

立法會
Legislative Council

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by the Administration)

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Panel on Transport

**Minutes of meeting held on
Friday, 15 April 2011, at 8:30 am
in Conference Room A of the Legislative Council Building**

Members present : Hon Andrew CHENG Kar-foo (Chairman)
Hon CHEUNG Hok-ming, GBS, JP (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, SBS, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon WONG Kwok-hing, MH
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
Hon LEUNG Kwok-hung
Hon Tanya CHAN

Members attending : Dr Hon Priscilla LEUNG Mei-fun
Dr Hon PAN Pey-chyou

Members absent : Hon CHAN Hak-kan
Hon Albert CHAN Wai-yip

Public officers attending : **Agenda item III**

Mrs Apollonia LIU LEE Ho-kei
Principal Assistant Secretary (Transport) 5
Transport and Housing Bureau

Mr WAN Man-leung
Deputy Project Manager / Major Works (1)
Highways Department

Mr TAO Kei-hung
Chief Engineer 2/ Major Works
Highways Department

Agenda item IV

Ms Eva CHENG
Secretary for Transport and Housing

Ms Pun Ting-ting, Rebecca
Deputy Secretary for Transport and Housing
(Transport) 2

Mrs CHU POON Kit-man , Hedy
Principal Assistant Secretary for Transport and Housing
(Transport) 4

Ms Carolina YIP
Deputy Commissioner / Transport Services &
Management
Transport Department

Miss LUI Ying
Assistant Commissioner/Bus & Railway
Transport Department

Attendance by invitation : **Agenda item IV**

MTR Corporation Limited

Mr Leonard B TURK
Acting Chief Executive Officer

Ms Jeny YEUNG
General Manager - Marketing and Station Commercial

Ms May WONG
Deputy General Manager – Corporate Relations

Mr Eddie SO
Senior Manager – Fare and Business Planning

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

Staff in attendance : Ms Sarah YUEN
Senior Council Secretary (1)2

Ms Emily LIU
Legislative Assistant (1)2

Action

I Information papers issued since last meeting

(LC Paper No. CB(1)1740/10-11(01) - Administration's response to the submission on the efforts made by the Government to minimize traffic accidents from a member of the public, which was issued to members vide LC Paper No. CB(1)1586/10-11(02) dated 15 March 2011

LC Paper No. CB(1)1740/10-11(02) - Administration's response to the submission from "Action group against the stop operating of Central Pier's Bus Terminus", which was issued to members vide LC Paper No. CB(1)1294/10-11(01) dated 18 February 2011)

LC Paper No. CB(1)1895/10-11(01) - Submission from a member of the public on the licence period of outlying island ferry services)

Members noted the above papers issued since the last meeting.

II. Items for discussion at the next meeting scheduled for 27 May 2011

(LC Paper No. CB(1)1836/10-11(01) - List of outstanding items for discussion

LC Paper No. CB(1)1836/10-11(02) - List of follow-up actions)

2. Members agreed to discuss the following items at the next regular meeting on 27 May 2011 at 8:30 am –

(a) Retrofitting of barrier-free access at public footbridges and subways; and

(b) Installation of radio rebroadcasting system for digital audio broadcasting at 11 Government road tunnels.

(Post-meeting note: The Panel's May regular meeting was subsequently rescheduled to 2 June 2011. In response to a referral from the Complaints Division, the Chairman also agreed to add a new item on "Fare increases for outlying island ferry services" to the agenda.)

3. The Chairman urged the Administration to ensure that the item on "Elderly-friendly bus design" on the Panel's list of outstanding items for discussion would be ready for discussion in June 2011 if possible.

III Pedestrian Environment Improvement Scheme in Yuen Long Town

(LC Paper No. CB(1)1836/10-11(03) - Administration's paper on Pedestrian Environment Improvement Scheme in Yuen Long Town

LC Paper No. CB(1)2016/10-11(01) - Powerpoint presentation materials provided by the Administration)

4. With the aid of power-point, the Principal Assistant Secretary for Transport and Housing (Transport) 5 (PAS(T)5) and the Chief Engineer 2/Major Works, Highways Department (HyD) briefed members on the progress of the Pedestrian Environment Improvement Scheme in Yuen Long Town (the Scheme) being taken forward by HyD.

