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Panel on Transport
Meeting on 13 December 2024

Background brief on the Vessel Subsidy Scheme

Purpose

This paper provides background information on outlying island ferry services and the Vessel Subsidy Scheme (“VSS”). It also summarizes the major views and concerns expressed by the Panel on Transport (“the Panel”) during previous discussions on this subject.

Background

2. As at 31 December 2023, there are 10 ferry operators in Hong Kong providing 21 regular licensed passenger ferry services¹ to outlying islands and across the Harbour, with 15 outlying island licensed ferry routes and six in-harbour licensed ferry routes. Details of these 21 passenger ferry routes are set out in **Appendix 1**. The licensed and franchised ferry services are supplemented by “kaitos”, which are licensed to serve remote coastal settlements. In 2023, ferry passengers amounted to about 39 million.

Special Helping Measures

3. The Administration provides the six major outlying island ferry routes²(Appendix 1) with Special Helping Measures (“SHM”)³, which were

¹ Excluding The “Star” Ferry Company, Limited which is operating two ferry routes under franchise.

² The six major outlying island ferry routes are operated by the New World First Ferry Services Limited (“NWFF”) and the Hong Kong and Kowloon Ferry Holdings Limited (“HKK”).

³ Under SHM, ferry operators are reimbursed of certain operating expenses, 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 foregone due to provision of child fare concessions and implementation of “Visiting Scheme to Outlying Islands” and revenue foregone due to provision of elderly fare concessions after netting off the amount of pier rental reimbursement and vessel licence fee exemption under the established arrangement) on an accountable basis.

first launched in 2011 with funding approval from the Finance Committee (“FC”) of the Legislative Council (“LegCo”). According to the Administration, the Government provides SHM to these routes because there is basically no alternative to the ferry services available as a means of public transport⁴, and short of SHM, the ferry services cannot be maintained without periodic hefty fare increases.

4. Subsequently, the Chief Executive announced in his 2019 Policy Address that SHM would be extended to eight other outlying island ferry routes to ensure financial viability of ferry services and alleviate the burden of fare increases on passengers. The Government has estimated that in the long run, the full-year effect of cashflow required for provision of SHM to the 14 outlying island ferry routes will be around \$260 million⁵.

Vessel Subsidy Scheme

5. In order to improve fleet quality and promote environmental protection while alleviating the huge pressure of fare increases for passengers⁶, the Administration recommended introducing VSS at the end of 2019. Under the new scheme, the fleets of 11 ferry routes⁷ will be replaced, and greener vessels with newer facilities will be introduced in two phases over a period of around 10 years from 2021 onwards, involving some 47 new vessels to replace the 52 vessels in the existing fleet⁸. Details of VSS are in **Appendix 2**.

Major concerns raised by the Panel

Special Helping Measures

6. On the Administration’s proposed extension of SHM to other eight outlying island ferry routes, some Members suggested that SHM should also

⁴ Only Mui Wo is also linked by an external road network, but its cross-district land-based public transport services are very limited.

⁵ The Administration has indicated that the annual average subsidy for each ferry route is around \$18.6 million. Since the licence periods of the routes are staggered, cashflow of the actual subsidy each year will be different.

⁶ According to market research, the capital cost of a 500-seat, newer and more environmentally friendly ferry made with lightweight materials is around \$100 million. Assuming a depreciation of 15 years, the annual depreciation cost is around \$6.7 million.

⁷ The 11 routes are the six outlying island ferry routes as well as the “Aberdeen – Cheung Chau”, “Aberdeen – Yung Shue Wan via Pak Kok Tsuen”, “Aberdeen – Sok Kwu Wan via Mo Tat”, “Tuen Mun – Tung Chung – Sha Lo Wan – Tai O” and “Discovery Bay – Mui Wo” routes.

⁸ As the passenger carrying capacity of new vessels are different, there will be adjustments in the number of ferry vessels according to service level and patronage.

be extended to “kaito” ferry services as residents of outlying islands relied heavily on “kaito” for inter-islands travelling. In response, the Administration said that it maintained an open mind on the inclusion of “kaito” routes under SHM, provided that these services were provided on a regular basis and that “kaito” service providers could submit periodic financial information and data on their operations to the Administration.

