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Members of the Panel of Transport
Legislative Council

Dear Sir or Madam,

We refer to agenda item 4 "Route 7, South Hong Kong Island Line and West Hong Kong Island Line" which will be discussed at the 28 May Panel of Transport meeting.

As the major bus operators in the Southern and Western districts, we have grave concerns on the impact of the above proposed railway lines, if given the go-ahead, would have on the company and the livelihood of our staff.

Below are our concerns and analysis, which we would like to put on record, and which we trust Panel members will view judiciously:

1. MTRC's proposal to construct the South Hong Kong Island Line (SIL) and West Hong Kong Island Line (WIL) will seriously threaten the viability of road-based public transport operations in the two districts concerned.
2. For franchised bus services alone, S/WIL are expected to affect 61 local and 16 cross harbour routes.
3. For Citybus (CTB) and New World First Bus (NWFB), the passenger loss per day is expected to reach 188,000. Currently, the average fare of CTB and NWFB is HK\$5.00 and the revenue loss as a result of passenger loss to S/WIL could reach \$343 million per annum, much more than the current earnings of the two companies.
4. In the face of the anticipated revenue loss to all public transport operators, the franchised bus operators, in particular, will have to rationalize and re-organise their services and networks. By so doing, the traveling public will suffer from a reduction in the choice of public transport modes. In addition, the economy of scale, and in turn, the operational efficiency, would deteriorate, as a result of the reduction in the scale of bus operation. Moreover, there will be a need to make redundant surplus staff, thus giving rise to poor industrial relations and staff unrest.
5. Yet, it is expected that the rationalization and re-organization of bus services will face local objections. If these cost-saving measures cannot be introduced, heavy cross subsidization by the operation elsewhere in the territory will be required. The situation could get worse with pressure to raise fares.
6. On the other hand, the operation of S/WIL will unlikely be self-supporting. Even with Government subsidy for the initial investment, the operation of S/WIL will require cross subsidization by the passengers on MTR's other rail lines. We have conducted a breakeven analysis for S/WIL, as attached for your reference, to assess the financial performance of the proposed railway lines.



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Viability of S/WIL in doubt

7. Based on the projections prepared by the Planning Department, the population at both the Western and Southern districts will remain stagnant, and there will not be any significant socio-economic changes, which could result in a drastic increase in public transport demand. In fact, this is the conclusion reached in Government's most recent study of rail development i.e. the RDS2. Conducted in 2000, the RDS2 concluded that the SIL would not be financially viable over the time horizon of the study, i.e. 2016, and recommended that no further action should be taken on this rail project by then.

Alternatives for improving public transport services in the Southern/ Western districts

8. In fact, the public transport services in the two districts concerned are, and will continue to be, sufficient to meet the demand. To reduce the impact of traffic congestions, which occur from time to time, the Government should consider introducing more vigorous traffic management measures, in particular, bus priority schemes and traffic control measures.
9. Currently, the situation at the Aberdeen Tunnel is not satisfactory due to the tailing back of traffic from the Cross Harbour Tunnel. The Government should redistribute traffic from the Cross Harbour Tunnel to the Eastern Harbour Crossing or the Western Harbour Crossing by re-aligning the tolls.

To remove the bottleneck, the Government should also consider constructing a separate link, preferably an underground by-pass, between the Aberdeen Tunnel and the roads at the harbour front.

Incidentally, in the proposal for the SIL prepared by the MTR, a similar link in the form of a railway tunnel running between Ocean Park and Causeway Bay was mentioned. If this same tunnel were built for vehicular traffic, it would solve the current congestion problems, and totally eliminate the need for an expensive and heavily loss-making SIL.

10. In the longer term, the Government should construct Route 7, perhaps by stages, to make the road network in the Western and Southern Districts more complete.

The foregoing is the position of our companies, and we thank you for taking the time to read through them.

Yours faithfully,



Lyndon Rees
Managing Director

Encl.

Southern/Western Island Line Reference Information (Breakeven Analysis)

Introduction

The financial viability of the proposed Southern/Western Island Line's (S/WIL) has been a matter of public concern. In order to evaluate the financial performance of the proposed rail line, an assessment had been conducted and the objective is to project the breakeven fare of S/WIL. The following are the areas of the study:

Population

According to the projections of population distribution prepared by the Planning Department of HKSAR¹, the change in the population of Western and Southern Districts in the coming years will be negligible. The population in 2004 is 430,000 and it is projected that the population would be 429,800 by 2009.