Comments on the proposals under the Scheme

5. The Deputy Chairman indicated support for the Scheme, in particular the proposal to provide an efficient north-south pedestrian route in Yuen Long to facilitate access to Light Rail stations and overcome existing difficulties in crossing the road. However, pointing out that the pavements on either side of the Castle Peak Road (Yuen Long Section) (CPR(YLS)) were narrow, he questioned whether they had the capacity to accommodate the increase in pedestrian flow that would result from improvements to pedestrian crossing facilities.

6. The Deputy Project Manager/Major Works (1), HyD (DPM/MW(1)) responded that limited footway widths were a problem the Scheme aimed to address. However, since the problem could not be effectively resolved before the old buildings that blocked the way could be demolished, at present the Administration could only tackle it by conducting works at specific problem locations. For example, by improving the design at the junction between CPR(YLS)/Tai Tong Road through removing the existing traffic island at Kuk Ting Street and widening related footpaths and pedestrian crossings.

7. The Deputy Chairman opined that the connections to be provided at locations C1 and C2 of the Scheme could to a certain extent relieve congestion at locations A1 to A5. People from Kau Yuk Road also required better road crossing facilities to cross CPR(YLS) to ride on West Rail. He therefore considered it undesirable that the Administration would start to explore the feasibility of the works at location C1 only in mid-2011, and enquired when the relevant feasibility study report would be available for discussion by the Yuen Long District Council (YLDC) and the Legislative Council (LegCo).

8. DPM/MW(1) responded that the Administration was aware of strong local demand for the above connection. A study had therefore been planned to carefully examine how the limitations imposed by the Yuen Long Nullah on the design of the footbridge concerned could be overcome to provide a pleasant passageway for pedestrian movements without creating unacceptable visual impacts. If the relevant design scheme was found to be feasible, the Administration would proceed to look into the implementation programme. During the course of the feasibility study, the Administration would also consult the public and YLDC at appropriate junctures to take on board their views when developing the design options.

9. Pointing out that the Scheme could bring improvements to not only the pedestrian environment but also road safety, Ms LI Fung-ying considered it undesirable that even with public support, the relatively straightforward

improvement measures that would be taken forward as minor works would still take two to three years to complete. In response to her on whether resource was a problem, DPM/MW(1) explained that these minor works were already being taken forward and some could even be completed within 2011, for example, improvement of Kau Yuk Road/Tai Tong Road/Mau Tan Street, and widening of the footpath on both sides of Kik Yeung Road near CPR(YLS). Only those works which would involve liaison with other parties would take two to three years. These would include, for example, works that would involve alterations to Light Rail facilities and premises such as station platforms and hence would require agreement with MTR Corporation Limited (MTRCL) on how they should proceed; and traffic calming measures and loading/unloading zones to be adopted/designated to improve traffic management on Yau Sun Street, which would affect local communities and hence had to be worked out with them.

Proposals on improvements to the Scheme

10. Mr WONG Kwok-hing expressed appreciation for the conduct of detailed studies on the two footbridges to be provided under the Scheme to relieve the congestion problem in the town centre of Yuen Long. He, however, opined that the studies should also seek to –

- (a) Study the feasibility of constructing a pedestrian subway under CPR(YLS)) to link it with the Yuen Long LRT Terminus; and
- (b) Give priority to examining the feasibility of constructing a major footbridge along Yuen Long Nullah connecting West Rail Long Ping Station in the north to Ma Tin Road in the south to serve as a strategic north-south pedestrian route to facilitate interchange among rail, bus and public light bus services.

11. DPM/MW(1) responded that the Administration had already explored the suggestion in paragraph 10(a) above but decided not to pursue it at the moment in recognition that, given the busy traffic and the presence of a great number of underground utilities in the area concerned, conducting excavation works would be highly disruptive. As to the suggestion in paragraph 10(b) above, the Administration recognized the need to provide a north-south pedestrian route, and had already been making efforts to expedite consideration of the feasibility.

12. Mr WONG Kwok-hing emphasized that the Administration should seriously explore the feasibility of his suggestion in paragraph 10(a) above instead of rejecting it straightaway. In his view, the problem of underground utilities could be overcome by constructing the pedestrian subway deeper as in Tsim Sha Tsui. DPM/MW(1) responded that the pedestrian subway would

take up considerable space as connectivity with adjacent areas had to be provided. Street entrances/exits of the subway would also take up road space. At Mr WONG's request to re-consider his proposal, DPM/MW(1) agreed to explore whether construction of the pedestrian subway at certain locations of the area concerned might be feasible.