7. Members asked the Administration whether it would explore the feasibility of operating the outlying island ferry services as part of public service, or contracting out ferry service operations to private operators, as opposed to providing SHM to ferry operators to maintain ferry services. The Administration advised that it was appropriate for public transport services to be run by the private sector according to commercial principles. It had explored other long-term operational models for outlying island ferry services, including the Administration procuring its own ferries and contracting out ferry operations to private operators. However, as this proposal would entail a much larger public spending, and after considering factors such as efficiency, cost-effectiveness and service improvement, the Administration considered that it should adhere to the existing practice of providing SHM to ferry operators and also launch VSS as an additional measure to further enhance ferry services.

8. Members called on the ferry operators to enhance the transparency of their financial position so that the public could ascertain whether the provision of SHM was fully justified and whether the level of ferry fare increases was appropriate. The Administration advised that the reimbursement of SHM was based on the actual expenses of the respective ferry routes, and that ferry operators were required to submit their annual financial statements and other financial reports to Transport Department (“TD”) on a regular basis for monitoring purposes. In addition, the Administration would follow up with the operators on ways to further enhance the transparency of their financial position.

9. Given that the provision of SHM would become an established arrangement, it was suggested that the Administration should either reduce the level of fare increases or freeze the fares on outlying island ferry routes. The Administration explained that when considering applications for fare increases from ferry operators, TD would take into account, among other things, the operators’ financial position, revenue and cost projections and public acceptability. The costs associated with SHM provided to the operators would also be a major consideration.

Vessel Subsidy Scheme

10. Members asked whether the Administration would expand the scope of VSS to include vessels on other ferry routes, such as in-harbour ferry

routes and “Kaito” routes. The Administration advised that a primary consideration for including the above routes in VSS was whether the services on these routes were indispensable, had keen passenger demand, and lacked available alternative means of public transport. Furthermore, for ferry routes to be included in VSS, it was necessary for the Administration to regulate their services and monitor their financial performance and service standards.

11. Some Members expressed concern about the long time required for the entire vessel replacement exercise, which spanned ten years. They noted that the hybrid vessels procured in the first batch of vessel replacement must first undergo a 16-month trial and thus enquired whether the trial period could be shortened to enable the procurement of more hybrid vessels in the subsequent batch of vessel replacement. The Administration responded that during the trial period, the ferry operators’ crew would need to familiarize themselves with the operation of this type of vessels, and that the operators would also need to accumulate relevant experience of operating these vessels during different seasons, wind flows and water flows over the course of a year before arranging trial runs for passenger-carrying sailings. TD, in consultation with the Environmental Protection Department and relevant bureaux/departments, would evaluate the performance of these vessels during the trial period and procure more hybrid vessels in the second batch of vessel replacement if their performance was found to be satisfactory.

Long-term financial viability of outlying island ferry services

12. Some Members considered that to maintain the long-term financial viability of ferry services, the Administration should facilitate ferry operators in generating more non-fare box revenue. Noting that the Administration’s 2013 proposal to construct additional floors at Central Piers No. 4, 5 and 6 for commercial development to cross-subsidize the operation of six major outlying island ferry routes (“Pier Proposal”) was not supported by the Public Works Subcommittee on technical grounds, some members enquired whether the Administration would further review the Pier Proposal and re-submit it for LegCo’s consideration.

13. The Administration explained that taking into account the construction cost involved in the Pier Proposal, the uncertainty of rental income, the complex contractual relationship among stakeholders (namely the Government, ferry operators, the lease agency and shop tenants), and the fact that the fees to be charged by the lease agency would reduce the eventual rental income for the cross-subsidy purpose, it considered that cross-subsidization of ferry services through this proposal was undesirable. Given that the Development Bureau would be undertaking long-term planning for harbourfront development, the government proceeds that might

be generated by the development projects would become part of the public funds for financing SHM. In addition, when a new pier was to be built in Cheung Chau in the future, the Government would consider earmarking some space for commercial purposes.

Fuel subsidies

14. Some Members pointed out that despite the provision of SHM, the fares for outlying island ferry services had still gone up at a considerable rate. They therefore suggested that the Administration should develop more effective helping measures, such as the provision of fuel subsidies. Some Members opined that since it was difficult for the public to monitor the Administration's measure to reimburse ferry operators for vessel maintenance and repair costs, the Administration should instead provide fuel subsidies, as fluctuating fuel prices were said to be the major cause of fare increases. Furthermore, in view of the drop in fuel prices, it was suggested that the Administration should consider introducing a fare adjustment clause to allow for both upward and downward adjustments in the future to ensure the proper use of public funds.

