

**For discussion on
13 December 2024**

Legislative Council Panel on Transport

Vessel Subsidy Scheme

Purpose

This paper briefs Members on the latest progress of the Vessel Subsidy Scheme (“VSS”), as well as other Government measures for assisting outlying island ferry operators.

Background

2. In order to improve fleet quality and promote environmental protection, as well as enhance the experience of passengers, the Government announced in the Chief Executive’s 2019 Policy Address that it would implement the VSS to assist outlying island ferry operators in replacing the existing fleets and introducing greener vessels. Starting from 2021, the VSS will fully subsidise 10 ferry routes¹ to replace the entire fleets with greener vessels equipped with new facilities in two phases, which involves the procurement of 44 new vessels at a total cost of about \$5,788 million.

3. To implement the VSS, the Government has established an inter-departmental working group² to devise the details of the VSS and oversee its progress. Under the VSS, the Government subsidises operators for the

¹ These 10 routes are:

- (i) “Central - Cheung Chau”;
- (ii) “Central - Mui Wo”;
- (iii) “Inter-islands” between Peng Chau, Mui Wo, Chi Ma Wan and Cheung Chau;
- (iv) “Central - Peng Chau”;
- (v) “Central - Yung Shue Wan”;
- (vi) “Central - Sok Kwu Wan”;
- (vii) “Aberdeen - Yung Shue Wan via Pak Kok Tsuen”;
- (viii) “Aberdeen - Sok Kwu Wan via Mo Tat”;
- (ix) “Tuen Mun - Tung Chung - Sha Lo Wan - Tai O”; and
- (x) “Discovery Bay - Mui Wo” routes.

² The inter-departmental working group comprises representatives from the Transport and Logistics Bureau, the Transport Department, the Marine Department, the Environmental Protection Department, the Civil Engineering and Development Department and the Electrical and Mechanical Services Department.

cost of purchasing the vessels according to actual expenditures and by installments. The Government enters into an agreement with each ferry operator and requires the operator to, as the registered owner of the vessels, bear all the operational and legal responsibilities/liabilities in respect of areas including management, repair and insurance of the vessels, and to properly manage the vessels procured under Government subsidies. If the operator ceases to provide ferry services, the agreement requires the vessels be transferred to the nominee of the Government (for example, the succeeding operator of the ferry services) in order to continue the operation of the routes concerned. No operator shall resell its vessels without the consent of the Government. Details of the VSS, which is implemented in two phases, are set out at the **Annex**.

4. As hybrid vessels are new energy vessels, the Government will carry out an approximate 16-month trial on the four hybrid vessels procured under Phase I of the VSS (see paragraph 9 below). Subject to the relevant trial results, the Government will consider procuring more hybrid vessels under Phase II of the VSS and draw up a timetable for Phase II of the VSS.

Progress and Effectiveness of Phase I of the VSS

5. Under Phase I of the VSS, the relevant outlying island ferry operators have procured a total of 22 new vessels through open tender. By mid-December 2024, 12 new vessels have arrived, nine of which have gradually commenced operation of ferry services since March 2024. The other three vessels are hybrid vessels, which will progressively commence the trial starting from the end of December 2024. According to the current progress, the remaining ten new vessels will arrive successively by the end of 2025, and commence operation by the first quarter of 2026.

Upgrading fleet specifications and vessel equipment

6. The new vessels under the VSS are constructed of lightweight and corrosion-resistant materials (i.e. aluminium alloy or carbon fibre, etc.), hence of less weight and higher durability. At the same time, the new vessels are equipped with environmentally-friendly engines which comply with the highest International Maritime Organization Tier III standard to reduce the emission of nitrogen oxides. In addition, all new vessels are air-conditioned and provided with more comprehensive and user-friendly facilities, including the addition of breastfeeding areas, the supply of more luggage storage spaces, the provision of dedicated seats for passengers with

pets (the “pet area”) and the equipment of mobile phone charging facilities at some seats. Moreover, new vessels are equipped with accessible toilets to facilitate persons with disabilities, while there is also an increase in the number of spaces for persons with disabilities to park their wheelchair (“wheelchair spaces”) when compared with existing vessels.

