

REPORT ON
THE DRIVING INSTRUCTION INDUSTRY

Consumer Council

August 1994

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1 INTRODUCTION

Objectives

1.1 This study aims at, in relation to the motor-vehicle driving instruction industry:

- examining the market structure and the competitive environment;
- evaluating the impact of Government policies on the market structure and the competitiveness of the Hong Kong School of Motoring (HKSM) vis-a-vis that of private instructors (PIs);
- investigating into the allegations lodged by PIs of the Hong Kong Driving Instructors' Club; and
- making policy recommendations with a view to enhancing competition in the industry and promoting consumer's interests.

Methodology and Data

1.2 To examine whether market power exists in the industry, the study looks into the market share of HKSM and PIs in the following categories of driving instruction: private car, light goods vehicle, medium goods vehicle, articulated vehicle, and motorcycle. The possible causes of market power, including barriers to entry into the industry and product differentiation, are also examined.

1.3 The study also looks into the pricing policy of HKSM and PIs to ascertain whether there are abuses of market power and/or restrictive trade practices.

1.4 As Government policies have a significant impact on both the competitiveness of market participants and the market structure, their objectives are also examined.

1.5 With the aim of enhancing fairer competition, the study analyzes the feasibilities of bringing new entrants into the industry.

1.6 Information in this study are obtained through interviews with members of the industry and Government officials. A list of these to whom acknowledgement is due is at Appendix 1. Statistical data for the study are compiled with the assistance of officials of the Transport Department or are extracted from Annual Departmental Reports, Annual Transport Digests and the Annual Traffic and Transport Digests published by the Transport Department.

2 IMPORTANCE OF THE DRIVING INSTRUCTION INDUSTRY IN HONG KONG

2.1 An efficient transportation system comprising public transport facilities, private cars, goods and articulated vehicles etc is important for Hong Kong's urban and economic development. There must be sufficient supply of drivers in control of these vehicles not only for commuting but also for ensuring the safety of road users and safeguarding against damage to third party properties. This is particular so in Hong Kong because of the population density, high usage of road which are restrictive in capacity due to limited availability of land and our fast pace of economic development.

2.2 In view of this unique characteristic of Hong Kong, the Consumer Council believes that the Government needs to develop a driving instruction system to ensure a high standard of driving skill and road discipline.

2.3 The importance of the driving instruction industry is further illustrated by the following factors:

- (1) Every one must receive proper training and obtain a valid driving licence before he is allowed to drive. Thus driving instruction should be taken as a type of compulsory vocational training rather than an interest pursuit.
- (2) Formal driving training is mandated by law: unlike many other countries where learner drivers can learn from a person who holds any type of valid driving licence, all learner drivers in Hong Kong must undergo training given by a licensed driving instructor. Again an element of compulsion exists.
- (3) More than 260,000 private cars, 120,000 goods vehicles and 15,000 buses are registered in Hong Kong. With the growth of the economy, the number of vehicles on the road is also on the increase. The need for a continuous supply of licensed drivers is obvious.
- (4) There is always a large number of learner drivers queuing for driving tests and the number of learner drivers has increased rapidly in the recent years. In 1992, the number of learner drivers increased at the rate of 35% as compared with that in 1991. In 1993, the total number of learner licences was about 124,000.
- (5) The business turnover of the driving instruction industry is quite substantial. In 1993, 124,000 learner driver licences were issued. Assuming

that each learner driver spent an average of \$5,000 it is estimated that a total of about \$600 million had been spent by people of Hong Kong.

2.4 In view of the above, the Council believes that the Government is obliged to commit more resources to enable the prospective drivers to receive high quality and affordable driving training.

3 DEVELOPMENT OF DRIVING SCHOOLS IN HONG KONG

3.1 Driving instruction in Hong Kong is provided by three designated driving schools operated by HKSM and about 800-1200 active PIs. Some PIs have formed driving schools for centralization of management. These schools differ from the designated driving schools in that they do not provide a combination of classroom lecture, simulator driving and off-street training.

3.2 Prior to the setting up of the first driving school in 1983, driving instruction was solely provided by PIs offering on-street driving training. Due to growing traffic congestion in the early 1970s, the Government adopted the policy of promoting off-street driving training. The primary objectives of the policy are to alleviate road congestion and to offer a comprehensive and systematic mode of training. Such training consists of classroom lectures on theoretical concepts, simulator driving, and off-street driving instruction to acquaint learners with vehicle operation before practising on the road.

3.3 In 1973, the Transport Department stopped issuing licences to new PIs and suggested to a number of driving instruction associations to consider joining forces to establish driving schools. None of the associations showed interests in the suggestion due to financial constraints. The Government therefore set up its own Indoor Instruction Centre at Pui Ching Road in 1974. The training content included road discipline and basic driving techniques with the use of simulators. The Centre was later taken over by HKSM under a privatization scheme in January 1986.¹

3.4 In 1980-81, the Government initially intended to grant the operating rights of a new driving school site at Wong Chuk Hang to the Hong Kong Automobile Association (HKAA) by a government lease. HKAA, however, turned down the offer due to rising overhead costs. The site was then granted to HKSM under private agreement for a lease period of 3 years, with a quarterly renewal of lease after it expired. The school started operation in July 1983.

3.5 The school at Wong Chuk Hang was the first designated driving school in Hong Kong. It provides simulator driving as well as off-street and on-street training. Part of the driving test conducted by examiners of the Transport Department takes place within the school compound. As a condition of service, instructors of HKSM are prohibited from giving private instruction which the Government sees fit as a measure to prevent new entry into the rank of PIs.

3.6 Tenders for the second driving school for a site at Shatin were first invited in June 1984. In response, the Government received six bids, namely, HKSM, a group of private instructors, transport companies and an individual operator. Tenders by five of the bidders were rejected on grounds of weak financial back-up and lack of management expertise. The one from HKSM was also rejected as the conditions it put forward were unacceptable to the Government.²

3.7 As a result, tenders were invited for the second time in early 1986. According to one source of information, several tenderers including the group of PIs in the first tender exercise withdrew from the second tender.³ A 5-year lease for the second driving school in the 3.2-hectare site was finally allotted to HKSM which started operation in January 1987. The lease is subject to quarterly renewal after it expires in 5 years time.

3.8 Effective on January 1, 1990, the two driving schools were authorized by the Government as "designated driving school" in Part IXB of the Road Traffic Ordinance (Cap 374) under which Government may set requirements, procedure and standards in respect of the content and duration of driving courses, the facilities to be provided and the safety measures to be adopted by these schools. Schedule 9 to the Ordinance imposes requirements including fees payable for designation (or renewal of designation) of the driving schools and notice to the Government in cases of (1) any change in persons employed, (2) any change in proprietorship, and (3) bankruptcy or liquidation.⁴ Off-street motorcycling training is also made mandatory under the Ordinance, making the amount of instruction fee and the issue of course certificates for such instruction the subject of Government approval.

3.9 The Hong Kong Cross Harbour Tunnel Company (HKCHT) and Richard Mytton Systems each owned 50% of HKSM.⁵ In August 1992, Richard Mytton Systems sold all its shares to HKCHT and Wilson Parking. HKCHT now owns 70% of the shares while Wilson Parking owns 30%. HKCHT is in turn held by the Wharf Holdings, and Sun Hung Kai Securities owns Wilson Parking.⁶

3.10 In 1992, HKSM and the Hong Kong Articulated Vehicle Driving Instructors' Association decided to jointly establish a driving school in Tseung Kwan O to provide off-street training in articulated vehicle driving. HKSM provides the capital investment for the construction of school facilities while the Association provides training vehicles and instructors. The project is delayed due to strong objections by the residents over the generation of noise which might cause disturbance to the neighbourhood and the resultant high cost of erecting noise barriers as remedy. Also, working out a joint venture agreement

between the two parties takes time, and they are currently negotiating with the Government on the terms regarding an 18-month short-term tenancy and the lease agreements.

3.11 In 1993, Government approved a proposal by HKSM for setting up a new school in Yuen Long. The site is smaller than that of the existing schools, with a capacity of 3,600 learners per year as compared with 10,000 in Wong Chuk Hang and 35,000 in Shatin. Even though the land is acquired by HKSM, it is subject to a 3-year condition for use as a driving school. The new school was opened in March 1994 and is expected to be fully operational at the end of June 1994.

4 ALLEGATIONS

4.1 In March 1993, the Hong Kong Driving Instruction Club lodged a complaint to the Consumer Council alleging strongly that the competitiveness of PIs had been seriously jeopardized as a result of Government's favouritism towards HKSM. They alleged that this has resulted in the growing market power of HKSM in the industry. Details of the allegations are:

- (1) The market share of HKSM has grown rapidly, causing many PIs to lose substantial business, and consequently leading to their decline in number. The industry as a whole is heading towards domination by HKSM.
- (2) The rights to operate the existing two (and now three) designated schools are granted to one private corporation, while the inhibiting costs of obtaining a suitable site have prevented PIs to do the same.
- (3) HKSM is able to have shorter waiting periods for driving tests for their students.
- (4) As regards the practical test for private car driving, HKSM students are given the option of taking a combined test or a gradual test, whereas PI students are required to take the combined test only. Resources for the gradual test is greater as it takes up more labour and time of the examiner. Also, HKSM students are obviously given a more advantageous examination condition as they are allowed to take Part B of private car driving test within the HKSM compound which is insulated from road traffic. (Details regarding driving tests are explained in Section 5).
- (5) The number of learner prohibition routes are fewer in HKSM examination areas than in other areas used by PIs.

4.2 The allegations were looked into in the ensuing analysis of the market and Government policy.

5 DRIVING TESTS

Type of Tests

5.1 Driving tests are divided into three parts. Part A is a written test on road traffic regulations; Parts B consists of an examination of basic driving techniques and manoeuvres, including parking 3-point turns, hill starts, starting/stopping, steering and changing gear; and Part C is a road test.

5.2 Before the establishment of designated driving schools, all learners of private car driving were required to take Part B and Part C together in one test. The gradual test, which divides Part B and Part C into two tests, was introduced in 1983 when the first driving school became operational. The current arrangement allows HKSM students to choose between the combined test or the gradual test, but PI students can only take the combined test. The structure of the two tests is presented in Figures 1 and 2.

Figure 1: Private Car Combined Course

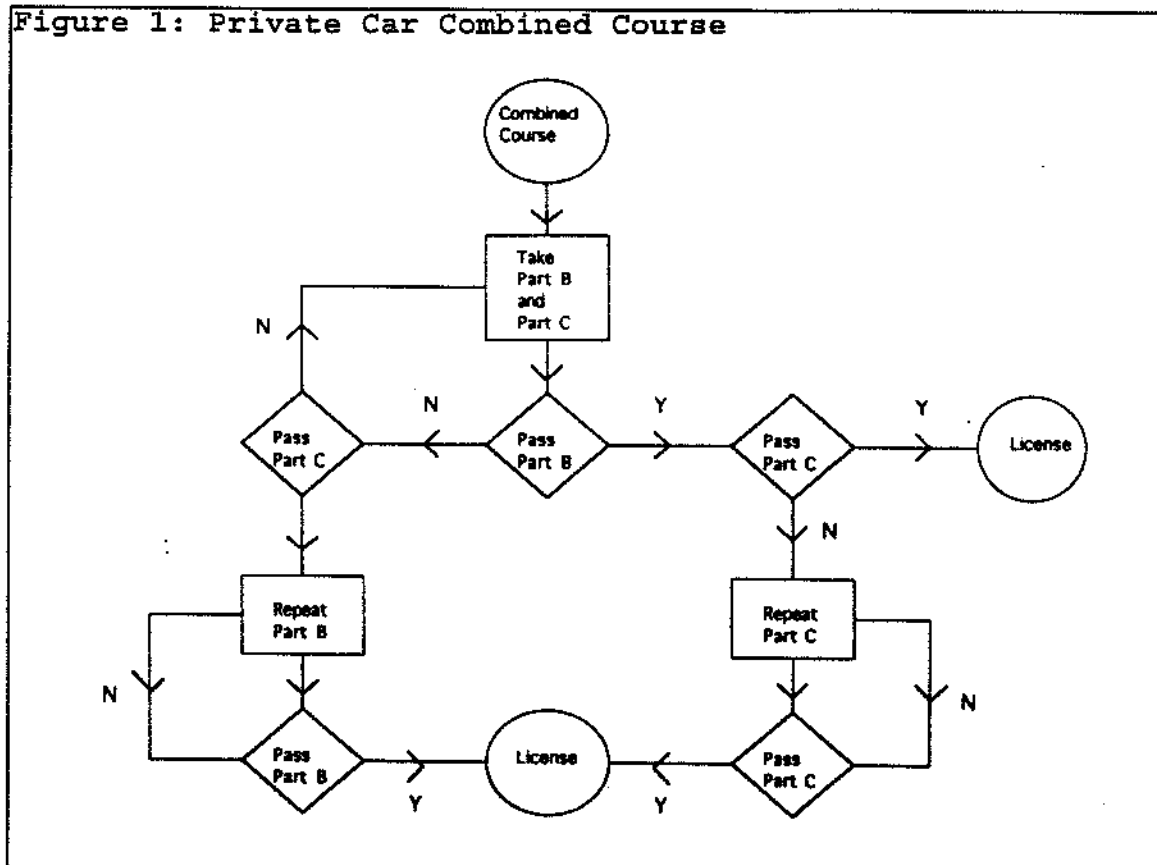
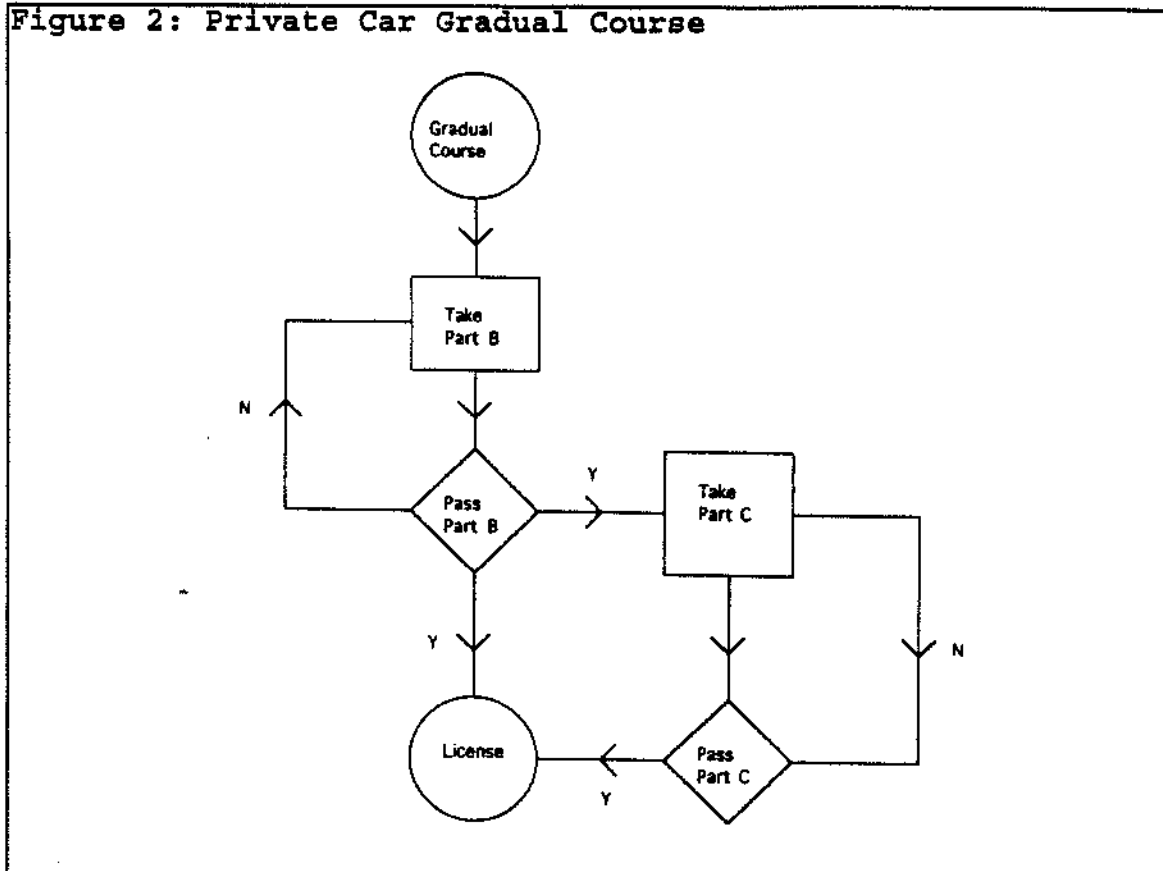


Figure 2: Private Car Gradual Course



Off-street Driving Tests

5.3 While HKSM students take Part B test within the school compound, PI students take the test on the road. An off-street test is perceived to be more favourable due to the absence of road traffic interferences. This is so despite that students are prohibited from practising in the school test areas. The construction of which has to be approved by the Transport Department and simulates the on-street test environment.

