



New Hong Kong Tunnel Company Limited

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Legislative Council Panel on Transport **Meeting on 22 April 2005 (Friday)**

Toll Increase at Eastern Harbour Tunnel

Good morning Chairman, Panel Members

My name is Vernon Moore and I am here representing the NHKTC as its Chairman.

In my absence in Europe a month ago, my colleagues attended the Panel's earlier meeting and explained the factual situation to you. I will not repeat what Ms Fung and Mr Cheng said for it is in the minutes, but I can confirm they reported faithfully to our board the remarks made at the Panel meeting.

The toll increase

We recognize that a HK\$10 increase in the toll for a private car is substantial. Thinking as customers of the tunnel themselves, our directors would definitely prefer there was no change, or a lesser increase.

Indeed since our first discussions with the government about toll increases - as long ago as 1992 - we believed that our customers' interests would be best served by a series of frequent small toll increases. Small increases are not only more affordable, but also - as the arbitrator said in 1997 - they also ensure that users in one period do not subsidize users in another period.

Unfortunately, over all these years the government has refused to agree to any toll increase at all. The result has been two

very expensive arbitrations – the cost of which is paid ultimately by taxpayers and our customers - and two large toll increases.

The reason the current increase so high is simply delay. Our contract is limited to 30 years. If toll increases are not made in a timely manner there is simply less time to generate the necessary return, and the toll increases are bigger than otherwise.

The 1997 arbitrator recommended that a HK\$5 toll increase be made in 2003. Had the government respected the arbitrator's opinion the toll through 2007 would now be HK\$20. Because of the government's decision to refuse to endorse this toll increase (10 months after the application I might say) the toll for private cars has to be increased to HK\$25 from 1 May 2005. It is the foreseeable, and mathematical, result of their decision not to approve the toll increase in 2002.

Recognizing that the size of the toll increase might create hardship, soon after the arbitrators' decision was received the NTHKC indicated to the government its willingness to consider any commercially sensible compensation arrangement they would like to propose to reduce its impact. None was received.

We have considered the calls for the NTHKC to postpone the increase. Mr Chairman, we have to take the longer and wider view of the situation than just happiness today. The consequence of delay would be that a future increase will be higher when it comes. Delay simply does not serve the long-term interest of our customers.

May I remind the Panel that the NTHKC was awarded contract to build the Eastern Harbour Crossing in 1985. Shareholders mobilized capital of HK\$2.5bn - a huge amount of money 20 years ago - at a time of great uncertainty in Hong Kong. Construction took 3 years. It was one of the most challenging civil engineering works in Hong Kong in the 1980s.

Our shareholders took on the risks and obligations of this substantial, complex project because the government made a contract with the NHKTC that it could earn a return that was adequate but not excessive.

We understand that our customers would prefer the toll to remain unchanged, or that the increase be less. It is a natural first reaction. But on reflection we are sure they understand that the increase implements a contract between NHKTC and the government. Honouring contracts is one of the most fundamental features of a free, developed and sophisticated society. Without a doubt each person in this room has contracts with other citizens and expects the other party to honour his contract¹. There is surely no responsible argument that our contract should not be honoured.

Cross-harbour tunnel operations

As private tunnel operator our job is to run a world-class service for our customers. We immodestly believe we do so.

But because we do our job diligently it does not mean that we think that the current system of cross-harbour tunnel tolling makes sense. We do not. In fact we believe it makes no sense at all.

We know that this Panel agrees with our view. You have identified changes that might make the flow of traffic across the harbour more logical. They include extending franchises, merging the three tunnels and imposing a congestion charge that would be used as an incentive for drivers to use the less congested tunnels.

The privately owned tunnel operators have proposed similar ideas over the last 7 years.

¹ See article by Jake van der Kamp in the SCMP of 15 March 2005.

In December 1998 the chairman of the Western Harbour Tunnel wrote to the Secretary of Transport, proposing that the Western Tunnel and the Cross Harbour Tunnel be combined with a common toll of HK\$20. In 2000 the Western Tunnel provided further ideas including combining all three tunnels; charging tolls that change dynamically according to traffic conditions; or imposing a congestion charge that would be used to encourage traffic to use the less congested tunnels.

In 2001, at the request of the then Secretary for Transport, the Eastern and the Western tunnels financed a study to see if it was possible to combine the three tunnels and operate with an equal toll. The Secretary aimed at a HK\$20 toll for a private car. Could it be achieved was the question. The answer was that it could be done. Commercial principles could be reconciled with public interest.

The key policy variables proved to be quite simple. A HK\$20 equal toll could be achieved if the maturity dates of the franchises were removed, and the Cross Harbour Tunnel was transferred to a new venture at a low price². If these two were not possible an equal toll of HK\$30 was required. These were just mathematical calculations using data available in 2001. The situation could be different today, but I doubt there would be too much change. As tunnel operators we could go no further without policy guidance from the government.

The only substantive response to our work was that in 2002 the Secretaries for ETW and Financial Services advised that the necessary changes were regarded as politically impossible.

We were pleased that just a few weeks ago Secretary Liao told that franchise extensions, and other policy changes, were now

² The government's April 2005 paper seems to misunderstand the value of the CHT e.g. (page 9, paragraph 23 (c)). "to preserve the value of CHT, an important public asset". Even if the CHT is transferred to a new company at a price of zero, the value of the CHT is not destroyed. The consequence is that the people of Hong Kong will receive the value of the CHT in the form of lower tolls. If the CHT were sold at a high price money will flow to the government's bank account at first, but the people will pay for it for many years in the form of a higher toll. The value to the people of Hong Kong is the same.

thought possible. The tunnel operators have readily agreed to revive and update the earlier work to explore the possibility of combining the three tunnels in a way that would make traffic flows more balanced, while satisfying commercial principles.

Corporate citizen

The NHKTC is a responsible corporate citizen of Hong Kong. Our suggestions for improvements go beyond tolling. The Eastern Tunnel has voluntarily made a number of well-researched suggestions to save our community expense.

One is proving that when the growth of cross harbour traffic demands greater capacity, an additional traffic tube at the Eastern Tunnel could be built at a fraction of the cost of a new tunnel.

Another is providing professional advice on the new tunnel proposed to link Tseung Kwan O to Lam Tin to improve its operation and effectiveness.

We will continue to act in the best interests of our community, our customers and our shareholders too.

Conclusion

Please accept my assurance that the NHKTC will continue to operate the Eastern Harbour Tunnel to world-class standards serving our customers 24 hours of every day of the year, as we have for the last 20 years.

Thank you.

Vernon F Moore
Chairman
New Hong Kong Tunnel Company Ltd
22 April 2005