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Panel on Transport
Meeting on 22 February 2013

Background brief on toll adjustments of
Western Harbour Crossing and Route 3 (Country Park Section)

Purpose

This paper provides background information on the toll adjustments of Western Harbour Crossing ("WHC") and Route 3 (Country Park Section ("Route 3")). It also summarizes the relevant discussions by the Panel on Transport ("the Panel") on the subject.

Background

Build-Operate-Transfer tunnels

2. Currently, there are four Build-Operate-Transfer ("BOT") tunnels in Hong Kong, namely, the Eastern Harbour Crossing ("EHC"), WHC, Tate's Cairn Tunnel ("TCT") and Route 3. They were constructed at different times and their operations are governed by their respective legislation. BOT tunnels are owned and managed by franchisees over a franchise period.

3. According to the Administration, the BOT mode encompasses two major principles –

- (a) The BOT mode is a good illustration of the "big market, small government" principle, and is an effective means to encourage private participation and to optimise the use of public resources.

- (b) As the franchisee of a BOT tunnel is required to make substantial upfront capital investment, it should be given the opportunity to make a reasonable return on its investment, though it should also expect to expose to commercial risk.

4. Towards the end of 2012, both WHC and Route 3 announced toll adjustments with effect from 1 January 2013 and aroused the criticisms of the community and members of the Legislative Council ("LegCo") for failing to take into consideration the acceptability of the public and the effect of the toll increase on inflation.

Toll adjustment mechanisms

5. For both WHC and Route 3, the governing legislation has already provided for a specified toll adjustment mechanism.

WHC

6. WHC was built in 1993 at a cost of \$7 billion by the Western Harbour Tunnel Company Limited. Its construction and operation are governed by the WHC Ordinance (Cap. 436). WHC was opened to traffic on 30 April 1997 and the franchise for WHC will expire in 2023.

7. Under the WHC Ordinance which was discussed and agreed by LegCo in 1993:

- the Company is entitled to request the Government to gazette a toll increase should the actual Net Revenue generated be less than the Minimum Estimated Net Revenue;
- if the actual Net Revenue earned is greater than the Upper Estimated Net Revenue but less than the Maximum Estimated Net Revenue, the Company is entitled to the Upper Estimated Net Revenue plus 50% of the excess and the balance, another 50% excess will go to the Toll Stability Fund to cover future shortfall and defer future toll increase; and
- if the actual Net Revenue earned is greater than the Maximum Estimated Net Revenue, the Company is entitled to the Upper

Estimated Net Revenue plus 50% of the excess between Upper Estimated Net Revenue and Maximum Estimated Net Revenue and all surplus will go to the Toll Stability Fund to cover future shortfall and defer future toll increase.

8. Tolls for WHC have been adjusted 15 times since its commencement of operations in 1997. Please refer to **Annex A** for the history of toll changes of WHC and **Annex B** for the current concessionary tolls of WHC with effect from 1 January 2013. The tolls ranged from \$25 to \$140 for different categories of vehicles and the toll for private cars is \$55, which is much higher than the toll of \$20 for Cross Harbour Tunnel ("CHT") or that of \$25 for EHC.

Route 3

9. Route 3 is a 10.1 km 3-lane toll road comprising 3.8 km Tai Lam Tunnel and 6.3 km Tsing Long Highway. It was built in 1995 at a cost of \$7.2 billion and is operated by the Route 3 Company Limited. Route 3 was opened to traffic in May 1998 and the franchise will expire in May 2025.

10. The Tai Lam Tunnel and Yuen Long Approach Road Ordinance (Cap. 474) ("the Ordinance") stipulates the toll adjustment mechanism in respect of Route 3, under which the franchisee may effect toll increases on three specified dates (1 January of 2003, 2010 and 2017) (known as "anticipated toll increases"), on the condition that the Actual Net Revenue of the company for the year immediately preceding the year in which a specified date occurs is less than the Maximum Estimated Net Revenue for that year stipulated in Schedule 4 to the Ordinance. In addition, if the Actual Net Revenue of the franchisee for any year is less than the Minimum Estimated Net Revenue for that year, the franchisee may advance an anticipated toll increase, and implement an additional toll increase (known as "additional toll increase") if all the anticipated toll increases have been effected. Regardless of whether it is an anticipated toll increase or additional toll increase, the magnitude of each toll increase must not exceed that stipulated in Schedule 2 to the Ordinance for various categories of vehicles. Tolls adjusted according to the mechanism stipulated in the Ordinance are called "statutory tolls", which do not require the Administration's approval.