5.4 The Transport Department will be setting up three off-street driving test centres for PI students. These centres are located in Happy Valley, So Kwan Po and Tai Po.

Practical Driving Test For Private Car

5.5 All HKSM and PI students must go through the road test which is conducted at one of the 11 private car

driving test centres. Two of the centres are designated for HKSM students and the rest for PIs. Table 1 below is a list of the driving test centres in Hong Kong.

Table 1: Private Car Driving Test Centres

HKSM	PIs
Wong Chuk Hang Shatin	Happy Valley Chai Wan Yau Tong Pui Ching Road Good Shepherd Street Tin Kwong Road North Kowloon Magistracy Shek Lei Kwai Shing

Source: Transport Department

5.6 The routes for conducting the practical driving test (i.e., Part B and Part C) are designated in the vicinity of each testing centre. With some exceptions, most of these routes are open to learners for driving practices. The number of routes open to learners for practices varies from one centre to another, depending on the traffic conditions of the locations.

5.7 Table 2 lists out the locations and time restriction of the learner prohibition areas. The number of learner prohibited routes are relatively fewer in the vicinity of the two driving schools than in other test centres such as Pui Ching Road, Good Shepherd Street, Tin Kwong Road, Kwai Shing, and Happy Valley. However, the number of prohibited routes in HKSM location are similar to, if not fewer than, those at Yau Tong, Shek Kei, and Chai Wan. To provide complete equality between the locations is impossible because the traffic conditions vary.

5.8 Therefore, allegation in 3.1(5) inferring that the learner prohibition routes are less in HKSM examination areas cannot be substantiated.

Table 2: Location & Timing of Learner Prohibition Signs

<u>Private Car Test Centre</u>	<u>Locations</u>	<u>Time</u>
1. HKSM (Shatin)	1. Hin Keng St	24 hrs
2. HKSM (WCH) Wong Chuk Hang	1. Apleichau Bridge Rd 2. Entrance of Car Park, Island Road	24 hrs 10:00am/noon
3. Happy Valley (HV)	1. Village Road 2. Yuk Sau St 3. Shan Kwong Road 4. Blue Pool Rd/Broom Rd 5. Holly Rd	7:30am/7:30pm 24 hrs 24 hrs 24 hrs 7:30am/7:30pm
4. Chai Wan (CW)	1. Wing Ping St 2. San Ha St	24 hrs 24 hrs
5. Pui Ching Rd (PCR)	1. Shek Ku St 2. Pui Ching Rd j/o Sheung Shing St 3. Ho Man Tin Estate (Sheung Fu St)	7:30am/7:30pm 24 hrs 7:00am/7:00pm
6. Good Shepherd St (GS)	1. Chung Hau St 2. Chung Man St 3. Carmel Village St 4. Ho Man Tin Estate (Sheung Fu St) 5. South end of Chung Hau St/ Fat Kwong St	24 hrs 7:30am/7:30pm 24 hrs 7:00am/7:00pm 7:30am/7:30pm
7. Tin Kwong Rd (TK)	1. Centre Compound 2. Tin Kwong Rd j/o Hop Yat Rd 3. Farm Road 4. Sheung Hong St 5. Shek Ku St 6. Gullane St	7:30am/7:30pm 24 hrs 7:30am/7:30pm 24 hrs 7:30am/7:30pm 24 hrs
8. Yau Tong	1. Ka Wing St 2. Unnamed Street off Ko Chiu Rd	7:30am/7:30pm 7:00am/7:00pm
9. North Kowloon	1. Old Tai Po Rd (leading to Centre) 2. Wai Chi St	7:30am/7:30pm 24 hrs
10. Shek Kei (SL)	1. Tai Pak Tin St 2. On Chit St	24 hrs 24 hrs
11. Kwai Shing (KS)	1. Kwai Yip St 2. Kwai Hau St 3. Kwai Luen Rd 4. Hing Shing Rd	6:00am/7:30pm 24 hrs 24 hrs 24 hrs

Driving Examiners

5.9 The number of driving examiners assigned to each driving centre determines the number of tests that can be conducted in the centre as well as the waiting time for students using the centre.

5.10 In 1993, there were 11 examiners dealing with written tests (Part A) and 63 examiners responsible for practical driving tests (Part B and Part C).⁷ Of these 63 examiners, 21 were assigned to the two designated driving schools. Unlike the schools, the number of examiners assigned to the other centre was not fixed but was determined in accordance with the number of test applications received in each centre.

5.11 According to the Transport Department, the allocation of examiners between HKSM and other test centres used by PIs is approximately in proportion to their market share. They plan to re-deploy driving examiners from the pool of 21 examiners currently assigned to HKSM to serve the new school in Yuen Long, if there is no substantial change in HKSM's total market share.⁸ However, a representative of a PI association has queried whether the allocation of examiners is still in proportion to the market shares since HKSM's market share dropped in 1993.

5.12 This study reveals that the ratio of examiners between HKSM and PIs is about 1:2 and therefore corresponds with their respective market share in 1993.⁹

5.13 Given the corresponding ratios of examiners and market share between HKSM and PIs, there is still a waiting time difference between them. The reasons given by the Transport Department are:

- (1) Some tests, including heavy goods-vehicle and bus, are not available to HKSM;
- (2) The "Absent" rate of HKSM students (6%) is lower than that of PI students (16%);
- (3) The testing efficiency is lower for HKSM students (39 minutes per test) than PI students (22 minutes per test) due to the site and road layout constraints at HKSM centres.

5.14 Moreover, the investigation conducted by the Commissioner for Administrative Complaints found that the daily test capacity of all individual driving examiners is more or less the same, taking into account the different location of the test centres that they are deployed to, the

complexity of the centre's road system, and the type of tests conducted.¹⁰

5.15 The crux of the waiting time differential lies in the agreement between the Government and HKSM back in 1980. This will be discussed in detail under Section 8.

Test Applications

5.16 The administrative work of processing test applications and allocating time for the tests is conducted by the Transport Department for all test centres except those in HKSM schools, which process their own applications and submit all applications to Transport Department in batch.

6 THE MARKET

Distribution of Various Types of Driving Instructions

6.1 The types of driving instruction provided by both HKSM and PIs include: private-car, light goods-vehicle, medium goods-vehicle, articulated vehicle and motorcycle. Of these, private-car and light goods-vehicle instruction together constituted over 80% of the total test forms sold in 1993. (See Table 3)

Table 3: Percentage Share of Various Types of Driving Instructions

Year	Private Car	Light Goods Vehicle	Medium Goods Vehicle	Articulated Vehicle	Motor - Cycle
1989	77.29	6.35	5.19	4.05	7.12
1990	68.78	14.07	8.12	3.53	5.50
1991	56.99	24.82	7.08	4.09	7.02
1992	47.78	31.64	8.25	6.38	5.95
1993	42.80	37.25	8.88	5.26	5.81

Source: Transport Department

6.2 Table 3 shows that the share of light goods-vehicle instruction increased from a percentage share of 6.35% in 1989 to 37.25% in 1993. Over the same period, the percentage share of private-car instruction fell from 77.29% to 42.8%. The figures indicate a shift of demand from private-car instruction to light goods-vehicle instruction in the past few years. The shift in demand could be largely attributed to a change in Government regulation in 1988 to that new private-car licensees are not allowed to drive light goods-vehicles but the opposite is allowed, i.e. light goods-vehicles licensees can drive private cars.

Market Share

6.3 Competition between HKSM and PIs has been vigorous in the private-car and light goods-vehicle instruction. An analysis of the number of test forms sold revealed that HKSM's market share were 39% and 27% in the market of private-car and light goods-vehicle instruction respectively in 1993 (See Table 4).¹¹ The remaining share was distributed amongst individual PI.

Table 4: Market Share of HKSM

Year	Percentage					
	Private Car	Light Goods Vehicle	Medium Goods Vehicle	Articulated Vehicle	Motor-cycle	Total
1988	36.2			8.1	48.8	
1989	40.8	16.1	4.1	3.0	56.0	36.9
1990	41.0	34.2	4.0	2.8	92.5	38.5
1991	44.0	37.1	4.8	2.9	94.8	41.4
1992	45.5	31.3	5.2	1.3	88.9	37.5
1993	39.0	27.0	7.0	2.0	96.0	32.9

Source: Transport Department

6.4 In the motorcycle market, HKSM enjoys a monopoly possessing a share of 96% in 1993.¹² This is the outcome of the Government policy in making motorcycling training off-street mandatory since 1990. As the monopolized operator, HKSM is regulated in the fees for motorcycle instruction.

6.5 In the other markets - medium goods-vehicle instruction and articulated vehicle instruction the market share had been dominated by PIs from 1988 to 1993 (See Table 4).

Changes of Demand and Market Share

6.6 The five instruction markets have been expanding during the past few years. The year-on-year rate of expansion was about 1.1%, 3.3%, 10.7%, and 1.1% in the period of 1990-1993. The impetus of this demand expansion was the growing business in the light goods-vehicle instruction, which will be discussed in the following.

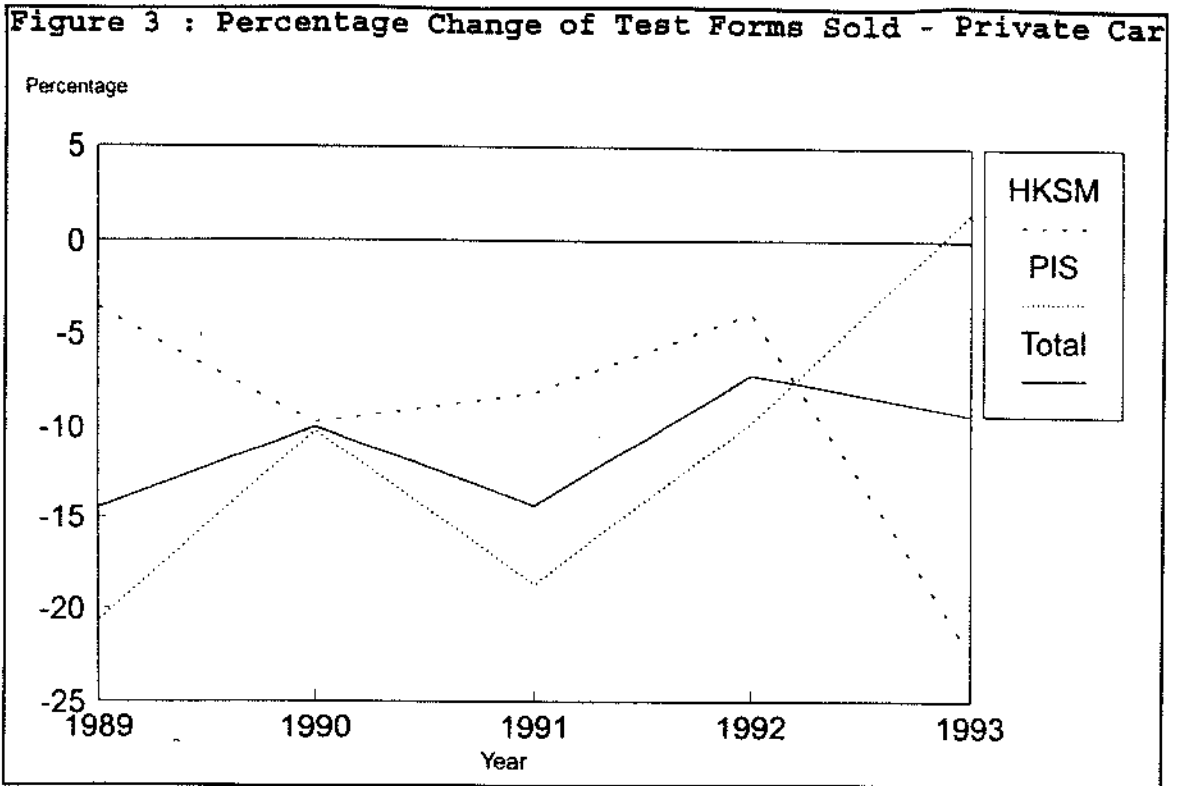
6.7 As HKSM have been operating the two schools at Wong Chuk Hang and Shatin in their full capacities, the schools might not be able to capture the most of such demand expansion in the recent years. This may be the reason for the decline in their market share in two consecutive years, 1992 and 1993.

6.8 On the other hand, PIs as a whole enjoyed an expansion of demand in the past few years. Their test forms sold for the five types of driving instruction rose by 18.1% and 8.6% in 1992 and 1993. Despite the overall business expansion, some PIs suffered a downturn of business in the private-car instruction market. Details are set out in the following.

