Lantau taxis. The incremental charge for the second-tier distance after flagfall is \$1.3 per jump for urban and NT taxis and \$1.5 per jump for Lantau taxis.

(https://www.news.gov.hk/eng/2022/05/20220510/20220510_170805_020.html)

9. Some members opined that taxi fare increase would lead to an increase in taxi rental, which in turn would directly affect the income and livelihood of frontline drivers. They enquired how the Government would ensure that frontline drivers could also benefit from the fare increase. Quoting past experience, the Government pointed out that while there was a slight increase in the income of rentee-drivers in real terms, the income of rentor-owners experienced a drop during the first 12-month period after the last fare increase. Taxi rental was a commercial arrangement between owners and drivers in a free market. As a matter of fact, due to the shortage of taxi drivers, taxi rental had generally remained unchanged since the last fare increase. With regard to the present fare increase applications, the Government advised that the majority of the trading companies and taxi owner associations had indicated that they would not adjust the rental for about three to six months after the fare increase and would later on decide whether or not to adjust the rental having regard to the circumstances.

10. On members' concern about the upsurge in taxi insurance premiums, the Administration advised that taxi insurance business had recorded losses in recent years. In this regard, TD had been discussing with the trade and the Insurance Authority to explore measures to improve the situation. Apart from adopting measures to improve driving safety, the trade was also encouraged to set up a database on traffic accidents and insurance claims of taxi drivers to facilitate more accurate risk assessment for determining the appropriate premiums for individual drivers. Taxi drivers would also be incentivized to maintain a proper driving attitude with a view to reducing traffic accidents and maintaining a good track record.

Operating environment of the taxi trade

Measures to enhance the operating environment of taxis

11. From time to time, Panel members have raised concern over the difficult operating environment of the taxi trade. They urged the Administration to take improvement measures, such as setting up more taxi stands, increasing the number of pick-up/drop-off points for taxis and introducing a taxi fuel surcharge to mitigate the impact of fuel price fluctuations on the income of taxi drivers.

12. The Government advised that it had taken measures to help improve the operating environment of the taxi trade, including setting up taxi stands and designating pick-up/drop-off points at suitable locations.

TD had established the Committee on Taxi Service Quality in January 2018 for discussing various reform strategies and measures to enhance the service quality of taxi trade. Such included enhancing the handling of complaints against malpractices and encouraging the trade to leverage on technology to enhance operational efficiency and service quality. Meanwhile, several facilitation measures were introduced, such as extending the validity period of the taxi driver identity plates from one year to 10 years, and sparing the taxi trade the need to renew the restricted zone permits annually.

13. As regards attracting young drivers to join the industry, the Government has proposed to relax the current requirement for applications of driving licences for commercial vehicles to have a valid driving licence of private car or light goods vehicle for a period of at least three years to at least one year with a view to attracting new blood to the industry.

Relevant papers

14. A list of relevant papers is in **Appendix 2**.

Latest developments

15. The Administration will consult the Panel on the taxi fare adjustment at its meeting to be held on 12 April 2024.

**Monthly average operating revenue, costs and net income of
taxi operators between 2019 and 2021**

Operating data of urban taxis

	Rentee-driver	Owner-driver	Rentor-owner
(a) Average monthly operating revenue			
2019	\$33,500	\$43,976	\$20,941
2021	\$30,504	\$37,802	\$14,589
<i>Change over 2019¹</i>	- 8.9%	- 14.0%	- 30.3%
<i>(Change in real terms after netting off inflation²)</i>	<i>(- 10.6%)</i>	<i>(- 15.6%)</i>	<i>(- 31.6%)</i>
(b) Average monthly operating costs³			
2019	\$14,141	\$13,338	\$9,201
2021	\$10,926	\$13,814	\$9,709
<i>Change over 2019</i>	- 22.7%	+3.6 %	+5.5 %
<i>(Change in real terms after netting off inflation)</i>	<i>(- 24.1%)</i>	<i>(+1.7%)</i>	<i>(+3.6%)</i>
(c) Average monthly net income			
2019	\$19,359	\$30,638	\$11,740
2021	\$19,578	\$23,988	\$4,880
<i>Change over 2019</i>	+1.1%	- 21.7%	- 58.4%
<i>(Change in real terms after netting off inflation)</i>	<i>(- 0.7%)</i>	<i>(- 23.1%)</i>	<i>(- 59.2%)</i>

¹ This is the nominal change (i.e. without taking into account inflation) as compared with the average monthly operating figures of 2019.

