

(Translation)

Meeting of LegCo Finance Committee on 5 February 2016

**Hong Kong Section of
Guangzhou-Shenzhen-Hong Kong Express Rail Link**

Opening Remarks of the Secretary for Transport and Housing

Chairman,

There is a pressing need for the additional funding application for the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“XRL”) project. We need to seriously consider by the end of February whether the XRL project should be suspended. There will be serious consequences if the XRL project is suspended. Not only will the project cost be largely increased, the commissioning date for the XRL will also be postponed.

2. We are approaching the “deadline” before XRL works have to be suspended. After carefully considering the pros and cons, the Government has decided to directly submit the additional funding application of the XRL project to the Finance Committee (“FC”) before the Public Works Subcommittee has concluded its discussion. It is an exceptional step that the Government has to take under extreme

circumstances.

3. Regarding the revised Cost to Complete (“CTC”) for the XRL project, the MTR Corporation Limited (“MTRCL”) agreed to put a “cap” at \$84.42 billion. The Government and the MTRCL signed a supplementary agreement on 30 November last year regarding the “cap”, and the agreement was approved at the General Meeting of the MTRCL on 1 February this year.

4. The XRL is a very large and complex project which involves **42** major contracts. It is the world’s first all-underground high-speed railway project. The West Kowloon Terminus is also constructed underground, which involves very complicated excavation and underground construction works. Another big challenge for the XRL project is the tunnelling works. There are different challenges at various sections of the tunnel (including the cross-boundary section), which have caused delay to the works.

5. In the past, delay and cost overrun were not uncommon in transport infrastructure projects throughout the world. Based on a research¹ (published in 2004) on 258 important transport infrastructure projects, 90% of them experienced cost overrun. Amongst those projects, the cost overrun for railways, bridges and tunnels projects was more serious than the others.

¹ Bent Flyvbjerg, Mette K. Skamris Holm and Søren L. Buhl, “What Causes Cost Overrun in Transport Infrastructure Projects?” *Transport Reviews*, vol. 24, No. 1, January 2004, pp. 3-18

6. However, this is no reason to play down the cost overrun of the XRL project. Although the Government, as the “Employer” of the XRL project, has agreed to the revised Programme to Complete and revised CTC, it does not mean that the Government is satisfied with the MTRCL's performance as project manager of the XRL project. The Government reserves all the rights to pursue the warranties and obligations from the Corporation. In order not to affect the extremely tight works schedule, the two sides have agreed to initiate legal means (including arbitration) only after the project's commissioning in 2018.

7. Chairman, there is an accusation that XRL is a “white elephant project”. The Government does not agree with this. On the contrary, the XRL project is a strategic cross-boundary transport infrastructure project. By inputting updated data in the transport model adopted in 2009, we have updated the direct economic benefits of the XRL project that come from the cost savings due to passenger time savings. The updated direct economic benefits over 50 years of operation would be about **\$90 billion**, with an Economic Internal Rate of Return (“EIRR”) of about 4%. The EIRR of the XRL project is higher than the overall EIRR (i.e. 2%) of the seven new local railway projects proposed in the Railway Development Strategy 2014.

8. The XRL project can also bring out other economic and social benefits, including the induced potentials in social development, improvement in livelihood, and increase overall competitiveness of Hong Kong. As a speedy and convenient cross-boundary transport

infrastructure, the XRL will improve the productivity of Hong Kong, promote business relationship, job creation, tourism, and help to strengthen the strategic position of Hong Kong as the southern gateway to the Mainland, so that Hong Kong can play a more active role under “One Country, Two Systems”.

9. On the additional funding application of the XRL project, apart from the more than four-hour discussion in total at the two meetings of the Subcommittee on Matters Relating to Railways (“RSC”), the Public Works Subcommittee (“PWSC”) convened six meeting spanning across 13.5 hours to discuss the item. In response to requests by some Members, we also provided two and five supplementary information papers respectively to the RSC and PWSC.