11. Since the commencement of operation of Route 3 in 1998, the franchisee's net revenue has consistently fallen short of the level of the Minimum Estimated Net Revenue stipulated in Schedule 4 to the Ordinance. The franchisee has effected all anticipated toll increases by 2005 and subsequently has had seven additional toll increases. The last additional toll increase effected by the franchisee to increase the statutory tolls was made on the basis that its 2007 - 2008 Actual Net Revenue was less than the Minimum Estimated Net Revenue of that year specified in Schedule 4 to the Ordinance. The increase in statutory tolls took effect on 1 August 2012.

12. The franchisee has been offering concessions to all categories of vehicles so that actual tolls (or concessionary tolls) are lower than the statutory toll levels. The concessionary tolls were maintained at the same levels since 1 January 2011 and up to 31 December 2012. A summary of the historical changes in Route 3's toll levels is in **Annex C**.

13. With effect from 1 January 2013, tolls for Route 3 have been adjusted to a range between \$20 and \$135, with the toll for private vehicles adjusted from \$33 to \$36. Please refer to **Annex D** for the details of the current concessionary tolls of Route 3.

14. According to the Administration, although the toll adjustment mechanism with respect to Route 3 or WHC and the magnitude of each toll increase have already been specified in the respective legislation and do not require the Administration's approval, the Administration has all along urged the franchisee to have due regard to market reaction, public affordability and acceptability in devising its tolling strategy.

Relevant discussions by the Panel

Adjustment of toll to rationalize utilization of road harbour crossings

15. In view of the public concern about the uneven distribution of tunnel traffic, in particular the traffic congestion at the road harbour crossings ("RHCs"), the Panel discussed the measures to rationalize the utilization of BOT tunnels at its meetings on 19 December 2005 and 28 November 2008.

16. The Panel opined that tunnel tolls should be set at affordable levels which enabled the franchisees of BOT tunnels to earn a reasonable rate of return whilst allowing the maximum use of existing tunnel resources to improve traffic circulation. As uneven distribution of traffic among different BOT tunnels had huge economic implications for the community, the Panel considered that there was urgency in finding solutions which would best protect the interests of the public and be acceptable to both the Government and the franchisees.

17. In October 2008, there were revelations of the involvement of Citic Pacific, which held 70.8% and 35% shares of EHC and WHC respectively, in unauthorized currency deals. The market value of the Company's shares slashed as a result. Panel members considered that it was high time to buy back Citic Pacific's stakes in EHC and WHC in order for the Administration to have greater control over the tolls.

18. The Administration informed members that it had commissioned a one-year consultancy study on rationalizing the utilization of RHCs. The Administration aimed to find a long-term solution that was feasible in transport, financial and legal terms, and develop strategies for possible negotiations with the franchisee concerned in the future.

19. Some members strongly considered that the abovesaid consultancy study was not necessary and might delay the process of negotiation for buying back of the tunnels. The Administration advised that information on traffic volume and estimated value of the tunnels to be compiled by the Consultant would be necessary for the discussions with the franchisee, and that the consultancy study and the negotiations with the franchisees would proceed in parallel.

20. Some members considered that the failure to subject the toll adjustments of WHC and EHC to the approval of LegCo was the main cause of uneven traffic distribution among the three RHCs. They called upon the Administration to refrain from adopting the BOT mode to deliver roads and tunnels in future. Some other members, however, considered that the Administration should make reference to overseas experience of successful implementation of the BOT mode. Some members suggested that the Administration should examine the feasibility of establishing a Tunnels and Bridges Authority to own and manage all tunnels and bridges,

including the BOT tunnels if bought back.

21. Panel members urged the Administration to identify long-term solutions to the problem of uneven traffic distribution among the three RHCs, including negotiating with the franchisees concerned on the option of buying-back WHC and/or EHC. The Administration advised that the Government maintained an open-mind on all proposals which might improve the utilization of the three RHCs. The Administration indicated that it was willing to consider buying back WHC in the longer term if the price was reasonable, but the option might not achieve the intended effect before the opening of Central-Wanchai Bypass, because WHC and its present connecting roads would not be able to absorb additional traffic flows diverted from CHT. The Administration considered that the Government would be in a stronger position to negotiate with the WHC franchisee on the option, after expiry of the EHC franchise in August 2016.

