

立法會

Legislative Council

LC Paper No. CB(1)1948/00-01
(These minutes have been seen
by the Administration and
cleared with the Chairman)

Ref : CB1/PL/TP/1

Legislative Council Panel on Transport

**Minutes of Meeting held on
Friday, 22 June 2001, at 10:30 am
in Conference Room A of the Legislative Council Building**

- Members present** : Hon Mrs Miriam LAU Kin-ye, JP (Chairman)
Hon Abraham SHEK Lai-him, JP (Deputy Chairman)
Hon Mrs Selina CHOW LIANG Shuk-ye, JP
Hon CHAN Kwok-keung
Hon Andrew CHENG Kar-foo
Hon TAM Yiu-chung, GBS, JP
Hon Tommy CHEUNG Yu-yan, JP
Hon Albert CHAN Wai-yip
Hon WONG Sing-chi
Hon LAU Ping-cheung
- Non-panel members attending** : Hon Emily LAU Wai-hing, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon LEE Cheuk-yan
- Members absent** : Hon David CHU Yu-lin
Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, JP
Hon Andrew WONG Wang-fat, JP
Hon LAU Chin-shek, JP
Hon LAU Kong-wah
Dr Hon TANG Siu-tong, JP

Public officers attending : Agenda Item IV

Transport Bureau

Mr Arthur HO
Deputy Secretary for Transport

Mr Patrick HO
Principal Assistant Secretary for Transport (1)

Transport Department

Mr Robert FOOTMAN
Commissioner for Transport

Ms Zina WONG
Assistant Commissioner for Transport/Buses & Railways

Ms Carolina YIP
Principal Transport Officer (2)/Buses & Railways

Agenda Item V

Transport Bureau

Mr Arthur HO
Deputy Secretary for Transport

Mr Roy TANG
Principal Assistant Secretary for Transport (3)

Agenda Item VI

Transport Bureau

Mr Arthur HO
Deputy Secretary for Transport

Mr William SHIU
Principal Assistant Secretary for Transport (4)

Attendance by invitation : **Agenda Item V**

MTR Corporation Limited

Mr Jack C K SO
Chairman

Mr Clement KWOK
Finance Director

Mr Phil GAFFNEY
Operations Director

Mr Eddie SO
Transport Planning Manager

Mrs Miranda LEUNG
Corporate Relations Manager

Agenda Item VI

Kowloon-Canton Railway Corporation

Mr K Y YEUNG
Chairman and Chief Executive

Mr Samuel LAI
Senior Director, Finance and Management

Mr Jonathan YU
Director, Light Rail

Mr Y T LI
Deputy Director, East Rail

Mrs Irene YAU
General Manager, Corporate Affairs

Clerk in attendance : Mr Andy LAU
Chief Assistant Secretary (1)2

Staff in attendance : Ms Alice AU
Senior Assistant Secretary (1)5

Action

I Confirmation of minutes and endorsement of the report of the Panel on Transport for submission to the Legislative Council

- (LC Paper No. CB(1)1573/00-01 - Minutes of joint meeting held with the Environmental Affairs Panel on 7 February 2001; and
LC Paper No. CB(1)1574/00-01 - Draft report of the Panel on Transport for submission to the Legislative Council)

The minutes of joint meeting held with the Environmental Affairs Panel on 7 February 2001 were confirmed.

2. Members noted and endorsed the draft report of the Panel on Transport (LC Paper No. CB(1)1574/00-01) for submission to the Legislative Council (LegCo) on 4 July 2001.

II Information papers issued since last meeting

- (LC Paper No. CB(1)1494/00-01 - Airport Express Line fares for 2001;
LC Paper No. CB(1)1553/00-01 - Review of the cross-harbour bus services in New Territories East;
LC Paper No. CB(1)1554/00-01 - Noise impact of roads in Kowloon City District; and
LC Paper No. CB(1)1563/00-01 - Transport infrastructure development in Southern District)

3. Members noted the above information papers issued since last meeting. The Chairman advised that the Panel would keep in view the issues of concerns raised by various District Councils under LC Paper Nos. CB(1)1553/00-01, CB(1)1554/00-01 and CB(1)1563/00-01.