13. Ms Miriam LAU opined that only works at locations C1 and C2 of the Scheme might significantly help improve the pedestrian environment in Yuen Long. In her view, as demonstrated by the success experience of Mong Kok and Causeway Bay, designation of pedestrian precincts was a necessary measure to improve the pedestrian environment in areas where both pedestrian and vehicular flows were heavy. Consideration should also be given to restricting use of CPR(YLS) to Light Rail trains and buses only.

14. DPM/MW(1) responded that consideration had already been given to designation of pedestrian precincts in Yuen Long. However, being different from the road networks in other areas which were mainly planned as a grid system, there were many T junctures, which were similar to cul-de-sacs, in Yuen Long, such that north-south traffic in the town had to rely on Tai Tong Road, Tai Yuk Road and Fung Cheung Road. As such, if any of the above roads was closed to vehicular traffic to implement pedestrian schemes, there would be great difficulty in providing the necessary alternative routes. It might therefore be more appropriate to study the designation of pedestrian precincts in Yuen Long at a later stage, after certain improvement measures under the Scheme were implemented.

15. Ms Miriam LAU urged the Administration to take the opportunity of the Scheme to also improve the driving environment of Yuen Long by reviewing and improving the design and signage of its inner roads, which she considered highly confusing. The Chairman shared her views. DPM/MW(1) agreed to follow up accordingly.

16. Mr WONG Kwok-hing proposed that, in consideration of the problem of underground utilities which might make the construction of pedestrian subways infeasible, the Administration should explore whether a footbridge system similar to that in Mong Kok could be constructed for Yuen Long, such as by constructing footbridges along the Light Rail track and a footbridge along Yuen Long Nullah to connect West Rail Long Ping Station with CPR(YLS). In his view, his proposal could effectively relieve pedestrian congestion at the ground level. DPM/MW(1) responded that in anticipation that the public might expect the proposed footbridge system to be linked up with shopping malls and air-conditioned, the feasibility of Mr WONG's proposal would need to be examined with care.

IV Adjustment to MTR fares and request for review of the MTR Corporation Limited's Fare Adjustment Mechanism

(LC Paper No. 1836 /10-11(04)	CB(1) - Administration's paper on adjustment to MTR fares in 2011
LC Paper No. 1836 /10-11(05)	CB(1) - Paper on adjustment to MTR fares in 2011 provided by MTR Corporation Limited
LC Paper No. CB(1)1841 /10-11	- Paper on adjustment to MTR fares and request for review of the MTR Corporation Limited's Fare Adjustment Mechanism prepared by the Legislative Council Secretariat (Background brief)
LC Paper No. 2016 /10-11(02)	CB(1) - Submission from Neighbourhood and Worker's Service Centre, Community Development Alliance and Hong Kong Catholic Commission for Labour Affairs
LC Paper No. 2016 /10-11(03)	CB(1) - Submission from Public Services Monitoring Group)

17. The Secretary for Transport and Housing (STH), the Acting Chief Executive Officer of MTRCL (Atg CEO/MTRCL) and the General Manager – Marketing and Station Commercial, MTRCL (GM-M&SC) briefed members on the papers for the item respectively provided by the Administration and MTRCL. In gist, on 24 March 2011, following the publication by the Census and Statistics Department (C&SD) of the change in the Nominal Wage Index (Transportation Section) for December 2010 over the same month in the previous year, MTRCL had announced that MTR fares would be adjusted by an overall +2.3% upon implementation of MTRCL's Fare Adjustment Mechanism (the FAM) in June 2011 (the 2011 fare adjustment). Under the FAM, 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 (Transportation Section) and a fixed productivity factor.

Views and concerns about the 2011 fare adjustment

18. Panel members generally considered the 2011 fare adjustment undesirable and unreasonable although it had been worked out according to

the FAM. In particular, Mr WONG Sing-chi stated that the Members belonging to the Democratic Party opposed the adjustment. The Deputy Chairman stated that Members belonging to the Democratic Alliance for the Betterment and Progress of Hong Kong were opposed to the adjustment and requested that the proposal be shelved. While considering the 2011 fare adjustment undesirable, Mr Jeffrey LAM, Ms Miriam LAU and Ir Dr Raymond HO acknowledged MTRCL's right to adjust its fares according to the FAM as the mechanism had been agreed during the rail merger exercise and regarded to be a transparent, predictable and objective mechanism to replace the fare autonomy of MTRCL. Individual members gave the following reasons for considering the 2011 fare adjustment undesirable –