22. The Administration advised that according to the consultants' findings, there was no single measure that could resolve the uneven traffic distribution among the three RHCs. Toll adjustment was one of the requisite considerations, but there could be a number of toll scenarios and implementation options. The Administration pointed out that buying-back WHC and EHC was only one of the options to implement the toll adjustments. Even if the Government had bought back the two tunnels, it was still necessary to properly adjust the level of toll of the three RHCs in order to regulate the traffic flows at RHCs effectively.

Toll increase for Route 3 in 2005

23. On 10 June 2005, the Government published in the Gazette the new Schedules to reflect the toll increases of TCT, as well as Route 3. At the meeting on 15 June 2005, the Panel reiterated its concern about the tunnel toll increases and their impact on traffic and the general public, and requested that the tunnel companies concerned should defer the toll increases or offer concessionary tolls to motorists. The Panel also urged the Administration to review the decision of allowing the tunnel companies concerned to increase tolls. A motion was passed at the meeting urging the Administration to withdraw the Gazette notices on the toll increases of TCT (L.N. 93 of 2005) and Route 3 (Country Park Section) (L.N. 95 of 2005) ("the Gazette notices").

24. A Subcommittee was subsequently formed at the House Committee meeting on 17 June 2005 to study the Gazette notices. The Subcommittee was very much concerned about the justifications for the toll increases for TCT and Route 3 and their impacts on the public and traffic flow. The Subcommittee also considered a member's suggestion that the Administration should set up a task force to monitor the toll levels of the various tunnels in Hong Kong, in particular the three RHCs, and to collect views on how the toll adjustment mechanisms could be improved.

Latest developments

25. The Panel has proposed to discuss the toll adjustments for WHC and Route 3 at the Panel meeting to be held on 22 February 2013.

Relevant papers

26. A list of relevant papers is in **Appendix** .

**Toll adjustments of Western harbour Crossing and
Route 3 (Country park Section)**

List of relevant papers

Meeting date	Committee	Papers/Items
15 June 2005	Panel on Transport ("TP")	<p>Administration's paper on "Route 3 (Country Park Section) Toll Increase" http://www.legco.gov.hk/yr04-05/english/panels/tp/papers/tp0615cb1-1764-1e.pdf</p> <p>Letter from Route 3 (CPS) Company Limited http://www.legco.gov.hk/yr04-05/english/panels/tp/papers/tp0615cb1-1764-2e-scan.pdf</p> <p>Minutes of meeting http://www.legco.gov.hk/yr04-05/english/panels/tp/minutes/tp050615.pdf</p>
14 Oct 2005	House Committee	<p>Report of the Subcommittee to Study Tate's Cairn Tunnel Ordinance (Replacement of Schedule) Notice 2005 and Tai Lam Tunnel and Yuen Long Approach Road Ordinance (Replacement of Schedule 1) Notice 2005 http://www.legco.gov.hk/yr05-06/english/hc/papers/hc1014cb1-31-e.pdf</p>
19 December 2005	TP	<p>Administration's paper on "Progress Update on Possible Measures to Rationalise Utilisation of Build-Operate-Transfer Tunnels" http://www.legco.gov.hk/yr05-06/english/panels/tp/papers/tp1219cb1-526-2e.pdf</p> <p>Minutes of meeting http://www.legco.gov.hk/yr05-06/english/panels/tp/minutes/tp051219.pdf</p>
28 November 2008	TP	<p>Administration's paper on "Measures to rationalize utilization of Build-Operate-Transfer tunnels" http://www.legco.gov.hk/yr08-09/english/panels/tp/papers/tp1128cb1-253-6-e.pdf</p> <p>Minutes of meeting http://www.legco.gov.hk/yr08-09/english/panels/tp/minutes/tp20081128.pdf</p>

