

# **"The Provision of Lift Maintenance Services in Hong Kong"**

by

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## **User Experiences and Complaints**

The Consumer Council has, over a number of years, been made aware of concerns regarding lift (and escalator) maintenance. The concerns have been that:

- there is little alternative but to use the lift/escalator supplier to provide maintenance;
- lift maintenance is expensive; and
- lift owners are not always sure that repairs or replacements are necessary and will resolve recurring problems.

2. The general impression is that major lift and escalator suppliers do not compete with each other in the market for lift and escalator maintenance and that the growth of third party maintenance is being impeded, most likely because of the difficulty in obtaining spare parts.

3. In one case, a complaint was lodged by a major developer/ property owner that it had tried to invite competitive tenders for lift maintenance services from third party maintenance operators, but it had not received any expressions of interest.

4. This apparent lack of competition in the market warrants in-depth investigation and analysis.

## **Safety and Cost Effectiveness Concerns**

5. Of course, cost effectiveness needs to be balanced against the primary consideration of safety. Lift safety is governed by the Lifts and Escalators (Safety) Ordinance (Cap. 327), which provides the Government with authority to regulate the

design, operation, examination and testing of lifts. In March 1999, 41 registered lift and escalator contractors in Hong Kong were qualified to perform duties of maintenance, tests and examinations.

6. Building owners, through either property management companies or owner incorporations, are responsible for ensuring lift maintenance is adequately carried out. After a warranty period has expired, building owners will need to enter into periodic maintenance agreements. The Council understands that the cost of entering into maintenance agreements can vary according to various factors, e.g., the number of lifts in an estate or building, the age of the lifts, and the degree of complexity (especially for newer lifts). The fees for maintenance are usually limited to cover only labour, and possibly some consumables for the appropriate number of visits and maintenance work required to comply with safety standards. Major spare parts, and repair work would not usually be covered by the periodic maintenance agreement.

## **The Lift Maintenance Market**

7. Two trade associations represent the lift maintenance industry in Hong Kong. The Lift and Escalator Contractors Association (LECA) represents the ten major companies that supply lifts as well as maintaining them. The Registered Elevator and Escalator Contractors Association (REECA) represents some 14 companies that only do maintenance work, while some REECA members are affiliated companies of LECA members. There are also some independent lift/escalator contractors.

8. REECA has informed the Council that in Hong Kong there are currently around 50,000 lifts, of which about 6,000 (12%) are being serviced by third party contractors. Information furnished by members of LECA in 1997 indicated that there were about 43,000 lifts at the time, of which 39,300 were serviced by original suppliers. Third party maintenance at that time accounted for only 8.6% of the total lifts serviced. It appears therefore that in the past two years the percentage growth in third party maintenance has outpaced the growth of lifts. Nevertheless, the overall third party maintenance share is still small in absolute terms.

## **Competition Analysis**

9. The key questions to examine are whether the market for lift maintenance can be viewed as separate from the market for supply, and whether suppliers can exercise market power in the maintenance market. Moreover, the decision on the purchase of the

lift will usually be made by a property developer; whereas the maintenance charge will, once the building is occupied, be paid by tenants or the members of the incorporated owners. In other words, final users pay maintenance charges for lifts that were largely selected by developers.

### ***Few LECA members maintain lifts they have not supplied***

10. Response from LECA members indicated that six of them undertake no third party maintenance business. It was explained to us that this is because the companies, or their overseas principals, have decided they do not wish to enter this business. Of the remaining four companies only one has a substantial third party maintenance business.

11. It is of course up to companies themselves to decide whether to enter a business or not. Some LECA members did, however, say that one of the reasons behind limited third party maintenance is that owners' incorporations are not always knowledgeable about lifts, and in a position to put together a specification for tender. This raises a question as to whether third party maintenance will increase if building owners are given guidance on how to prepare the tender documents, adequate information on the lifts, and are acquainted with third party contractors who are potentially capable of undertaking maintenance.

### ***Supply of spare parts***

12. According to some REECA members, their ability to compete for third party maintenance contracts is impaired by the difficulty in obtaining original spare parts. They may obtain the parts they need in the grey market or purchase compatible parts, but this puts them at a disadvantage.

13. LECA members have told the Council that they will supply spare parts at a reasonable price and in a reasonable time. However, the LECA members only hold stocks of spare parts for the lifts they maintain and the stock levels are calculated with reference to their own maintenance contracts, and not the potential demand from third party service providers. Parts ordered by third party maintenance contractors may, therefore, not be available and may need to be flown in from the factory. This leads to extra costs and delay. What appears to REECA members to be unreasonable prices and delay for supply of spare parts might therefore be considered reasonable by LECA, due to the above reasons.