- (a) In the opinion of Mr WONG Sing-chi, the Deputy Chairman and Ms LI Fung-ying, MTR service was unsatisfactory. For example, the number of railway incidents was increasing, MTR trains were seriously over-crowded, and the progress in retrofitting platform screen doors (PSDs) was slow. In particular, Ir Dr Raymond HO considered the progress of retrofitting PSDs unacceptably slow ;
- (b) According to Mr WONG Sing-chi, Mr WONG Kwok-hing, Mr IP Wai-ming, the Deputy Chairman, Ms LI Fung-ying, Miss Tanya CHAN, Ir Dr Raymond HO, Mr LEUNG Kwok-hung and Dr PAN Pey-chyou, because of its monopoly MTRCL was making huge profits amounting up to \$12 billion in 2010, while the general public were overloaded by increasing travelling expenses and high inflation. Under the above circumstances, it would be against its corporate social responsibility (CSR) for MTRCL to increase fares. Moreover, as Mr WONG Sing-chi pointed out, MTRCL was also making substantial profits from its property development, property management and Octopus Card businesses;
- (c) Ir Dr Raymond HO and Mr LEUNG Kwok-hung pointed out that MTRCL should not only look at the interests of its shareholders but not public interests. As Mr LEUNG and Dr PAN Pey-chyou pointed out, MTRCL was receiving Government subsidy in the form of property development rights, which were in fact public resources;
- (d) In the view of Mr WONG Sing-chi and Mr IP Wai-ming, the travelling public had no choice but to use MTR service because the Government was not making sufficient efforts to relieve the traffic congestion problem, and the transport policy was tilted in favour of rail transport; and

- (e) The Deputy Chairman and Ms LI Fung-ying considered it undesirable that public affordability and acceptability had not been taken into consideration when deciding on the 2011 fare adjustment.

19. In response, Atg CEO/MTRCL and GM-M&SC made the following points –

- (a) MTRCL was in fact performing very well where safety and punctuality were concerned. MTRCL was a member of an international urban railways benchmarking group called COMET. According to the findings of the relevant benchmarking study, MTRCL had consistently been one of the best performing rail companies. It should also be noted that MTRCL was running a highly complex system for 19 hours every day with a daily average of 7 000 train journeys. Occasional service disruptions were therefore inevitable. Notwithstanding, MTRCL had already been making efforts to minimize service disruptions and to ensure that service disrupted could resume very soon;
- (b) Before the merger of MTRCL and Kowloon-Canton Railway Corporation (KCRC), both MTRCL and KCRC had fare autonomy. It was in the context of the rail merger exercise that MTRCL agreed that in response to public demand, the post-merger corporation should adopt the FAM for determining future fare adjustments in place of fare autonomy to achieve greater transparency and predictability in fare adjustment;
- (c) Part of the \$12-billion profit made by MTRCL in 2010 had been effected by property revaluation. The genuine profit was some \$8 billion. Moreover, in total some \$180 billion had been invested into the network over the years to ensure a high-quality, sustainable railway for the people of Hong Kong. MTRCL's rate of return was therefore only over 6%, which was low when compared with other public transport operators;
- (d) MTRCL recognized the need to balance the interests of its shareholders and those of passengers. In fact, while MTRCL had all along been able to bring good returns to its shareholders, there were also proven track records that MTRCL was an effective service provider for its passengers; and
- (e) MTRCL offered a wide range of fare concessions and promotions amounting to more than \$1.6 billion in 2010,

benefitting some 1.2 million passenger trips each day. In fact, MTRCL was the only public transport company to offer concessions of about 50 percent discount to students, and one of the very few operators to offer similar concessions to persons with disabilities.

20. Mr Abraham SHEK declared that he was an independent non-executive director of MTRCL. He then echoed MTRCL's points above, adding that MTRCL was also investing heavily in maintenance to keep up its service quality, so as to continue to contribute to Hong Kong's success. He further pointed out that the increase in railway incidents should be viewed from the perspective that the number of train journeys operated by MTRCL had significantly increased after the merger. Nevertheless, he welcomed members' views on how to improve MTRCL's service, and would relay such views to the MTRCL Board for follow-up.

21. Responding to members' points in paragraph 18 above, STH pointed out that CCPI and the Nominal Wage Index (Transportation Section) in the FAM formula could in fact reflect the macro-economic conditions and MTRCL's operating costs. As to the progress of retrofitting PSD, plan was in hand for the retrofitting work, including the enhancement of the signalling system, which was required for the said work for the East Rail Line.

