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23 February 2005

Chairman and Members
Legislative Council Panel on Transport
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Honourable Members

Panel on Transport – Meeting on 25 February 2005

Ahead of the forthcoming Legco debate on the proposed SIL/WIL railway lines, we write in our capacity as the second largest franchised bus company to express our strong objections to the proposed project. In making this representation, we have taken what we believe to be a balanced view that embodies the overall public interest as well as that of private enterprise as a whole in Hong Kong.

Our concerns on this issue are succinctly detailed in just five key points as follows:-

(a) *Insufficient Population*

The last Rail Development Study in 1999 (RDS II) contained wildly optimistic population forecasts. Despite the fact that these forecasts were vastly overstated, RDS II concluded that the Southern Island Line will not be viable until 2016 at the earliest.

(b) *A Lose/Lose Situation*

At a time when recent railway investments have so consistently and inevitably failed to live up to expectations in terms of passenger numbers and financial performance, it is our strong view that the building of yet more railways will quite simply have a *devastating* impact upon the existing service providers of public transport in Hong Kong (including the railway companies themselves) creating a lose/lose situation whereby oversupply of service will lead to losses and or very marginal returns that will dampen future investment interest.



(c) ***The rot of new direct public subsidies***

The award of a direct subsidy to the railway company as planned will be a 'first' for Hong Kong and will signal a dangerous departure from the long-standing policy bedrock of insisting that all service providers operate on a 'level playing field' and in accordance with 'prudent commercial principles.' Indeed the inevitable consequence of any such flirtation with new direct subsidies is that there will be ever increased demands for more and more subsidies from one and all of the various service providers who cannot sustain themselves in the new unhealthy competitive market for public transport. For example, the two bus companies (NWFB and CTB alone) will stand to lose a staggering HK\$350m in revenues with the new rail lines coming into operation, and worse, if a precedent is set whereby operators begin to rely upon direct subsidy for their salvation, a major incentive to manage services efficiently will be lost for ever. This contention applies as equally to railway companies as it does to bus companies. In other words, by introducing direct subsidies, the very fabric of the public transport system that has stood Hong Kong so very well over the last several decades will be put at risk.

(d) ***Loss of 'cross-subsidies' will lead to cuts in services***

Moreover, with the removal/erosion of our profit-making routes post railway, the ability to 'cross subsidise' the more marginal services within a bus network (i.e. the practice whereby the profits from popular routes are used to pay for a decent service level on other less busy routes) will be eroded and this in turn will give rise to the prospect of bus companies being required either to effect successive real term fare increases or to drastically cut services within their networks, simply in order to stay afloat.

(e) ***Present level of transport service already adequate***

The adequacy of public transport provision in the areas in question is, by any standards, already pitched at a very high level and indeed, the introduction of new railways may actually *reduce* the perceived adequacy of service provision in that opportunities for popular 'point to point' service provision will be reduced.

In the circumstances, we hope that you will afford the foregoing your full due consideration and that you will perhaps agree that a false impression may be being generated in some sections of the community, which contends that the proposed new railways represent some form of panacea transport solution that can be secured at little, if any cost. In fact there are very high prices to be paid, both in monetary terms and in the overall quality of transport services to be provided in the future (not to mention the massive disruption to daily lives that will be caused by any build programme itself). We thus look forward to having the opportunity of working more closely with all of you over the coming few months on some new 'value-added' road-based public transport solutions



that we believe will more suitably and better serve the populations of Southern and Western Districts. These may include, inter alia, even better buses, more bus priority measures along with road infrastructure improvements at various 'pinch points' to improve overall traffic management as necessary.

In the meantime, we remain,

Yours sincerely

A handwritten signature in black ink, appearing to read "Lyndon Rees".

Lyndon Rees
Managing Director

LR/MS/bsk