14. In sum, there are a number of potential reasons why maintenance charges may become excessive from the user's viewpoint.

- It does not appear that major lift suppliers compete with each other in the market for lift maintenance;
- Third party maintenance operators have difficulty in obtaining spare parts;
- Lift suppliers might factor into their maintenance contracts, separate costs to recoup the revenue lost in the competitive bargaining stages of tendering for supply of lifts to property developers.

## **The Way Forward**

15. The Council is keen to attempt some resolution of this long-standing matter. It believes the way forward is for all stakeholders to play their part in improving the environment in which the maintenance market operates and develops. This involves not only the lift manufacturers and maintenance contractors, but building owners, property developers, and relevant government authorities.

The Council suggests a number of recommendations in order to improve the environment.

### **Recommendation 1**

16. Safety must always be the prime concern. Currently, the Electrical and Mechanical Services Division (EMSD) enforces the Lifts and Escalators (Safety) Ordinance (Cap. 327). Considering the vast number of lifts and escalators in Hong Kong, we urge Government to ensure that EMSD is provided with adequate resources to vigilantly enforce the Ordinance. Any indication that safety might be compromised by the actions, or the inaction of those parties involved with ensuring lifts and escalators are safe, should be addressed by EMSD.

### **Recommendation 2**

17.. A higher degree of competition can and should be promoted in the market for lift maintenance. In its May 1998 Competition Policy Statement, the Government stated that it would promote economic efficiency and free trade through competition by (amongst other things) initiating pro-competition measures on a sectoral basis, through administrative measures, and through encouraging industry self regulation.

18.. The EMSD can play a part in promoting competition in the market for lift and escalator maintenance. In fact, because there is no general competition regulator in Hong Kong, the responsibility to examine the means by which competition can be improved in one of the economic sectors under its scrutiny will fall on the shoulder of EMSD. By the same token, the Government has a responsibility to ensure that EMSD has adequate resources to undertake this role.

19. The Council believes there are a number of ways in which competition can be promoted in the industry, as indicated below.

### **Recommendation 3**

20. Property developers could be urged to play a part in attempting to reduce the ongoing costs of lift maintenance by the building's eventual owners. They could do this by ensuring that included within tenders for supply of lifts, there is a quoted sum for an ongoing maintenance agreement, for a reasonable amount of time, after the warranty period has expired. The supply agreement should include conditions regarding the ongoing supply of spare parts and provision of technical drawings and diagrams to the building owners, after the maintenance contract has expired. This would assist building owners to negotiate advantageous maintenance agreements with subsequent maintenance contractors.

### **Recommendation 4**

21.. Building owners have a role to ensure that their maintenance programmes are up to the best standards possible. There are two things that can be done.

- First, building owners must collectively plan the extent of their long term maintenance programs and budget for major refurbishment work to lessen the financial burden of substantial one-off costs. This should remove any temptation to avoid expenditure by compromising on maintenance and refurbishment.
- Second, building owners should be educated not only in relation to the mandatory safety requirements in lift maintenance, but also to how to maximize their competitive position in the maintenance market. Information on the range of options in the maintenance market, the detail in constructing a tender specification, and the ways to negotiate competitive maintenance agreements would assist in this regard. The Home Affairs Department's Building Management Coordination Team will have an essential role to play.

### **Recommendation 5**

22. A major issue in maintaining a competitive maintenance market is the resolution of disputes between different market participants. At the very least, the concerns by third party maintenance contractors regarding access to spare parts and technical information should be addressed. In view of the Government's preference for self regulation and administrative measures to address competition, EMSD could facilitate the development of a joint code of practice for the industry by LECA and REECA members.

23. Of course, one of the matters that the code should address is the means by which disputes over supply of spare parts are resolved. For example, an arbitration process could be devised, with an arbitrator jointly agreed to by the parties, and if possible, the process being overseen by EMSD. Such a process would provide transparency as to the causes of delay etc, and provide an expert forum that would be in a position to resolve disputes. There may also be additional matters affecting competition in the industry, in addition to safety and consumer welfare matters that should be addressed in the code. The Council would be willing to assist in this regard.

## **Summary**

24.. The Council believes that the time has come to seriously address the ongoing concerns that have been expressed regarding lift and escalator maintenance. The above recommendations are proposed. There may be other measures that could also be applied. What is clear is that the way forward towards a safe and competitive industry requires a cooperative approach between business, the community and the government. I trust that we can achieve that goal.