22. Noting the above response, Ms Miriam LAU pointed out that with the substantial resources which MTRCL possessed, MTRCL should be able to expedite the retrofitting progress if willing. She also stressed the need for MTRCL to increase the capacity of the rail network in keeping with the increase in patronage to relieve the overcrowded condition of MTR trains highlighted by members in paragraph 18(a) above. GM-M&SC responded that MTRCL had in fact been making various efforts to improve its service. For example, \$4 billion was invested into the network each year to maintain and upgrade existing railway assets and station facilities, and ten additional trains had been purchased for progressive commissioning to increase the carrying capacity of MTR service. New railway lines would also be planned as necessary to accommodate passenger increase. Meanwhile, the number of platform assistants had been increased to help passengers board MTR trains.

23. Ms Miriam LAU pointed out that despite the investment of \$4 billion 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, the number of railway incidents had still increased. She urged MTRCL to make more investment to bring about improvements.

Review of the FAM

The timing

24. Mr WONG Sing-chi, Mr WONG Kwok-hing and Ms LI Fung-ying considered it necessary to review the FAM because there were problems with it. In particular, Mr WONG Kwok-hing pointed out that it was unreasonable to set the productivity factor in the FAM formula at zero for the first five years starting from the rail merger and at a value of 0.1% starting from the 6th year. He also considered it unreasonable to link the formula to changes in the Nominal Wage Index (Transportation Section) instead of the overall Nominal Wage Index. In his view, the FAM could hardly reflect the real situation if regard was not given to the fact that due to inflation, there might not be any real wage increase. Mr WONG Kwok-hing and Ms LI therefore urged the Administration to review the FAM as soon as practicable instead of in 2012 as planned, considering that as different from the deflationary period during which the rail merger took place, there was at present inflation, so that according to the FAM MTR fares might be repeatedly increased.

25. In response, STH highlighted the need to follow the arrangement for review of the FAM every five years as agreed during the rail merger, and pointed out that the problems highlighted above might best be examined after the FAM had been implemented for some time with experience accumulated. She further explained that the CCPI and the Nominal Wage Index (Transportation Section) used in the FAM formula could reflect the macro-economic environment and public affordability to some extent, as well as MTRCL's operating cost respectively. As such, the changes in the economy and wage would always precede the activation of any fare adjustment. As to the productivity factor adopted in the FAM formula, it had been set at zero for the first five years because MTRCL implemented fare reduction immediately upon merger, which amounted to an annual saving of \$600 million for the public, before any synergy could be realized for the merger. The decision that the productivity factor would have a value of 0.1% starting from the 6th year had also been made after detailed and thorough discussion at the time.

26. Notwithstanding the Administration's explanation above, Mr WONG Kwok-hing still considered it necessary for the Administration to seriously consider advancing the review to late 2011 or early 2012 on grounds that the current legislative term would come to an end in mid 2012, and that when C&SD released new economic and wage statistics in March 2012, MTRCL might seek to increase its fares again. In response, STH emphasized that the FAM review cycle formed part of the merger agreement between MTRCL and the Government. She however assured members that the Administration was fully aware of members' view on the need to review the FAM as soon as

practicable.

27. Though aware of the need to observe the five-year FAM review cycle, Miss Tanya CHAN opined that public hearings should in the meantime be organized to receive public views on how to improve the FAM. STH responded that there would be a due consultation process.

How the FAM could be improved

28. While recognizing that the FAM had the benefit of mandating MTRCL to reduce fares under specified circumstances, such as when there was deflation, the Chairman considered it necessary to review and improve the FAM by ensuring that it could take into account the substantial profits which MTRCL could make from its property development rights, which were in fact a form of Government subsidy not enjoyed by any other public transport operator.

29. STH responded that when the FAM was reviewed, members could put forward any improvement suggestion for examination in an open and rational manner, so that new factors which might better reflect public affordability or the economy could be considered for including into the FAM formula. She further pointed out that in the early days of rail development, the rail-and-property model was the only model applied for railway development. However, the mode of delivery and financing arrangements for new railway projects had changed after the rail merger and, in recent years the "ownership approach" (under which MTRCL would fund, construct and operate the new railway) or the "concession approach" (under which Government would fund the construction of the new railway and MTRCL would be granted a service concession to operate the new railway based on financial terms to be determined according to a pre-agreed mechanism) could be adopted as appropriate to suit the different circumstances of new railway projects which were not natural MTR-extension projects. As such, the Chairman's proposal above might not be sustainable in the long run.