Meeting date	Committee	Papers/Items
<p>9 November 2010 and 11 January 2011</p>	<p>TP</p>	<p>Administration's paper on "Consultancy study on rationalizing the utilization of road harbour crossings" http://www.legco.gov.hk/yr10-11/english/panels/tp/papers/tp1109cb1-298-1-e.pdf</p> <p>Minutes of meeting on 9 November 2010 http://www.legco.gov.hk/yr10-11/english/panels/tp/minutes/tp20101109.pdf</p> <p>Minutes of meeting on 11 January 2011 http://www.legco.gov.hk/yr10-11/english/panels/tp/minutes/tp20110111.pdf</p>
<p>22 February 2013</p>	<p>TP</p>	<p>Information paper provided by the Administration on Route 3 (Country Park Section) Tolls http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tpcb1-353-1-e.pdf</p> <p>Letter dated 24 December 2012 from Route 3 (CPS) Company Limited on Route 3 Country Park Section (R3CPS) Toll Adjustment http://www.legco.gov.hk/yr12-13/chinese/panels/tp/papers/tpcb1-353-2-ec.pdf</p> <p>Information paper provided by the Administration on Western Harbour Crossing Tolls http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tpcb1-361-1-e.pdf</p> <p>Paper provided by Western Harbour Tunnel Company Limited on the Company's background brief http://www.legco.gov.hk/yr12-13/english/panels/tp/papers/tpcb1-361-2-e.pdf</p>

History of Toll Changes of WHC (page 1 of 3)

	30 April 1997		3 December 2000		31 July 2002		16 February 2003		24 February 2004		4 July 2004	
	Statutory	Actual	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary
Motorcycles	\$ 15	\$ 15	\$ 20	\$ 20	\$ 25	\$ 20	\$ 25	\$ 20	\$ 30	\$ 20	\$ 30	\$ 22
Private cars	\$ 30	\$ 30	\$ 40	\$ 35	\$ 50	\$ 35	\$ 50	\$ 37	\$ 60	\$ 37	\$ 60	\$ 40
Taxis	\$ 30	\$ 30	\$ 40	\$ 35	\$ 50	\$ 35	\$ 50	\$ 35	\$ 60	\$ 35	\$ 60	\$ 35
Private and public light buses	\$ 40	\$ 40	\$ 50	\$ 45	\$ 60	\$ 45	\$ 60	\$ 47	\$ 70	\$ 47	\$ 70	\$ 50
Light goods vehicles	\$ 45	\$ 45	\$ 60	\$ 50	\$ 75	\$ 50	\$ 75	\$ 50	\$ 90	\$ 50	\$ 90	\$ 55
Medium goods vehicles	\$ 65	\$ 65	\$ 85	\$ 70	\$ 105	\$ 70	\$ 105	\$ 70	\$ 125	\$ 70	\$ 125	\$ 80
Heavy goods vehicles	\$ 95	\$ 95	\$ 125	\$ 100	\$ 155	\$ 100	\$ 155	\$ 100	\$ 185	\$ 100	\$ 185	\$ 110
Single-decked buses	\$ 40	\$ 40	\$ 50	\$ 50	\$ 60	\$ 50	\$ 60	\$ 60	\$ 70	\$ 60	\$ 70	\$ 70
Double-decked buses	\$ 55	\$ 55	\$ 70	\$ 70	\$ 85	\$ 70	\$ 85	\$ 85	\$ 100	\$ 85	\$ 100	\$ 100
Additional axle for goods vehicles	\$ 30	\$ 30	\$ 40	\$ 30	\$ 50	\$ 30	\$ 50	\$ 30	\$ 60	\$ 30	\$ 60	\$ 30

History of Toll Changes of WHC (page 2 of 3)

	31 July 2005		31 July 2006		31 July 2007		6 January 2008		31 July 2008		31 July 2009	
	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary
Motorcycles	\$35	\$22	\$40	\$22	\$45	\$22	\$45	\$22	\$50	\$22	\$55	\$22
Private cars	\$70	\$40	\$80	\$40	\$90	\$40	\$90	\$45	\$100	\$45	\$110	\$45
Taxis	\$70	\$35	\$80	\$35	\$90	\$35	\$90	\$40	\$100	\$40	\$110	\$40
Private and public light buses	\$80	\$50	\$90	\$50	\$100	\$50	\$100	\$55	\$110	\$55	\$120	\$55
Light goods vehicles	\$105	\$55	\$120	\$55	\$135	\$55	\$135	\$55	\$150	\$55	\$165	\$55
Medium goods vehicles	\$145	\$80	\$165	\$80	\$185	\$80	\$185	\$80	\$205	\$80	\$225	\$80
Heavy goods vehicles	\$215	\$110	\$245	\$110	\$275	\$110	\$275	\$110	\$305	\$110	\$335	\$110
Single-decked buses	\$80	\$70	\$90	\$70	\$100	\$70	\$100	\$80	\$110	\$80	\$120	\$80
Double-decked buses	\$115	\$100	\$130	\$100	\$145	\$100	\$145	\$115	\$160	\$115	\$175	\$115
Additional axle for goods vehicles	\$70	\$30	\$80	\$30	\$90	\$30	\$90	\$30	\$100	\$30	\$110	\$30