Ferry services improvement and pier facilities

15. Members expressed concern about the quality of ferry services and pier facilities and called for improvements, such as increasing the frequency of ferry services, improving the hygiene of public toilets, allocating space for passengers and cargo, and upgrading fire safety facilities at ferry piers. Some members also suggested retrofitting barrier-free facilities, providing breastfeeding rooms on ferries, as well as including in the licence a requirement for ferry operators to hold regular meetings with residents of outlying islands to receive their views on ferry services.

16. The Administration said that prior to any licence renewal, the Administration would gather views from passengers on the service performance of the operators and require the operators to improve their services. If the operators' service performance was unsatisfactory, the Administration might not renew their licences. With regard to pier maintenance, this was the responsibility of the Administration, and the relevant government departments would review the situation and make improvement as appropriate. On the suggestion of retrofitting barrier-free facilities and providing breastfeeding rooms, the Administration advised that the provision of such facilities would depend on the physical environment of individual piers and fleets.

Relevant papers

17. A list of relevant papers is set out in **Appendix 3**.

Council Business Divisions
Legislative Council Secretariat
6 December 2024

Summary of the licensed passenger ferry routes¹

Outlying islands

Major routes

1. Central – Cheung Chau
2. Central – Mui Wo
3. Central – Peng Chau
4. Central – Sok Kwu Wan
5. Central – Yung Shue Wan
6. Peng Chau – Mui Wo – Chi Ma Wan – Cheung Chau

Other routes

1. Aberdeen – Pak Kok Tsuen – Yung Shue Wan
2. Aberdeen – Sok Kwu Wan (via Mo Tat)
3. Central – Discovery Bay
4. Discovery Bay – Peng Chau/Trappist Monastery
5. Discovery Bay – Mui Wo
6. Ma Wan – Central
7. Ma Wan – Tsuen Wan
8. Tuen Mun – Tung Chung – Sha Lo Wan – Tai O
9. North Point – Joss House Bay

Inner harbour

1. North Point – Hung Hom
2. North Point – Kowloon City
3. North Point – Kwun Tong – Kai Tak
4. Central – Hung Hom
5. Sai Wan Ho – Kwun Tong
6. Sai Wan Ho – Sam Ka Tsuen

Source: [Transport Department's website](#)

¹ Besides the licensed ferry services, there are two franchised ferry services operated by The “Star” Ferry Company, Limited plying between Central and Tsim Sha Tsui and between Wan Chai and Tsim Sha Tsui.

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(B) Introduction of the VSS

15. We take note of the public aspiration for improving the quality of vessels in terms of speed, comfort level, facilities and environmental performance. To this end, the Government has introduced a SHM item for the current licence period (2017-2020) enabling the six major routes to be reimbursed with half of the annual depreciation expenses associated with the introduction of new vessels or upgrade of the existing ones.

16. However, due to rising operating costs, the operators of the six major routes have been carrying out upgrading works for their ferry fleet (such as replacement of air-conditioning systems, replacement of passenger seats/seat coverings, refurbishment of washrooms and passenger cabins) and introducing new vessels, but only at a rather slow pace¹⁰. For the five other routes¹¹, since they are struggling to stay financially afloat and running at a relatively small scale, it is difficult for them to invest further to renew their fleet or enhance quality of facility. In fact, most of the vessels deployed in the fleet of the six major routes are over 15 years old, while most of the regular vessels serving the five other routes are relatively primitive ones with low speed being over 28 years old.

17. In order to improve fleet quality and promote environmental protection while alleviating the huge pressure of fare increases for passengers¹², we recommend introducing a new VSS to replace the fleets

¹⁰ During the current licence period, one ferry operator purchased two new fast vessels, while another operator plans to purchase a second hand vessel to meet operational needs.

¹¹ Including the “Aberdeen – Cheung Chau”, “Aberdeen – Yung Shue Wan via Pak Kok Tsuen”, “Aberdeen – Sok Kwu Wan via Mo Tat”, “Tuen Mun – Tung Chung – Sha Lo Wan – Tai O” and “Discovery Bay – Mui Wo” routes.

¹² According to market research, the capital cost of a 500-seat, newer and more environmentally friendly ferry made with lightweight materials is around \$100 million. Assuming a depreciation of 15 years, the annual depreciation cost is around \$6.7 million. Taking the “Central – Mui Wo” route as an example, if the operator replaces the entire fleet by purchasing seven newer, more environmentally friendly vessels mentioned above, the depreciation cost would be around \$47 million per year, adding to around 40% of the annual operating cost.

of 11 ferry routes and introduce greener vessels with newer facilities in two phases starting from 2021, involving some 47 new vessels to replace the 52 vessels in the existing fleet¹³. The SHM item on reimbursing the annual depreciation expenses associated with the introduction of new vessels or upgrade of the existing ones for relevant routes will be cancelled.

