

Extract

立法會
Legislative Council

LC Paper No. CB(1)2320/09-10
(These minutes have been seen
by the Administration)

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Panel on Transport

**Minutes of meeting held on
Friday, 23 April 2010, at 8:30 am
in Conference Room A of the Legislative Council Building**

Members present : Hon CHEUNG Hok-ming, GBS, JP (Chairman)
Hon Andrew CHENG Kar-foo (Deputy Chairman)
Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP
Hon LAU Kong-wah, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon Abraham SHEK Lai-him, SBS, JP
Hon LI Fung-ying, BBS, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Ronny TONG Ka-wah, SC
Hon KAM Nai-wai, MH
Hon WONG Sing-chi
Hon IP Wai-ming, MH
Hon Mrs Regina IP LAU Suk-ye, GBS, JP

Public officers attending : **Agenda item IV**

Miss Erica NG
Principal Assistant Secretary for Transport and
Housing (Transport) 2

Miss Cinderella LAW
Assistant Commissioner / NT

Mr Ambrose CHEONG
Chief Traffic Engineer / New Territories East
Transport Department

Agenda item V

Ms Eva CHENG, JP
Secretary for Transport & Housing

Miss Shirley YUEN
Deputy Secretary for Transport & Housing
(Transport) 2

Mrs Hedy CHU
Principal Assistant Secretary for Transport and
Housing (Transport) 4

Mr Joseph LAI
Commissioner for Transport

Mr Don HO
Assistant Commissioner for Transport /
Management & Paratransit

Agenda item VI

Ms Eva CHENG, JP
Secretary for Transport & Housing

Miss Shirley YUEN
Deputy Secretary for Transport & Housing
(Transport) 2

Mrs Hedy CHU
Principal Assistant Secretary for Transport and
Housing (Transport) 4

Mr Joseph LAI
Commissioner for Transport

Mr Albert YUEN
Assistant Commissioner for Transport / Bus and
Railway

Attendance by invitation : Agenda item VI

MTR Corporation Limited

Mr C K CHOW
Chief Executive Officer

Mrs Miranda LEUNG
General Manager - Corporate Relations

Ms Jeny YEUNG
General Manager - Marketing and Station
Commercial

Clerk in attendance : Ms Joanne MAK
Chief Council Secretary (1)2

Staff in attendance : Mr Kelvin LEE
Assistant Legal Adviser 1 (agenda item VI only)

Ms Sarah YUEN
Senior Council Secretary (1)6

Miss Angela LAM
Legislative Assistant (1)5

Action

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- VI Proposed fare increase by the MTR Corporation Limited**
- (LC Paper No. CB(1)1648/09-10(05) — Administration's paper on adjustment to MTR fares in 2010
 - LC Paper No. CB(1)1648/09-10(06) — Paper on adjustment to MTR fares in 2010 from MTR Corporation Limited
 - LC Paper No. CB(1)1649/09-10 — Extract from the report of the former Bills Committee on Rail Merger Bill
 - LC Paper No. CB(1)1662/09-10(01) — Submission from Tseung Kwan O Transport Concern Group

LC Paper No. CB(1)1714/09-10(01) — Submission from a District Council member)

51. STH and the Chief Executive Officer of MTR Corporation Limited (CEO/MTRCL) briefed members on the adjustment to MTR fares in 2010 (the 2010 fare adjustment) in accordance with the Fare Adjustment Mechanism (FAM) adopted as a result of the rail merger. Under the mechanism, fare adjustments would be made in accordance with a direct-drive formula linked to changes in the Composite Consumer Price Index (CCPI), Nominal Wage Index (Transport Services Sector) (the Wage Index) and a fixed productivity factor. The CCPI used in the FAM reflected the macroeconomic environment and public affordability. The Wage index reflected staff cost. Based on the latest data of these indices under the FAM, fares would be maintained, or adjusted upwards or downwards.

