

**For discussion  
28 November 2008**

## **Legislative Council Panel on Transport**

### **Measures to Rationalise Utilisation of Build – Operate – Transfer Tunnels**

#### **Introduction**

This paper briefs Members on Government's work objective to improve the utilisation of the Build – Operate – Transfer (BOT) tunnels.

#### **Build – Operate – Transfer Mode**

2. Currently, there are four BOT tunnels in Hong Kong, namely, the Eastern Harbour Crossing (EHC), Western Harbour Crossing (WHC), Tate's Cairn Tunnel (TCT) and Route 3 (Tai Lam Tunnel). They were constructed at different times and their operations are governed by relevant legislation. The key information on the BOT tunnels is at Annex A.

3. The following are the two major principles of the Government in adopting the BOT mode in constructing and operating tunnels:

- (a) Under the "big market, small government" principle, the Government should encourage private participation and optimise the use of public resources, and, where feasible, adopt appropriate modes of public-private-partnership (PPP) which include the BOT mode usually adopted in the past.
- (b) As the investor of a PPP project is required to make substantial upfront capital investment, they should be given the opportunity to make a reasonable return on their investment while bearing the commercial risk.

4. The toll adjustment mechanisms of BOT tunnels were made in the past under different historical background, economic condition, interest rate and investment opportunities. Discussions with the relevant franchisees had been very complex and difficult. Hence, it might not be appropriate to comment on the decisions made in the past with hindsight. It should be noted that these mechanisms are enshrined in the relevant legislation and form part of the agreements between the Government and the franchisees concerned, which should be respected and followed and can be changed only by mutual agreement.

## **Road Harbour Crossings**

5. The Government agrees that the traffic distribution among the three road harbour crossings (RHCs) is uneven, and there is room for improvement. We have always attached importance to rationalising the traffic distribution. One of the major causes of uneven traffic distribution is the difference in the toll levels of the three RHCs. Other equally important factors include the geographical locations of the RHCs, their respective connecting road networks and the capacity of these networks.

6. It is the Government's objective to achieve reasonable traffic distribution among the three RHCs so that their utilisation and tolls would be in line with the expectation and interests of tunnel users as well as the society at large. We also hope that traffic congestion in Central and Wan Chai could be alleviated through the adjustment of traffic distribution of the three RHCs, as well as the speedy construction of Central – Wan Chai Bypass (CWB) and other connecting roads.

7. To this end, we must first clearly define “reasonable utilisation”. A major means of demand management involves adjusting and setting toll levels of RHCs to achieve reasonable traffic distribution. In the process, we must address the following questions -

- (i) whether downward adjustment of tolls of some RHCs would attract more traffic;
- (ii) whether upward adjustment of the toll of some RHCs would be acceptable to the public;
- (iii) how the capacity of connecting road networks would affect the effectiveness of demand management; and
- (iv) different needs of the public for the three RHCs, and how the geographical locations of the RHCs shape the choice of drivers.

8. Identification of the preferred option to rationalise traffic distribution must be based on detailed study and comparative analysis. The calculation of the remaining value and therefore the valuation of RHCs need to be conducted under proper assumptions of traffic flow and toll levels. To this end, we have commissioned a 12-month consultancy study for a comprehensive analysis of all relevant factors and to recommend feasible options. The scope of the study is at Annex B.

9. Different sectors of the society and Members of the Legislative Council have made many suggestions, such as buying out, franchise extension, and common ownership. Whichever the option to be adopted, the Government and relevant tunnel companies will face and need to address some basic issues, including forecasts of traffic flow and revenue in future, valuation of the assets of RHCs, the expected returns of RHCs, etc. The Government maintains an open mind on all options and has requested the Consultant to examine all feasible options so as to form a basis for any future negotiations with the franchisees of EHC and WHC. At the same time, we will, in the light of the prevailing circumstances, maintain close dialogue with the tunnel companies and continue to actively explore short-term mitigation measures, including endeavours to encourage franchisees of RHCs to offer more concessions to drivers and the transportation trades.

10. Toll reduction for EHC and WHC alone cannot alleviate the problems of congestion and uneven traffic flow. The geographical locations and connecting road networks of the RHCs also have significant impact on traffic distribution. As such, the Government has been emphasising the urgent need for speedy construction of the CWB to alleviate traffic congestion at the road networks along the north shore of Hong Kong Island and to cater for future traffic growth. The Highways Department and other relevant departments have been pressing ahead with the preparatory work for the project, with special attention on the proposed temporary reclamation which has attracted legal challenges. We will endeavour to complete the preparatory work by the end of this year to enable early construction of the Bypass as far as it is legal, reasonable and practicable to do so.