18. The vessel replacement is expected to take place throughout a period of about ten years (i.e. throughout two five-year licence periods, spanning across 2021 - 2031). Specifically, the procurement of vessels for the six major routes will be carried out in two batches. The first batch will cover 22 regular vessels of the six major routes, with at least six new vessels being hybrid vessels for trial¹⁴. The second batch will cover the remaining 11 vessels of the six major routes, and the whole fleet of 14 vessels of the five other routes. If the trial of first-batch hybrid vessels is found successful, we will arrange to procure hybrid vessels in the second round of the VSS.

19. Under the VSS, the Government proposes to subsidize the cost of purchasing the ferry vessels by reimbursement according to actual expenditures and by installments. The Government will enter into an agreement with each ferry operator and require them to, as the registered owners of the vessels, bear all the operational and legal responsibilities/liabilities in respect of management, repair and insurance of the ferry vessels; and manage properly the ferry vessels bought under Government subsidies. Should the operator cease to provide the ferry services within a prescribed timeframe, the agreement will ensure the VSS vessels be transferred to the nominee of the Government (for example, the succeeding operator or the Government) at a nominal price in order to continue the operation of the concerned routes. It is noteworthy that the Government does not intend to alter the established policy that ferry services should be run by the private sector in accordance with prudent commercial principles to enhance efficiency and cost-effectiveness.

¹³ As the passenger carrying capacity of new vessels are different, there will be adjustments in the number of ferry vessels according to service level and patronage.

¹⁴ Hybrid ferry integrates power from diesel engines with electrical power for propulsion and other operations on board. Electrical storage devices, such as batteries, are built into the system to store extra energy produced by diesel engines. The ferry can be propelled by the diesel engines and/or the battery systems at different times, depending on the design. A consultancy study commissioned by the Environmental Protection Department concluded that electric ferry and hybrid ferry are feasible green ferry technology that can be explored for trial operation at local ferry routes, with hybrid ferries being more suitable for running outlying island ferry services given the higher speed and longer distance.

Trial of hybrid vessels

20. We will also carry out a 16-month trial of hybrid vessels¹⁵. The Environmental Protection Department will set up an expert panel to provide professional advice on the design and tender specification of the hybrid vessels, as well as evaluate their performance during the trial operation. Under the current difficult operating environment, if the operating cost of the trial is not reimbursed by the Government, the trial will create extra financial burden to the operators, thereby reducing their incentive to join the trial. As such, we will also subsidize the operating cost of the hybrid vessels during the trial period.

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Source: Paper entitled “Outlying Island Ferry Services” provided by the Administration in November 2019 (LC Paper No. CB(4)114/19-20(05))

¹⁵ During the trial period, the ferry operators will arrange their crew to familiarize themselves with the hybrid vessels without carrying passengers, and then arrange the hybrid vessels to run passenger-carrying additional sailings, followed by operating scheduled sailings.

Vessel Subsidy Scheme

List of relevant papers

Committee	Date of meeting	Minutes of meeting/Paper
Panel on Transport	24.5.2013	Agenda Item VI: Mid-term review of the six major outlying island ferry routes Minutes of meeting Supplementary paper
	26.5.2014	Agenda Item IV: Outlying island ferry services and fare adjustments Minutes of meeting Supplementary paper
	15.4.2016	Agenda Item IV: Mid-term review for ferry services of the current licence Minutes of meeting Supplementary paper
	18.11.2016	Agenda Item IV: Special Helping Measures for six major outlying island ferry routes for the next three-year licence period 2017-2020 Minutes of meeting Supplementary paper
	2.12.2016	Agenda Item I: Special Helping Measures for six major outlying island ferry routes for the next three-year licence period 2017-2020 Minutes of meeting
	16.3.2018	Agenda Item IV: Duration of ferry service licences Minutes of meeting Supplementary paper (1) Supplementary paper (2)
	15.11.2019	Agenda Item IV: Outlying island ferry services Minutes of meeting

Committee	Date of meeting	Minutes of meeting/Paper
Public Works Subcommittee of Finance Committee	11.6.2013	Agenda Head 707 - New Towns and Urban Area Development: 49TF — Construction of additional floors at Central Piers Nos. 4, 5 and 6 Minutes of meeting Supplementary paper
Finance Committee	5.7.2013	Agenda HEAD 186 - Transport Department Subhead 700 General non-recurrent: Provision of Special Helping Measures for the six major outlying island ferry routes Minutes of meeting

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