30. The Deputy Chairman opined that in reviewing the FAM, consideration should be given to introducing a Demerit Point System, under which fare increase would not be permitted if MTRCL's service was unsatisfactory. STH responded that this proposal could be further explored when the FAM was reviewed. However, even for those overseas countries which had similar arrangements, full year performance, instead of individual railway incidents, should be taken into account. She believed that MTRCL's overall performance could place it in the top rank of railway operators in terms of reliability.

31. Atg CEO/MTRCL echoed STH's point on MTRCL's performance

above, and explained that there were in fact two types of railway incidents, one relating to mechanical factors such as the capital equipment and the other involving passengers, such as passengers falling off the platform out of attempts to harm themselves or due to illness, etc. MTRCL could only effectively deal with the former because such incidents were more in its control. For example, by keeping up maintenance efforts costing up to \$4 billion a year, by making heavy investment in new lines and extensions throughout Hong Kong, and by purchasing ten additional trains to improve its service. In particular, MTRCL was making active efforts to speed up service recovery in recognition that any service disruption, however minor, would inconvenience passengers, and that minor service disruptions were inevitable given the existing mechanical framework. As to the latter type of incidents which MTRCL had little control, MTRCL had also been stepping up publicity and public education to remind passengers not to rush in or block the train doors with their belongings, etc. Mr Abraham SHEK echoed Atg CEO/MTRCL's points, and urged members to note that MTRCL had all along been able to provide satisfactory rail service to the people of Hong Kong. Mr SHEK also pointed out that the FAM should be followed in adjusting MTR fares because it had been worked out and agreed upon after extensive discussion in the community and by LegCo.

Provision of fare concessions to mitigate the impacts of fare increase

32. Mr WONG Kwok-hing and Mr IP Wai-ming asked how the Administration planned to actively encourage MTRCL to provide fare concessions to passengers as stated in its paper for this item (LC Paper No. CB(1)1836/10-11(04)). Mr WONG also enquired about the measures which the Administration would take if MTRCL did not heed its requests for fare concessions. In response, STH assured members that the Administration would spare no effort in urging MTRCL to provide appropriate fare concessions to passengers, and that as undertaken by the Chairman of the MTRCL Board, MTRCL had already been actively examining the necessary fare concessions that should be provided.

33. Ms LI Fung-ying opined that the Government should do more to mitigate the 2011 fare adjustment instead of only encouraging MTRCL to provide fare concessions. STH responded that in the Administration's view, the most positive approach was to allow time for MTRCL to collate public views on fare concessions, so as to work out fare concessions that could really meet passengers' needs. She further advised that the Administration had already been actively urging MTRCL to do better than in 2010. Mr Abraham SHEK echoed her views.

34. Noting the above response, Dr PAN Pey-chyou urged the Administration and MTRCL to really heed public views and exercise

flexibility to provide fare concessions where feasible. Mr Abraham SHEK assured members that their views on fare concessions would be relayed to the MTRCL Board for consideration.

35. Mr IP Wai-ming said that MTRCL should also announce the fare concessions that would be offered in parallel with the 2011 fare adjustment. Mr Jeffrey LAM and Ir Dr Raymond HO shared Mr IP's view. Mr LAM said that to fulfil its CSR, MTRCL should ensure that the concessions would be much better than those in 2010. STH responded that according to the operation of the FAM, the Overall Fare Adjustment Rate should be derived from C&SD's published year-on-year percentage changes in CCPI and in the Nominal Wage Index (Transportation Section) for December of the preceding year. As C&SD normally published the wage index in March every year, and time was required to work out the adjustments to individual fares with regard to the Overall Fare Adjustment Rate so derived, the formal announcement on the adjustment to MTR fares and actual changes to individual fares would be made in May. The new fare concessions to be provided to mitigate the impacts of fare adjustment would be announced at the same time as the adjustments to individual fares. Atg CEO/MTRCL confirmed her points, adding that as undertaken by the Chairman of the MTRCL Board, the concessions to be announced would equal to if not better than the concessions offered in 2010.

