

立法會
Legislative Council

LC Paper No. CB(1)407/12-13
(These minutes have been seen
by the Administration)

Ref : CB1/PL/TP/1

Panel on Transport

**Minutes of special meeting held on
Tuesday, 30 October 2012, at 9:30 am
in Conference Room 1 of the Legislative Council Complex**

Members present : Hon CHAN Kam-lam, SBS, JP (Chairman)
Hon Gary FAN Kwok-wai (Deputy Chairman)
Hon James TO Kun-sun
Hon WONG Kwok-hing, MH
Hon Ronny TONG Ka-wah, SC
Hon CHAN Hak-kan, JP
Hon LEUNG Kwok-hung
Hon Albert CHAN Wai-yip
Hon Michael TIEN Puk-sun, BBS, JP
Hon NG Leung-sing, SBS, JP
Hon Frankie YICK Chi-ming
Hon WU Chi-wai, MH
Hon CHAN Han-pan
Dr Hon KWOK Ka-ki
Dr Hon Elizabeth QUAT, JP
Hon POON Siu-ping, BBS, MH
Hon TANG Ka-piu
Hon CHUNG Kwok-pan
Hon Christopher CHUNG Shu-kun, BBS, MH, JP
Hon Tony TSE Wai-chuen

Member attending : Dr Hon Fernando CHEUNG Chiu-hung

- Members absent** : Hon LEE Cheuk-yan
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Ir Dr Hon LO Wai-kwok, BBS, MH, JP
- Public Officers attending** : **Agenda item II**
- Mr YAU Shing-mu, JP
Under Secretary for Transport and Housing
- Ms Rebecca PUN Ting-ting, JP
Deputy Secretary for Transport and Housing (Transport)¹
- Mr Andy CHAN Shui-fu
Deputy Secretary for Transport and Housing (Transport)²
- Mr José YAM Ho-san
Principal Assistant Secretary for Transport and Housing (Transport)⁴
- Ms Macella LEE Shui-chun
Assistant Commissioner/Special Duties
Transport Department
- Attendance by invitation** : **Agenda item II**
- Democratic Alliance
- Mr MAK Ip-sing
Representative of the Democratic Alliance and
Yuen Long District Councillor
- Hong Kong Catholic Commission for Labour Affairs
- Miss LAW Pui-shan
Policy Research Officer

Democratic Alliance for the Betterment and
Progress of Hong Kong ("DAB")

Mr Frankie NGAN Man-yu
Deputy Spokesperson of DAB

Professional Power

Mr Winston LEE

Individual

Miss Christine FONG Kwok-shan
Sai Kung District Councillor

Tin Shui Wai Community Development
Alliance

Mr KONG Kin-shing
Social Worker

New Territories Evangelical Embassy

Mr CHOW King
Member

North District Employment Concern Group

Ms Venny KWOK
Convenor

Catholic Diocese of Hong Kong Diocesan
Pastoral Centre for Workers (NT)

