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Paper for the House Committee meeting on 16 November 2007

Report of Subcommittee on Rail Merger Ordinance (Commencement) Notice

Purpose

This paper reports on the deliberations of the Subcommittee on Rail Merger Ordinance (Commencement) Notice (the Subcommittee).

Background

2. The legislative amendment exercise for implementing the rail merger was completed in July 2007 after passage of the Rail Merger Ordinance (Ord. No. 11 of 2007) and approval of the necessary amendments to the relevant subsidiary legislation by the Legislative Council.

3. On 9 October 2007, the MTR Corporation Limited (MTRCL) conducted an Extraordinary General Meeting in accordance with the Listing Rules to seek the approval of its minority shareholders on the proposed rail merger. The minority shareholders of MTRCL voted in favour of the proposed rail merger.

The Rail Merger Ordinance (Commencement) Notice (L.N. 200 of 2007)

4. On 26 October 2007, the Government gazetted the Rail Merger Ordinance (Commencement) Notice (L.N. 200 of 2007) (the Commencement Notice) and appoints 2 December 2007 (the Merger Date) as the day on which the Rail Merger Ordinance will come into operation.

5. The Rail Merger Ordinance amends the Mass Transit Railway Ordinance (Cap. 556) and the Kowloon-Canton Railway Corporation Ordinance (Cap. 372) to provide for the implementation of the merger of the Mass Transit Railway (MTR) and Kowloon-Canton Railway (KCR) systems.

6. The eight items of subsidiary legislation relating to the rail merger will also come into operation on 2 December 2007 as it is provided in the respective items of subsidiary legislation that they will come into operation on the day appointed for the commencement of the Rail Merger Ordinance. These eight items of subsidiary legislation are the Mass Transit Railway (Amendment) Regulation 2007 (L.N. 110 of 2007), Kowloon-Canton Railway Corporation (Suspension) Regulation (L.N. 111 of 2007), Mass Transit Railway (Transport Interchange) (Amendment) Regulation 2007 (L.N. 112 of 2007), Kowloon-Canton Railway (Restricted Area) (No. 2) Notice 1997 (Amendment) Notice 2007 (L.N. 113 of 2007), Mass Transit Railway (Amendment) Bylaw 2007 (L.N. 156 of 2007), Mass Transit Railway (North-west Railway) Bylaw (L.N. 158 of 2007), Mass Transit Railway (Transport Interchange) (Amendment) Bylaw 2007 (L.N. 160 of 2007), and Kowloon-Canton Railway Corporation (Suspension of Bylaws) Bylaw 2007 (L.N. 162 of 2007).

The Subcommittee

7. The House Committee agreed at its meeting on 2 November 2007 to form a subcommittee to study the Commencement Notice. Chaired by Hon Miriam LAU Kin-ye, the Subcommittee held a meeting with the Administration and the two railway corporations to discuss the final preparations for implementing the rail merger and other related matters. The membership list of the Subcommittee is in **Annex A**.

Deliberations of the Subcommittee

8. The Subcommittee has examined the final preparations for implementing the rail merger, including integration of ticketing and fare systems, staff arrangement, alignment of safety management systems and publicity arrangements. In this connection, the two railway corporations have advised that staff from both railway corporations are in an advanced stage of preparation to ensure smooth transition and all necessary integration tasks will be completed before the Merger Date. Both corporations are ready to effect the merger on 2 December 2007.

Re-configuration of ticketing and fare systems

9. The Subcommittee notes that after the rail merger, passengers will enjoy immediate fare reduction as previously announced. In order to implement fare reduction on the Merger Date, it is necessary for the two railway corporations to align their different ticketing systems currently applied to MTR and KCR networks respectively, including modifying the software in over 2 300 ticket machines/gates to give effect to the reduced fares. Detailed testings have been conducted and the related tasks are expected to be completed in the latter half of November.

10. As part of the fare reduction package under the merger proposal, Octopus card users transferring between MTR and KCR systems at Nam Cheong Station, Mei Foo Station or Kowloon Tong Station would automatically enjoy the abolition of second

boarding charge ranging from \$1 to \$7 if they use the same Octopus card to travel on both rail systems. Single journey ticket users will be able to enjoy the abolition of the second boarding charge within one year from the Merger Date, when the post-merger corporation (MergeCo) has launched a new integrated single journey ticketing system and completed the necessary design and construction works to remove the entry/exit gates at the three interchange stations. The Subcommittee has examined why the upgrading works relating to the integrated ticketing system for single journey ticket users after the rail merger would take so long to complete. It has urged MTRCL to speed up the modification works so that single journey ticket users can enjoy the full benefit of the fare reduction package at the earliest opportunity.