36. Ir Dr Raymond HO considered it unacceptable that MTRCL should take so long to work out the fare concessions to be provided. Mr LEUNG Kwok-hung added that it was futile to ask MTRCL, which had been privatized in 2000 and been allowed to take over the KCR network as a result of the rail merger, to fulfil its CSR by willingly offering concessions. As such, members should not have supported the above moves. Mr Abraham SHEK, however, emphasized that the rail merger was a step in the right direction.

37. Ms Miriam LAU enquired about the additional revenue that would be made available to MTRCL as a result of the 2011 fare adjustment. In her view, MTRCL should use these additional revenue to provide more fare concessions considering that MTRCL was already making huge profits. GM-M&SC responded that additional revenue so arising would be some \$200 million. Pointing out that the sum was small when compared to MTRCL's \$8-billion profits in 2010, Miss Tanya CHAN and the Chairman opined that to minimize public resentment, MTRCL should refrain from introducing the 2011 fare adjustment.

38. Pointing out that MTR Single Journey fares for about 100 journeys were slightly lower than Octopus fares, Mr WONG Sing-chi asked whether the situation would be rectified in the 2011 fare adjustment exercise. In

particular, he asked whether the excess fares so charged would be ploughed back to provide more fare concessions. GM-M&SC responded that MTRCL's overall fare adjustment rate would be capped at the overall fare adjustment rate derived from the FAM formula, i.e. the adjustment rate of weighted average fare of all individual fares should equal to the overall fare adjustment rate derived from the FAM formula. As such, MTRCL had not derived additional financial gain even though it had decided to exercise flexibility in adjusting individual fares at different rates within the permitted range. Moreover, the above scenario was in fact the result of MTRCL's decision not to adjust upwards the Single Journey fares concerned until later. Notwithstanding, she assured members that in deciding on the adjustment rate of individual fares this year, care would be exercised to obviate recurrence of the above scenario.

39. Panel members made the following specific proposals on fare concessions which MTRCL should provide –

- (a) Mr WONG Kwok-hing requested MTRCL to stop collecting the \$0.1 per Octopus MTR journey as contribution from passengers for the PSD retrofitting programme, so as to ensure that the fare concessions could offset the 2011 fare adjustment;
- (b) According to Mr Jeffrey LAM, the Deputy Chairman, Ms Miriam LAU and Ir Dr Raymond HO, the promotion whereby the elderly could enjoy paying a flat fare of only \$2 for each MTR journey taken on Wednesdays, Saturdays and public holidays (excluding Sundays) should be enhanced to include Sundays as well. Ms LAU further suggested that the concession should, as long proposed by the Liberal Party, be made available during all non-peak hours. Mr LAM and the Deputy Chairman also urged that provision of the elderly promotion be made a permanent arrangement;
- (c) Mr Jeffrey LAM said that the Monthly Pass promotion for the West Rail Line and the East Rail Line, due to expire on 30 June 2011, should be extended to relieve the burden of travelling expenses on the residents concerned, having regard that the fares for the train journeys concerned were relatively higher than those on other lines. In Mr LAM and Ir Dr Raymond HO's view, the Monthly Pass promotion should also be made valid among various railway lines. In this regard, Ms Miriam LAU emphasized that the promotion should at least be extended to the Tung Chung Line;

- (d) The Deputy Chairman urged MTRCL to extend all major fare promotions currently provided by MTRCL (as set out in Appendix I to the paper for this item provided by MTRCL (LC Paper No. CB(1) 1836/10-11(05)) when they expired;
- (e) Ms Miriam LAU and Ir Dr Raymond HO proposed that, as in London, New York and Japan, a greater variety of fare concessions such as weekly and daily pass promotions should be provided in recognition that the Octopus discount was insignificant;
- (f) Ir Dr Raymond HO opined that popular fare concessions introduced in the past, such as the "Ride-10-Get-One-Free" fare concession, should be reintroduced; and
- (g) Dr PAN Pey-chyou asked MTRCL to provide fare savers in Siu Sai Wan although it was not within walking distance of any MTR station, and to provide interchange discounts to the residents concerned.

40. In response, GM-M&SC emphasized that MTRCL had been listening to views from the public and members on the fare concessions that should be offered in parallel with the 2011 fare adjustment. However, to ensure the sustainability of both fare concessions and MTRCL itself, there was a need to carefully examine how MTRCL's limited resources could be effectively utilized to offer concessions that suited the needs of as many passengers as possible and could attract more people to use rail service. In fact, MTRCL had always been considering new and reviewing existing fare concessions in response to public views but, since the public had different views with some focusing on provision of fare savers and others on interchange discounts, time was required to identify concessions that could benefit most passengers. GM-M&SC, however, assured members that new fare concessions would be announced in May 2011. In the meantime, various fare concessions such as interchange discounts were available in addition to the Monthly Pass promotion.