### **Route 3**

11. We have been discussing with the franchisee of Route 3 on measures to improve the utilisation of the tunnel, including franchise extension and short-term toll concession as proposed by the Panel on Transport. While extension of franchise will not incur immediate government expenditure, it will affect public revenue in future. It also means that future taxpayers will have to subsidise current and future tunnel users. The Government must handle this suggestion carefully. Given the difference between the Government and the franchisee in the projection of future traffic flow and toll revenue, it is very difficult for a consensus to be reached on the length of franchise extension. So far, no significant progress has been made in the discussion on this matter.

12. The Government has also discussed with the franchisee on a short-term trial scheme on toll concession. The latter responded that despite a shorter duration, the proposed scheme would remain complex in nature. For the franchisee to agree to implement the scheme, the Government would need to reach a consensus with the franchisee on questions of principle, such as the mode of compensation to be adopted in case of revenue loss suffered by the franchisee; and technical issues such as the projection of traffic flow and toll revenue during the trial period. Moreover, the tunnel company has expressed doubts over the way the toll level will be determined when the scheme ends. As a result, no breakthrough has been achieved in the discussion.

### **Tate's Cairn Tunnel**

13. At its meeting on 25 April 2008, the Panel deliberated on the toll increase application submitted by the Tate's Cairn Tunnel Company Limited. Members suggested that the Government negotiate with the Company on various feasible measures, including granting a franchise extension in exchange for toll reduction. After the Panel meeting, the Government had initiated discussion with the Company on franchise extension. We will update Members on progress made, if any.

### **Way Forward**

14. We will work closely with the Consultant to identify long-term measures conducive to the rationalisation of traffic flow among the three RHCs. At the same time, we will continue to discuss actively with the franchisees of the BOT tunnels with a view to reaching an agreement that will be beneficial to the public, fair to taxpayers and able to tackle the traffic problems.

**Transport and Housing Bureau  
November 2008**

**Annex A**

**Key Information on Build-Operate-Transfer Tunnels**

	<b>EHC</b>	<b>WHC</b>	<b>TCT</b>	<b>Route 3</b>
<b>Franchise term</b>	8/1986 – 8/2016	8/1993 – 8/2023	7/1988 – 7/2018	5/1995 – 5/2025
<b>Commissioning date</b>	9/1989	4/1997	6/1991	5/1998
<b>Project cost</b>	\$2.1 billion	\$7.5 billion	\$1.9 billion	\$7.2 billion
<b>Design daily capacity</b>	78,500	118,000	78,500	118,000
<b>Average daily traffic</b>	64,000	49,000	56,000	49,000

**Information on the Consultancy Study**

**Objective**

- The principal objective of the Consultancy is to identify the optimum level of traffic for the three RHCs, taking into account their geographic locations and capacity of the connecting road networks, and recommend feasible options that cover the necessary financial, organisational and legal mechanisms to achieve the optimum traffic result.
- The recommended options should have the least financial burden to public expenditure.

**Scope of Consultancy Study**

- to study all feasible options, including buying out EHC/WHC, common ownership and franchise extension;
- to carry out traffic surveys at the three RHCs, their adjacent roads and connecting road networks, and to conduct traffic forecast and analysis under different toll levels and toll adjustment mechanisms, taking into account any new transport infrastructure (such as CWB and Sha Tin to Central Link), by way of transport modelling;
- to advise on the preferred toll regime for each of the options, taking into account, among other things, the capacity of connecting road networks;
- to advise on the timing for implementation of the preferred toll regime to ensure that the financial and traffic benefits to the public are maximised while also making commercial sense to the franchisees of EHC and WHC. The preferred toll regime should comprise an adjustment mechanism specifying the magnitude and timing for toll variations that may be required to cater for the changing traffic needs;
- to evaluate the financial implications of the options by way of financial modelling, including their implications on the securitisation of the government tolled tunnels and bridge revenue;

- to value CHT, EHC and WHC as separate entities under different scenarios and circumstances;
- to advise on the preferred management and organisational structure of any new entity that may need to be set up;
- to identify the legal constraints on / obstacles to the implementation of the relevant measures; and
- to research into relevant international experiences.