

## **Legislative Council Panel on Transport**

### **Adjustment to MTR Fares in 2010**

This paper provides information on the adjustment to MTR fares in 2010 in accordance with the Fare Adjustment Mechanism (FAM).

#### **Background**

2. The MTR Corporation (MTR) was established in 1975 with a mission to construct and operate, under prudent commercial principles, a safe, reliable and efficient urban metro system to help meet Hong Kong's public transport requirements. The sole shareholder was the Hong Kong Government. When the MTR was listed on the Stock Exchange of Hong Kong through an Initial Public Offering by the Hong Kong Special Administrative Region Government in October 2000, the MTR also took on the commercial responsibility to provide a return to its 260,000 shareholders commensurate with its business nature. MTR must satisfy both objectives.

3. Today, the MTR is recognized internationally as one of the world's safest, most reliable and efficient railways. This is achieved through a responsible approach to asset management and commitment to continuous improvement. To this end, \$4 billion is required to be invested into the network each year to maintain and upgrade existing railway assets and station facilities to ensure a high-quality, sustainable railway for the people of Hong Kong.

4. MTR fares and services are competitive with other modes of transportation in Hong Kong. MTR fares are also competitive when compared internationally although most railways in the world are built by governments and their operations subsidized by governments.

#### **Fare Adjustment Mechanism**

5. Adoption of a more objective and transparent FAM was one of the five parameters set down by the Government for the Rail Merger.

6. After detailed discussions with Government, the MTR agreed to give up its autonomy to adjust fares and adopt FAM instead. This change was approved by independent shareholders of the MTR, after much consideration and deliberation.

7. FAM forms part of the merger agreement between the MTR and the Government. It is legally binding. The FAM is objective, fair and transparent. It also addresses previous concerns that the basis on which the MTR adjusted fares was not clear to the public.

8. Under FAM, MTR fares are reviewed once per calendar year with the Overall Fare Adjustment Rate calculated by a set formula that is based on the Census and Statistic Department-published year-on-year percentage changes in the Composite Consumer Price Index (“CCPI”) and Nominal Wage Index (Transport Services) for December of the preceding year as well as a pre-determined productivity factor. The productivity factor is 0% before 2013 and 0.1% with effect from 2013.

9. The FAM formula for calculating each year’s Overall Fare Adjustment Rate is set out as follows:

Overall Fare Adjustment Rate = (0.5 x year-on-year percentage change in CCPI) + (0.5 x year-on-year percentage change in Nominal Wage Index (Transport Services) – productivity factor (0% before 2013, 0.1% from 2013).

10. If the Overall Fare Adjustment Rate calculated in any calendar year is smaller than  $\pm 1.5\%$ , there will be no adjustment in fares for the relevant year. The Overall Fare Adjustment Rate will be carried forward to be incorporated into the following year’s Overall Fare Adjustment Rate.

### **Overall Fare Adjustment Rate for 2010**

11. FAM was implemented for the first time in 2009. At that time, the Overall Fare Adjustment Rate calculated was +0.7%. As it was smaller than  $\pm 1.5\%$ , no fare adjustment was made in 2009 and the +0.7% was carried over to be incorporated into the 2010 Overall Fare Adjustment Rate.

12. For calculation of the 2010 Overall Fare Adjustment Rate, the year-on-year percentage change in the Composite Consumer Price Index for December 2009 over that for December 2008 is +1.3%.

13. The year-on-year percentage change in the Nominal Wage Index (Transport Services) for December 2009 over that for December 2008 is +1.4%.

14. Using the values in 11 to 13 above, the Overall Fare Adjustment Rate of +2.05% has been calculated for 2010 and will be used to adjust MTR fares on implementation of FAM in June 2010.

15. The table below shows the calculation of the Overall Fare Adjustment Rate for MTR fares in 2010:

Overall Fare Adjustment Rate carried over from 2009	Year-on-year percentage change in CCPI for Dec 2009	Year-on-year percentage change in Nominal Wage Index (Transport Services) for Dec 2009	2010 Overall Fare Adjustment Rate
+0.7%	+ (0.5 x 1.3%)	+ (0.5 x 1.4%)	= +2.05%

16. The Overall Fare Adjustment Rate represents the weighted average figure by which all adjustments to individual fares taken together shall equal to.

17. The MTR is now in the process of calculating adjustments to individual fares. A formal announcement on the adjustment to MTR fares and actual changes to individual fares will be made after the MTR has completed the required administrative procedures, including the submission of independent experts' certificates to the Government to certify compliance with FAM.

### **Implementation of FAM**

18. The fare adjustment to be made in June 2010 will be the first upward adjustment in MTR fares since 1997, or the first increase in 13 years.

19. It should be noted that at the time of the Rail Merger on 2 December 2007, the MTR introduced fare reductions amounting to \$600 million a year. The +2.05% adjustment to MTR fares in 2010 is expected to bring in additional fare revenues of about \$200 million a year, which is smaller than the revenue foregone from the 2007 fare reductions.

20. The MTR Corporation is committed to providing a world-class railway service at competitive fares.

MTR Corporation  
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