² As compared with 2019, the Composite Consumer Price Index, which measures inflation in the consumer domain, rose by 1.8% in 2021.

³ For rentee-drivers, their monthly operating costs comprise fuel and rental. For owner-drivers, their monthly operating costs comprise fuel, vehicle maintenance, insurance, depreciation and miscellaneous costs like licence fees. For rentor-owners, their monthly operating costs comprise vehicle maintenance, insurance, depreciation and miscellaneous costs like licence fees.

Operating data of New Territories taxis

	Rentee-driver	Owner-driver	Rentor-owner
(a) Average monthly operating revenue			
2019	\$29,667	\$37,728	\$16,121
2021	\$27,286	\$32,834	\$11,095
<i>Change over 2019</i>	- 8.0%	- 13.0%	- 31.2%
<i>(Change in real terms after netting off inflation)</i>	(- 9.7%)	(- 14.5%)	(- 32.4%)
(b) Average monthly operating costs			
2019	\$11,795	\$11,911	\$8,741
2021	\$9,143	\$12,066	\$9,044
<i>Change over 2019</i>	- 22.5%	+1.3%	+3.5%
<i>(Change in real terms after netting off inflation)</i>	(- 23.9%)	(- 0.5%)	(+1.6%)
(c) Average monthly net income			
2019	\$17,872	\$25,817	\$7,380
2021	\$18,143	\$20,768	\$2,051
<i>Change over 2019</i>	+1.5%	- 19.6%	- 72.2%
<i>(Change in real terms after netting off inflation)</i>	(- 0.3%)	(- 21.0%)	(- 72.7%)

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List of relevant papers

Committee	Date of meeting	Paper
Panel on Transport	16 December 2016	<u>Agenda</u> Item IV: Taxi fare increase applications <u>Minutes of meeting</u>
	17 March 2017	<u>Agenda</u> Item V: Public Transport Strategy Study Role and Positioning Review – Personalized and point-to-point transport services <u>Minutes of meeting</u>
	15 March 2019	<u>Agenda</u> Item VI: Fare increase application for taxi <u>Minutes of meeting</u>
	8 April 2022	<u>Agenda</u> Item III: Enhancing personalised and point-to-point transport services <u>Minutes of meeting</u>

Council meeting	Paper
20 February 2019	<u>Pages 6753-6758 of Official Record of Proceedings (Question 22: Shortage of taxi drivers)</u>
26 February 2020	<u>Pages 4672-4676 of Official Record of Proceedings (Question 8: Insurance premiums for taxis)</u>
10 June 2020	<u>Pages 7921-7930 of Official Record of Proceedings (Question 3: Taking out insurance for taxis)</u>
20 January 2021	<u>Pages 2885-2888 of Official Record of Proceedings (Question 15: Hiring of taxis and other vehicles by the Government)</u>
8 September 2021	<u>Pages 9588-9596 of Official Record of Proceedings (Question 6: Improving taxi services)</u>

29 September 2021	<u>Pages 10095-10099 of Official Record of Proceedings (Question 21: Problems faced by the taxi trade)</u>
19 January 2022	<u>Question 3: Taking out insurance policies for taxis</u> <u>Question 14: Support for the transport sector</u>
16 February 2022	<u>Question 11: Measures to reduce traffic accidents involving taxis</u>
4 May 2022	<u>Question 14: Promoting the switch to electric taxis among the taxi trade</u>
14 December 2022	<u>Question 20: Support for the taxi trade</u>
18 January 2023	<u>Question 22: Fare adjustments for non-rail public transport modes</u>
29 March 2023	<u>Question 18: Measures to reduce traffic accidents involving taxis</u>
26 April 2023	<u>Question 3: Combating acts of taxi drivers deceiving tourists</u>
24 May 2023	<u>Question 22: Barrier-free taxi services</u>
1 November 2023	<u>Question 19: Installation of electronic payment systems in taxis</u>
20 March 2024	<u>Question 21: Promoting popularisation of electric taxis</u>

Council Business Division 4
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