III Items for discussion at the next meeting scheduled for 6 July 2001

- (LC Paper No. CB(1)1575/00-01(01) - List of outstanding items for discussion; and
LC Paper No. CB(1)1575/00-01(02) - List of follow-up actions)

4. Members agreed to discuss the following items at the next meeting scheduled for 6 July 2001:

- (a) Measures to enhance the efficiency of bus service; and
(b) Route 7.

Action

5. Mr CHENG Kar-foo requested that urgent discussion be held by the Panel on the listing of Roadshow and its implications on KMB (1933) Ltd. As members had already decided the discussion items for the Panel's next regular meeting, the Chairman suggested that she would liaise with the Administration and request that an information paper be provided to members for consideration. Subject to members' views, the Panel could convene a special meeting to discuss the matter.

(Post-meeting note: An information paper provided by the Administration on "Listing of Roadshow and its implications on KMB (1933) Ltd." was circulated to members vide LC Paper No. CB(1)1718/00-01.)

IV Feasibility study on introducing trolley bus system in Hong Kong

(LC Paper No. CB(1)1575/00-01(03) - Information paper provided by the Administration)

6. The Commissioner for Transport (C for T) briefly introduced the Administration's paper on the subject (LC Paper No. CB(1)1575/00-01(03)) which set out the key findings of the consultancy study on the feasibility of introducing a trolleybus system in Hong Kong (the Study) commissioned by Transport Department (TD) in 2000, as well as the next steps to be taken by the Administration.

(Post-meeting note: The executive summary of the Study report was tabled at the meeting and subsequently issued to members vide LC Paper No. CB(1)1627/00-01(01).)

Technical and operational feasibility

7. The Chairman sought information on the Administration's assessment about the depot trial conducted by Citybus Limited (Citybus) of running a prototype air-conditioned double-deck trolleybus converted from an existing diesel bus. She also asked if consideration would be given to allow Citybus to conduct on-road trials for one of its routes at its own expenses. Regarding the operation of trolleybus, she pointed out that the use of an auxiliary diesel power unit to give limited off-wire capacity could to a certain extent overcome some of the problems as identified in the Study.

8. The Assistant Commissioner for Transport/Buses & Railways (AC for T/B&R) responded that Citybus' depot trial had just commenced and TD was closely liaising with Citybus on the progress of the scheme. The Administration would examine the results of the trial when they were available. Notwithstanding the Administration's position that it would not pursue the introduction of trolleybuses in existing built-up areas, the Administration would keep an open mind if any transport operator put forward proposals for introducing trolleybuses. She further said that apart from concerns on traffic impact and financial viability, relevant regulatory and legislative frameworks would have to be worked out before any on-road trials could be conducted.

Action

9. Mrs Selina CHOW however considered that if a trolleybus system were to be introduced in Hong Kong, it would be a major undertaking having substantial impact in many areas. Instead of giving the private sector a free hand, the Administration should clearly set out the feasibility and risks involved and the parameters for introducing this mode of transport in Hong Kong. Otherwise, much resources and effort would be wasted. Echoing this view, the Chairman called on the Administration to facilitate the efforts of interested companies in exploring and developing suitable technology for the purpose.

10. AC for T/B&R assured members that the Administration would closely liaise with all interested parties and alert them to the potential risks identified in the Study. She added that according to the findings of the Study, the financial, operational, technical and institutional issues of trolleybus operation would be more difficult in dense urban areas than in new development areas. Hence, the Administration would carefully examine the comparative merits of implementing a pilot scheme of trolleybus operation vis-à-vis other environmentally-friendly transport modes in South East Kowloon Development to determine the best choice of transport mode for that new development area.

Environmental benefits

11. The Chairman sought clarification on the marginal reduction of 0.5% in particulates with the use of trolleybuses as compared with diesel buses. In reply, AC for T/B&R explained that as trolleybuses produced no tailpipe emission, the improvement would be 100% if a simple comparison with diesel buses alone was made. But if the emission of other vehicles was also taken into account, as the results of the case studies in Aberdeen and Central/Wan Chai had shown, the additional reduction in particulates by replacing diesel buses by trolleybuses would be small. With the on-going measures taken by the Administration to improve the environment, there would be significant reduction in tailpipe emission at road side even without using trolleybuses.

Public acceptance

12. Given that there were grave concerns about the health and visual impact of the overhead traction wires, Mr WONG Sing-chi opined that public acceptability was a critical factor in the introduction of a trolleybus system in Hong Kong and thus, the local District Councils should be properly consulted, particularly before any on-road trials were allowed to proceed.