Mr Augustine YU Siu-po
Program Officer

Individual

Miss YEUNG Pui-yan

Concerning CSSA & Low Income Alliance

Mr LEE Tai-ching
Community Organizer

Neighbourhood and Worker's Service Centre

Miss LEUNG Ching-shan
Representative

Kwai Chung Estate Labour Rights Concern Group

Mr LEUNG Kam-wai
Representative of the concern group

Kwai Chung Community Trade Union

Miss Vincci WONG
Representative

Concern Public Transport Alliance

Ms CHIM Miu-cheung
Spokesman

The Federation of Hong Kong and Kowloon Labour Unions

Mr TONG Yu-ching
Organizer for Transport Industry Committee

New People's Party

Mr David WONG

Individual

Mr LAU Chin-pang

Individual

Mr CHENG Cho-kwong
Sha Tin District Councillor

Individual

Mr Sammy TSUI Sang-hung
Kwai Tsing District Councillor

Individual

Mr LAM Siu-chung
Sai Kung District Councillor

Individual

Mr TANG Chi-cheong

League of Social Democrats

Mr WONG Chun-pong

Youth Committee of the Liberal Party

Mr Dominic LEE
Chairman

The Lion Rock Institute

Miss Janice FUNG Rui-xian
Research Assistant

The Hong Kong Federation of Trade Unions
Social Affairs Committee

Mr HO Kai-ming
Member

Civic Party

Miss Fanny LEUNG
District Developer of NTW

Clerk in attendance : Ms Connie SZETO
Chief Council Secretary (1)4

Staff in attendance : Ms Sophie LAU
Chief Council Secretary (1)2

Ms Macy NG
Senior Council Secretary (1)2

Mr Franco KWONG
Council Secretary (1)2

Ms Emily LIU
Legislative Assistant (1)2

Action

- I Consideration of the late application for membership by Hon Christopher CHUNG Shu-kun**
(LC Paper No. - Letter dated 16 October 2012
CB(1)66/12-13(01) from Hon Christopher CHUNG Shu-kun)

The Chairman referred to Mr Christopher CHUNG's letter dated 16 October 2012 and invited members' views on the late application for membership by Mr CHUNG. Members agreed to accept Mr CHUNG's late application for membership.

- II Review of MTR Corporation Limited's fare adjustment mechanism**
(LC Paper No. - Administration's paper on review
CB(1)66/12-13(02) of fare adjustment mechanism of
MTR Corporation Limited
LC Paper No. - Paper on adjustment to MTR
CB(1)66/12-13(03) fares and the fare adjustment
mechanism of the MTR
Corporation Limited prepared by
the Legislative Council
Secretariat (Updated background
brief)
LC Paper No. - Submission from FGG
CB(1)67/12-13(01)

LC Paper CB(1)67/12-13(02)	No. - Submission from DAB Islands Branch
LC Paper CB(1)67/12-13(03)	No. - Submission from Mr LEE Chi-wing, Sha Tin District Councillor
LC Paper CB(1)67/12-13(04)	No. - Submission from a member of the public
LC Paper CB(1)67/12-13(05)	No. - Submission from D • Dong
LC Paper CB(1)67/12-13(06)	No. - Submission from Mr YEUNG Wai-sing, Eastern District Councillor)

Meeting with deputations/individuals and the Administration

Democratic Alliance

(LC Paper No. CB(1)104/12-13(05))

2. Mr MAK Ip-sing presented the views of the Democratic Alliance as detailed in his submission. The Alliance suggested abolishing the existing fare adjustment mechanism ("the FAM") of MTR Corporation Limited ("MTRCL"), setting up a demerit system to monitor MTRCL's service performance, and revising the FAM so as to include the authority of the Legislative Council ("LegCo") in the vetting and approving processes of the MTR fare adjustment.

Hong Kong Catholic Commission for Labour Affairs

3. Miss LAW Pui-shan referred to the Administration's consultation paper on the review of MTRCL's FAM published on 17 September 2012. She commented that in the absence of detailed information in the paper, such as analysis of the loopholes of the existing FAM and the Administration's proposals, it would be difficult for the public to express their views. She considered that as the majority shareholder of MTRCL, the Government had failed to discharge its responsibility to safeguard the public interests, including steering MTRCL to scrap the fare increase and bargaining with MTRCL for the biggest concession in the fare. She also pointed out that not all MTR passengers could benefit from the various fare promotion schemes introduced by MTRCL. She hoped that the Administration and MTRCL would seriously review the current FAM and propose concrete recommendations for improving the mechanism, with a view to relieving the burden of transportation cost on the public.

DAB

4. Mr Frankie NGAN made the following suggestions for improving the FAM –

- (a) the current FAM should be kept and linked with those indexes which could better reflect the community's affordability. The fare adjustment rates computed under the formula of the FAM should not be higher than the change in Nominal Wage Index ("NWI") or monthly median household income;
- (b) a fare stabilization fund should be set up, with part of MTRCL's proceeds from property developments or dividends received by the Government as the majority shareholder, to offset the extent of fare increase; and
- (c) a demerit system should be established in the FAM, so as to take account of the number of railway incidents.

Professional Power

(LC Paper No. CB(1)79/12-13(01))

5. Mr Winston LEE presented the views of Professional Power as detailed in his submission. He said that MTRCL should freeze or decrease its fares if its profits had reached a certain level, and vice versa; and a demerit system should be set up to ensure the quality and safety of MTR service.