Private-Car Instruction

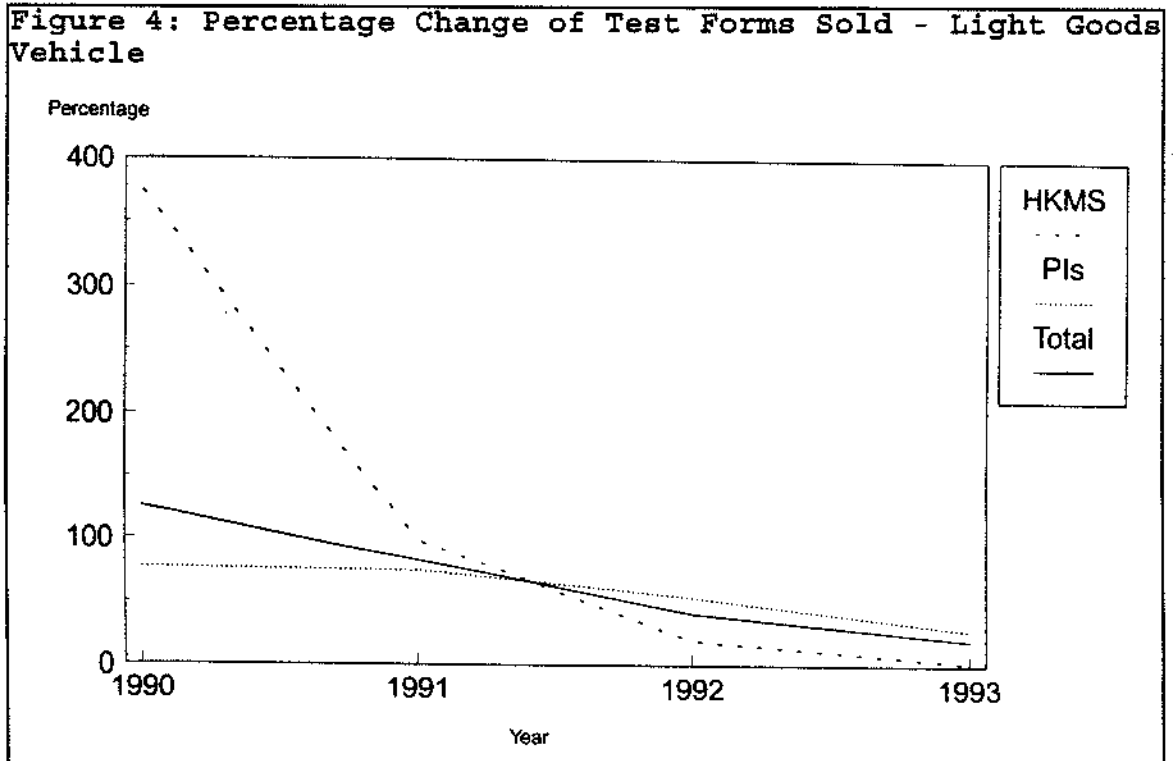
6.9 As stated in 6.2 above, the demand for private-car instruction decreased in the period of 1988-1993. Both HKSM and PIs suffered a decline in business. This is reflected in the decrease in the number of test forms sold as shown in Figure 3.

6.10 Reduced demand rather than the market expansion of HKSM is the major reason for the downturn in PIs business in private-car instruction. Figure 3 shows that although the declining rate of test forms sold to PIs was below that of the industry level and that of HKSM during the period of 1988-1992, PIs outperformed HKSM in 1993 by registering a positive growth of 1.5%. Also, HKSM's market share after peaking at 45.5% at 1992 falls to 39% in 1993 (See Table 4). Hence, although HKSM does compete with PI's in private-car instruction, it is not the major factor in bringing a downturn in PIs business. Allegation in 3.1(1) therefore, is cannot be established.



Light Goods-Vehicle Instruction

6.11 In light goods-vehicle instruction market, the demand showed an increase from 1988 to 1993. Figure 4 shows a structural change in 1992 as reflected in the test forms sold to HKSM and PIs. Before 1992, HKSM had been able to expand its market at growth rates above that of the industry level. Test forms sold to PIs grew at the rate of 54% and 27% in 1992 and 1993 respectively, which outperformed HKSM. The market share of PIs also increased to 69% and 73% in that two years.



Other Instruction Markets

6.12 The demand for medium goods-vehicle instruction had expanded in the past few years despite a fall in 1991. As compared to 1992, the test forms sold to both HKSM and PIs in 1993 grew at the rate of 8.84%. During the same period, the growth rates of test forms sold to HKSM and PIs were 38.83% and 7.21%, respectively.

6.13 Despite the double-digit growth rate of test forms sold to HKSM, its market share only grew slightly from 4% in 1989 to 7% in 1993.

6.14 The demand for articulated vehicle instruction fluctuated in the past few years. This is reflected in the number of test forms sold, which fell by 28% in 1989 as compared to 1988 but picked up again with an increase of 72.7% in 1992 as compared to 1991. Notwithstanding the fluctuation, the market share of HKSM was decreasing, dropping from 8% in 1988 to 2% in 1993.

6.15 Learners were not required to receive any instruction training from PIs before the motorcycle instruction became mandatory in 1990. Since then, PIs do not offer this type of lesson either. Therefore, the mandatory motorcycle instruction which is offered solely by HKSM does not affect PIs' business.

Segregated Markets

6.16 The above analysis of market shares reveals a division of market between PIs and HKSM. The former dominates the instruction of goods-vehicle, i.e., light goods-vehicle, medium goods-vehicle, and articulated vehicle, while the latter the private-car instruction and motorcycle instruction.

PIs

6.17 Over the years, PIs have been able to maintain a substantial market share in the instruction of goods-vehicle for the following reasons:

- Lower hourly instruction fee (Section 7);

- Flexibility in the number of training lessons provided (especially for students who already have some driving experience);
- One-PI-one-car instruction throughout the course.

6.18 The flexibility provided by PIs generally appeals to students who already have driving experience in other countries or in driving other type of vehicles. These are the students who may not need classroom lecture or simulator driving.

6.19 Moreover, as the learners of good-vehicle instruction can be more price elastic than those of private-car instruction, they are attracted to take PI instruction because of the lower instruction fee.

HKSM

6.20 The high market share of HKSM at about 33% across the five types of instruction and about 40% in private-car instruction deserves attention as it is in the hands of one management.¹³ Moreover, the Government policies and the product differentiation between HKSM and PI instruction have the effect of segregating the driving instruction industry into two markets: institutional instruction and private instruction. Sections 8 and 9 discuss the Government policies and the effect of the resultant segregated market on consumers.

7 PRICING BEHAVIOR

7.1 As a result of the segregated market, HKSM has been able to maintain a high market share without having to compete vigorously in price with PIs. Figure 5 shows that in 1988 to 1993 the average hourly rate of school instruction is higher than that of non-school instruction. Table 5 compares the up-to-date instruction fees of 35-hour private car instruction between the HKSM and the PIs.¹⁴ For manual car, the fee collected by HKSM is HK\$6,150 or HK\$5,400 (depending on the type of courses) which is about 54% or 76% higher than the HK\$3,500 charged by the PIs respectively.

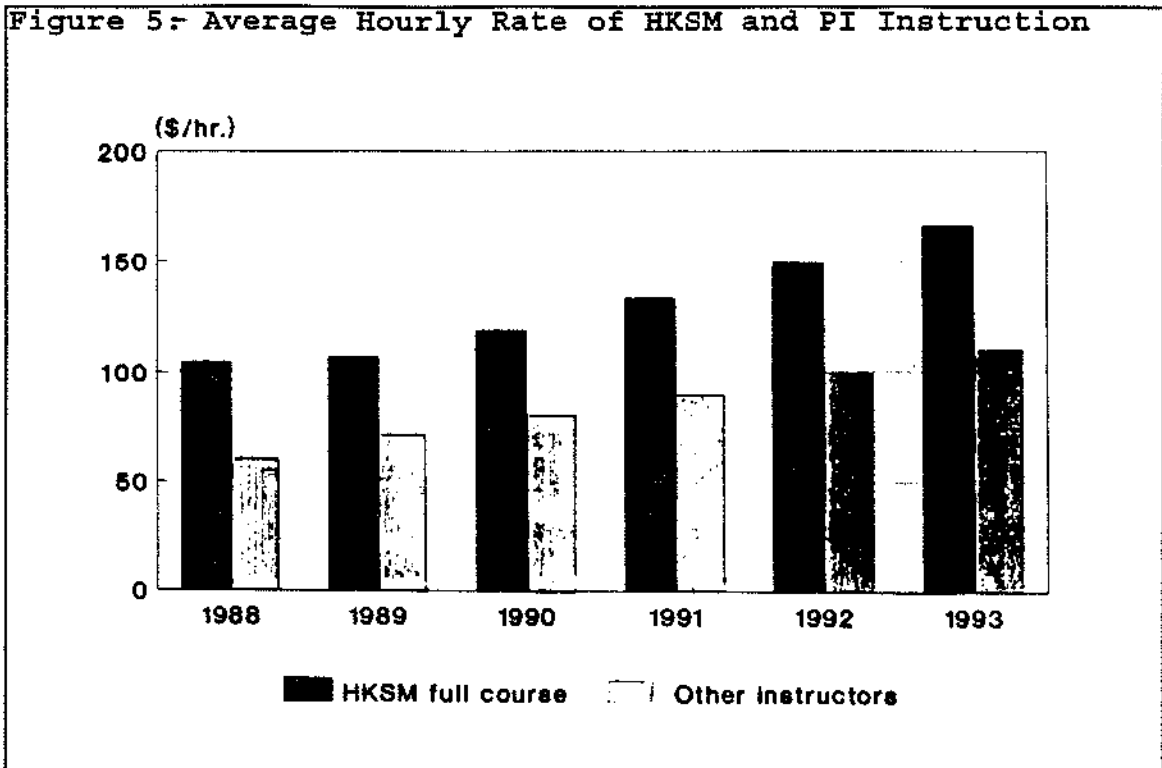


Table 5: Comparison of Instruction Fees (as at June 1993)

	HKSM (35 Hours)		PI (35 Hours)	
	COURSE	AMOUNT	COURSE	AMOUNT
Instruction Fee, including Simulator Driving	Manual		Manual	
	(A) 07:30-23:30	\$6,150	\$110 per hour	\$3,500
	(B) 07:30-17:30	\$5,400		
	Auto		Auto	
	(C) 07:30-23:30	\$6,150	\$120 per hour	\$4,200
	(D) 16:30-23:30	\$5,700		
OTHER CHARGES	Transport Department Test Form	\$510	Transport Department Test Form	\$510
	Private Car Rental for Test	\$480	Private Car Rental for Test	\$500
	Learner's Licence	\$526	Learner's Licence	\$526

Source: HKSM and Hong Kong Driving Instruction Club

7.2 The following fixed cost factors account for the comparatively higher instruction fee charged by HKSM:

- (a) The overhead and administrative costs incurred to meet the Government's requirement to provide classroom lecture, simulator driving and off-street training.
- (b) The land rental for school sites at full market rates.
- (c) The high amortization of capital investment resulted from the short-term nature of the school sites.

7.3 A higher instruction fee can be charged by HKSM due to the willingness of consumers to pay more for a shorter waiting time for driving test. The shorter waiting time can be considered as an economic rent. The magnitude of the rent is equivalent to the difference between HKSM's overall profit with shorter waiting time and the otherwise profit without shorter waiting time. The size of the rent is impossible to be measured because of the unavailability of relevant data.

Pricing Policy of HKSM

7.4 HKSM charges higher instruction fee on students who request for a greater flexibility in scheduling their lessons. Take instruction of manual private car as an example, in 1993 HKSM charges \$6,150 for instruction conducted between 07:30-23:30 (course A) and \$5,400 for the less flexible instruction conducted between 07:30-17:30 (course B).

7.5 There can be two interpretations of the pricing policy of HKSM, namely peak-load pricing and price discrimination.

Peak-load Pricing

7.6 If the cost is higher for course A than course B, then peak-load pricing is the pricing policy adopted. Peak-load pricing involves charging higher price during peak hours and lower price during off-peak hours. The prices are either based on the demand or cost. Such pricing practice is often adopted by some public utility and transport companies, e.g. telephone company, to pass on the cost benefit to consumer who uses the service during off-peak hours.

7.7 As a private enterprise which possesses a significant market power, there appears to be less incentive for HKSM to adopt peak-load pricing.

Price Discrimination

7.8 If the costs for the two courses are the same, then HKSM could have adopted price discrimination. Price discrimination of a product or service is a difference in the price-cost ratios in the selling of identical goods or service to different customers. In a market where the demand is relatively elastic, the supplier tends to set prices close to cost levels. On the other hand, the supplier sets prices in line with demand instead of cost and obtains higher profit from the part of the market where the demand is inelastic.

7.9 In the case of HKSM, the demand for course A is inelastic while course B elastic. The reason is that most learners with full-time occupation prefer to or can only take instruction after office hours. Such pricing practice will allow HKSM to obtain higher profit from Course A than Course B.

7.10 The practice of either peak-load pricing or price discrimination reflects that HKSM has a significant market power, allowing it to determine prices which are not subject to the competitive forces in the market.

Pricing Policy of PIs

7.11 According to a survey conducted by the Consumer Council in mid-1993 and confirmation from the representatives of eight PI associations, the instruction fee for private-car is set and adjusted annually by the associations.¹⁵ This price-fixing among PIs has made possible by collusion among these associations.

7.12 Most associations formed by PIs provide administrative support to their members, including student registration, making recommendation or assignment of PIs to students, and collecting instruction fee. Most of the associations are registered as limited companies rather than trade unions.

7.13 Each PI can join two or more associations concurrently. Therefore, the membership of all the associations in aggregate exceeds the number of PIs actually in the business.

7.14 According to representatives of the eight associations, their total membership stands at 800 PIs providing private car-instruction, while total active PIs in the industry as a whole stands at 1,100, of which 600-700 PIs provide private-car instruction.

7.15 Although PIs associations do not have mandatory power to compel their members to observe their recommended fee level, representatives present at a meeting with the Consumer Council admitted that the majority of them do adopt the recommendation of their respective associations.

7.16 In many other countries, price-fixing is illegal *per se*. It is prohibited in order to safeguard consumer's interest as product and service prices tend to rise with price fixing. Price-fixing eliminates competition amongst PIs. It is however uncertain whether the price-fixing actually hampers the competition between PIs and HKSM or otherwise.

8 EVALUATION OF GOVERNMENT POLICY

8.1 This section evaluates Government policy towards the driving instruction industry, examining also achievement of the policy objectives and implications of the measures adopted.

8.2 Government's policy towards the driving instruction industry "lies in the promotion of road safety, and in the control and management of vehicular growth",¹⁶ which are consistent with the transport policy objectives of managing road use embodied in the 1990 Transport Policy White Paper.¹⁷

8.3 In May 1994, the Transport Department reviewed its policy on driving test waiting time and reaffirmed the policy as stated below:

To promote off-street instruction through off-street driving schools which offer comprehensive and systematic courses.

Specifically, the policy aims at:¹⁸

- (1) to reduce traffic congestion by keeping the initial training and the subsequent testing of basic manoeuvring skills off-street;
- (2) to enhance driving standards and to ensure the safety of learner drivers and other road users and through comprehensive and systematic training; and
- (3) to reduce administrative burden.¹⁹

Government Measures

8.4 Measures adopted by the Government to promote off-street driving instruction include suspension of new PI licence and shorter waiting time etc. for HKSM students. These are discussed below:

Suspension of the Issuance of New PI Licence

8.5 Since 1973, the Government has stopped issuing new PI instructor licence in order to reduce the administrative burden and cost for the issuance of licence to non-active PIs. As a result, the growth of PIs has been suppressed and the number of active PIs has substantially reduced by 67% from 3,600 in 1978 to about 1,200 in 1993.²⁰

8.6 Upon granting of the operating right for the first driving school in 1980-81, the Government saw it fit to maintain this policy so as to generate sufficient market demand for the school.