13. While re-iterating that the Administration had no plans to conduct any on-road trials at this stage, the Principal Assistant Secretary for Transport (1) advised that the Administration was aware of the adverse views of some sectors of the community on the implementation of a trolleybus system. Before Citybus commenced its depot trial, the Southern District Council had raised concerns about the operation of trolleybuses.

Action

Hence, if Citybus' depot trial were to be further expanded, these concerns as well as other technical issues identified in the Study would need to be addressed. AC for T/B&R also assured members that public acceptability was a very crucial consideration. Before any decision was made on introducing this new mode of transport to Hong Kong, the Administration would consult all parties concerned.

V 2001 MTR fare proposal

(LC Paper No. CB(1)1575/00-01(04) - Information paper provided by MTR Corporation Limited)

14. At the invitation of the Chairman, Mr Jack SO, the Chairman of the MTR Corporation Limited (Chairman/MTRCL), highlighted the salient points of the information paper provided by the Corporation in relation to the MTR fare review for 2001 (LC Paper No. CB(1)1575/00-01(04)). He informed members that after MTR fares had been frozen for three years, the Corporation was considering a modest 2% - 2.5% overall fare increase to be effective from 1 September 2001. In accordance with the Operating Agreement between MTRCL and the Government dated 30 June 2000, prior to changing the level of any fare, the Corporation was required, *inter alia*, to consult the Transport Panel and the Transport Advisory Committee and to consider the level of public acceptance of any proposed change. This meeting with the Panel formed part of the consultation process set out in the agreement and members would also be briefed on the results of the passenger surveys undertaken.

15. With the aid of PowerPoint, Mr Eddie SO, the Transport Planning Manager of MTRCL, presented members with relevant background information relating to the MTR fare review for 2001.

(Post-meeting note: A set of presentation materials tabled at the meeting was subsequently issued to members vide LC Paper No. CB(1)1627/00-01(02).)

Members' views on MTRCL's proposed fare increases

16. Mr CHENG Kar-foo expressed strong objection to the proposed fare increases. Citing the \$4 billion profit made by MTRCL last year and the extant economic climate, he took the view that the Corporation's present proposal was unjustified and it was simply a greedy move on the Corporation's part. Mr LEE Cheuk-yan opined that given the Corporation's outstanding performance during the prevailing stagnant economic conditions, the general public would find it very difficult to accept the proposed fare increases. He considered that apart from safeguarding shareholders' interests, the Corporation should also take into account the overall impact of the proposed fare increases on the community and whether or not the public could shoulder the burden. Sharing this view, Mr Albert CHAN said that the Corporation should not just focus on increasing its profits.

Action

17. Mr Tommy CHEUNG remarked that given the deflation of consumer prices, he did not consider the proposed rate of fare increase moderate. Reflecting on the livelihood problems faced by the general public and their strong opposition, Mr WONG Sing-chi pointed out that MTR fares had only been frozen for the past few years and not reduced to reflect the deflation. Notwithstanding the capital improvement projects outlined in paragraph 8 of the paper, the general public would prefer to maintain MTR fares at the present level. He said that members and the public would find it easier to accept the fare increases when the general economy had fully recovered.

18. While expressing support for the Corporation to put in place resources to keep up its service performance and maintenance of the railway system so as to provide the community with an environmentally-friendly form of transport, Miss Emily LAU shared other members' view that it was not the right time for the Corporation to propose fare increases. She called on the Corporation to make greater effort to identify new sources of income while reducing its operating costs.

19. Noting members' views, Chairman/MTRCL responded that the Corporation had managed to retain its fare levels since 1997 through conscientious efforts to control all operating costs and to develop additional businesses. He explained that although the Corporation did make a \$4 billion profit last year, more than \$3 billion came from property development which was not a stable and reliable source of revenue. In fact, railway operations and related businesses only contributed a small percentage towards operating profit. However, even including proceeds from property developments, the profits of the Corporation in 2000 represented a return of only 8% on its \$49.8 billion shareholders' funds, or an even lower return on its \$92.5 billion total assets. This compared less favourably with the returns for many utility companies of 13% to 15%. In terms of affordability, he drew members' attention to the fact that since 1995, MTR fares had been increased by 16% while the nominal payroll rise had been 29% over the same period.