Positive feedback on new vessels from passengers

7. The Transport Department (“TD”) conducted a passenger opinion survey³ for major outlying island routes in September 2024 to collect passengers’ views on the new vessels under the VSS that have commenced operation and their facilities. A total of about 1 800 passengers were successfully interviewed in the survey, covering areas such as seat comfort, air-conditioning, lighting, seat pitch, access to natural light, cleanliness, wheelchair spaces, decor, toilets, cabin quietness, etc. The survey findings are summarised below:

- (a) about 95% of passengers rated the new vessels as “very satisfactory” or “satisfactory” overall;
- (b) the three areas in which passengers were most satisfied with the new vessels were seat comfort, access to natural light and cleanliness, with about 95% of passengers being either “very satisfied” or “satisfied” with the three areas above;
- (c) comparing passengers’ satisfaction with the new vessels and that with the existing vessels of the same type, overall speaking, the new vessels had seen the most notable improvements in the areas of toilets, cleanliness and decor. About 85% to 95% of passengers were “very satisfied” or “satisfied” with the new vessels in the three areas above, whereas only about 20% to 30% of passengers were “very satisfied” or “satisfied” with the concerned areas of the existing vessels of the same type; and
- (d) passengers generally welcomed the new facilities on board the new vessels, with more than 80% of them being “very satisfied” or “satisfied” with the larger luggage or cargo space, as well as the new breastfeeding areas and pet areas.

8. Overall speaking, the majority of passengers were “very satisfied” or “satisfied” with the facilities and comfort of the new vessels.

³ The six major outlying island routes are “Central - Cheung Chau”, “Central - Mui Wo”, “Inter-islands”, “Central - Peng Chau”, “Central - Yung Shue Wan” and “Central - Sok Kwu Wan”. Since no new vessel has commenced operation for “Central - Sok Kwu Wan” route, the passenger opinion survey only covered the first five routes.

Compared with the existing vessels of the same type, the level of passenger satisfaction with the new vessels was significantly higher. It is evident that the VSS has been effective in enhancing the quality of the fleet of outlying island ferry routes, providing passengers with better on-board facilities and a more convenient and comfortable travelling experience.

Trial of Hybrid Vessels

9. Considering that ferry vessels generally have a longer serviceable life, the use of green vessels is in line with the trend of environmental protection. It is the first time for the application of hybrid vessels to the ferry services of Hong Kong. The technical requirements and operation of these vessels are different from those of conventional vessels. In this connection, the Government has formulated a phased trial programme, which will progressively commence before the end of 2024, in order to effectively assess the efficiency of the application of hybrid vessels to outlying island ferry services. The trial concerned will be carried out in three stages (a total of 16 months for each vessel). The first stage, which will be conducted without passengers, is expected to last for a month and aims at familiarising coxswains and crew members with the manoeuvring and operation of hybrid vessels in order to observe vessel stability in its sailing. Upon successful completion of the first stage without carrying passengers, the second stage of the trial will be conducted with passengers on supplementary sailings or normal sailings during off-peak hours for an expected period of three months. The third stage of the trial will be conducted during regular passenger services for an expected period of one year, during which vessels will be deployed for regular passenger services including those at peak hours for further testing. The time required for each stage of the trial may be adjusted in light of the actual circumstances.

10. The Government and the relevant ferry operators are approaching the completion of the preparatory work for the trial of hybrid vessels, including formulating sailing arrangements under different stages and providing coxswains and crew members with training on the operation of hybrid vessels, with a view to commencing the trial of hybrid vessels progressively by the end of 2024. The Government has set up an expert panel to advise on the technical performance, operational performance, cost-effectiveness and environmental effectiveness, etc. of hybrid vessels during the trial period.

11. To encourage the use of green transport technologies among

outlying island ferry operators and make the harbour cleaner, the Government will consider procuring more hybrid vessels under Phase II of the VSS for operating outlying island ferry routes, depending on the results and effectiveness of the trial.