Measures to Encourage the Establishment of Driving Schools

8.7 The Government has adopted several other measures to encourage the setting of the driving school, i.e. shorter waiting time for HKSM students, different test mode for HKSM students, and the restriction on HKSM driving instructor licence to disallow HKSM instructors to operate as PIs. Since these measures have been in place, the Government has successfully brought about two more designated driving schools making three in total, all of which are operated by HKSM. These measures are elaborated below.

(1) Shorter Waiting Time For HKSM Students

Waiting Time Agreement

The Government reached an agreement with HKSM on the waiting time arrangement in October 1980 to the effect that the waiting time for HKSM students was to be maintained at half of that for PI students. This would be subject to regular review.

Methods of Waiting Time Calculation

The waiting time for HKSM students is calculated from the time when they completed bookings for 35 hours lessons to the time when practical test is conducted; Whereas the waiting time for PI students is counted from the time they passed the written test to the time when practical test is conducted. Transport Department considers a simple comparison of the two test appointment systems tantamount to comparing an apple with an orange due to the different course and organization.

Waiting Time Differential

In 1991, the waiting time for HKSM's students had been adjusted to 30-40% on average shorter than that for PI students. In 1992-93, the average waiting time for private car driving tests was 174 days for HKSM students and 218 days for PI students, representing a difference of 44 days or an average differential of 20%.²¹

Representatives of some PIs associations alleged that the waiting time of PI students is subject to substantial fluctuates in some cases and is not always maintained at the estimated average. The Transport Department admits the waiting time of individual candidates differed considerably, from 3 months for the most diligent ones to over a year for the less industrious.

Reasons for Government Support of the Waiting Time Differential

The Government recognized "the waiting time differential to be a conscious policy to encourage off-road learner training in the wider interest reason behind it." In May 1994, the Transport Department has completed a policy review on the shorter waiting time granted to HKSM students and decided to maintain the status quo for the following reasons²²:

- i Abolition of waiting time differential will be a retrograde step in achieving the policy objective to promote off-street instruction.
- ii The granting of shorter waiting time to HKSM students is a way of giving recognition to the investment of and contributions by HKSM. Over the last decades, HKSM has invested over HK\$100 million in setting up off-street training centres which include classrooms, training equipment, vehicles and simulators. It also pays over HK\$10 million rental per annum for the school sites.
- iii The Government estimated that the capital investment for the school at Shatin was about \$15 million in 1984²³ and \$10 million at Tseung Kwan O in 1994, including \$4 million annual rental. Currently HKSM is paying rentals at full market rates of \$6.16 million and \$8.13 million per annum for sites at Wong Chuk Hang and Shatin.²⁴
- iv PIs are getting the lion's share of the market while HKSM's share is dropping.
- v Investigation conducted by Commissioner for Administrative Complaint in 1991 concluded that the complaint of "unfair treatment" is not substantiated.
- vi There is no unfairness to the public and the consumers who are given the freedom to choose between HKSM and PIs in taking their instruction lessons in the same way as they are given the freedom of choice in the mailing services of different speed.

Effects and Implications

Clearly, the waiting time differential has become a crucial factor in making the operation of driving school financially viable. It balances against the minimal capital investment of the PIs who need not provide facilities for simulator training, whose only capital investment is the motor vehicle for instruction. Most important of all, the instruction takes place on public roads which are virtually free of charge. HKSM believes that without a preferential waiting time their business would no longer be viable.²⁵

However, the award of shorter waiting time for HKSM students is perceived to be discriminatory and arbitrary, and it has the following implications:

- i It has generated discontent among some PIs.
- ii It differentiates the driving instruction of HKSM from that of PIs, hence the two modes of instructions are close but not perfect substitute for each other;
- iii The resultant product differentiation enables HKSM to obtain a monopoly power and avoid price competition with PIs;
- iv Although it balances the competitive edge of HKSM and PIs as the former competes on shorter waiting time and the latter lower instruction fee, it fails to provide a level-playing field for the two market players to compete on equal footing.

(2) *Different Test Mode For HKSM Students*

The Government has made the gradual test available to HKSM students (separate Part B and Part C driving tests). However, the same test mode is not open to PI students. Reasons provided by the Transport Department are as follows:

- i Separate Part B and Part C tests will increase multiple bookings, therefore are wasteful of resources and increase administrative costs. Incidences of multiple-bookings are higher for PI students than HKSM students even though PI students are only eligible for a combined test. Transport Department anticipated an increase in multiple-bookings when PI students are offered separate part B and part C tests.

- ii HKSM provides space and facilities within their compound for Part B test, while the Transport Department does not have suitable space and facilities to conduct Part B test for PI students;
- iii Since PI students have to take Part B test on the public roads and the candidates have to travel on stretches of the public road to reach the testing site, it is more cost-effective and prudent for them to take Parts B and C together.

Implications

If the Government's main concern is on multiple-bookings, more effective administrative measures can be found to prevent this from happening, e.g. computerization of the application process to cancel double bookings, imposition of penalty on learner drivers who are absent from tests, or increase the fee for driving test application. Denial of the same test mode to PI students does not appear to be a good solution.

This Council is of the view that the environmental conditions of the testing sites for the two streams of students is not comparable and Government's subsequent move to make available more off-street driving tests locations for PI students, e.g. at Happy Valley, So Kwun Po and Tai Po is a positive move to eradicate the differences.

Once these off-street driving test centres for PI students becomes fully operational providing sufficient facilities, the Consumer Council considers that the gradual test should be made available to PI students.

(3) *Restriction on the Licence of HKSM Instructors*

In order to ensure that no new PI will enter the market through HKSM employment, the Government has imposed condition on the driving instructor licence for HKSM employees. The licensees cannot operate independently as PIs. PIs, on the other hand, are free to seek employment from HKSM.

Although the objective of this measure is consistent with the suspension of issuing new PI licence, this Council is of the view that the restriction imposed on the licence of HKSM's instructors has created a monopsony power for HKSM in the labour market of driving instructors, leaving these instructors with less bargaining power.²⁶

Overall Policy Assessment

8.8 The Government policy and measures implemented have, to a varying degree, attained the objectives of reducing traffic congestion, enhancing driving standards and also served to reduce the administrative burden on the Transport Department. This is elaborated below:

Attainment of Policy Objectives

Alleviation of Traffic Congestion

8.9 Off-street training can reduce half of the training time on the road, and therefore eases traffic congestion in some designated areas.²⁷

8.10 Take the number of tests form sold as an indicator of total number of learners of the five types of vehicle instruction (i.e., private car, light goods-vehicle, medium goods-vehicle, articulated vehicle, and motorcycle). About 186,000 learner drivers took lessons in 1993, including 61,000 HKSM students and 125,000 PI students. Without the establishment of driving schools, the total number of hours that students trained on the road would be 5,228,000 hours. The establishment of driving schools has substantially reduced the hours of on-street training to 4,354,000, representing a reduction of 854,000 hours (or 16%).²⁸

8.11 The reduction of on-street training hours is of significant impact to road users considering the continuous demand for driving instruction in Hong Kong. With full implementation of off-street driving instruction, Government would be able to further alleviate traffic congestion caused by learner drivers.

8.12 However, the PIs are of the view that the high concentration of students on certain roads in the vicinity of HKSM has caused unnecessary traffic congestion in Shatin during rush hours.²⁹ HKSM however contends that the traffic congestion cannot be attributed solely to the concentration of HKSM students while ignoring other factors such as the population growth, rapid housing development, as well as increasing PI instruction in that area. Traffic congestion, as pointed out by HKSM, has never been a problem at Wong Chuk Hang.

Standard of Driving Skill and Road Discipline

8.13 The Government believes that systematic driving training which includes classroom lecture on road regulations, simulator driving, and off-street training is an effective way to improve driving standard and road discipline. Such training has been provided in Tokyo, Yokohama, Guangzhou and Singapore. The passing rates of HKSM students and PI students, however, do not reveal a significant difference between systematic driving training and private instruction. The investigation conducted by the Commissioner for Administrative Complaints in 1991³⁰ also concluded that the Transport Department's "claim of better training standard in the HKSM could neither be supported nor refuted" from the analysis of passing accident rates. Perhaps passing rate is only one of the many criteria reflecting on driving standard and this is a matter for the Transport professionals to study and confirm.

8.14 This Council recognizes that the setting up of driving schools has the effect of placing the quality of school instructors under some control. Driving instructors of HKSM are required to take refresher training lessons offered periodically by HKSM to improve their teaching skills. On the other hand, the quality of HKSM instructors can be adversely affected by the reportedly high turnover rate of the HKSM instructors³¹. The fact that HKSM students find it difficult to book with the same driving instructor throughout the course may also affect the training of students.

8.15 Despite this fact, by ensuring a uniformity of standard for instructors, the form of institutionalized training introduced meets the Government objective of promoting driving skill and road discipline.

8.16 By contrast, PIs do not normally receive any form of training in teaching skill and they rely on accumulated experiences. Standard may vary from one to another. Learners have no way to know which PIs offer good training except by word-of-mouth.³²

Reduction of Administrative Burden

Batch-processing

8.17 Since the inception of HKSM, the Government has entrusted the administrative arrangement of tests to the HKSM management which submits applications of HKSM students to the Transport Department in batches. Batch-processing saves both manpower resources and administrative costs of the Department.

8.18 In addition, HKSM students make fewer multiple-bookings as compared with PI students. This is shown in Table 6, in which the private car driving tests conducted rates are compiled. "Absent" rate for driving tests is also lower for HKSM students (6%) than PI students (16%). This has the effect of reducing the resources that are wasted on unfulfilled time slots and therefore allows additional savings of manpower resources.

Table 6: Private Car Driving Tests Conducted Rates*

Year	Percentage	
	HKSM	Non-school
1988	97.79	93.34
1989	96.51	92.82
1990	96.57	91.79
1991	96.89	93.00
1992	95.76	92.45
1993	92.74	87.78

Source: Figures are based on data published by the Transport Department

* Driving tests conducted rate
 number of tests conducted
 = ----- x 100%
 number of tests planned

Issuance of Licence

8.19 The Government informed this Council that one of the reasons for not issuing PIs licences is to reduce the administrative burden of processing applications from non-active PIs. Indeed since introduction of this measure, the Transport Department needs only deal with renewal of licence rather than new applications, hence has reduced unnecessary administrative work.

8.20 With this policy, the number of PIs is contained at the 1973 level minus natural wastage. However, there is still no guarantee that all licence holders will be active in providing driving instruction since licences can be renewed annually upon payment of a fee of \$750. PIs are neither required to prove that they are actively engaged in the business nor to renew their licence in person.³³

8.21 A more thorough approach to discourage non-active PIs from licence applications is to increase the application and renewal fee for the instructor licence. Higher entry fee can deter entry of and renewal of licence by non-active PIs, while admitting those who really take an interest to join the industry, thus ensuing a continuous supply of new PIs. This goes without saying that the administrative cost of the Government in the issuance of licences can be recovered by increasing the application and renewal fees.

Overall Assessment

8.22 Despite attainment of the objectives stated above, the Council's study has revealed two key issues in need of improvements, namely,

- (1) the lack of explicit long term policy to guide the development of the industry

In the course of this study, this Council has been able to obtain information from the Transport Department. However, there appears to be no composite statement of Government objectives to be found in any one single document, which can be made available to interested parties in the study of the subject. Although Transport Department officials may have access to such policy documents, it lacks the openness and transparency purportedly existing in most other Government policy areas. Such lack of information may well give rise to uncertainty as far as market players are concerned and poses barriers to potential entrants.

Furthermore, no reference is made of the driving instruction industry in the "Moving into the 21st Century - The White Paper on Transport Policy in Hong Kong 1990", the most important document mapping out the future directions and transport strategies for Hong Kong.

- (2) the need for on-going monitoring and evaluation to assess the effectiveness of the policy and measures adopted

Certain measures were introduced for a specific reason decades ago but since then have been maintained for a different reason in subsequent years, resulting in a lack of clarity of the objective it aims to achieve. Cessation of new PI licence is one such example, the measure was introduced to alleviate administrative burden and subsequently used to restrict entry of new PIs in order to provide a competitive edge for the driving school.

On-going evaluation will provide the impetus for innovative ideas to be adopted to address a certain concern. For example, the granting of a shorter waiting time may appear to be the single most effective measure to induce investment from the driving school some ten or more years ago, but as this mode of driving instruction has become well established in recent years, the Government needs to conduct a thorough review to explore whether other measures can be put in place to attain the objective just as well but free of the circumferences of the current "discriminatory" measure.

Policy changes are perfectly acceptable given the changing circumstances but it must be fully justified in order to minimize misunderstanding on the one hand whilst allowing for focused evaluation on their effectiveness of implementation.

9 EFFECTS ON POTENTIAL ENTRANTS AND CONSUMERS

9.1 As a result of deliberate policy by the Government, the driving instruction industry is segregated into two markets: private instruction provided by PIs and institutional driving instruction provided by HKSM.

9.2 In the market of private instruction, consumers are affected by the price-fixing of the major PI Associations. Price competition between the 1,200 active PIs is restricted under the arrangement.

9.3 In the institutional instruction market, HKSM has a monopoly power as operator of the three designated driving schools providing instruction for 5 types of vehicles. HKSM maintains a monopoly in motorcycle instruction. In total, HKSM takes up about 33% of the market share in 1993.

9.4 To potential entrants, the difficulty in site location and the granting of sites for driving schools in a short-term basis has formed barriers to entry. The resultant market structure has affected consumer choice and deprived consumers of the benefit from the price competition between HKSM and PIs.

Potential Entrants

9.5 The existence of barriers to entry in the market has the effect of discouraging many potential entrants, including PIs, from setting up competitive driving schools.

Barriers to Entry

Difficulties in Locating Sites

9.6 To potential entrants, the difficulty in locating a strategic site for a new school is almost an insurmountable task, taking into account the following crucial criteria:

- The site must be sufficiently spacious to cater for off-street instruction;
- The site must be in a vicinity which allows on-street driving without causing congestion to the normal traffic;
- Noise barriers may need to be erected for environment protection purpose so as not to cause any nuisance to the neighbourhood; and

- The site has to be strategically located in order to be competitive to HKSM.

9.7 Over the years, the Transport Department has been making relentless efforts in encouraging the establishment of new driving schools, but little success has been achieved due to the constraint of land resources and objection from District Boards.³⁴ More than a decade ago, driving school sites at Tai Po, Tuen Mun, and Lai Chee Kok were identified and incorporated in the respective town plans, however, these sites were never developed into driving schools due to strong objection from local political groups and District Boards,³⁵ and also the lack of access roads. The Lands Department has recently confirmed that a permanent location in Tai Po may be available from end of 1995.

9.8 Alternatively, a potential entrant may locate a site on its own by making enquiries to the Lands Department and at the same time submitting a proposal to the Transport Department. Once a site is identified, the Government will invite public tender for it and the potential entrant will be invited to bid together with other contenders despite the initiative taken by the potential entrant and the merit of its proposal. With no edge over other bidders, the potential entrant risks losing to a higher bidder who may bid for the site for other more lucrative business. Such a procedure is not conducive to encourage market entry.