20. Chairman/MTRCL further said that in recent years, ridership on the MTR lines continued to suffer from intense competition from franchised buses as a result of inadequate feeder bus services to MTR stations. While the Corporation had been taking up the matter with the Administration, he was confident that with the opening of the new railway lines, the situation would improve as the Corporation was committed to providing a safe and reliable, cost-efficient mass transit service for its passengers.

21. While acknowledging that no fare increase would be welcome at any time, Chairman/MTRCL stressed that the Corporation's proposed fare increases were moderate and indeed necessary. Apart from paying out dividends to the shareholders, many of them were also ordinary citizens, the profits would be re-invested into the Corporation to improve its network and services. He assured members that all the capital improvements, such as the train modernization programme, were carefully planned to ensure the safe and efficient operation of the MTR system. As the Chairman of the Corporation, it was upon his duty to the shareholders as well as the community as a

Action

whole to propose fare increases to sustain the commercial viability of the business, prevent further erosion of the return on assets, maintain excellent service delivery and continue service improvements.

22. In view of the Chief Executive (CE)'s earlier comments urging the two railway corporations to carefully consider the economic situation and public views and to make a wise decision, Mr CHENG Kar-foo asked whether MTRCL would take heed and re-consider its fare increase proposal. Mr Albert CHAN also enquired about the basis on which MTRCL's Board of Directors would make its final decision.

23. Chairman/MTRCL responded that the Corporation would take CE's comments seriously and continue to listen to various views from the public before a final decision was made by the Board. However, as CE had pointed out, the Corporation would also need to consider its financial position as well as the impact on MTRCL's international credit ratings. Hence, the Corporation had only sought to effect a very moderate level of fare increases even though MTR fares had been frozen for three years. According to the results of a special survey conducted by the City University on behalf of the Corporation in February 2001 to assess public opinion towards MTR fares, a 2% fare increase was accepted by 42% of the respondents. He added that before a final decision was made, the Board would take into account all these factors so as to ensure that a reasonable rate of return could be achieved on investment while any fare increases would be within public affordability.

24. Chairman/MTRCL asked for members' understanding that as a publicly listed company, it would be most important for the Corporation to be self-financing without receiving any subsidies from the Government. As illustrated by overseas experience, the operating efficiency and performance standard of metro systems receiving government subsidies were generally not good.

25. Mr LAU Ping-cheung declared interest as his company was one of MTRCL's consultants. He said that while fare increases would always be unpopular amongst the general public, the autonomy of the Corporation to decide fares within the statutory mechanism should be respected. Otherwise, overseas investments on Hong Kong's transport infrastructure might be deterred. However, considering the general economic condition, he urged the Corporation to seriously re-consider the timing for introducing fare increases. Sharing similar views, Mr Abraham SHEK considered that the proposed rate of fare increase was reasonable as the Corporation was tasked to operate on prudent commercial principles and take care of the interest of its shareholders. In this respect, LegCo should not interfere with the Corporation's commercial operation.

26. Mr CHENG Kar-foo commented that the fare increase proposal would directly affect the livelihood of the general public as they had yet to enjoy the benefits of economic recovery. Given MTRCL's hefty profits in such times of economic downturn, he called on the Corporation to seriously re-think its stance in this matter. If fare increases could be deferred pending greater economic recovery, it would help the people

Action

tide the difficult times and make them all the more proud of the Corporation's achievement and successes.

MTRCL's financial position

27. Mr TAM Yiu-chung asked whether the Corporation's financial position would be improved as a result of the recent cut in interest rates and the scheduled opening of the Tseung Kwan O Extension (TKE) in late 2002. In response, Mr Clement KWOK, the Finance Director of MTRCL (FD/MTRCL) explained that under the Preferred Financing Model, the Corporation's borrowings would have an equal share of fixed and floating rate debt. At present, the Corporation was carrying a total debt of approximately \$28 billion and its annual interest cost amounted to some \$2 billion. As a result of the interest rate cuts, interest cost of the floating rate debt would be slightly reduced. Assuming an average 0.5% cut in interest rate, annual interest charges would be reduced by about \$70 million. However, given the Corporation's committed programme of capital expenditure, additional borrowings were required.