52. Mr Abraham SHEK declared interests as an independent non-executive director of MTRCL.

Views and concerns about the 2010 fare adjustment

53. Though unhappy to see increases in MTR fares, Mr Jeffrey LAM recognized the need to adjust the fares in accordance with the FAM. Mr WONG Kwok-hing, however, opined that though legitimate, the 2010 fare adjustment was unreasonable, and urged MTRCL to reconsider it in the light of the following three factors –

- (a) While the salaries of the general public had only increased 1 to 2%, the overall rate of the 2010 fare adjustment was +2.05%. Moreover, MTRCL had the flexibility to adjust individual Controlled Fares within the range of ± 5 percentage points from the overall fare adjustment rate under the FAM;
- (b) The 2010 fare adjustment would off-set the effect of the \$20-billion relief package recently announced by the Financial Secretary, which included tax rebates, rates concessions and public housing rental waivers to provide financial assistance to the community to build a caring society; and
- (c) MTRCL had assets valued over \$150 billion and was expanding business beyond Hong Kong. Under the circumstances, MTRCL had the financial means to offer more fare concessions instead of increasing fares.

54. In response, CEO/MTRCL made the following points –

- (a) The 2010 fare adjustment might not be unreasonable considering that it would be the first upward adjustment in MTR fares since 1997, or the first increase in 13 years;
- (b) When the FAM was implemented for the first time in 2009, 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. The overall fare adjustment for 2010 of +2.05% was therefore the sum of the outcome of the fare adjustment under the FAM of +1.35% in 2010 and the +0.70% carried forward from 2009; and
- (c) Even if MTRCL decided to exercise flexibility in adjusting individual fares at different rates within a range of $\pm 5\%$ from the overall fare adjustment rate, the overall fare adjustment rate would still be capped at that derived from the FAM formula, i.e. the adjustment rate of the weighted average fare of all individual fares should be equal to the overall fare adjustment rate derived from the FAM formula.

55. Mr LEE Wing-tat, however, pointed out that although the 2010 fare adjustment would be the first upward adjustment in MTR fares in 13 years, the salaries of the grassroots had similarly not increased for a long time. In some cases, their salaries were even lower than the 1997 level. As such, although the overall rate of adjustment was only +2.05%, the grassroots might not be able to afford it. Ms LI Fung-ying and Mr IP Wai-ming shared his views. Mr IP further quoted that according to the Census and Statistics Department, the average monthly wage of workers belonging to the lowest income group had decreased more than 20% from some \$4,400 in 1998 to only \$3,500 in 2008.

Admin 56. At Mr WONG Kwok-hing's request, STH agreed that MTRCL would provide information on fares with rate of increase higher than the overall fare adjustment rate within the permitted range but MTRCL would need some time to compile the information. .

57. While acknowledging MTRCL's right to increase its fares, the Deputy Chairman urged the Administration to seriously consider the following public views –

- (a) MTRCL had accumulated a net profit of over \$77 billion over the past ten years because of Government subsidy in the form of property development rights. In 2009 alone, MTRCL's net profit was some \$9.6 billion. The 2010 fare adjustment might therefore cause resentment and give rise to social discords unless

fare concessions could be offered in parallel. In the longer term, the Administration should review the FAM in recognition that it had failed to take into account public affordability and MTRCL's profits from property development, which should help moderate the rate of fare increase or even obviate fare increase when MTRCL was making huge profits; and

- (b) The Administration should consider using the large amounts of dividends it received as a MTRCL shareholder to set up a fare stabilization fund to moderate MTRCL's rate of fare increase.

58. In response, STH made the following points –

- (a) The FAM was adopted in place of MTRCL's fare autonomy to achieve greater transparency in fare adjustment. Moreover, CCPI could reflect the macroeconomic environment and hence indirectly reflect public affordability to a certain extent. Nevertheless, the FAM could be subject to review every five years upon request by either MTRCL or the Government; and
- (b) The above proposal to set up a fare stabilization fund was not in keeping with the general framework of public finance management, under which income received by the Government should be paid directly into the general revenue, and withdrawal of money from the general revenue should be subject to the approval of FC. Moreover, the FAM could already help determine whether adjustments to MTR fares should be made.