9.9 Finally, a potential entrant could acquire a piece of land to set up a school, but this will incur a huge investment in paying for the land cost. Furthermore, permission from the Planning, Environment and Lands Branch must be sought in order to use the land as a driving school.

Short-term Leases of Sites

9.10 Regardless of whether the site is provided on Government lease or acquired, in many instances it can only be used as driving school under short-term leases. For instance, the acquired site at Yuen Long by HKSM is approved for use as a driving school for only 3 years, initial lease for Wong Chuk Hang is 3 years, Shatin 5 years and Tseung Kwan O 18 months. These latter sites granted under short-term tenancies are subject to quarterly renewals upon expiry of the initial lease period simply because there are earmarked purposes for the sites, pending development in some distant future. For example, the site at Shatin is earmarked for a transport interchange, while the Tseung Kwan O site has been designated for a hospital. The site at Wong Chuk Hang belongs to the Urban Council awaiting development into a park. The driving schools, therefore, can only make the best use of the intervening short period of time.

9.11 The short-term leases render it difficult for an operator to recover its capital investment within the limited time span. Only companies with strong financial back-up can risk this short-term recovery of costs. In reviewing the development of driving schools in Hong Kong, it is believed that many potential entrants, including groups of PIs, have been unable to establish a school due to the lack of strong financial back-up. Appendix II lists out the financial and other difficulties of PIs in setting up a driving school.

HKSM's Reaction To Entry Attempt

9.12 HKSM was challenged once in 1992 when a consortium consisting of Sun Hung Kai Properties, Geoffrey Holdings and Wilson Parking attempted to set up a new driving school in the New Territories. An application was filed to the Town Planning Board but it was objected by HKSM which subsequently sued the consortium for using its confidential information and documents for a rival purpose.³⁶ The incident ended a few months later when Sun Hung Kai Properties became one of the owners of HKSM holding 30 per cent of the total share.

9.13 This incident demonstrates that (1) some companies had considered the operating a driving school to be financially viable; (2) HKSM had been very keen to keep its market position, and thus implying profitability of the business; and (3) HKSM rather formed a joint venture with potential competitors than allowing them to set up a competitive school.

Consumer Interests

Choice

9.14 The driving instruction offered by HKSM and PIs are close but not perfect substitutes to each other. Consumers can have a choice of the type of instruction depending on their budget and time constraints.

9.15 Product differentiation exists within an industry when each producer is selling a product, the characteristics of which are distinct from that of competitors and this is the case with HKSM.³⁷ HKSM's marketing strategy serves to promote school identification and differentiates their instruction courses from that of the PIs. Classroom lectures, simulator driving, and off-street training provided by designated driving schools can be perceived as more "systematic" and "institutionalized" than the "private and personal" tutoring offered by PIs.

9.16 The differentiation of instruction results in HKSM and PIs attracting different groups of customers. Both HKSM and some PIs admit that their target customers are different; HKSM students being primarily members of the white-collar working population with higher education and income level who are receptive of "formal" and "systematic" training, whereas the instruction mode offered by PIs appeals to those who prefer a "private and personal" approach and in the same age group as the PIs, i.e., in the age group of 40-60.

9.17 Learners, who have already obtained a driving licence or training from other countries, may prefer the flexible package of the PIs to HKSM's instruction, which requires a minimum of 35-hour training regardless of the driving experience of students.

9.18 Moreover, PIs provide a more flexible number of classes to meet individual needs on a one-PI-one-car basis, whereas HKSM students may not be able to follow the same instructor throughout the course.

9.19 Despite the choice between two different modes of driving instruction, consumers and learner drivers are left with no choice of driving school provider. All the three driving schools in Hong Kong are being operated under one management which has a monopoly power of institutional driving instruction.

Price

9.20 Price competition between HKSM and PIs has been impeded due to Government intervention and the effect of product differentiation. The economic interest of consumers is therefore adversely affected.

9.21 According to a series of monthly surveys conducted by HKSM between January 1986 - April 1994, HKSM's shorter waiting time has been the major attraction for their students. Given the preferential waiting time for test and its monopoly power, HKSM would be able to set prices above the competitive level, thereby extracting economic rents from consumers who are willing to pay a higher price for shorter waiting time.

9.22 Although consumers can pay 43% less for driving instruction provided by PIs, price-fixing of the eight PI Associations eliminates competition amongst PIs and affects consumer interests. Although compliance cannot be completed, the 1,200 PIs automatically adjust their charges in accordance with the recommendation from their respective Associations.

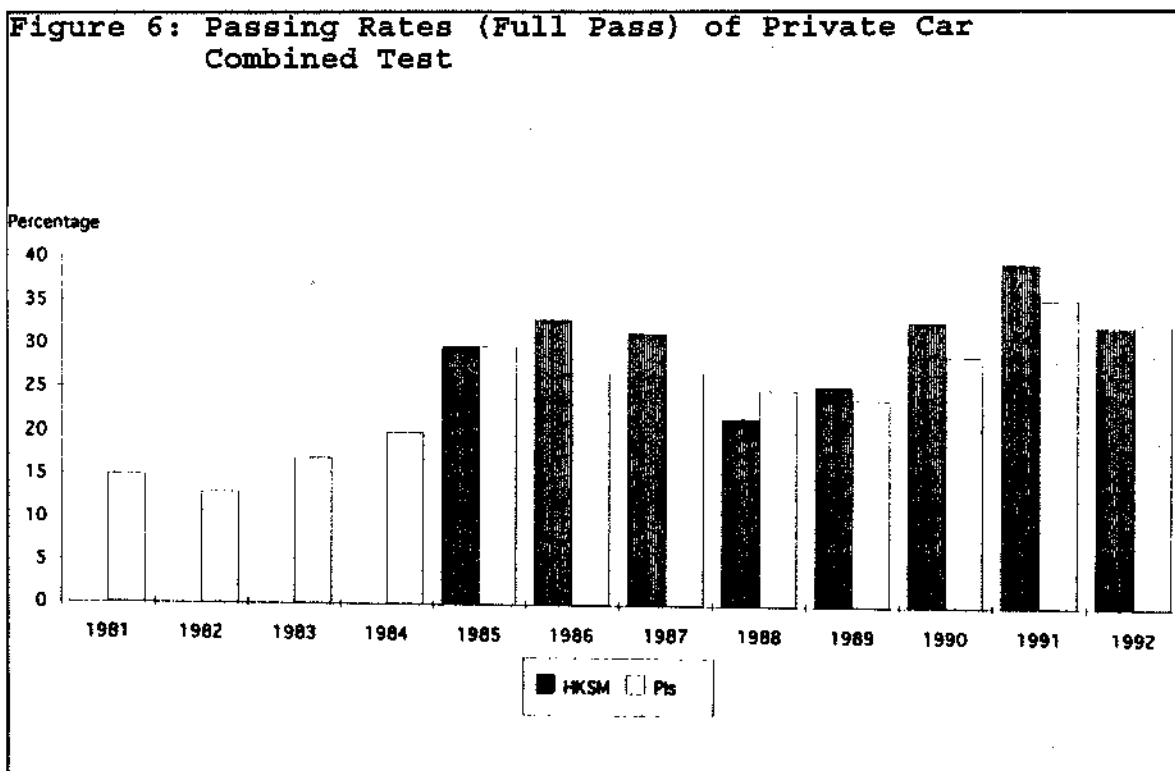
9.23 It is believed that the price level under price-fixing arrangement is higher than the competitive price. This will in turn, influence the price level of HKSM which

will naturally take PI charges as reference for its own instruction fees. Hence, consumers lose out in both markets of the driving instruction industry.

Quality

9.24 In general, the absence of price competition between HKSM and PIs would induce them to compete in quality. This may be reflected in the improved passing rate of PI students since the establishment of driving schools. (Figure 6)

9.25 Figure 6 also shows that the passing rate of HKSM students in the practical driving tests for private-car operation was higher, though not substantial, than that of PI students for the period 1985-1992, except in 1988. Moreover, the monthly surveys conducted by HKSM shows that higher passing rate has been persistently the second major factor which has attracted students in the period January 1986 - April 1994. This has indicated that the competition between HKSM and PIs is keen in providing high quality of driving instruction. Hence, consumers can benefit from the resulting competition.



9.26 HKSM and PIs also compete in other services provided to students. For example, HKSM offers shuttle bus service from city centre to driving schools competing with the pick-up service provided by some PIs. Other competing services include HKSM's 11 enrolment centres located on Hong Kong Island, Kowloon and the New Territories form a strategic network supporting the school's marketing campaign to attract students; distribution of pamphlets outlining courses provided and highlighting the advantages of the instructing mode in a school setting; and also the schools' participation in road safety campaigns jointly organized with the Government. A driving instructions school operated by PIs admits a drastic drop in their school's enrolment every time when HKSM actively pursues its marketing campaign.³⁸

Subsidy

9.27 There is a hidden government subsidy for allowing all learner drivers to use the road for practical training. While PI students receive more hidden subsidy by practising both Part B and Part C on the road, HKSM students have to pay a cost for off-street site for part B training. Although all learner drivers benefit more or less from such a subsidy, tax-payers have to pay for the social cost of heavier traffic in the training areas.

10 POLICY RECOMMENDATIONS

10.1 The Consumer Council has consulted the Government, HKSM, and PI Associations on the findings on this report. Their feedback (in Appendix III) has been taken into consideration when making the policy recommendations presented in this section. It is important to note that each policy recommendation forms part of an integrated whole and is inter-related with each other.

(1) Long Term Policy for Driving Instruction

The Government is looked upon to devise a comprehensive long term policy with firm commitment to assist the continuous development of the industry. This policy should encompass the following:-

(a) Achieving the Socio-Economic Objective

The Government must take full regard of the important socio-economic functions of driving instruction in Hong Kong. Driving instruction not only ensures the safety of road users and safeguards against damage to properties but is essential to an urbanized transportation system contributing to economic development.

Moreover, the driving instruction industry has been expanding rapidly in the recent years. The number of learner drivers increased by 12% from 111,000 in 1992 to 124,000 in 1993. Assuming each learner driver spent HK\$5,000 in average for receiving driving instruction, the estimated total of about \$600 million had been spent in 1993. This reflects the high business turnover of the driving instruction industry.

Given the growing importance of driving instruction industry, the Government should commit appropriate resources to ensure a healthy development of the industry to serve the public need.

Further, this policy should seek to balance the need for reducing traffic congestion, standardizing and maintaining the quality of driving instruction whilst enhancing competition in the industry.

(b) Integration with Overall Transport Policy

This policy must take into account the forecasts of transport demand and infrastructure improvements proposed in the Government's "Moving into the Twenty-first century, the White Paper on

Transport Policy in Hong Kong" in order to map out the future direction for the driving instruction industry and forms an integral part of such policy.

(c) Planning Standard

It will be useful for the Government to examine whether a planning standard could be developed for driving schools and be incorporated in the town planning process. The planning standard will take into consideration such criteria as density of population, income level, demographic distribution and car ownership as appropriate.

(d) Transparency

The policy objectives should be clear, open and transparent to remove any uncertainty on the part of market participants for the long term development of the industry and to allow for regular review from time to time.

(2) **Encouraging Competition**

In order to safeguard consumer interests, the Government should instigate the following measures to encourage competition in this market.

(a) To Break the Collusion Among PIs

Consumers are subject to the uniform charges recommended by PI Associations. The anti-competition effect is contrary to consumer interests. The Consumer Council urges PIs to cease such practice or otherwise certain administrative or legal measures should be adopted to break the collusion and price-fixing among PIs.

(b) To Bring in Competitive Forces to the Market of Driving Schools

If the Government is to maintain its policy of encouraging off-street driving instruction, it is envisaged that the market for driving schools will expand. Government should therefore instigate measures to encourage entry of new school operators to safeguard against the unhealthy growth of monopoly power by HKSM which is already operating 3½ schools.

(c) Town Planning Provision: Earmark Sites for New Driving Schools

Establishment of driving schools should be regarded as a form of vocational and skill training same as other educational institutions. Where possible, planning standard should be devised for the facility. The proposal is not for the Government to lease the sites at a lower than market value, but rather, provisions are to be made in the Hong Kong Planning Standard Guidelines in the same way as sites for Government/Institutional/Community users (GIC) and other educational institutions are provided for in the town planning process.

Such a measure is justified despite the high value and competing demands for use of land in Hong Kong in view of the socio-economic function the driving instruction industry performs. An extended pay back period allowed by longer lease or permanent use of school sites will alleviate the pressure on the Government to provide considerable shorter waiting time as incentive for driving schools. Such incentive had been the primary source of discontents. The proposed improvement is, therefore, worthy of serious consideration.

Alternatively, if the Government regards the opportunity cost to allot new driving school sites to be substantial and non-beneficial to the economic interest of the community, it should consider granting a longer lease term to meet the operational needs of the new school. The current shortest 18-month lease is not conducive for new entrants nor realistic for the driving school to recoup the investment made.

(d) Tender

To induce competition, public tender should be invited to bid for the operating rights on the new sites. It may not be necessary to exclude HKSM from submitting a bid but the tender from HKSM must be scrutinized, bearing in mind the anti-competition effect HKSM caused due to its current extensive market power.

If eventually HKSM were to be granted the operating rights of additional driving schools, the Government should consider subjecting the operation of HKSM to some form of Government regulation. The Government should also encourage joint venture between tenderers and PIs in setting up new driving schools.

(3) **To Provide a Level-Playing Field for PIs and Driving Schools**

The Government should on equity grounds explore other viable means to attain the objective of encouraging off-street instruction rather than granting preferential treatment for HKSM students, though this may reduce the competitive edge from HKSM.

It is incumbent upon the Government to find measures of maintaining a level-playing field for both HKSM and PIs. The fact that PIs have been enjoying a hidden subsidy by using public roads free of charge all along and HKSM incurs substantial investment for the school sites should be taken into account.

Consumer preference should also be a major concern in examining the possible options to reduce the waiting time differential.

We propose the following ideas for the Government's consideration in narrowing the gap between HKSM and PIs in terms of operating cost, training environment and waiting time differential:

- (a) to reduce the rental payable by school operators or to lengthen the lease term for use of temporary sites;
- (b) to increase licence fee for the PIs, their driving instruction vehicles or learner licences of PI students;
- (c) to require PIs to give off-street driving instruction in sites sponsored by the Government;
or
- (d) to make new and existing driving schools open up its facilities for use by PIs at a cost in the same way as a common carrier in the telecommunication industry does overseas.

If the Government is fully convinced that the granting of the shorter waiting time for HKSM is a form of public subsidy - justifiable and essential to the commercial viability of HKSM - vis-a-vis the free use of public roads by PIs, then the Government should clearly spell out its policy and guidelines on this. This should serve to remove the existing arbitrary element in the administrative process, and to prevent possible abuse or grievances.

(4) **Other Measures**

(a) **School capacity and flexible arrangements**

To avoid traffic congestion from a high concentration of students in the driving school vicinity, school capacity should be subject to a limit. The number of routes available for practical tests and road training should also be increased. On the other hand, the driving school can consider spreading its on-street instruction to other districts with flexible pick-up points for students.

(b) **Standardization of Driving Tests**

The Government should, as far as possible, work towards a standardization of testing modes and testing environment for HKSM and PI students in order to minimize complaints over the perceived or actual differences in treatment.

