

Meeting of the Legislative Council's Panel on Transport
Speaking notes for Mr Jay Walder, CEO of MTR Corporation
12 April 2012

Good morning Chairman and Members,

This is my first time to appear before this Panel – so by way of introduction perhaps I can say a few words before addressing the important topic before us today.

Most of my working life has been spent in railways. Of the many things I have learned during the course of my career, one that stands out in particular is the critical importance of a railway's relationship with the community that it serves. That relationship underpins everything that we do. We need to always communicate and engage our community; we need to listen carefully to their views and we need to find the most appropriate ways to respond.

With that in mind, I thank you for offering me the opportunity to explain the fare adjustment mechanism for MTR fares as well as the promotions and concessions that we offer to our customers, which last year amounted to more than 1.7 billion dollars.

Based on Government published figures and using the agreed Fare Adjustment Mechanism formula, an Overall Fare Adjustment Rate of 5.4% has been calculated for MTR fares this year.

The F-A-M is an open, objective and transparent formula, which is based solely on Government published figures.

F-A-M aligns fare adjustments to economic conditions, specifically annualised changes in inflation, as measured by CCPI, and wage levels in the transportation sector. I appreciate that the nominal wage index figure used is only one out of the many selected industry sections measured, but it does take into account a measure of people's affordability. I would also note that at 5.1% the December 2011 transportation nominal wage index is the lowest amongst all other industry sections measured.

Having a more objective and transparent Fare Adjustment Mechanism was one of the five parameters set down by the Government for the Rail Merger in 2007. After extensive discussions, including in the Legislative Council, MTR agreed to give up its autonomy to set fares. This change was a subject of concern for MTR independent shareholders, but after much consideration and debate they voted to support the mechanism. F-A-M is an agreed contract.

But as importantly, it is a clear process, one of the most open and transparent systems in the world, which allows the MTR to have sufficient resources to ride out economic cycles, through good times and lean.

Since our announcement on March 26th, we have heard the views that have been expressed on the fare adjustment and the mechanism itself.

As you know, MTR offers a wide range of fare promotions and concessions every year. While these promotions aim to thank passengers for their support and encourage further usage of the railway, they also help to offset the cost of transport for frequent customers. Passengers have welcomed our past promotions and uptake has been positive.

I would like to assure you here today that based on the views we have heard, we will be looking even harder at the promotions we offer in 2012. We are listening to the views of our passengers and working to come up with a package of promotions that they will find attractive.

As well, there are specific programmes for members of our society with greater need such as the elderly, students and people with disabilities.

Utilising our own resources, MTR offers special fare concessions of about 50% discount to these groups. In fact, MTR is the only public transport on which Hong Kong students can enjoy such fare discounts and we are one of the very few that offers fare concessions to people with disabilities. For the elderly, our further promotion of \$2 fares on Wednesdays and Saturdays have proven to be very popular in getting our seniors out to participate in more family and community activities.

By any objective measure - in terms of safety, reliability and service quality - MTR ranks among the very best railways in the world. We should all be very proud of that. One of the key ingredients is a stable financial foundation which allows us to put more than 4 billion dollars a year into maintaining and upgrading our rail systems and assets to keep them in tip-top condition.

Having worked in railways around the world for nearly 30 years, I cannot stress how critically important this investment is. Under-investment will ultimately affect service quality, although the impact does not show up in one or two years, but rather several years down the road. But by then it may be too late to fully rectify a situation.

I recognise that most of our 4 billion dollar investment on maintenance and upgrades may not be visible to passengers as the works take place overnight so as to minimise the disturbance to our customers.

Therefore, what we've done in addition is to introduce a new 1 billion dollar Listening · Responding programme to directly respond to what we have heard our customers ask us to do more of. The initiatives which are now underway will bring more lifts, more wide gates and more platform seats to our stations, plus the installation of public toilets at all interchange stations.

The Listening · Responding programme also undertakes to accelerate the installation of automatic platform gates or A-P-G's at stations along the Ma On Shan Line and complete the project one year earlier than planned.

I know there has been a lot of comments in the community about a review of the F-A-M and I would like to say a few words about this.

I think everyone would agree that any fare adjustment should be a clear process with clear principles, including:

- It has to be open and transparent, be easily understood by the public and not influenced by any other external factor
- It has to address general affordability consistent with economic conditions.
- And it has to be able to provide sufficient resources for the MTR to ride through economic cycles, through good times and lean, so that we can continue to provide a world class railway to the Hong Kong community in a sustainable way.

But having said that, I also appreciate that any mechanism dealing with fare increases is quite complicated and there are many points to consider. And rightly so, this complexity was recognised when the current F-A-M was put into place with the agreement providing for the opportunity to review it once every 5 years. The first review is due later this year and I can assure you that MTR will work seriously with the Government in an open manner on this review.

Thank you.