Miss Christine FONG Kwok-shan, Sai Kung District Councillor

(LC Paper No. CB(1)79/12-13(02))

6. Miss Christine FONG presented her views as detailed in her submission. She urged that MTRCL should introduce territory-wide monthly tickets applicable to all railway lines in the short run, and the Government should buy back MTRCL in the long run.

Tin Shui Wai Community Development Alliance

(LC Paper No. CB(1)79/12-13(04))

7. Mr KONG Kin-shing presented the views of the Alliance as detailed in his submission. He opined that the consultation paper of the Administration lacked a directional approach and the Government had failed to conduct an extensive consultation on the review of the FAM.

New Territories Evangelical Embassy

8. Mr CHOW King considered that the FAM should be scrapped and MTR fares should be decreased. He added that although elderly passengers could travel on MTR at a concessionary fare of \$2 per trip, such fare concession was useless as it did not apply to their accompanying friends/relatives. He considered that the Government had ignored the needs of the elderly.

North District Employment Concern Group

9. Ms Venny KWOK considered that the Government should exercise its authority in MTRCL and stop the fare increase. She pointed out that transport fares were adjusted upward in line with inflation but the salary of grass-root workers was not increased. In addition, not all passengers could enjoy the fare promotions introduced by MTRCL, for example, those workers who needed to work on Saturday or Sunday and were off duty on one of the weekdays could not benefit from the "Ride 10 Get 1 Free" Scheme. She further said that although several monthly passes were introduced, holders of monthly pass of a particular type would be charged the normal fare for the additional trip beyond the valid journeys specified in the respective monthly pass. As such, she urged MTRCL to introduce monthly tickets for all railway lines.

Catholic Diocese of Hong Kong Diocesan Pastoral Centre for Workers (NT)

10. Mr Augustine YU considered the consultation paper was in lack of substance. He considered that the FAM should be abolished as the mechanism only sought to squeeze the hard-earned money from the public. He suggested opening the provision of railway services to more operators with a view to making the MTR fares more competitive. In addition, the MTR fare adjustment should be vetted and approved by LegCo.

Concerning CSSA & Low Income Alliance

11. Mr LEE Tai-ching expressed dissatisfaction that despite the huge profits earned by MTRCL, it still sought to increase its fares annually. As a result, some commuters had to opt for other transport modes with lower price but longer travelling time to reduce their travelling expenses. He urged the Administration to provide subsidy to those "underprivileged-with-nothing" towards their transportation cost. He also considered it unfair that the fare adjustment for franchised buses

would require the endorsement of the Chief Executive-in-Council ("CE-in-Council") while it was not the case for MTR.

Neighbourhood and Worker's Service Centre

12. Miss LEUNG Ching-shan expressed her dissatisfaction that the Government had allowed MTRCL to increase its fares unreasonably. She urged MTRCL to offer more fare concessions to those living in remote areas. She also commented that the consultation period of the FAM review was too short and the consultation exercise was not publicized. As regards the formula adopted for the FAM, she had the following comments –

- (a) the Composite Consumer Price Index ("CCPI") could not truly reflect the affordability of the public;
- (b) the NWI (Transportation Section ("TS")) had covered all kinds of job in the transportation section so it could not truly reflect MTRCL's staff cost; and
- (c) the Productivity Factor, which was a pre-determined value set at 0% before 2013 and 0.1% from 2013, was too conservative and was not significant to the outcome of the fare adjustment rates computed under the FAM before 2013.

Kwai Chung Estate Labour Rights Concern Group

13. Mr LEUNG Kam-wai made the following points –

- (a) the Administration should conduct the second phase of the consultation with concrete proposals after consolidating views collected in the current consultation exercise;
- (b) the Administration should review the amount of subsidy provided under the Work Incentive Transport Subsidy ("WITS") Scheme as the fares of public transport had been increasing in the past few years; and
- (c) although there was an increase in the year-on-year percentage change in NWI(TS) for December 2011, the public did not enjoy any actual salary increase after discounting inflation. The 5.4% MTR fare increase in 2012 had far exceeded the affordability of the public.