59. Highlighting the high patronage of MTR service, Ms LI Fung-ying pointed out that the 2010 fare adjustment would affect many people, and warned the Administration and MTRCL of public resentment against the introduction of the 2010 fare adjustment which, though legitimate might in their mind be insensitive to the hardship of the grassroots and represent a lack of corporate social responsibility. The Administration and MTRCL noted her concern.

60. Ms Miriam LAU agreed that adjustment of MTR fares should be made according to the FAM, which had replaced MTRCL's fare autonomy and was formulated after extensive discussion in the community and at the Legislative Council. She however opined that before proposing to increase fares, MTRCL should undertake to improve its service in response to such complaints as that highlighted in the submission from Tseung Kwan O Transport Concern Group [LC Paper No. CB(1)1662/09-10(01)], which pointed out that MTRCL had failed to ensure that the headway of trains for the Tseung Kwan O Line was the shortest at 2 minutes 30 seconds and 5 minutes at most. The Administration and MTRCL noted her view for consideration.

Call for fare concessions

61. Mr Jeffrey LAM urged MTRCL to provide more fare concessions to mitigate the impacts of the 2010 fare adjustment on grounds that the economy was only beginning to recover, and that the charges for many goods and services were increasing. Mr WONG Kwok-hing and the Deputy Chairman shared his views. In particular, the Deputy Chairman called upon MTRCL to provide the \$2 concessionary elderly fare on all days instead of only on Wednesdays, and to introduce monthly and weekly passes for residents of remote new towns.

62. CEO/MTRCL responded that MTRCL had already been providing various fare promotions from time to time after taking into account market circumstances and commercial considerations as appropriate, and that such efforts would continue. In fact, the above fare promotions amounted to an annual cost of some \$ 1.1 billion, a sum greater than those offered by any other companies in this regard. He however noted the members' views above for consideration and, in response to Mr Jeffrey LAM, further confirmed that MTRCL was the only public transport operator offering half-fare concession to full-time Hong Kong students. The Deputy Chairman, however, said that there was also no company enjoying as much subsidy from the Government in the form of property development rights.

63. Mr WONG Kwok-hing called for clearer undertakings from MTRCL to continue to offer existing fare concessions and introduce new concessions. Pointing out that the Government was the majority shareholder of MTRCL, he also enquired how the Administration planned to effectively encourage MTRCL to offer more fare concessions.

64. CEO/MTRCL responded that MTRCL was aiming to maintain as many existing fare promotions as practicable, and would seriously consider members' proposals on additional fare promotions. STH also assured members that the Administration would continue to actively encourage MTRCL to provide fare concessions. For example, fare concessions for PwDs had been introduced after long discussion with MTRCL, and more MTR fare savers had been installed to encourage people to use MTR service. At Mr WONG Kwok-hing's request, STH agreed to arrange for MTRCL to provide in due course a paper, listing out all existing fare promotions and whether they would be continued, and all additional fare promotions, if any, that would be introduced when the 2010 fare adjustment took effect.

Admin

65. Mr LEE Wing-tat pointed out that as different from Hong Kong, there was direct Government subsidy for the daily operation of public transport services in many places. Monthly passes for urban routes were also commonly available overseas, so that the fare per trip could be greatly reduced.

Pointing out that the elderly could travel free of charge on the Shenzhen subway, he urged MTRCL to follow suit and extend the \$2 concessionary elderly fare presently available on Wednesdays only to one more day of the week. He further opined that the offer of fare concessions should be written in MTRCL's Operating Agreement, so that MTRCL would be obliged to offer fare concessions instead of granting such as favors.

66. STH responded that while the Government would continue to encourage MTRCL to introduce fare concessions as far as possible, it might not be appropriate to compare the concessions with those of other places because, as different from Hong Kong, there might be substantial direct Government subsidy for the daily operation of public transport services in these places.

67. Ms LI Fung-ying was disappointed to note that neither the Administration nor MTRCL was willing to give any clear undertaking on fare concessions, not even the offer of the \$2 concessionary elderly fare on Sundays, which were family days for most elderly people. She called upon MTRCL to adopt a caring approach as highlighted in its advertising materials, and called for greater efforts from the Administration to ensure MTRCL would offer more fare concessions.