28. Chairman/MTRCL added that whilst total patronage would increase with the opening of a new railway, the Corporation's profits would be significantly affected by depreciation and related interest charges during the new railway's initial years of operation. A similar effect was expected to occur with the TKE. As an integral part of railway development activities, property developments would be undertaken to supplement the returns from the railway investment.

29. Mr Albert CHAN remarked that as property development projects along the TKE would continue to bring in stable and reliable income for the Corporation in the coming years, the pressure for fare increase should not be over-emphasized. In this regard, he sought information on the expected earnings of the Corporation from property development for the next five years. Chairman/MTRCL replied that as MTRCL was a listed company, he could not give any forecasts on the Corporation's profits as it would be price-sensitive. He also said that all would depend on market situation and the terms of joint venture arrangements made with the developers. Mr CHAN however considered that without a clearer picture on the Corporation's estimated revenue from property development, it would be very difficult to convince the public that the present fare increase proposal was indeed necessary or justified.

30. Miss Emily LAU asked whether the Corporation's credit ratings would be adversely affected if MTR fares were kept at the same level. Mr Tommy CHEUNG also expressed concern that the Corporation's interest cost might increase in that case. FD/MTRCL advised that while it would be very difficult to say when such an impact would arise, international credit rating agencies would keep a close watch on the Corporation's debt repayment capabilities. Given the planned investment projects, it would be most important for the Corporation to maintain its credit ratings to raise funding. Generally speaking, interest cost might be ½% to 1% higher if MTRCL's credit rating was lowered from single A to BBB.

Action

31. In reply to Mr CHAN Kwok-keung, Chairman/MTRCL stated that as the Corporation would review staff wages by benchmarking with other companies, it was likely that there would be strong pressure for wage increases this year.

The Administration's role

32. Mr CHENG Kar-foo opined that given CE's public statements, the Secretary for Transport (S for T), as the Government's representative serving on the Corporation's Board of Directors, should take this clear message to the Board and strongly object to the proposed fare increases when the matter was discussed so that the interest of the public could be safeguarded. Worrying that the Corporation's proposal would serve to encourage public transport operators to increase fare, Mr LEE Cheuk-yan remarked that it was all the more important for the Administration to take a strong stance in the matter. Citing huge profits made by public utilities at such difficult times, Mr Albert CHAN considered that the Government, with its representation on the Board of Directors of these companies, should perform its role in maintaining a balance between commercial and public interests.

33. In response, the Deputy Secretary for Transport (DS for T) stated that the Administration's primary objective was to ensure that a safe, efficient and reliable transport system was provided to meet the economic, social and recreational needs of the community. Given the additional funding requirements for its significant programme of committed capital expenditure to maintain and upgrade the existing lines and to further expand the MTR system in future, the Administration recognized the Corporation's need to review its fares annually.

34. While acknowledging that fare increase was a difficult issue, DS for T said that it would be equally important that due consideration be given to public acceptability and affordability as well as the impact on Hong Kong's economic situation. Hence, the Administration considered that MTRCL's Board of Directors should only make a decision after the consultation process, taking into account all the relevant factors. As the consultation process was still on-going, a final decision had yet to be made. It was his understanding that when the proposed fare increase was first discussed by the Board, members of the Board had decided that the proposal could be put out for public consultation at this stage. S for T, as the Government's representative on the Board, would take part in the decision-making process in due course. In this respect, this meeting with the Panel had given the Corporation a good opportunity to solicit members' views.

(Post-meeting note: A letter from Chairman/MTRCL informing the Panel of the Corporation's decision to defer fare increases, originally proposed for 1 September 2001, to 1 April 2002, was circulated to members vide LC Paper No. CB(1)1715/00-01(02).)

Action

VI Kowloon-Canton Railway Corporation review of passenger fare for 2001
(LC Paper No. CB(1)1575/00-01(05) - Information paper provided by the
Kowloon-Canton Railway Corporation)

35. Mr K Y YEUNG, the Chairman and Chief Executive of the Kowloon-Canton Corporation (Chairman/KCRC), introduced the information paper provided by the Corporation in relation to KCRC's review of passenger fares for 2001 (LC Paper CB(1)1575/00-01(05)). He drew members' attention to the fact that while genuine efforts had been made to reduce operating costs, the Corporation had no alternative but to consider an increase in fares if it was to continue improving its services and expanding its network. The Managing Board of KCRC had therefore decided, in principle, to increase fares by a modest average of 3.1%, effective from 1 September 2001, but would wish to gauge public opinion before a final decision was taken.