Other Measures for Assisting Outlying Island Ferry Operators

12. It is the Government's established policy that public transport services should be run by the private sector in accordance with commercial principles to enhance efficiency and cost-effectiveness. However, the Government understands that outlying island ferry routes provide essential external transport services to the outlying islands⁴, thus it is of great importance to maintain the financial viability of the ferry services and alleviate the burden on passengers brought by hefty fare increases so as to address the commuting needs of outlying island residents. In this connection, the Government has all along encouraged ferry operators to improve their long-term financial sustainability through a multi-pronged approach in terms of fare revenue, non-farebox revenue, support from the Government, etc., in order to continue provide quality services.

Special Helping Measures

13. The Government first introduced the Special Helping Measures ("SHM") in 2011 for the six major outlying island ferry routes. Under the SHM, ferry operators are reimbursed of certain operating expenses on an accountable basis, including pier-related expenses (such as electricity, water and cleansing charges), vessel-related expenses (such as vessel repair and maintenance expenses, insurance fees, vessel survey fees and private mooring charges), as well as fare concessions-related expenses (such as the revenue foregone due to the provision of child fare concessions and implementation of the "Visiting Scheme to Outlying Islands" as well as revenue foregone due to the provision of elderly fare concessions after netting off the amount of pier rental reimbursement and vessel licence fee exemption under the established arrangement). The SHM have been gradually extended to other outlying island ferry routes starting from April 2020, and now cover 13 outlying island ferry routes.

14. In the past three financial years, the reimbursement made by the Government for the 13 outlying island ferry routes under the SHM was

⁴ There is basically no alternative to the ferry services available as a means of public transport for the areas concerned, or the alternative land transport route, if any, is very circuitous.

about \$190 million (2021/22) and \$220 million (2022/23 and 2023/24) respectively. The Government's latest review of the SHM shows that the measures have helped maintain the financial viability of ferry services and relieve the ferry operators' pressure for hefty fare increases.

Non-farebox revenue

15. To improve the financial situation of operating ferry services, the Government has been proactively assisting ferry operators in identifying ways to expand their non-farebox income, such as allowing operators to sublet pier premises for commercial and retail purposes to generate non-farebox revenue to cross-subsidise the operating expenses of ferries, including letting out pier shops, renting out advertising lightboxes and organising commercial activities in vacant pier spaces. Moreover, the Government has been proactively maintaining close liaison with operators to understand their operational needs and carrying out upgrading works to the ferry piers as necessary, with a view to further enhancing the appeal and room for development for non-farebox revenue activities at the piers through continuous improvement in pier environment and facilities.

Conclusion

16. The Government understands the public's concern about ferry services. The TD will on the one hand strictly carry out monitoring work, and on the other hand timely review the above existing measures for assisting outlying island ferry operators to ensure the long-term financial viability and service level of outlying island ferry operators.

17. Members are invited to note the latest progress of the VSS as set out in the paper and give their views.

Transport and Logistics Bureau
Transport Department
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Vessel Subsidy Scheme
Routes and Number of New Vessels

Route	Number of new vessels		
	Phase I	Phase II	Total
Six major routes: (1) Central - Cheung Chau; (2) Central - Mui Wo; (3) Inter-islands; (4) Central - Peng Chau; (5) Central - Yung Shue Wan; and (6) Central - Sok Kwu Wan	22 including 4 hybrid vessels ⁵	11	33
Four other routes: (1) Aberdeen - Yung Shue Wan via Pak Kok Tsuen; (2) Aberdeen - Sok Kwu Wan via Mo Tat; (3) Discovery Bay - Mui Wo; and (4) Tuen Mun - Tung Chung - Sha Lo Wan - Tai O	0	11	11
Total	22	22	44

⁵ Depending on the results of the trial of the four hybrid vessels procured under Phase I of the VSS, the Government will consider procuring more hybrid vessels under Phase II of the VSS.