Kwai Chung Community Trade Union

14. Miss Vincci WONG shared some deputations' views that the consultation period of the FAM review was too short. She considered the adoption of CCPI to reflect the macro-economic environment of Hong Kong undesirable and that the community's affordability, and the salary increase of workers could not keep pace with inflation. She considered that MTR fare adjustment should be vetted and approved by the Government and a ceiling should be imposed on the rate of fare increase.

Concern Public Transport Alliance

15. Ms CHIM Miu-cheung opined that the Administration and MTRCL had ignored the difficulties of the grass-root people as MTR fares had been increased for three consecutive years. She said that the public was not aware of the launch of the consultation exercise on the FAM review. She hoped that the Administration would consult the public with its proposals and schedule, having regard to the needs of the public.

*The Federation of Hong Kong and Kowloon Labour Unions ("FLU")
(LC Paper No. CB(1)104/12-13(03))*

16. Mr TONG Yu-ching briefed members on the views of FLU as detailed in his submission. In gist, FLU was concerned that if the service performance of MTRCL was to be assessed in the FAM, additional pressure on frontline railway staff might be created. To better reflect the affordability of the grassroots citizens, FLU suggested that the weighting of underlying CCPI should be increased. Besides, the non-fare revenue of MTRCL should be taken into account in the FAM to reflect the profits earned by MTRCL and its social responsibility.

New People's Party

17. Mr David WONG considered that the following new components should be introduced in the FAM:

- (a) non-fare revenue of MTRCL, including those generated from property developments and leasing of commercial premises;
- (b) real wage indicator, which should replace NWI(TS) in the current FAM;

- (c) service performance of MTRCL, including the frequency of service delays; and
- (d) MTRCL's social responsibility.

Mr LAU Chin-pang

(LC Paper No. CB(1)104/12-13(01))

18. Mr LAU Chin-pang briefed members on his views as detailed in his submission. He said that because of the remote location of Tung Chung, residents were suffering from high MTR fares. The impact of a flat rate of fare increase for all MTR journeys would be very significant to Tung Chung residents. He opined that the fare promotions provided by MTRCL could not effectively relieve the burden of transportation cost on Tung Chung residents; and urged MTRCL to review the "Tung Chung-Hong Kong Monthly Pass", which would only benefit a small number of residents who worked in Central of the Hong Kong Island.

Mr CHENG Cho-kwong, Sha Tin District Councillor

19. Mr CHENG Cho-kwong considered that the Administration should introduce measures to curb the fare increase by MTRCL, like what it had done to stall the escalation of property prices.

Mr Sammy TSUI Sang-hung, Kwai Tsing District Councillor

20. Mr Sammy TSUI considered that the FAM of MTRCL should be cancelled as it only facilitated MTRCL to increase its fares annually. As a result, members of the public suffered.

Mr LAM Siu-chung, Sai Kung District Councillor

21. Mr LAM Siu-chung considered that a fare stabilization fund should be set up to moderate the fare increase of MTRCL. The funding should be generated from the profits earned by MTRCL from property developments and the additional fare revenue arising from the increased patronage.

Mr TANG Chi-cheong

22. Mr TANG Chi-cheong made the following points:

- (a) apart from CCPI and NWI(TS), the FAM should also consider other factors, such as the unemployment and underemployment rate, and the salary of the low-income group;
- (b) as reflected from the railway operating cost of MTRCL, synergy could not be achieved after the rail merger of Kowloon-Canton Railway Corporation ("KCRC") and MTRCL; and
- (c) MTRCL should make reference to the SMRT Trains Limited in Singapore on the monitoring and management of telecommunication technologies for railways.

League of Social Democrats

23. Mr WONG Chun-pong opined that the current FAM had failed to take into account the community's affordability, the profit level and service performance of MTRCL. In addition, the annual fare increase of MTR would push up the CCPI, which in turn would lead to further fare increase in the subsequent year. He considered that the Administration should buy back MTRCL, which was only concerned about the interests of shareholders after it became a listed company.