36. With the aid of PowerPoint, Mr Samuel LAI, the Senior Director, Finance and Management of KCRC (SD, FM/KCRC), presented members with background information in support of KCRC's fare revision for 2001.

(Post-meeting note: A set of presentation materials tabled at the meeting was subsequently issued to members vide LC Paper No. CB(1)1627/00-01(03).)

Members' views on KCRC's fare revision proposal

37. Citing the reasonable profits made by the Corporation last year, Mr CHENG Kar-foo expressed opposition to the proposed fare adjustments. He pointed out that as more than a million passengers were carried by KCRC daily, any fare increase would have a great impact on the livelihood of the commuting public. Given that KCRC was wholly-owned by the Government, he was not convinced that the Corporation should seek to increase its profits on the expenses of the general public. Expressing similar views, Mr WONG Sing-chi opined that as the growth of cross-boundary journeys was expected to continue in the foreseeable future bringing a reliable and growing revenue to the Corporation, he was not convinced that the present proposal was indeed necessary.

38. Given that CE had publicly called on the two railway corporations to carefully consider the economic situation and public views and to make a wise decision, Mr CHENG Kar-foo asked whether KCRC would be prepared to re-consider its fare increase proposal.

39. In response, Chairman/KCRC stressed that the decision to raise fares was in principle only and not final yet. KCRC would seriously consider CE's advice and carefully gauge the views from all sectors, including those expressed by Panel members at the present meeting. Pending the completion of the on-going public consultation, he would make a recommendation to the Managing Board for final decision. Chairman/KCRC further said that from the Corporation's point of view, the proposed

Action

package was a moderate one. However, if the united view was that fare increases should be deferred to a later date taking into account public reaction, he would submit this opinion to the Managing Board for consideration.

40. Referring to the fare affordability trend figures given in the presentation materials, Mr Albert CHAN was concerned that according to a recent study, Hong Kong people's expenditure on transport had been increasing in the past few years. Mr WONG Sing-chi also said that the situation was particularly worst for the residents in Northern District. He thus called on KCRC to take heed of the additional financial burden created for the travelling public. In response, Chairman/KCRC undertook to relay the members' concern to the Managing Board for consideration. To supplement, SD, FM/KCRC advised that according to calculations done by the Corporation on the basis of relevant data published by the Census and Statistics Department, KCRC fares had increased by 14% over the last five years while wages of lowest 50% income earners had increased by 17%.

41. Mr CHENG Kar-foo said that as both members and the general public had clearly expressed opposition to the proposal, he hoped that the Managing Board would make a wise decision and defer the introduction of fare increases. Sharing similar views, Mr Albert CHAN called on KCRC to take the lead and make an early decision on the matter. Citing the extant economic conditions, Mr TAM Yiu-chung also took the view that the general public were not prepared for the proposed fare increases. He thus urged the Corporation to consider deferring its proposal.

42. While expressing support for KCRC to re-invest its profits to improve its network and services so as to provide the community with an environmentally-friendly form of transport, Miss Emily LAU shared other members' view that it was not the right time for the Corporation to propose fare increases. She thus urged Chairman/KCRC to take back this message to the Managing Board for deliberation.

43. Mr LAU Ping-cheung declared interest as his company was one of KCRC's consultants. He said that on the basis of the "user pays" principle, he would support the present proposal. Otherwise, if KCRC, being a corporation wholly-owned by the Government, met with any financial difficulty, equity would need to be injected by the Government out of the public purse.

44. As the proposed fare increases were moderate, Mr Abraham SHEK expressed support for KCRC's proposal. However, he also called on the Corporation to defer the fare increases until a later date.