(c) **Computerization of Test Application Administration**

Automation technology should be introduced in processing the vast volume of test applications. Computerization will not only help speed up in the administration of the applications but yield crucial information much needed by management to help plan and improve the efficiency and effectiveness of the system - information to keep track of the number of active or non-active PIs, learner drivers profile, multiple bookings, etc.

The Consumer Council considers driving instruction an essential service as every driver must learn and be licensed before he is allowed to drive. While adopting the policy of discouraging on-street driving instruction, the Government needs to play a more proactive role in encouraging the setting up of off-street driving schools.

This Council is aware of the fact that the issues examined in this study were also investigated by the Commissioner for Administrative Complaint (COMAC). Information received from the Transport Department indicated the same conclusion had been drawn. However, it should be noted that this report focuses on the competition environment of the driving instruction industry as a whole, therefore covers the subject from a broader perspective.

Publication of this report presents an ideal opportunity to gauge consumer feedback for policy consideration.

11 FINDINGS ON ALLEGATIONS

11.1 On the complaint lodged by PIs of the Hong Kong Driving Instruction Club in March 1993 (Section 4 refers), this Council has the following findings:

- (1) **The allegation that the rapid growth of HKSM's market share contributed to a substantial business loss of the PIs is not substantiated.**

Whilst PIs in the private car instruction market declined in the past few years, demand for PIs instructions in the other markets including light goods-vehicle, medium goods-vehicle and articulated vehicle actually grew.

The major cause of the decline in PIs' business in the private-car instruction market is the fall of demand in the market as a whole as opposed to the market expansion of HKSM as alleged by the PIs. HKSM's business in this market has also declined during 1988-1993, and its market share dropped from 45.5% in 1992 to 39% in 1993. Therefore the allegation cannot be substantiated.

- (2) **The PIs are correct in their observation that the rights to operate the existing three designated schools are granted to one private corporation, while the inhibiting costs of obtaining a suitable site have prevented the PIs to compete by setting up driving schools of their own.**

The operating right of the first driving school at Wong Chuk Hang was granted to HKSM through private agreement while that of the second school at Shatin was granted to HKSM through an open tender. The third driving school at Yuen Long is operated on a site acquired by HKSM.

Over the years, there has been no competitor to set up a driving school. The reasons include:

- The required capital investment together with sound financial back-up and management expertise have discouraged some PIs and other interested companies from establishing a driving school; and
- Potential entrants can be discouraged from setting up a school as the Government has been inactive in assisting newcomers to find a site for setting up a school through open public tender.

- (3) **The PIs have correctly pointed that the HKSM students are granted shorter waiting time for driving tests than PI students.**

The reduction in waiting time for HKSM students is based on an agreement between HKSM and the Government in the early 1980s. The agreement states that the waiting time for HKSM students is to be maintained no worse than 50% shorter than PI students. However, according to the Transport Department, the waiting time for HKSM students has been adjusted to 15% - 20% on average shorter than that for PI students in 1991. The period of 1992-1994 registered an average shorter waiting time of 44 days for HKSM students.

The Consumer Council considers that the waiting time differential is discriminatory and arbitrary, as it can be subject to substantial variation in some individual cases.

- (4) **The PIs have correctly stated the fact that the gradual test is available to HKSM students but not to PI students.**

The Transport Department considers making the gradual test available to PI students will lead to higher administrative cost because of multiple-bookings. This Council considers that multiple-booking is a waste of resources and that the Transport Department could use administrative means to prohibit such practices rather than denying the test to PI students.

- (5) **The allegation that learner prohibition routes are fewer for HKSM students is not substantiated.**

This study finds that the routes are not fewer for HKSM's examination areas than that for other areas used by PI students. The number of prohibition routes is dependent upon the traffic condition in the areas.

ACKNOWLEDGEMENT

The Consumer Council is grateful to the following individuals and institutions for providing information for this study.

- 1) Representatives of the Hong Kong Driving Instruction Club
- 2) Transport Department of the Hong Kong Government
- 3) The Hong Kong School of Motoring
- 4) The Hong Kong Automobile Association
- 5) Mr. Augustine CHUNG (鍾世傑), who once represented a group of private instructors to bid for the Driving School in Shatin
- 6) Lee Kin Driving Instruction School

Appendix II

According to one operator of a Driving Instruction School (Lee Kin Driving Instruction School), the PIs were in 1993 unwilling to set up a designated driving school for the following reasons:

- 1) The PIs lack financial resources to set up and operate a designated driving school.
- 2) They also lack financial backup to compete with HKSM, which are financially able to launch aggressive marketing campaign and practise predatory pricing.
- 3) They lack management skill to manage a group of PIs, who can always terminate the employment and resort to conducting business on their own.
- 4) They lack expertise knowledge of the working of a driving school and other related industries. They also lack the kind of connection with the Government. HKSM has on the other hand employed a number of ex-government officials from the Transport Department to advise them.
- 5) In an institutional structure where capital is the major input, driving instructors receive lower return than that of the PIs. Therefore, the PIs have no incentive to establish a school or be employed by a school.
- 6) The institutional structure of designated driving school is considered to be restrictive to most PIs, who are used to operating business at will.

CONSULTATIONS

Consultation with Transport Branch and Transport Department

Both the Transport Branch and the Transport Department consider that the availability of land for use as driving school constitutes a major difficulty for them to encourage more driving schools to be set up and for a long-term policy on the driving instruction industry to be formulated.

The Government seeks to strike a balance between the two types of instruction courses to learner drivers with different needs, i.e., those who are willing to pay higher fee for a shorter waiting time and others who prefer a lower fee and would not mind waiting longer.

Consultation with HKSM

HKSM considered maintenance of the preferential waiting time to be their life vine and they would protest against total removal of it. HKSM welcomes healthy competition from PIs and other schools, and they are also willing to cooperate with PIs in setting up a school.

On the other hand, their position on the future expansion of their market share is that they will not seek to increase their market share to beyond, say 55%, for fear that a high market share would attract Government intervention.

Consultation with PI Associations

Despite their complaints, it appears that PIs do not see any need to introduce drastic changes to the system but wish to shorten the waiting time for driving tests for their students.

The PI Associations which were present at the meeting expressed openly that they could accept a waiting time differential of 20-25% shorter for HKSM students than PI students, provided that the situation will not deteriorate further. They recognize the huge capital investment of HKSM therefore accept the waiting time differential as well as the price difference, the latter naturally works to their favour as HKSM charges about 70% more.

They, however, are discontent that for some individual cases the waiting time differential is longer than 20-25%. Some PI Associations would like to see the total waiting time for written test and practical tests for PI students be no longer than 6 months.

Notes:

1. Transport Department (1985). Hong Kong Annual Departmental Report by the Commissioner for Transport. P.28
2. South China Morning Post, November 15, 1984.
3. Mr. Augustine CHUNG, interviewed dated August 1993.
4. The fee payable for designation of a driving school was \$21,000 in 1990.
5. Richard Mytton Systems was an agent for the school's driving simulator.
6. The Hong Kong Cross Harbour Tunnel was once partially owned by the Hong Kong Government. However, the Government sold all its shares of 24.33% in December 1991.
7. According to the Transport Department, the number of posts for practical test examiners are about 74, but approximately above 60 examiners are currently employed.
8. Minutes of the First Driving Instructors' Liaison Meeting between Transport Department and 9 Driving Instructors' Associations held on 4 November 1993.
9. The 1:2 ratio of driving examiners between HKSM and PIs is calculated based on a total of 63 examiners, of which 21 is assigned to HKSM and 42 to other test centres used by PIs.
10. Case No. C48/186/90 in the Third Annual Report of the Commissioner for Administrative Complaints.
11. The number of test forms sold is used by the Transport Department to calculate the market share and gauge the demand for instructions. It represents the annual total number of applicants for practical tests. The reason for using such data instead of the number of test conducted is that the number of test forms sold is not constrained by the capacity of the department in handling practical tests. However, one major drawback in using this method is that it can be affected by both the passing rate and multiple bookings. Therefore, the market share of and the demand for PI instructions can be overestimated due to the lower average passing rate and higher amount of multiple bookings of PI students. Likewise, HKSM's market share and the demand for the school instruction could be underestimated with this method.
12. The remaining 4% represented the group of test candidates who had obtained learner licence before 1990 when off-street training was made mandatory.

13. In general, mainstream economists consider market power to be significant when market share is above 20% and substantially excessive when it reaches 50% or beyond. Shepherd, William G. (1991). Public Policies Toward Business, 8th Ed., (Boston, MA: Irwin).
14. For the HKSM, the private car instruction course is a compulsory of a 35-hour training, which involves 7-hour lecture, 3-hour simulator driving, 11-hour off-street training, and 14-hour on-street training constituting a total of 32 hours. For the PIs, the average hour of private car instruction is about 28-30 hours, according to the Hong Kong Driving Instruction Club. In order to make a like-with-like price comparison, we take 35-hour instruction as the standard.
15. The survey covers the following associations and driving schools formed by a group of PIs:
 - Hong Kong Driving Instruction Club
 - Driving Instructors Association
 - Driving Instructors Merchants Association
 - Lee Kin Driving Instruction School
 - MSM School of Motoring

The confirmation of price-fixing was obtained at the meeting between the Consumer Council and representatives of the following eight PI associations:

- Driving Instructors Merchant Association
 - Hong Kong Driving Instruction Club
 - Hong Kong & Kowloon Goods Vehicle, Omnibuses and Minibuses Instructors' Association
 - Kowloon Motor Driving Instructors' Association
 - Motor Transport Workers' General Union
 - Public & Private Light Buses Driving Instructor's Society
 - Hong Kong Motor Car Driving Instructors Association
 - Driving Instructors Association
16. Letter of Transport Department to the Consumer Council, July 15 1994.
 17. As stated in The White Paper on Transport Policy in Hong Kong, January 1990, p.33, the objectives of managing road use are to improve the mobility of people and goods by:
 - (a) making effective use of road space;
 - (b) giving priority to the more efficient and essential road users; and
 - (c) managing travel demand to a level with the road system can cope.

18. The first two advantages are stated in Case No.C48/186/90 in the Third Annual Report of the Commissioner for Administrative Complaint.
19. Transport Department explained to the Consumer Council that the policy also serves to reduce administrative burden.
20. The estimated rate of decrease was 7% per annum.
21. Response from Secretary for Transport to questions raised in May 4, 1994 Legislative Council Sitting. The average waiting time is based on the 24-month period from April 1992 to May 1994.
22. These reasons are stated in a summary of the review on driving test waiting time by Transport Department.
23. The Hong Kong Standard, June 14, 1984.

Apart from the capital requirement to set up school facilities, a driving school would also need to install noise barrier when the noise of motor vehicles used for training becomes a significant disturbance to the surrounding neighbourhood. The noise barrier installed at the forthcoming school at Tseung Kwan O costs \$1 million in addition to the other capital investment.

24. HKSM stated in the letter dated May 31 1994 to the Consumer Council that they are appealing the recent increase of rental for the Shatin school to \$15.5 millions per annum.
25. Letter from HKSM to the Consumer Council dated May 31 1994.
26. This might be the cause of the alleged unattractive pay of HKSM instructors and their high turnover rates.
27. For private car instruction offered by the HKSM, 14 hours (or 50%) of the total 28-hour simulator and practical training are assigned to simulator and off-street training.
28. This is estimated by using 28-hour on-street training for PI students and 14-hour for HKSM students.
29. Photographs provided by the Hong Kong Driving Instruction Club shows the traffic congestion in Shatin at a certain point in time.
30. Case No. C48/186/90 in the Third Annual Report of the Commissioner for Administrative Complaints.
31. According to the representative of the Hong Kong Driving Instruction Club and Mr. LEE Tat Shing of Lee Kin Driving Instruction School, the turnover rate of HKSM's instructors is high. However, we are unable to obtain the information from the HKSM.

32. A survey in February 20 1978, which consisted of a sample of 5,346 driving learners, showed that while over 30% of learners reported no difficulty in engaging driving instructors 85% of them had difficulty in engaging good driving instructors. The survey was conducted by Leung, Hung-bun in "A Feasibility Study of Establishing a Driving Instruction Company in Hong Kong" - Research Report in partial fulfilment of the requirements for the Degree of Master of Business Administration (Hong Kong: The Chinese University of Hong Kong, May 1979).
33. The only requirement is for PIs over the age of 70 to produce a medical certificate issued by a registered medical practitioner in order to prove that they are healthy enough to drive a vehicle.
34. Letter of Transport Department to the Consumer Council dated July 15, 1994.
35. Letter of Transport Department to the Consumer Council, July 15 1994.
36. South China Morning Post, April 24, 1992.
37. The MIT Dictionary of Modern Economics, 4th Ed., edited by David W. Pearce. (Cambridge, Massachusetts: The MIT Press, 1992).
38. Lee Kin Driving Instruction School.



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REPORT ON THE DRIVING INSTRUCTION INDUSTRY

ABRIDGED VERSION

I OBJECTIVES

This study aims at, in relation to the motor-vehicles driving instruction industry:

- (1) examining the market structure and the competitive environment;
- (2) evaluating the impact of Government policies on the market structure and the competitiveness of the Hong Kong School of Motoring (HKSM) vis-a-vis that of private instructors (PIs);
- (3) investigating into the allegations lodged by PIs of the Hong Kong Driving Instructors' Club; and
- (4) making policy recommendations with a view to enhancing competition in the industry and promoting consumer interests.

II THE MARKET

As a result of a deliberate policy by the government, the driving instruction market is segregated into institutionalized driving instruction and private instruction provided by HKSM and PIs respectively. HKSM and PIs provide driving instruction for private cars, light goods-vehicles, medium goods-vehicles and articulated vehicles. Motorcycle instruction is exclusively provided by HKSM. Of the five types of driving instruction, private car and light goods-vehicle instruction together constituted over 80% of the total market as evidenced by the test forms sold in 1993.

HKSM

HKSM has a monopoly power operating three designated driving schools at Wong Chuk Hang, Shatin and Yuen Long. It has recently entered into a joint venture with Hong Kong Articulated Vehicle Driving Instructors' Association to establish a new school in Tseung Kwan O. Short-term tenancy

國際消費者聯合協會理事會員

COUNCIL MEMBER OF THE INTERNATIONAL ORGANISATION OF CONSUMERS UNIONS

is one important characteristic of all these school sites, e.g. the tenancy periods for Wong Chuk Hang, Shatin and Tseung Kwan O are 3 years and 5 years and 18 months respectively.

Market Shares

HKSM holds 39% and 27% of the market share of private-car and light goods-vehicle instruction respectively in 1993. The remaining share was distributed amongst about 800-1200 individual PIs. PIs dominated the market of articulated vehicle instruction whereas HKSM enjoys a monopoly in the market of motorcycle. (APPENDIX 1) This is due to the mandatory off-street training by the Government, though the fees charged by HKSM is subject to regulation.