Passenger Shift from Franchised Buses

In the Western and Southern Districts, franchised bus services are operated by CTB, NWFB and KMB. Based on the proposed alignment of S/WIL and the existing franchised bus network, it is expected that 61 local and 16 cross harbour routes would be affected.

At present, the total daily patronage of all those routes is about 542,000. Based on different levels of accessibility of the passengers to the S/WIL stations, it is estimated that a total of 202,400 (37%) franchised bus passengers would shift to S/WIL. This figure includes all three franchised bus companies.

Passenger Shifts from GMB / RMB and Taxis

Currently, the GMBs / RMBs and taxis are mainly operated on Pokfulam Road and Aberdeen Tunnel². Based on the pattern of franchised bus passenger shifts along the said routes, it is estimated that a total of 14,700 (26%) GMB/RMB passengers and 7,200 (25%) taxi passengers would shift to S/WIL.

Tourists

At present, the average daily visitors to Hong Kong is 50,000. As indicated by the Travel Characteristics Survey 2002, 10% of tourists would visit Ocean Park during their stay in Hong Kong³. Due to CEPA, the number of tourists visiting Hong Kong will increase in the coming years. Yet, it is expected that the attractiveness of the Ocean Park would diminish due to the opening of the Disneyland. In addition, it is likely that the group tours would continue to rely heavily on coach services. On this

basis, the additional S/WIL trips that would be made by tourists are estimated to be 2,500.

S/WIL Patronage Forecast

The patronage forecast of S/WIL is summarized in the following table:

| Sources | S/WIL Patronage |
|--------------------|-----------------|
| From Buses | 202,400 |
| From GMBs / RMBs | 14,700 |
| From Taxis | 7,200 |
| Hotel Developments | 1,400 |
| Tourists | 2,500 |
| Total | 228,200 |

S/WIL Operating Cost

Initial investment

The initial investment of S/WIL is reported to be \$15 billion. According to the latest press announcement published by MTRC⁴, it has indicated its intention to seek a subsidy of not more than 50% of the said investment from the Government. For this exercise, it was assumed that Government subsidy would amount to \$7.5 billion.

Total Operating Cost

1. *Operating Cost:* According to the LegCo paper issued for the original SIL which is 13km in length, the annual operating cost is \$154 million⁵, i.e. a unit cost of \$11.85 million per km. Since the current proposal of S/WIL is 17km in length, the annual operating cost is estimated to be \$201 million.

2. *Interest Expense:* The interest rate will depend on the interest rate and the magnitude of the loan. For the latter, it will depend on the magnitude of the Government's subsidy. Based on MTRC's Annual Report for 2003, the average interest rate borne was 5.1%⁶. For this exercise, it is estimated that MTRC's loan would bear an interest rate of 5%.

3. *Depreciation:* The initial investment is to be depreciated on a straight line basis over a period of 40 years.

The total operating cost per annum is estimated to be:

| \$Million | With Subsidy | Without Subsidy |
|----------------------|--------------|-----------------|
| Operating cost | 201 | 201 |
| Interest expense | 375 | 750 |
| Depreciation cost | 375 | 375 |
| Total operating cost | 951 | 1,326 |

Break-even Analysis

Allowing for non-fare revenue which might be generated from the commercial activities at the S/WIL stations, the break-even fares, with and without Government subsidy, are shown in the following table:

| S/WIL Daily patronage = 228,200 | With Subsidy | Without Subsidy |
|---|--------------|-----------------|
| Daily total operating cost (\$ million) | 2.27 | 3.30 |
| Break-even fare (\$) | 9.9 | 14.4 |

Conclusion

According to the evaluation, the break-even fare is estimated to be \$9.9 if the Government were to award a subsidy of \$7.5 billion for the initial investment. If without Government subsidy, the break-even fare is estimated to be \$14.4. These are much higher than the average fare of \$5.0 being charged on the franchised bus services.

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Reference

1. Projections of Population Distribution 2002-2011, Planning Department, HKSAR.
2. Annual Traffic Census 2002, Transport Department, HKSAR.
3. Travel Characteristics Survey 2002, Final Report, Transport Department, HKSAR.
4. S/WIL Press Conference, March 2004, MTRCL.
5. Supplementary Paper on Island Line Extension, Route 7 and South Hong Kong Island Line, Legislative Council Panel on Transport, CB(1)1536/02-03(01).
6. MTRCL Annual Report 2003.