11. MTRCL explains that at present, the single journey ticketing systems of the two railway corporations are not compatible with each other. In order to effect the abolition of the second boarding charge, MergeCo needs time to design and conduct detailed testings of a brand new single ride ticketing system before removal of entry/exit gates at the three interchange stations can be carried out. Further, there is a need to carry out station modification works to improve the interchange arrangements and passenger flow. MTRCL estimates that all the related works would take about a year to complete from the merger implementation date. MTRCL notes members' views about the need to speed up the related works and has undertaken to make every endeavour to complete the works as soon as possible.

Staff arrangement

12. The Subcommittee notes the concerns expressed by the Kowloon Canton Railway Workers Union in its written submission about the grading structure design, arrangements for contract staff, dissemination of information on staff arrangements, consultation machinery, etc. It has examined measures taken by MTRCL during the transition stage to maintain stability in the two railway corporations so as to ensure the smooth operation of railway services upon merger. Members have urged MTRCL to continue liaising with the staff side and The Coalition of Five Unions of MTRCL and Kowloon-Canton Railway Corporation (KCRC) with a view to resolving the difference between the management and staff side over the remaining staff-related matters, particularly the grading structure design and the resultant changes to salary scales, in a practical and genuine manner. There is also a need to ensure that timely and accurate information on staff arrangements be communicated effectively to their staff and unions to allay their concerns and worries.

13. MTRCL advises that since the announcement of the merger proposal, the two railway corporations have maintained close communication with their staff on subjects which are of their concern and organized over 450 briefing sessions for staff. All serving staff of MTRCL and KCRC will be employed by MergeCo at the time of the merger. All relevant staff of the two corporations will receive an appointment letter from the Management in the latter half of November indicating that the staff will be employed by MergeCo on the Merger Date on their prevailing terms. In this connection, the Subcommittee has requested MTRCL to advance the related work and to keep the trade unions informed of the staff arrangements so as to allay the concerns

of the staff side.

14. The Subcommittee notes that the process for appointing certain non-frontline senior personnel of MergeCo will be completed before the end of November. The process will be conducted on the basis of a fair and equitable selection mechanism, with participation of equal number of officers from the senior management of both corporations in the selection panel. Regarding the selection process for the remaining non-frontline posts, it will be conducted progressively in the first 6 months after the Merger Date. All frontline staff do not need to go through any selection process.

15. MTRCL further advises that due to business growth including commissioning of new railways as well as retirement and turnover, a total of 1 300 job vacancies will be available in the first 3 years after the merger, which is more than adequate to absorb the estimated 650-700 staff synergies. The Subcommittee has urged MTRCL to make every effort to re-deploy affected staff to available vacancies and maintain close liaison with individual managerial and professional staff who are not represented in the trade unions. The Subcommittee is pleased to note that having considered the views expressed by the staff side and members of the Subcommittee, MTRCL agrees to retain the title "Engineer" for staff in the existing KCRC engineer grade.

16. Regarding the alternative arrangement to allow non-frontline staff to opt for Voluntary Separation Scheme (VSS) after the selection process, the Subcommittee notes MTRCL's view that this would have the effect of encouraging staff to defer submitting application for VSS until completion of the selection process and hence would defeat the purpose of VSS. As a policy consideration, this is not desirable.

17. The Subcommittee notes that staff are most concerned about matters relating to their individual salaries and their job grading. MTRCL has advised that in 2006, the two railway corporations have already committed to protecting staff's existing basic salaries and fixed and non work-related cash allowance, as well as protecting the existing salary scales of non-managerial staff. As a result of this commitment, for non-managerial staff, if the new salary scale is higher than the existing one, he/she will immediately enjoy a higher scale upon appointment to the new grade. Otherwise, he/she will retain the existing scale, which will be frozen until the new scale matches or exceeds his/her existing one. Staff will be protected by this arrangement and therefore staff should not have any concerns over the impact of the new grading structure. The Subcommittee however notes the worries expressed by the staff side that individual staff may have to face with salary freeze for a very long period, and urged MTRCL to review the matter or consider imposing a cap on the duration of the salary freeze. There is also a need to fully consult staff and keep them informed of any latest development.