KCRC's financial position

45. Referring to the Corporation's forecast net profit of \$2,540 million for 2001 and the savings achieved on the construction of West Rail (WR), Miss Emily LAU was concerned about whether real pressures were faced by KCRC for fare increases. In

Action

response, Chairman/KCRC stressed that the Corporation's profits had been totally re-invested into service improvements and new projects. Apart from the \$3.8 billion to be spent in the next three years for service improvements, he said that the total estimated costs of the WR and the East Rail Extensions (ERE) projects amounted to \$72.8 billion. As the Corporation's project agreement with the Government had provided for WR, Phase I and ERE to be funded partly from equity, partly from accumulated profit and partly from borrowings, \$17.2 billion from KCRC's accumulated profits would be invested in these projects. Whilst WR's construction cost had been revised downward from \$64 billion to \$46.4 billion, equity from the Government for WR and ERE projects was capped at \$37 billion and thus, only \$8 billion was provided for the ERE projects which cost about \$30 billion. KCRC would need to borrow \$18.6 billion to finance these projects. Out of this required sum, \$12.3 billion would need to be raised between 2001 to 2004. Taking into account all these capital requirements, he said that KCRC's estimated profit for 2001 was by no means substantial.

46. In reply to Miss LAU's further enquiry, SD, FM/KCRC advised that on the assumption that the fare increases would be implemented as proposed, it was expected that KCRC's operating profit would experience a slight growth in 2002.

47. Recognizing the importance for the Corporation to maintain its credit ratings to facilitate borrowings for the committed projects in the next few years, Mr Tommy CHEUNG expressed support for fare increases proposed by KCRC. However, he remarked that in view of the deflation of consumer prices, he did not consider the proposed rate of fare increase moderate. Reflecting on the livelihood problems faced by the general public, he called on KCRC to consider deferring the implementation of fare increases.

48. Given the fare advantage of ER domestic service, Miss Emily LAU sought the reasons for the loss of its market share to franchised buses. In reply, Chairman/KCRC explained that as a result of the Asian financial turmoil, economic activities were slowed down substantially in 1998 and 1999. The public transport market in Hong Kong as a whole had also experienced a decline and both ER and other modes of public transport suffered from decreasing patronage. However, despite such downturn, the number of cross-boundary journeys continued to grow as more and more Hong Kong people went to Shenzhen for shopping, leisure and business.

49. Mr LAU Ping-cheung was concerned about the over-crowding situation at Lo Wu Station and enquired about the measures to be taken by KCRC to address the problem. Chairman/KCRC replied that while ER trains were perfectly capable of carrying the growing number of passengers, the problem lied in the capacity of Lo Wu Station and the speed at which immigration and customs officers could clear outbound passengers. Given the physical constraints, no further expansion was possible at Lo Wu Station and only improvement measures could be taken where feasible. Hence, KCRC had proposed to construct the Lok Ma Chau Spur Line which would provide relief by diverting

Action

Shenzhen-bound passengers away from Lo Wu to a second boundary crossing. However, the project was still on hold pending the Corporation's appeal.

KCRC

50. Mr CHENG Kar-foo cited the fluctuating performance of ER domestic service from 1996 to 2000 and sought explanation on the forecast substantial loss of \$72 million for 2001. He was worried that the Corporation would seek to justify its proposed fare increases on the basis of chronic losses of ER domestic service. In reply, SD, FM/KCRC explained that starting from 1997, patronage of ER domestic service had been decreasing. Although this trend was reverted from 2000 and it was estimated that ridership for 2001 would climb back to the 1997 level, overall revenue from ER domestic service had decreased as KCRC fares had been frozen since 1 September 1997. On the other hand, as KCRC continued to improve its service, increased capital expenditure and operating cost were incurred which made up for the forecast \$72 million loss for 2001. At Mr CHENG's request, SD, FM/KCRC agreed to provide members with a detailed breakdown on the forecast loss of ER domestic service for 2001 after the meeting.

51. Given that ER was essentially one mass transit railway line between Hung Hom and Lo Wu, Mr WONG Sing-chi asked whether the operating costs had been suitably apportioned between its domestic and cross-boundary services. He was concerned that by understating the profitability of ER's domestic service, the Corporation was trying to play down the opposition expressed by passengers of domestic service on the proposed fare increases.

52. In reply, Chairman/KCRC assured members that KCRC did not have any prejudice against local passengers. The Corporation would seek to balance the development of both domestic and cross-boundary services. He explained that as train fare to Lo Wu was much higher than domestic fares, the profit of ER cross-boundary service would also be higher. To supplement, SD, FM/KCRC advised that not all operating costs were charged to ER domestic service. For operating costs exclusively incurred for cross-boundary service, such as the facilities at Lo Wu and Hung Hom stations, they would be charged to ER cross-boundary service only. Other operating costs such as electricity and fuel would be shared between the two service centres according to an established formula.