Youth Committee of the Liberal Party
(LC Paper No. CB(1)104/12-13(04))

24. Mr Dominic LEE briefed members on the views of the Liberal Party as detailed in his submission. Liberal Party suggested that the Administration should implement an 'MTR profit-sharing scheme' by returning to members of the public 5% of the profit from underlying businesses attributable to shareholders, so as to offset the extent of fare increases; if any profit-sharing proceeds remained after fully offsetting the extent of fare increases, the balance should be retained under the scheme for accrual and use for lowering the rates of fare increases in the future; if the profit-sharing proceeds could not fully offset the extent of fare increases in the relevant year, fare adjustments in respect of the shortfall should then be made under the FAM.

The Lion Rock Institute
(LC Paper No. CB(1)79/12-13(03))

25. Miss Janice FUNG presented the views of the Institute as detailed in her submission. In gist, the Institute was opposed to any form of government price control, the Government's policy of using railways as the backbone of Hong Kong's transport system and the establishment of the FAM. The Institute recommended the Government to allow competition in the transportation industry.

The Hong Kong Federation of Trade Unions ("HKFTU") Social Affairs Committee
(LC Paper No. CB(1)104/12-13(02))

26. Mr HO Kai-ming presented the views of HKFTU as detailed in his submission. In brief, HKFTU made the following suggestions:

- (a) the fare adjustment of MTRCL should be vetted and approved by CE-in-Council and LegCo;
- (b) regarding the FAM formula, change in NWI(TS) should be replaced by change in MTRCL's staff salary index. Moreover, the component of CCPI in the existing FAM should be reviewed and the purchasing power of the public should also be considered in the FAM; and
- (c) MTRCL should freeze its fares and offer long-term fare concessions.

Civic Party

27. Miss Fanny LEUNG criticized that the current FAM had not considered the community's affordability and level of profits made by MTRCL. In addition, the Government was not sincere in consulting the public on the review of the FAM. She expressed that the two-month consultation period was not sufficient and the consultation paper lacked a directional approach. She requested that –

- (a) the current FAM should be abolished;
- (b) profits made by MTRCL, including those from railway operation, property developments, leasing of commercial

premises and overseas income, should be used to mitigate the fare increase; and

- (c) the fare structure of MTR should be reviewed to alleviate the transportation cost of those who lived in remote areas.

Miss YEUNG Pui-yan

28. Miss YEUNG Pui-yan considered that MTRCL had been squeezing the public money by its annual fare increase. She hoped that MTRCL would critically review the FAM. She also suggested the Government to review the amount of subsidy provided under the Work Incentive Transport Subsidy Scheme as the said amount had not been increased since its establishment.

Administration's initial response to deputations' views

29. The Chairman and members thanked the deputations for attending the meeting to express their views. At the Chairman's invitation, Under Secretary for Transport and Housing ("USTH") made a general response to the issues raised by the deputations as follows –

- (a) the consultation exercise on the review of the FAM of MTRCL was conducted in an open and transparent manner to allow the public to freely express their views;
- (b) the Administration noted and thanked the views given by deputations on the public consultation exercise, the existing FAM formula, the Government's authority to vet and approve the fare adjustment of MTRCL, and whether and how new possible components might be introduced to the FAM;
- (c) the Administration had notified MTRCL in writing that a review would be conducted on the FAM according to the Operating Agreement, which stipulated that either party might request a review on the FAM once every five years following the rail merger in December 2007. The Administration had been collecting views of members of the public, the Panel on Transport ("the Panel") and District Councils on the matter, and would study how best to improve the FAM. The Administration aimed at completing the review in early 2013, so that an improved

mechanism could be adopted for the next annual adjustment of MTR's fares; and

- (d) the public consultation started on 17 September 2012 and was originally scheduled to end on 31 October 2012. Having regard to requests made for extending the consultation period, the deadline had been extended to 18 November 2012.

Discussion

The consultation exercise

30. Mr TANG Ka-piu opined that the Government had failed to conduct an extensive consultation, including the consultation with District Councils, on the review of the FAM. He said that the public was not aware of the consultation exercise, which was conducted in a low-profile manner. He urged the Government to extend the consultation period to the end of 2012 so as to allow sufficient time for the public to express their views. Mr WONG Kwok-hing echoed with Mr TANG, saying that since the FAM affected the interests of a large number of commuters, the Administration should widely publicize the consultation exercise with a view to encouraging more people to express their views. He also considered that the consultation paper prepared by the Administration too brief, without any suggested approaches or recommendations for public's consideration. Dr KWOK Ka-ki shared similar views.