Since 1988 private-car instruction has been on the decline, which fell at the annual rate of 7.18% and 9.4% in 1992 and 1993 respectively resulting in a decline in the business of both HKSM and PIs. Despite this, both HKSM and PIs enjoyed an expansion in other markets, especially in the light goods-vehicle instruction where the rate of annual increase were 41.13% and 19.06% in 1992 and 1993 respectively. (APPENDIX 2)

Test Modes

The test modes are different for HKSM and PI students. While the former can take part B test (examination of basic driving techniques, including parking, 3-point turns, hill starts etc.) within the school campus and road test (part C test) at different times, PI students take a combined test on the public road. Transport Department explained this to be due to practical reasons.

Fees

Based on a 35-hour instruction course, HKSM charges HK\$6,150 or HK\$5,400 for manual private car in 1993 (depending on the courses taken), which are about 54% or 76% higher than the HK\$3,500 charged by the PIs.

III GOVERNMENT POLICY

Nil Entry of PIs

Since 1973, the Government has stopped new entry of PIs. As a result, the growth of PIs has been suppressed and the number of active PIs has substantially reduced by 67% from 3,600 in 1978 to about 1,200 in 1993. The original reason was to reduce administrative burden of the Government in processing new PI licences but the continued freeze until this day serves to support off-street instruction.

Shorter Waiting Time for Driving Test

The Government admits that HKSM students are granted shorter waiting time for driving tests than PI students in return for the substantial capital costs involved and rental paid at full market value for setting up such schools. For example, the capital investment for the newly established Tseung Kwan O school is HK\$10 million, inclusive of HK\$6 million site formation and levelling expenses, and HK\$4 million rental per annum. On the other hand, PIs utilize public roads free of charge.

The Government further justifies "the waiting time differential as a conscious policy to encourage off-road learner training in the wider interest of all road-users and hence there is a public interest reason behind it."

In 1992-93, the average waiting time for private car driving tests was 174 days for HKSM students and 218 days for PI students. According to the Transport Department, "the waiting time of individual candidates differed considerably, from 3 months for the most diligent ones to over a year for the less industrious." Transport Department considers a simple comparison of the two test appointment systems tantamount to comparing an apple with an orange due to the different course and organization.

However, the waiting time differential is perceived to be discriminatory and arbitrary and has been a source of complaint from PIs. This Council considers the Government has strong justification for encouraging off-street driving instruction and has consequently reduced 16% of the training time on the road (or 854,000 hours per annum). Despite the noble intention and Government's difficulties in balancing market interests, this Council is of the view that other measures, rather than a waiting time differential could be explored to allow HKSM and PIs compete on equal footing.

IV EFFECTS ON CONSUMERS

Segregated Markets

Such conscious decision in Government policy has led to the creation of virtually two segregated markets within the industry affecting the economic interest of the consumer. Consumers are caught between the monopoly power of HKSM on the one hand and the price-fixing of PIs on the other.

As a result of the waiting time differential, the driving instruction offered by HKSM and PIs are close but not perfect substitutes for each other. Price competition between them has been impeded; likewise consumer choice.

(c) Planning Standard

It will be useful for the Government to examine whether a planning standard could be developed for driving schools and be incorporated in the town planning process. The planning standard will take into consideration such criteria as density of population, income level, demographic distribution and car ownership as appropriate.

(d) Transparency

The policy objectives should be clear, open and transparent to remove any uncertainty on the part of market participants for the long term development of the industry and to allow for regular review from time to time.

(2) Encouraging Competition

In order to safeguard consumer interests, the Government should instigate the following measures to encourage competition in this market.

(a) To Break the Collusion Among PIs

Consumers are subject to the uniform charges recommended by PI Associations. The anti-competition effect is contrary to consumer interests. The Consumer Council urges PIs to cease such practice or otherwise certain administrative or legal measures should be adopted to break the collusion and price-fixing among PIs.

(b) To Bring in Competitive Forces to the Market of Driving Schools

If the Government is to maintain its policy of encouraging off-street driving instruction, it is envisaged that the market for driving schools will expand. Government should therefore instigate measures to encourage entry of new school operators to safeguard against the unhealthy growth of monopoly power by HKSM which is already operating 3½ schools.

(c) Town Planning Provision: Earmark Sites for New Driving Schools

Establishment of driving schools should be regarded as a form of vocational and skill training same as other educational institutions. Where possible, planning standard should be devised for the facility. The proposal is not

for the Government to lease the sites at a lower than market value, but rather, provisions are to be made in the Hong Kong Planning Standard Guidelines in the same way as sites for Government/Institutional/Community users (GIC) and other educational institutions are provided for in the town planning process.

Such a measure is justified despite the high value and competing demands for use of land in Hong Kong in view of the socio-economic function the driving instruction industry performs. An extended pay back period allowed by longer lease or permanent use of school sites will alleviate the pressure on the Government to provide considerable shorter waiting time as incentive for driving schools. Such incentive had been the primary source of discontents. The proposed improvement is, therefore, worthy of serious consideration.

Alternatively, if the Government regards the opportunity cost to allot new driving school sites to be substantial and non-beneficial to the economic interest of the community, it should consider granting a longer lease term to meet the operational needs of the new school. The current shortest 18-month lease is not conducive for new entrants nor realistic for the driving school to recoup the investment made.

(d) Tender

To induce competition, public tender should be invited to bid for the operating rights on the new sites. It may not be necessary to exclude HKSM from submitting a bid but the tender from HKSM must be scrutinized, bearing in mind the anti-competition effect HKSM caused due to its current extensive market power.

If eventually HKSM were to be granted the operating rights of additional driving schools, the Government should consider subjecting the operation of HKSM to some form of Government regulation. The Government should also encourage joint venture between tenderers and PIs in setting up new driving schools.

(3) **To Provide a Level-Playing Field for PIs and Driving Schools**

The Government should on equity grounds explore other viable means to attain the objective of encouraging off-street instruction rather than granting preferential treatment for HKSM students, though this may reduce the competitive edge from HKSM.

It is incumbent upon the Government to find measures of maintaining a level-playing field for both HKSM and PIs. The fact that PIs have been enjoying a hidden subsidy by using public roads free of charge all along and HKSM incurs substantial investment for the school sites should be taken into account.

Consumer preference should also be a major concern in examining the possible options to reduce the waiting time differential.

We propose the following ideas for the Government's consideration in narrowing the gap between HKSM and PIs in terms of operating cost, training environment and waiting time differential:

- (a) to reduce the rental payable by school operators or to lengthen the lease term for use of temporary sites;
- (b) to increase licence fee for the PIs, their driving instruction vehicles or learner licences of PI students;
- (c) to require PIs to give off-street driving instruction in sites sponsored by the Government; or
- (d) to make new and existing driving schools open up its facilities for use by PIs at a cost in the same way as a common carrier in the telecommunication industry does overseas.

If the Government is fully convinced that the granting of the shorter waiting time for HKSM is a form of public subsidy - justifiable and essential to the commercial viability of HKSM - vis-a-vis the free use of public roads by PIs, then the Government should clearly spell out its policy and guidelines on this. This should serve to remove the existing arbitrary element in the administrative process, and to prevent possible abuse or grievances.

(4) Other Measures

(a) School capacity and flexible arrangements

To avoid traffic congestion from a high concentration of students in the driving school vicinity, school capacity should be subject to a limit. The number of routes available for practical tests and road training should also be increased. On the other hand, the driving school can consider spreading its on-street instruction to other districts with flexible pick-up points for students.

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Automation technology should be introduced in processing the vast volume of test applications. Computerization will not only help speed up in the administration of the applications but yield crucial information much needed by management to help plan and improve the efficiency and effectiveness of the system - information to keep track of the number of active or non-active PIs, learner drivers profile, multiple bookings, etc.

The Consumer Council considers driving instruction an essential service as every driver must learn and be licensed before he is allowed to drive. While adopting the policy of discouraging on-street driving instruction, the Government needs to play a more proactive role in encouraging the setting up of off-street driving schools.

This Council is aware of the fact that the issues examined in this study were also investigated by the Commissioner for Administrative Complaints (COMAC). Information received from the Transport Department indicated the same conclusion had been drawn. However, it should be noted that this report focuses on the competition environment of the driving instruction industry as a whole, therefore covers the subject from a broader perspective.

Publication of this report presents an ideal opportunity to gauge consumer feedback for policy consideration.

VI FINDINGS ON ALLEGATIONS

In March 1993, a complaint was lodged by the Hong Kong Driving Instructors' Club to the Consumer Council alleging that the competitiveness of private instructors had been seriously jeopardized as a result of Government's favouritism towards HKSM. Findings of this Council are summarized below:

- (1) The allegation that the rapid growth of HKSM's market share contributed to a substantial business loss of the PIs is not substantiated. In 1988-1993, whilst the business of PIs in the private car instruction market declined, the demand for their instruction in other markets increased.
- (2) The PIs are correct in their observation that the three designated driving schools are operated by one private corporation, while the inhibiting costs of obtaining a suitable site have prevented the PIs to compete in setting up a school of their own.
- (3) The PIs have correctly pointed out that HKSM students are granted shorter waiting time for driving tests than PI students.
- (4) The PIs have correctly stated the fact that the gradual test is available to HKSM students but not to PI students.
- (5) Learner prohibition routes are fewer for HKSM students and this is considered to be a favour to them: this allegation is not substantiated.

July 1994

APPENDIX 1

Market Share of HKSM

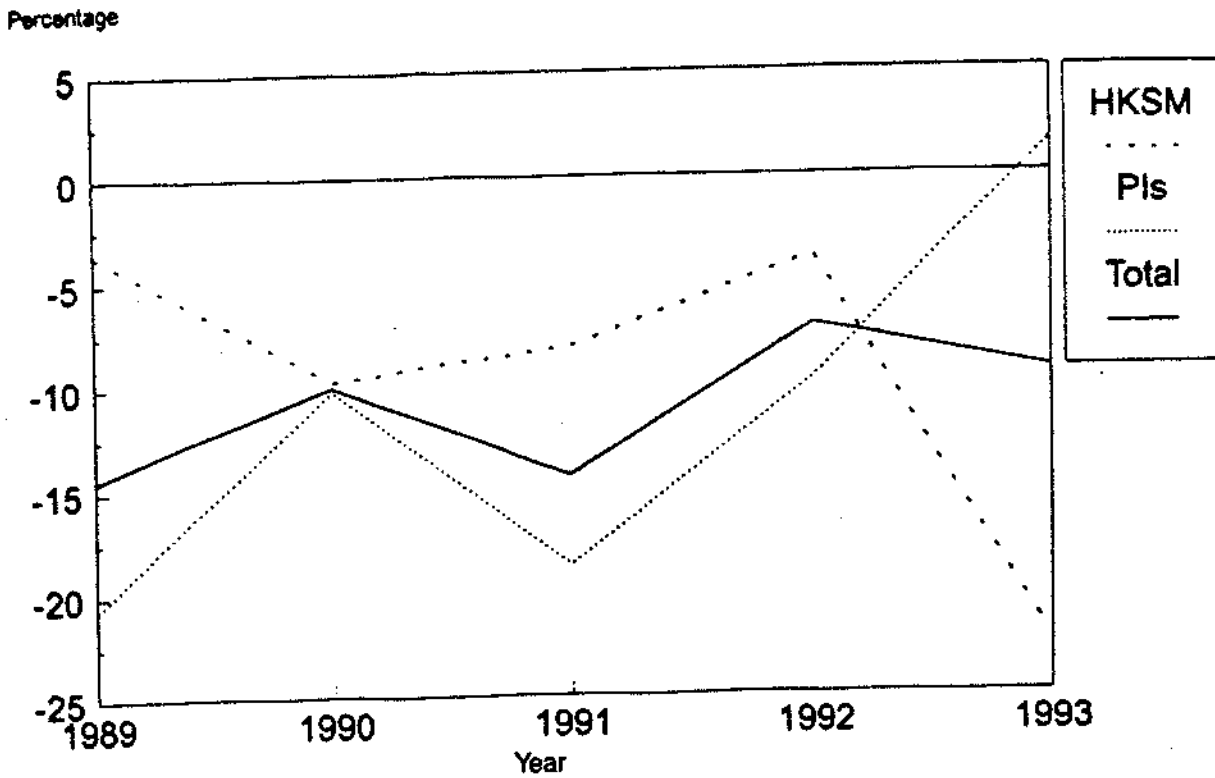
Percentage

Year	Private Car	Light Goods Vehicle	Medium Goods Vehicle	Articulated Vehicle	Motorcycle	Total
1988	36.2			8.1	48.8	
1989	40.8	16.1	4.1	3.0	56.0	36.9
1990	41.0	34.2	4.0	2.8	92.5	38.5
1991	44.0	37.1	4.8	2.9	94.8	41.4
1992	45.5	31.3	5.2	1.3	88.9	37.5
1993	39.0	27.0	7.0	2.0	96.0	32.9

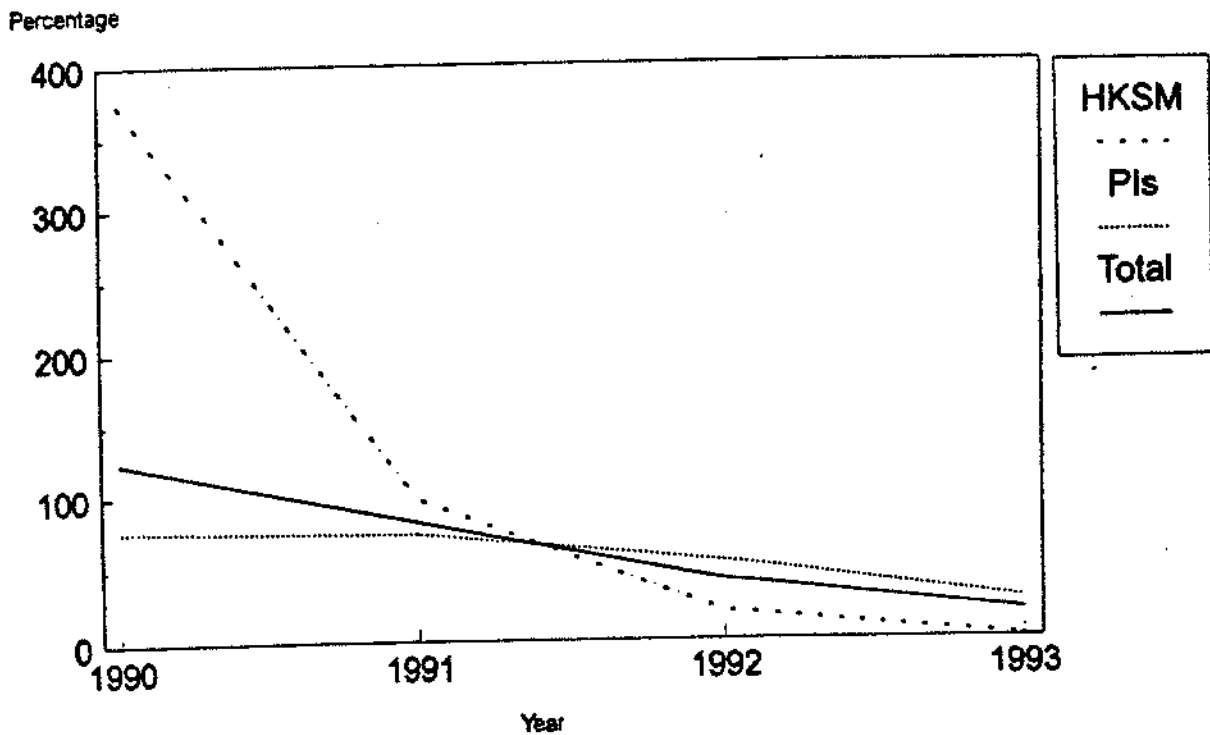
Source: Transport Department

APPENDIX 2

Annual Percentage Change of Test Forms Sold - Private Car



Annual Percentage Change of Test Forms Sold - Light Goods-Vehicle





CONSUMER COUNCIL

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教車業研究報告摘述

(一) 研究目的

- 研究該業的市場結構和競爭情況；
- 評估政府政策對教車業市場結構的影響，以及香港駕駛學院與駕駛教師之間的競爭；
- 調查香港教車協會的投訴；
- 提出建議，促進該業競爭及消費者利益。

