

## **LEGISLATIVE COUNCIL PANEL ON TRANSPORT**

### **Progress of the discussions on possible rail merger**

#### **INTRODUCTION**

This paper reports on the progress of the discussions on the possible rail merger.

#### **BACKGROUND**

2. To ensure that the public can benefit from the merger exercise, the Government has set five key parameters for the merger discussions between the two railway corporations. They are –

- (a) adoption of a more objective and transparent fare adjustment mechanism;
- (b) abolition of the second boarding charge and review of the fare structure with the objective of reducing fares;
- (c) early resolution of interchange arrangements for new rail projects under planning, notably the Shatin to Central Link (SCL);
- (d) ensuring job security for frontline staff at the time of the merger; and
- (e) provision of seamless interchange arrangements in the long run.

3. In September 2004, Kowloon-Canton Railway Corporation (KCRC) and Mass Transit Railway Corporation Limited (MTRCL) submitted a joint report on the outcome of their discussions on the feasibility of a rail merger within the framework set by the Government.

#### **PRESENT PROGRESS**

4. The Government has studied the joint report carefully and has been conducting further discussions with the two corporations on the content of the report. The Government and MTRCL are also negotiating on the terms for the possible merger. These discussions include inter alia how to address the five key parameters.

### Fare Adjustment Mechanism

5. At present, both MTRCL and KCRC enjoy fare autonomy. The two corporations set their fares in accordance with prudent commercial principles having regard to, inter alia, prevailing market conditions and competition from other transport modes. The fare adjustment mechanism currently under discussion in the merger context would allow for reduction as well as increase in fares according to changes in economic conditions.

### Railway fares

6. The present railway networks of KCRC and MTRCL are operated independently as separate entities. The two corporations indicated that a combined network would be able to achieve economies of scale. We believe that the potential to achieve synergies would provide room for reducing fares. Details are under discussion.

### Interchange arrangement of SCL

7. In response to Government's request for better interchange arrangement for the SCL, the two corporations have assessed in detail how the SCL could be delivered under a merged scenario. Discussions are focused on enhancing convenience to passengers and better meet transport demand for the project. Besides, the two corporations also indicated that the interchanging environment of the two existing railway networks could be improved through a more integrated railway network after merger.

### Staff matters

8. The two corporations and the Government have continued to meet after submission of the joint report to discuss various human resource matters relating to the merger. The two corporations have opened up channels to listen to the views of their staff and from time to time have held meetings with staff representatives. The two corporations have advised that if the merger is to proceed, there would be a need for them to conduct thorough and comprehensive studies in various human resource areas in preparation for a smooth integration. They have undertaken that staff would be consulted on matters affecting them.

9. The transaction terms are currently under discussion. No decision is made at this stage on the staff arrangements for the future merged company. The two corporations have agreed that future staff arrangements would be handled fairly and equitably in the merger exercise. From the overall perspective, it is expected that if the merger proceeds, the network expansion and business growth would make available more career development opportunities to staff.

## **NEXT STEPS**

10. The terms of the merger will need to strike a balance between the interests of different stakeholders, including the travelling public, staff, taxpayers and MTRCL's minority shareholders. A final consensus has yet to be reached. As the negotiation involves commercially sensitive information relating to the operation of the two railway corporations, including MTRCL which is a listed company, it is not appropriate to disclose any details before conclusion of the merger discussions.

11. We aim to complete the merger discussions as soon as possible. We will report to the Panel the deliberation of the Government on the way forward in detail once the outcome of the merger discussions has been reached. In view of the complexity and wide implications of the possible merger, we are not able to set an implementation timetable at this stage.

12. If a decision is made to proceed with the merger, legislative amendments will be required to provide the legal framework for the operation of a combined railway network, and approval of the merger proposal by the minority shareholders of MTRCL will also be required. As a connected party, Government, being the majority shareholder of MTRCL, will not be voting on any resolution put forward in connection with the merger proposal for approval by MTRCL's minority shareholders.

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