31. USTH responded that the Administration gauged the views of the community on the review of MTRCL's FAM through various channels, including attending the District Council meetings for discussion on the subject when requested. As regards the consultation period, he said that the Administration was working under a very tight timeframe and it was difficult to further extend the consultation period. He reiterated that the Government planned to complete the review and discussions with MTRCL in early 2013, with a view to applying the new FAM in the MTR fare adjustment in 2013.

32. USTH further said that the fares as well as the FAM of MTRCL had in fact been widely discussed in the community. The Panel had discussed MTRCL's fares and its FAM at three meetings from April to June 2012 in the Fourth LegCo. Therefore, the Administration had a good understanding of the views of the public and LegCo on the subject, and the consultation exercise did not start from scratch. The purpose for

the Transport and Housing Bureau to issue a consultation paper for the public consultation exercise was to further collect public opinions on the FAM of MTRCL. The Administration was aware that there was room for improvement for the FAM and considered it appropriate to initiate the FAM review. USTH supplemented that since the review would require in-depth discussion with MTRCL, sufficient time should be allowed for the discussion. He assured members that the views given by members and deputations in the meeting would be fully reflected to MTRCL.

33. Dr KWOK Ka-ki was dissatisfied that the Administration had no stance on how the FAM should be improved in the consultation paper even though it had listened to the views of members and the public for years. He asked when the Administration would come up with concrete recommendations on how the FAM should be improved for consideration by the Panel and the public.

34. USTH reiterated that the Administration was open-minded on how the FAM should be improved and so it preferred listening to the views of the public on the matter first. After consolidating the views collected during the consultation period, the Administration would draw up some recommendations for discussion with MTRCL. USTH emphasized that as MTRCL was a listed company, the negotiation between the Administration and MTRCL on the FAM might involve commercially sensitive information, which might affect the share price of MTRCL. As such, the Administration would report the progress of the discussion to members at an appropriate juncture and in an appropriate way.

35. Expressing concern that it would be too late for members to comment on the final proposal after the Administration and MTRCL had reached a consensus, Mr Ronny TONG and Dr Fernando CHEUNG considered that the Administration should discuss with members its preliminary proposals in a meeting attended by both the Administration and MTRCL's representatives as soon as possible. Mr TONG also hoped that the Administration would extend the consultation period.

36. USTH reiterated that the consultation period had already been extended to 18 November 2012. Further extension was undesirable in consideration of the tight schedule of reviewing the FAM. The Administration would devise proposals after consolidating the views received and would consult the Panel again in due course.

37. While agreeing that the consultation period should be extended, the Deputy Chairman expressed concern over how the consultation was conducted and how the Administration would take into account the views collected during the consultation exercise to devise some concrete proposals for discussion with MTRCL. He asked whether the Administration would report to the Panel its preliminary proposals or not before discussing with MTRCL.

38. USTH said that the Administration would continue to listen to the views of the public and members through different channels. However, the Administration should be careful in disclosing its preliminary proposals to the public in order to allow greater flexibility for the discussion with MTRCL. In addition, disclosing immature proposals might not be in the best interests of the public. Nevertheless, the Administration was willing to report the progress to the Panel in due course.

39. Notwithstanding the Administration's response above, Mr Frankie YICK considered it necessary for the Administration to seek the blessing from members on its preliminary options even without details before the discussion with MTRCL. He considered it unnecessary to further extend the consultation period as there had been plenty of discussions on the subject matter in the community.

The role of the Government as the majority shareholder of MTRCL on MTR fare adjustment and the FAM

40. Pointing out that the Government was the majority shareholder of MTRCL, Mr TANG Ka-piu asked whether the three government officials who were currently non-executive directors of the Board of MTRCL ("the Board") had any power to veto fare adjustment proposals at the Board meetings. He suggested that the Administration should consider appointing additional directors to sit on the Board, so as to monitor MTRCL's various considerations on and justifications for its proposal of fare adjustments, and assess whether the adjustment rates were in the public interest and acceptable to the community. He also asked about the criteria for the appointment of the Chairman of the Board.