(二) 市場結構

政府的政策促使香港駕駛學院及駕駛教師形成兩個不同的市場，兩者提供的汽車駕駛課程包括：私家車、輕型貨車、中型貨車及貨櫃車（掛接車）。電單車訓練只由香港駕駛學院提供。據一九九三年的考試申請數字顯示，私家車及輕型貨車駕駛的教授課程為所有汽車教授課程的八成。

香港駕駛學院分別在黃竹坑、元朗及沙田等三地設有分校，又與香港貨櫃車教師公會合作，在將軍澳開設新校。這些校址以短期租約形式向政府租用，例如：黃竹坑的租約為三年，沙田的租約為五年，將軍澳年半。

市場佔有率

據一九九三年的數字顯示，香港駕駛學院的私家車及輕型貨車教授課程佔市場的比率分別為39%和27%，餘下市場屬於八百至一千二百駕駛教師。駕駛教師在貨櫃車的訓練市場佔有大的比率，而由於政府規定電單車學生必須接受駕駛學校的訓練，香港駕駛學院在這方面獨佔了市場，但收取的學費受政府監管。（附件一）

教授私家車的比率由1988年開始逐年下降，1992年減7.18%，1993年9.4%，駕駛學院和駕駛教師同受影響。但其他市場則上升，輕型貨車，92年增加41.13%，93年增加19.06%。（附件二）

駕駛教師的劃一收費

八個私人教車協會厘訂及調整每年的教車收費的一致行動，同樣影响消費者利益。雖然各協會劃一定價的行動不能硬性規定會員遵從，但各會的1,200駕駛教師會員均按照協會的指引調整收費。這措施限制同業之間的競爭，影响消費者利益。

雖然駕駛教師收費比香港駕駛學院約低70%，一旦取消劃一收費，市場競爭的力量，會令收費更低。香港駕駛學院的收費，在一定程度上參考駕駛教師的收費水平，所以駕駛教師收費高於競爭水平，自然水漲船高，致令學院的收費也因而提高。

政府方面的意見

政府否認考車排期有快慢之分是不公平的做法，政府認為消費者仍然有選擇的自由，正如他們可以選擇乘搭的士或巴士一樣（不同路程和行車時間收費自然有別）。但消費者委員會認為這並非是合適的比喻，忽視了這缺乏準則的安排對消費者的不良影响。較貼切的比喻是把「的士」分為兩種，政府要求一種「的士」改裝引擎，「較」慢車速，而另一種行駛較快的「的士」可以多收車費。

(五) 政策建議

(1) 駕駛訓練的長遠政策

政府須制訂全面的政策，積極促進教車業的長遠發展，政策應包括如下重點：

(a) 關注駕駛訓練的社會經濟功能

政府應重視駕駛訓練肩負的社會經濟功能，例如促進道路安全、防止交通意外引致的財物損失、及其作為現代化城市交通運輸系統重要的一環對經濟發展的貢獻，因此政府應協助教車業的持續發展。

由於教車業近年快速發展，學生增長率達12%，由92年的111,000增加至92年的124,000人。假設1993年每位學生付出平均五千元的學費，這行業的全年收入為6億元(\$600 Million)。

有鑑於此，政府應撥出適當資源去確保教車業的健全發展，配合社會需求。

本報告建議政府的長遠政策須能減低交通擠塞、提供符合標準及質素良好的駕駛訓練，令業內有足夠競爭，從以上各項目標之中取得平衡。

(b) 結合長遠交通發展政策

駕駛訓練的長遠發展應配合政府最近發表的「邁進廿一世紀—交通政策白皮書」，根據白皮書內有關未來交通運輸的需求及改善建議，刻劃出教車業的前瞻發展方向，最後把教車業的政策成為長遠交通政策的一部份。

(c) 規劃標準

政府宜考慮能否訂定駕駛學院的規劃標準，根據一些客觀的指標例如人口密度、社區人口年齡結構、收入水平及車主數目等擬定駕駛學院的數目，把這規劃標準納入城市規劃的範疇。

(d) 政策的公開程度

政策目標必須清晰、公開及有足夠的透明度，為從業者提供明確的指引，並定期檢討政策的可行性。

(2) 促進競爭

為確保消費者權益，政策宜採取下列措施以促進競爭：

(a) 促使教車協會放棄劃一訂價

消費者受駕駛教師同業協會的劃一訂價影響，消費者委員會希望這些協會能自動放棄訂價的安排，若不然，政府有需要考慮制訂行政指令以消除妨碍競爭的措施。

(b) 引入競爭

假設政府鼓勵學校訓練的政策不變，由於政府終止發出新教車師傅牌照已超過廿年，預計駕駛教師的數目將日漸減少，另一方面，鑑於市場上對學院訓練的需求的增加，政府宜積極鼓勵新經營者加入，與香港駕駛學院競爭，以免香港駕駛學院的市場佔有率日趨龐大，該學院已擁有三間半訓練學校，在市場所佔的比重不容忽視。

(c) 城市規劃，撥地設辦駕駛學院

駕駛學院提供的技術性訓練，和其他教育機構的性質無異，因此，政府宜考慮制定駕駛學院的規劃標準，一如學校及政府社團用地的規劃標準，一併納入「香港規劃標準及準則」之內。

雖然政府通過城市規劃，預留駕駛學校用地，但政府毋須以低于市價的租值撥地予駕駛學校。本報告的建議，目的只是減低駕駛學院覓地作訓練場所的困難。假如政府能撥地指定作駕駛訓練，予學校有永久校址或享有較長的租用期，令駕駛學校的投資回報期得以延長，政府便毋須為駕駛學校提供考試排期的優惠，來補償學校的龐大投資，正好對症下藥，消除駕駛教師不滿的癥結所在。

雖然香港的土地是寶貴的資源，鑑于教車業的社會經濟功能，以上的建議是合情合理的，政府宜慎重考慮。

如政府認為預留土地作駕駛學院的機會成本太高，即使經營者願意以合理市值付出租金或補償地價，仍然不符合經濟效益，政府只能讓駕駛學院以短期租約形式使用「暫借地」，消費者委員會仍希望政府能適當地延長暫用時間，俾駕駛學校有合理的投資回報期，目前最短的18個月租約實在是太短了，令投資者特別是新投資者却步。

(d) 公開招標

為促進競爭，政府應當把新訓練場地的經營權招標競投，政府毋須禁止香港駕駛學院加入競投，但鑑於香港駕駛學院已經擁有的廣泛市場力量可能會造成壟斷局面，政府宜小心考慮其標書。

假如因種種原因，香港駕駛學院獲准經營新的駕駛學校，政府必須研究如何監管香港駕駛學院的運作，以保障消費者利益。另一方面，政府亦可鼓勵競投者聯同私人駕駛教師合作經營新駕駛學校，以減少路面學車的時間及引入競爭。

(3) 促進香港駕駛學院及駕駛教師之間的公平競爭

為一視同仁，政府須尋求其他可行的措施以取代對香港駕駛學院學員的特別排期優惠。這種做法當然會削弱了該學院的競爭能力，亦同時影响到政府原先鼓勵非路面教車之目的。

但為了促進香港駕駛學院與駕駛教師彼此之間達致公平競爭，政府實有需要重新評估現行政策。其實，駕駛教師因為免費使用道路，經已享有優惠，無形中受到公帑津貼，香港駕駛學院卻要負擔教車場地可觀的租金和其他成本。

研究各種方案的可行性的時候，政府必須考慮消費者的意願。以下列出未經深入鑽研的方案，目的是縮短香港駕駛學院和駕駛教師之間的在排期、成本和其他方面的差距，俾政府詳細考慮：

- (a) 減低以短期租約形式租賃駕駛場地的租金或延長租賃期限。
- (b) 增加駕駛教師費、師傅車或學習駕駛等牌照的牌費。
- (c) 政府開闢場地供駕駛教師使用。
- (d) 要求現有或新設的駕駛學校開放場地讓駕駛教師使用，並收取合理費用，這是參考外國電訊行業的安排，由政府規定網絡持有人開放網絡予其他公司使用，當然，持有人有權收取合理的費用。

假如政府深信縮短駕駛學院考試排期是一種津助方式，與駕駛教師免費使用道路無異，認為毋須改變現行安排。消費者委員會建議政府必須清晰地交待這政策的因由，免因行政安排缺乏清晰指引，產生問題及導致不滿。

(4) 其他建議

(a) 學校名額及彈性安排

為避免學車人士過份集中於駕駛學校附近區域，駕駛學校的學生同時上課的名額宜設有上限。同時，政府應增加可供學車使用的路線。另一方面，駕駛學院也可以作彈性安排，在不同地點接載學生作路面訓練。

(b) 劃一考試安排

政府應研究可否使駕駛學校和駕駛教師的學生在考試場地和考試模式方面儘量相似或一致。

(c) 善用電腦化系統

善用電腦化系統以促進效率及工作效益，從中掌握重要的統計資料作政策分析及管理用途，例如防止學生預留多次考試日期（從中採用最方便自己的日期去考試，影响其他學生的排期），其他可供分析的資料如學生來源及在職師傅的數目等。

駕車人士正式獲准在路面駕駛之前，首先必須學習駕駛和取得牌照，因此教車可視為一種重要的服務，政府既然不鼓勵在公眾道路教車，便需要採取積極的措施去達成這政策目標。

至於教車協會的投訴，消費者委員會的調查結論列於第六節，本會得悉行政務申訴專員的調查，結論與本會無異，但本會研究駕駛訓練行業的目的是以市場競爭為重點，從宏觀作研究，教車協會的申訴不過是其中的一部份而已。

本會希望這報告能引起消費者的關注和討論，供政府厘定政策參考。

(六) 香港教車協會的投訴

一九九三年三月間，香港教車協會向消費者委員會投訴，政府偏袒香港駕駛學院，嚴重影響了駕駛教師的生意。

消費者委員會調查的結果概述如下：

- (a) 「香港駕駛學院的市場佔有率迅速增長，致令駕駛教師的營業額下降」

調查結果：未能成立，由1988至93年間私家車駕駛訓練的需求整體下降。

- (b) 「三間駕駛學院由一間機構承辦，由於訓練場地費用高昂，令駕駛教師無法開辦教車學院」

屬實。

- (c) 「香港駕駛學院學員考試排期時間較短」

屬實，原因分析詳見報告。

- (d) 「香港駕駛學院學員採用『漸進式』考試，駕駛教師的學生一次過考試，且在路上進行」

屬實，運輸署解釋基於實際情況，即駕駛學院的學生中期與路試分開進行，而中期試在校內舉行。

- (e) 「駕駛學院的學車禁區較少」

資料不正確。

一九九四年七月



附件一

香港駕駛學院駕駛課程市場佔有率

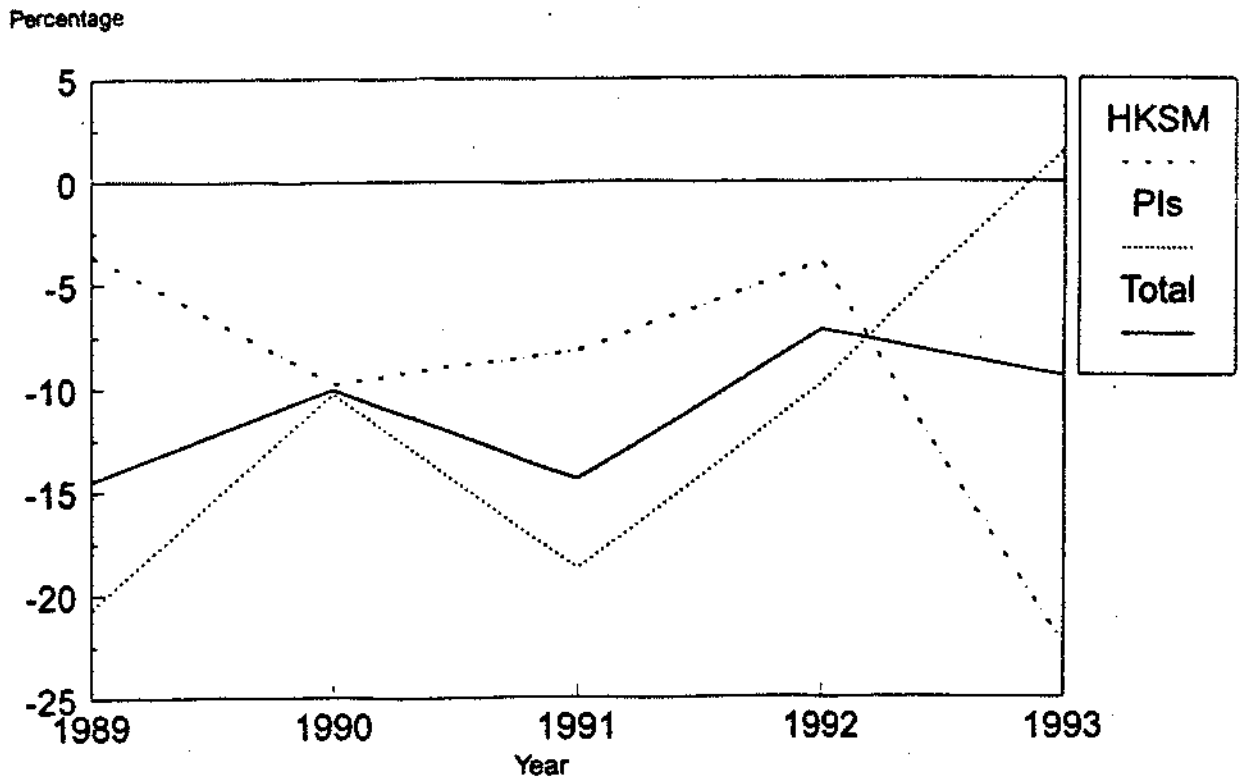
百分率

年份	私家車	輕型貨車	中型貨車	貨櫃車	電單車	總數
1988	36.2			8.1	48.8	
1989	40.8	16.1	4.1	3.0	56.0	36.9
1990	41.0	34.2	4.0	2.8	92.5	38.5
1991	44.0	37.1	4.8	2.9	94.8	41.4
1992	45.5	31.3	5.2	1.3	88.9	37.5
1993	39.0	27.0	7.0	2.0	96.0	32.9

來源：運輸署

附件二

報考私家車每年增減百分率



報考輕型貨車每年增減百分率