68. STH and the General Manager – Marketing and Station Commercial, MTRCL responded that MTRCL had already been providing up to a half-fare concession to the elderly every day through the elderly Octopus card. Some elderly people also preferred the offer of the \$2 elderly fare on Wednesdays instead of Sundays for the greater flexibility it could provide, considering that fare promotion for use of certain public facilities were also offered on Wednesdays, and that bus companies were already providing discounts on Sundays. In fact, up to 210 000 elderly people rode on MTR for \$2 per journey on Wednesdays as compared to the figure of some 170 000 when the fare promotion was provided on Sundays. Ms LI Fung-ying, however, said that since not as many elderly people rode on MTR on Sundays, MTRCL might as well extend the \$2 concessionary elderly fare to Sundays. Mr IP Wai-ming also pointed out that the higher usage on Wednesdays had in fact been caused by the greater inclination on the part of elderly centres and the like to organize activities on Wednesdays to benefit from the \$2 concessionary elderly fare.

69. Ms Miriam LAU opined that although MTRCL had the commercial responsibility to provide a return to its shareholders commensurate with its business nature, the responsibility should not restrain it from providing such fare concessions as monthly or weekly pass commonly available overseas. In particular, monthly pass should be introduced for residents of remote new towns. Considering the huge profits it had made, MTRCL should also provide the \$2 concessionary elderly fare during non-peak hours, and on Sundays and public holidays. It should also install more fare savers, which could in turn benefit MTRCL by encouraging more people to travel by MTR.

70. CEO/MTRCL responded that to ensure the maintenance of a safe, reliable and efficient urban metro system, Hong Kong had chosen to operate rail service under prudent commercial principles. As a result, MTRCL had to carefully take into account market circumstances and commercial considerations as appropriate when considering whether to provide fare promotions. If a win-win situation in this regard could not be achieved, MTRCL could only provide concessions to the disadvantaged as far as practicable. As such, MTRCL should not be relied upon to take up the sole responsibility of responding to the needs of the disadvantaged.

71. Mr IP Wai-ming maintained that even from a commercial perspective, MTRCL could still provide more fare concessions. This was because firstly, MTRCL's offer of fare concessions amounting to an annual cost of some \$ 110 million was in fact insignificant when compared with the huge profits it had made as a result of Government subsidy in the form of property development rights. Secondly, the Government was the major shareholder of MTRCL. Thirdly, under the policy of positioning railways as the backbone of the public transport network, the Administration had always turned down requests to open new bus routes, so that MTRCL was in effect enjoying a certain degree of monopoly. As such, he strongly requested MTRCL to provide more fare concessions, particularly to the elderly and persons with disabilities. If not, consideration should be given to allowing bus companies to compete with MTRCL.

72. STH responded that there was already a clear community consensus on the use of rail as the backbone of Hong Kong's transport system in recognition of its efficiency and the need to protect the environment, and also in recognition of the need for mass transportation in Hong Kong, whose small size meant that road resources were limited. Moreover, MTRCL had already offered various fare concessions in response to members' views. For example, fare concessions for PwDs. She believed MTRCL would continue to seriously examine and actively consider members' calls for fare concessions.

Admin 73. Mr WONG Kwok-hing reiterated his request for information in paragraph 64 above, and further requested the Administration to take the following actions –

- (a) To advise before the next meeting in May whether fare concessions, such as the "Ride-10-Get-One-Free" fare concession, monthly travel passes that were valid among various railway lines, elderly fare promotions, etc would be continued/provided when the 2010 fare adjustment took effect, so as to enable members to ascertain how effective the Administration had been in encouraging MTRCL to provide fare concessions;

- (b) To exercise care to ensure that notwithstanding the 2010 fare adjustment, increases in the fares of railway lines serving remote new towns such as Tung Chung and Tin Shui Wai would be minimized; and
- (c) To respond to the complaint that the fare for going from Tai Wai to Mong Kok was \$7, which was 42% higher than the \$4.9 from Tai Wai to Mong Kok East.

74. STH agreed to provide the information requested as soon as practicable. CEO/MTRCL said that MTRCL would co-operate with the Government in providing the information.

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Council Business Division 1
Legislative Council Secretariat
24 June 2010