KCRC

53. Mr Abraham SHEK however was not convinced that separate calculations for ER domestic and cross-boundary services were appropriate. He considered that the Corporation should review its existing practice and consolidate the two ER services as one. SD, FM/KCRC said that he would further consider the views put forward by members. At the Chairman's request, he also agreed to provide more details about the calculations for members' information after the meeting.

54. Mr Albert CHAN referred to the continuous losses posted by Light Rail (LR) for the past five years and expressed grave concerns about its crippling impact on the Corporation's financial position. He considered that KCRC and the Government should

Action

critically review the viability of LR from both the financial and transport perspectives so as to determine whether it was desirable to maintain LR service. While expressing similar concerns, Mr TAM Yiu-chung held a different view and supported the Corporation's investment to build an extension of the railway to Tin Shui Wai New Town to serve the growing population. Mr Abraham SHEK considered that ER's fare increases should not be used to make up for the shortfall in revenue incurred by services that were not profitable, such as LR and KCR bus service. Instead of putting the burden on ER passengers, more financial support should be provided by the Government for the construction of new projects by KCRC.

55. While welcoming additional support from the Government, Chairman/KCRC pointed out that the amount of capital injection required from the Government would be a very important factor in its evaluation on the proposals submitted by the railway corporations for the Sha Tin to Central Link.

56. Chairman/KCRC then elaborated on the operational difficulties faced by LR as well as the challenges posed by vigorous competition from other modes of transport public transport. He said that notwithstanding the losses incurred by LR, KCRC, as a public corporation, was committed to providing better and expanded service to meet the transport needs of those residents in the North West New Territories (NW NT). In anticipation of WR's operation in 2003, LR had embarked on a \$2,300 million project that would enable LR to take on an expanded role as a feeder service for WR.

57. Responding to Mr CHAN's call for a review on LR service, Chairman/KCRC pointed out that at present, LR's average daily ridership stood at about 350 000. It would be very difficult for any other mode of public transport to replace LR service at this stage, particularly in terms of environmental performance. To supplement, DS for T affirmed the role performed by LR in serving the residents in NW NT. He said that apart from being an efficient and environmentally-friendly carrier, LR's presence would promote competition among various forms of public transport. Given its future integration with WR, the Administration was hopeful that the performance of LR would improve. The Chairman advised that the subject matter could be followed up by the Panel.

58. Citing the poor performance of KCR's bus service, Mr LAU Ping-cheung considered that greater efforts should be made by the Corporation to cut down on further losses while identifying other new sources of non-fare revenue. Noting the member's views, Chairman/KCRC stressed that the Corporation would explore ways to maintain the competitiveness of its bus service. One approach would be to continue rationalizing bus routes in order to utilize resources more efficiently. A bus rationalization plan had been developed for providing services before and after the commissioning of WR, Phase I and LR's Tin Shui Wai Extensions at the end of 2003. In terms of non-fare revenue, he stated that the Corporation was considering the extension of advertising to include railway structures other than stations.

Action

59. In response to Mr LAU's further enquiry, SD, FM/KCRC advised that while preparations for new property developments along ER and ERE were underway, such projects would only be completed in 2005 to 2006. Hence, no major revenue was expected from property development in the next few years. In this connection, Mr Abraham SHEK expressed support for the Government to grant more property development projects to the Corporation so as to relieve its pressure for fare adjustments.

60. Mr CHENG Kar-foo proposed a motion calling on KCRC to defer its proposed fare increases. The wording of the motion was as follows:

"本會要求九廣鐵路公司押後調整票價。"

61. The above motion was put to vote. Mr CHENG Kar-foo, Mr Albert CHAN, Mr Abraham SHEK and Mr WONG Sing-chi voted for the motion and Mr CHAN Kwok-keung abstained. As the majority of members present voted for the motion, the motion was endorsed.

(Post-meeting note: A letter from Chairman/KCRC informing the Panel of the Corporation's decision to defer fare increases, originally proposed for 1 September 2001, to 1 April 2002, was circulated to members vide LC Paper No. CB(1)1715/00-01(01).)

VII Any other business

62. There being no other business, the meeting ended at 1:20 pm.

Legislative Council Secretariat
13 September 2001