10. Over three quarters of the works of the XRL project are completed. At this critical moment, we must endeavour to see to the early completion of the XRL project, and cannot let the 75% completed works and the tens of billions of invested money wasted. If the XRL project is suspended or left “unfinished”, the consequences will be extremely serious and cannot be underestimated.

11. According to the information provided by the MTRCL, the Entrustment Cost of \$65 billion for the XRL project will be used up in July this year. However, this does not mean that we can wait until July to secure the approval for additional funding. This is because suspending or terminating the XRL works contracts will also incur additional expenditure items. The MTRCL assessed that the suspension

cost would be about **\$0.233 billion** per month. The XRL works contracts between the MTRCL and the contractors allow for a suspension period of a maximum of 180 days (about six months). If the works contracts are subsequently terminated because the additional funding is not approved within the remaining term of the Legislative Council (“LegCo”), the termination would give rise to a further cost of about **\$3.4 billion**.

12. As a responsible project manager, the MTRCL must ensure that the final total cost (including suspension and even termination costs) is kept within the amount of Entrustment Cost provided by the Government, i.e. \$65 billion.

13. If additional funding application cannot be approved within this LegCo session, the commitment made by the MTRCL on the “cap” of the Entrustment Cost will become invalid. If we apply for the additional funding from the LegCo in future, both the time and costs required to complete the project will change. It may take two to three years to complete the retendering exercise. The returned tender price may likely be much higher. The Monitoring and Verification (“M&V”) Consultant estimates that the resumption cost until completion of the project will be as high as **\$28.2 billion**. In other words, the total cost for completing the whole XRL project will amount to around **\$93.2 billion** and the time of completion will be further delayed. This will bring enormous cost to the community.

14. If the XRL project is left “unfinished”, not only will the

Entrustment Cost of \$65 billion be wasted, the Government will also need to undertake the necessary remedial works. The M&V Consultant estimates that an additional cost of no less than **\$10.6 billion** will be required, which means that total cost will be at least about **\$75.6 billion**. This amount has not included the cost for maintaining these works until there is a new plan for their use. A rough estimate of such maintenance cost is **\$0.1 billion** per year. The additional costs incurred will still require funding approval by the LegCo. In addition to the loss incurred by the project cost, the expected benefits from adjoining developments, as well as benefits which XRL can bring to Hong Kong's external connectivity, economy and the community as a whole will also be lost.

15. Chairman, during the discussion at the RSC and PWSC meetings, Members raised a lot of questions on the co-location of customs, immigration and quarantine ("CIQ") facilities ("co-location arrangement"). We have explained the issue several times and have also provided some supplementary papers.

16. The stance and aim of the Government has been very clear all along, that is (i) to implement the co-location of CIQ facilities when the XRL is commissioned, so as to bring maximum convenience to passengers and more economic and social benefits to Hong Kong; (ii) the Government has been in continuous discussing with the relevant Mainland authorities to ensure that a co-location arrangement can be formulated that does not contravene the stipulations of the Basic Law and the principle of "One Country, Two Systems". We will not, as some

Members are concerned, sacrifice “One Country, Two Systems” for economic benefits; and (iii) when the arrangement for implementing co-location of CIQ facilities is ready, the Government will definitely present it clearly and fully to the public. We will obtain the agreement of the LegCo before the arrangement is implemented. The Government fully understands the concerns of the public on the co-location arrangement and will not take the matter lightly.

17. The most pressing issue right now is to process the request for additional funding for the completion and early commissioning of the XRL. Approving the additional funding does not mean the approval of the co-location arrangement at this moment.

18. Chairman, the Government and the MTRCL will endeavour to respond to questions raised by the Members on the expenditure and works progress of the XRL project. We have also discussed with the Deputy Chairman of the FC to add more meeting sessions for Members’ discussion. Depending on the issues raised by the Members at the first meeting today, we may provide further supplementary paper.