Alignment of safety systems

18. Regarding the alignment of safety systems, the Subcommittee notes that the respective safety management systems of the two corporations will be aligned on the Merger Date. Staff training and drills have been conducted. All relevant tasks are

expected to be completed in the latter half of November.

Publicity arrangement

19. The Subcommittee has urged MTRCL to display adequate signs and passenger information to notify passengers of various changes, particularly fare changes due to the merger. MTRCL advises that the two corporations have started a publicity programme to introduce the new arrangements after the rail merger, such as new uniforms for MergeCo staff. They will announce the other new arrangements to be implemented on the Merger Date such as an integrated customer enquiry hotline and website about two weeks in advance.

Other related matters arising from the rail merger

20. The Subcommittee points out that a fully-integrated network could achieve efficiency and productivity gains, resulting in synergies. After the rail merger, the two railway corporations should take advantage of the best practices of each corporation so as to provide a better service to the travelling public. In this respect, members call on MergeCo to align the best practices of the two railway corporations. They also make various suggestions to the Administration and MTRCL as follows:

- (a) provision of a 50% discount on student fares for the KCR Railway similar to that of the discount rate for the MTR Railway;
- (b) provision of public toilets at MTR stations similar to that of the prevailing practices adopted by KCRC;
- (c) introduction of permanent monthly or weekly ticket schemes for railway users;
- (d) improvement to Light Rail services and extension of the fare reduction package to cover Light Rail so as to cater for the transport needs of residents in Tin Shui Wai, Tuen Mun and Yuen Long and relieve their financial burden; and
- (e) examination of how MergeCo can contribute to the development of the local economy of Tin Shui Wai by sponsoring large-scale activities organized for the purpose and/or provision of concessionary fares to attract visitors to the tourist spots there.

21. MTRCL explains that the proposed fare reduction which amounts to \$600 million for the public per annum is made possible only because of synergies to be achieved as a result of the merger. The two corporations have estimated that the synergies arising from the merger is only \$450 million per annum. In other words, the revenue foregone due to fare reduction from the first day of the merger has already exceeded the estimated amount of potential synergies. As such, MergeCo can only maintain the status quo with respect to student fare discounts by continuing to provide

a 50% discount on student fares for the MTR Railway and will not be able to offer any discount on student fares for the KCR Railway. Likewise, this also explains why there is no more room to reduce the fares of Light Rail. Regarding the introduction and retention of various promotional schemes, MergeCo would review the situation from time to time, having regard to their marketing strategy and passenger demand.

22. As regards members' concerns over the service level of Light Rail, including the congestion in train compartments and at platforms, as well as service frequency, MTRCL advises that KCRC has made arrangements to purchase 22 Light Rail vehicles. Details have been submitted to the Subcommittee on Matters Relating to Railways. On Light Rail fares, the Administration also points out that some passengers can enjoy free service for interchange with West Rail, and MTRCL has committed to extend the promotion period of the West Rail "One Month Pass" and "Discovery Pass" to end June 2009.

23. The Subcommittee is in support of the Commencement Notice.

Advice sought

24. The House Committee is invited to note the deliberations of the Subcommittee.

Council Business Division 1
Legislative Council Secretariat
15 November 2007

Subcommittee on Rail Merger Ordinance (Commencement) Notice

Membership list

Chairman Hon Miriam LAU Kin-yea, GBS, JP

Members Hon Albert HO Chun-yan
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon LEE Cheuk-yan
Hon Mrs Selina CHOW LIANG Shuk-yea, GBS, JP
Hon LAU Kong-wah, JP
Hon Andrew CHENG Kar-foo
Hon TAM Yiu-chung, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon LI Fung-ying, BBS, JP
Hon WONG Kwok-hing, MH
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon CHEUNG Hok-ming, SBS, JP
Hon Ronny TONG Ka-wah, SC
Prof Hon Patrick LAU Sau-shing, SBS, JP
Hon KWONG Chi-kin

(Total: 16 Members)

Clerk Mr Andy LAU

Legal Adviser Ms Connie FUNG

Date 8 November 2007