

**Speaking points for Rail Merger Bills Committee on
2 November 2006**

Thank you Madam Chairman. Good morning honorable Members.

As I have said in the past, the proposed merger is a balanced deal that benefits all stakeholders including the traveling public, shareholders and staff.

For the traveling public, one of the key benefits is:

Fare Reduction

- The rail merger will bring significant fare reductions which will benefit 2.8 million passenger trips per day.
- Although the fare reductions will be mostly financed from synergies, I would point out that fare reductions exceed identified synergies. Furthermore, fare reductions will be implemented on the first day of the Merger while synergies will take up to 3 years to materialize.
- The fare reductions, which include the abolition of the Second Boarding Charge and global fare reduction, will result in long distance fares of \$12 or more being reduced by a minimum of 10% and medium distance fares

of \$8.50 to \$11.90 being reduced by at least 5%.

- Therefore for some journeys, fare could be reduced by more than 30%.
- For example, the journey from City One Shatin to Kwun Tong with a current fare of \$11.80, total fare reduction will be 31.4%, and the journey from Tai Po to Central, there will be a 15.6% reduction.

Fare Adjustment Mechanism

- Secondly, as part of the merger package, an objective, transparent and predictable fare adjustment mechanism (FAM) would be introduced to adjust rail fares.
- In agreeing to the adoption of such a FAM, it has to be noted that the company is already giving up fare autonomy, which as shown by the deputations last Saturday is greatly treasured by many shareholders.
- To be sustainable and maintain service standards, the FAM must be automatically applied - the so-called direct drive. In support of this direct drive, I will quote from Professor Tony Ridley's deputation where he said in order to facilitate stable business decisions by the metro to deliver sustained long term service quality, it is essential that the agreed formula for annual adjustments in fare is adopted automatically and in full. Without this, service quality is likely to fall as income of the metro is

eroded in real term.

- We understand that there are some concerns raised on the so-called "permitted range" which allows individual fares to be adjusted by + or - 10 percentage point from the calculated fare adjustment rate.

However, it should be noted that:

- Firstly, we are already moving from Fare Autonomy now to an FAM after the Merger
 - Secondly, the FAM needs to provide some limited flexibility to allow the MergeCo to respond to market changes
 - Thirdly, the public transport market in Hong Kong is highly competitive and we compete against buses and other modes
 - Fourthly, this permitted range provides the MergeCo with some, albeit limited, flexibility to help us maintain competitiveness against other transport modes
- Market competition would be a strong factor in determining individual fares within the "permitted range" and competition benefits the traveling public.
 - As highlighted in Government's paper, although the "permitted range" allows some limited adjustments, the overall fare decrease or increase in any year must equal the fare adjustment rate calculated in the FAM

Balanced deal

- I would conclude by stressing that the Merger transaction is a finely balanced deal that provides some benefits to all our stakeholders.
- Thank you Madam Chairman.