Other proposals on how to mitigate the impacts of fare increase

41. The Deputy Chairman pointed out that Members belonging to the Democratic Alliance for the Betterment and Progress of Hong Kong saw a need to establish a public transport fare stabilization fund to alleviate the pressure of fare increase on people by meeting part or whole of the increased fare amount, so as to ensure that the actual fares charged would remain relatively stable. Miss Tanya CHAN shared his view on the need for the fund, which in her view could be set up using the dividends the Government

received as a MTRCL shareholder, or part of MTRCL's profits from property development.

42. STH responded that to ensure efficiency, public transport operators should operate public transport services according to prudent commercial principles. It would therefore go against the existing policy if Government funding was used to offset part or whole of the increased fare amount, instead of providing assistance to only those really in need through different channels. The proposal to set up the fare stabilization fund using the dividends the Government received as a MTRCL shareholder was also not in keeping with the general framework of public finance management, according to which income received for the purposes of the Government should be paid into the general revenue, and the use of public money should be subject to the approval of the Finance Committee of LegCo. Miss Tanya CHAN, however, opined that flexibility in public finance management could in fact be exercised to implement her proposal above if the Administration was willing, as demonstrated by the provision of the \$6,000 cash handout proposed under the 2011-2012 Budget.

43. Mr LEUNG Kwok-hung recalled that establishment of the fare stabilization fund had in fact been put forward by the pro-democracy camp first but then the pro-Government camp did not support it. The Chairman supplemented that the fund had been proposed by Members belonging to the Democratic Party during the merger exercise, and that the then STH had agreed to examine the proposal in conjunction with the FAM to moderate the rate of fare increase at times of inflation, during which fare increases would be significant. He urged the Administration to really consider setting up the fund with MTRCL's profits from its property development rights.

44. While agreeing with STH on the need to follow the FAM which had been agreed upon in the context of the rail merger, Mr Jeffrey LAM asked whether the 2011 fare adjustment could take effect only after each permanent resident of Hong Kong aged 18 or above was given the \$6,000 cash handout proposed under the 2011-2012 Budget, so as to make the fare adjustment more acceptable. Atg CEO/MTRCL responded that since the FAM was also binding on MTRCL, MTRCL did not have the discretion to decide when the 2011 fare adjustment should take effect but to observe the fare adjustment timetable fixed according to the FAM.

45. Dr PAN Pey-chyou opined that to ensure fairness, the substantial profits which MTRCL made from its property development rights should be used to offer fare concessions. This could be achieved by engaging independent professionals to work out the value of land resources granted to MTRCL for inclusion as Government's investment in MTRCL, and by requiring MTRCL to pay dividends to Government according to its

investment so adjusted. The additional dividends so arising would then be used to subsidize passengers through the provision of more fare concessions. The Administration noted his proposal.

Government's stance regarding the 2011 fare adjustment

46. Pointing out that Government was the majority shareholder of MTRCL, Mr WONG Kwok-hing enquired about the Government's stance regarding the 2011 fare adjustment. In response, STH highlighted the need to follow the FAM which formed part of the merger agreement between MTRCL and the Government and was legally binding.

47. Noting the response, Mr IP Wai-ming opined that, instead of mechanically following the FAM, regard should be given to the plight of the grassroots when considering whether to increase MTR fares. Mr LEUNG Kwok-hung added that as the majority shareholder, the Government could do something to restrain MTRCL from increasing its fares, such as by buying it out. In reply to him on whether MTRCL would agree to the buy-back move, Atg CEO/MTRCL pointed out that it might not be appropriate for MTRCL to comment on the policy actions which the Government should adopt towards it.

48. Summing up, the Chairman urged the Administration to seriously and positively consider members' views expressed at this meeting. He warned that if Government still refused to take the necessary actions, there would be heightened public grievances about the 2011 fare adjustment and it would give the public an impression that the Administration sided with MTRCL and did not take heed of public interest. After discussion, members agreed to schedule a special meeting to receive public views on the 2011 fare adjustment and the FAM.

(Post-meeting note: The special meeting was subsequently scheduled for 16 May 2011.)

V Any other business

49. There being no other business, the meeting ended at 10:45 am.