

香港特別行政區政府

The Government of the Hong Kong Special Administrative Region

政府總部
環境運輸及工務局
香港花園道美利大廈



Environment, Transport
and Works Bureau
Government Secretariat
Murray Building, Garden Road,
Hong Kong

本局檔號 Our Ref. ETWB(T) CR 18/986/00

來函檔號 Your Ref.

Tel. 2189 2106

Fax. 2537 5246

By fax: 2121 0420

Mr Andy Lau,
Clerk to Transport Panel,
Legislative Council Secretariat,
3/F., Citibank Tower,
3 Garden Road, Central,
Hong Kong.

10 November 2006

Dear *Andy,*

**Bills Committee on Rail Merger Bill
Meeting on 14 November 2006**

Thank you for your letter of 9 November 2006 conveying Hon. LAU Kong-wah's observation on the hypothetical outcome of applying the fare adjustment mechanism (FAM) retrospectively. Our views and comments are set out below.

The FAM will regulate railway fares in the future after the rail merger and hence is forward-looking. We maintain our position that it is not appropriate to artificially apply the fare adjustment formula retrospectively as if it had been agreed for application at that time, which it was not, and compare the hypothetical results with the actual fare increases in the past period.


Nevertheless, in response to members' request, we have done a rough analysis making hypothetical calculations for different time periods. For details of our findings, please refer to paragraph (k) in our letter to you dated 10 November 2006 responding to a number of questions raised by Bills Committee members.

We would like to point out that the approach and data used in Hon. LAU Kong-wah's analysis are not entirely appropriate:

- (a) the inflation and wage index changes of the current year were used in the analysis to calculate the hypothetical overall rate of fare adjustments under the FAM, when in fact the changes of the indices in the preceding year should be used;
- (b) the analysis referred to changes in the average MTR fares and average KCR fares in the relevant years. They are different from the actual fare increase rates of MTR and KCR in those years; and
- (c) the analysis has not reflected the following key elements of the FAM, viz. fare adjustment rate would be derived by deducting a productivity factor from the rate of index change, there would be an initial fare reduction upon introduction of the FAM, and the FAM would apply to fares of the MTR and KCR networks as a whole.

Grateful if you would pass on our response to the Honorable Member.

Yours sincerely,


(Miss Rachel Kwan)

for Secretary for the Environment,
Transport and Works

c.c. Miriam LAU Kin-ye, GBS, JP – Chairman of Bills Committee