41. USTH replied that the number of government officials who could be appointed by the Chief Executive as non-executive directors of the Board was laid down in the MTR Ordinance (Cap. 556). Currently, the Secretary for Transport and Housing, the Secretary for Financial Services and the Treasury, and the Commissioner for Transport were appointed as

non-executive directors of the Board. When appointing the Chairman of the Board, the Administration had considered all relevant factors including the need to maintain continuity of the management.

42. Mr LEUNG Kwok-hung considered that the Administration, being the majority shareholder of MTRCL, should exercise its influence on how the FAM should be improved. He also considered that the Administration should buy back the shares of MTRCL, so that the Administration would be free from any constraints on the matter of fare adjustment.

43. USTH noted the views of Mr LEUNG. He said that although the Government was the majority shareholder of MTRCL, the interest of the minority shareholders should not be overlooked. When there were substantial changes to the FAM, there might be a need to convene a shareholder meeting with attendance by minority shareholders to endorse the revised FAM. He stressed that the Government had to follow the proper procedures of reviewing the FAM.

44. Pointing out that MTRCL had benefited from the Government's policy of using railways as the backbone of Hong Kong's transport system, Mr WU Chi-wai asked about the Administration's views on how MTRCL should carry out its responsibility in the transportation system, and the Administration's monitoring role as the majority shareholder of MTRCL.

45. USTH responded that the Government's policy of according priority to railways with co-ordination of public transport services was well supported by members of the public. Since railway development projects involved substantial capital investment, they required government direct funding or other supports to be financially viable. He supplemented that the Administration had all along been requiring MTRCL to provide safe and quality railway services.

Views on how the FAM should be improved

46. Mr POON Siu-ping noted that a deputation had expressed concern on the possible inclusion of "service quality" as one of the factors to be considered in the FAM. This might impose additional pressure on frontline railway staff. He asked how the factor would be introduced into the FAM.

47. USTH responded that the Administration would study carefully how the factor on service quality would be featured in the FAM review. The Administration would be mindful that any suggestion should not unnecessarily incur additional pressure on frontline railway staff. He further said that in fact, MTRCL was providing very efficient railway service for the people of Hong Kong. With 99.9% of passengers reaching their destinations within five minutes of their scheduled arrival times achieved every year since the rail merger in 2007, the MTR system was recognised internationally as one of the world's most reliable and best performing railways. Notwithstanding, MTRCL should make sustained efforts in preventing any railway incidents.

48. Mr Frankie YICK said that the Liberal Party considered it important to ensure MTRCL's financial sustainability to facilitate its investment on railway maintenance and provision of quality railway services. In light of the difficulties in quantifying some of the new components suggested to be included in the FAM and that MTRCL was subsidized by the Government in the form of public money, Mr YICK recommended that the Administration should implement the 'MTR profit-sharing scheme' as detailed in paragraph 24. USTH noted Mr YICK's suggestion and agreed to study its feasibility.

49. Mr CHAN Hak-kan was disappointed that except the only time when MTRCL had reduced its fares immediately after the rail merger, it increased its fares according to the FAM every year since 2010. While agreeing that there should be a mechanism to govern the fare adjustment, he considered the current FAM too rigid. He suggested that the FAM should take into account the inflationary factor, such that the percentage of fare increase would not exceed the inflation rate. Pointing out that profits generated from property developments could be used for subsidizing railway development, Mr CHAN queried why such profits could not be used for stabilizing MTR fares. He considered that if a fare stabilization fund was set up, increase in MTR fares could be averted.

50. USTH noted Mr CHAN's suggestion of imposing a cap on the rate of fare increase by MTRCL and agreed to study its feasibility having regard to the public interests and the financial sustainability of MTRCL. He further said that under the Rail-plus-Property development model ("R+P model"), profits from property developments arising from MTR projects had been used to fill the funding gap for the projects which could otherwise not be financially viable, so that the railways concerned could be constructed to provide necessary services with the fares set at a reasonable level without having to seek recurrent subsidy from the

Government. Likewise, the profits from property developments had already been taken into account in the course of constructing the new railway lines.

51. The Deputy Chairman said that although the Government had adopted R+P model for implementation of some railway projects and granted to MTRCL the property development rights as the funding support for developing the railway projects, there were some railway projects which were funded by a capital grant or implemented under the concession approach and financial support by means of granting property development rights was not involved. For those railway projects, the Administration had sought public funding for their construction directly from LegCo under the appropriate public works programmes.

52. USTH explained that the Government adopted various modes of financial support for new railway development projects, R+P model was one of the approaches. There were some projects, like the West Island Line, which were funded by a capital grant. The Administration was aware of the public's concern that the FAM should also consider the profits derived from the property developments by MTRCL.

53. Mr Michael TIEN recalled that before the merger of MTRCL and KCRC which took place in December 2007, both MTRCL and KCRC had fare autonomy, and they set their fares in accordance with prudent commercial principles. There were times when both companies increased their fares annually, resulting in wide public discontent. In the rail merger exercise, many people in the community supported the establishment of a mechanism to govern the MTR fare adjustment. He further said that as the Chairman of the then KCRC, although he had not participated in the formulation of the FAM, he considered the adopted FAM too simple. He explained that under the current FAM, CCPI and NWI(TS) were correlated. It was because the higher the inflation rate, the higher the NWI(TS) and hence the higher the increase in MTR fares.

54. Mr TIEN further said that the community generally considered the formula of the FAM not comprehensive enough and that the Government should, during the present review of MTRCL's FAM, include in the formula components that could better reflect public affordability, and MTRCL's profit level and service performance. However, the re-structure of a formula was bound to be protracted, time-consuming and fruitless because the various interest groups could hardly reach a consensus on the definitions, assessment methods and respective weightings of the aforesaid components. As such, he suggested

maintaining the existing formula of the FAM, and the fare adjustment rates computed under the formula should be submitted to the Executive Council ("ExCo") for vetting, and giving ExCo the power to make final adjustments. He considered that such an arrangement would enable ExCo to serve as the final gate-keeper on MTR fares. In addition, MTRCL and its shareholders would have a basis for projecting the profit of MTRCL.

55. Mr TANG Ka-piu shared similar views of Mr TIEN. He considered that any adjustment to MTR fares should be subject to the approval by CE-in-Council in line with the same arrangement made for fare adjustment applications by other public transport operators.

(To allow sufficient time for discussion, the Chairman extended the meeting by 15 minutes.)

56. Dr Fernando CHEUNG pointed out that MTR was a major player in public transport and how the FAM would be improved would largely affect the public's interest. He asked about the Administration's stance on the FAM review.

57. USTH replied that the Administration was aware of the public's demand for an objective and transparent formula for MTR fare adjustment with greater certainty and predictability. He added that over the past few years, there were opinions expressed that factors such as MTRCL's profit level, service performance, as well as public affordability and acceptability should be taken into consideration when MTR fares were reviewed each year. The Administration would listen to the further views of the public and would study how the major concern of the public could be better addressed in the FAM in the future.

58. The Chairman, on behalf of DAB, said that being a listed company should not be an excuse for MTRCL to disregard the public's concern and their affordability. He said that MTRCL was heavily subsidized by the Government in that land was granted to it for property development. Therefore, part of the profits thereby incurred should be used to offset the rate of increase in MTR fares. He urged the Government to study the views expressed by members and deputations in the meeting.

Motion

59. After discussion, Mr TANG Ka-piu moved the following motion, which was seconded by Mr WONG Kwok-hing –

"鑑於政府就港鐵可加可減機制，並未進行廣泛諮詢，促請政府延長諮詢期至2012年年底。"

(Translation)

"That as the Government has failed to conduct an extensive consultation on the mechanism which provides for both upward and downward adjustments of MTR fares, this Panel urges the Government to extend the consultation period to the end of 2012."

60. The Chairman put the motion to vote. Eight members voted for and no member voted against it. The Chairman declared that the motion was carried.

(Post-meeting note: the Administration's response to the motion was issued to members on 13 November 2012 vide LC Paper No. CB(1)161/12-13.)

III Any other business

61. There being no other business, the meeting ended at 12:15 pm.

Council Business Division 1
Legislative Council Secretariat
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