History of Toll Changes of WHC (page 3 of 3)

	31 July 2010		1 August 2010		31 July 2011		31 July 2012	
	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary
Motorcycles	\$60	\$22	\$60	\$23	\$70	\$23	\$80	\$23
Private cars	\$120	\$45	\$120	\$50	\$135	\$50	\$150	\$50
Taxis	\$120	\$40	\$120	\$45	\$135	\$45	\$150	\$45
Private and public light buses	\$130	\$55	\$130	\$60	\$150	\$60	\$170	\$60
Light goods vehicles	\$180	\$55	\$180	\$60	\$200	\$60	\$220	\$60
Medium goods vehicles	\$245	\$80	\$245	\$85	\$280	\$85	\$315	\$85
Heavy goods vehicles	\$365	\$110	\$365	\$115	\$410	\$115	\$455	\$115
Single-decked buses	\$130	\$80	\$130	\$90	\$150	\$90	\$170	\$90
Double-decked buses	\$190	\$115	\$190	\$128	\$220	\$128	\$250	\$128
Additional axle for goods vehicles	\$120	\$30	\$120	\$30	\$135	\$30	\$150	\$30

Annex B

Existing and New Concessionary Tolls of WHC

	Existing Statutory Tolls	Existing Concessionary Tolls	New Concessionary Tolls*	Actual Increase in concessionary tolls
Motorcycles	\$80	\$23	\$25	\$2
Private cars	\$150	\$50	\$55	\$5
Taxis	\$150	\$45	\$50	\$5
Private and public light buses	\$170	\$60	\$65	\$5
Light goods vehicles	\$220	\$60	\$65	\$5
Medium goods vehicles	\$315	\$85	\$90	\$5
Heavy goods vehicles	\$455	\$115	\$120	\$5
Single-decked buses	\$170	\$90	\$100	\$10
Double-decked buses	\$250	\$128	\$140	\$12
Additional axle for goods vehicles	\$150	\$30	\$30	\$0

* New concessionary tolls takes effect on 1 January 2013.

History of Toll Changes of Route 3 (page 1 of 3)

	25 May 1998		11 August 1998		27 October 1998		1 April 2000		18 September 2000		1 April 2001	
	Statutory	Actual	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary
Motorcycles	\$10	\$10	\$10	\$10	\$10	\$10	\$15	\$15	\$15	\$15	\$20	\$17
Private cars and Taxis	\$15	\$15	\$15	\$15	\$15	\$15	\$20	\$20	\$20	\$20	\$25	\$22
Public and private Light buses	\$30	\$30	\$30	\$30	\$30	\$30	\$45	\$45	\$45	\$45	\$60	\$60
Light goods vehicles	\$30	\$30	\$30	\$30	\$30	\$23	\$45	\$25	\$45	\$25	\$60	\$25
Medium goods vehicles	\$40	\$40	\$40	\$30	\$40	\$30	\$55	\$35	\$55	\$35	\$70	\$35
Heavy goods vehicles	\$60	\$60	\$60	\$30	\$60	\$30	\$75	\$35	\$75	\$40	\$90	\$40
Single-decked buses	\$30	\$30	\$30	\$30	\$30	\$30	\$45	\$45	\$45	\$45	\$60	\$60
Double-decked buses	\$45	\$45	\$45	\$45	\$45	\$45	\$60	\$60	\$60	\$60	\$75	\$75
Extra axle	\$20	\$20	\$20	\$0	\$20	\$0	\$25	\$0	\$25	\$0	\$30	\$0

History of Toll Changes of Route 3 (page 2 of 3)

	19 June 2005		17 September 2006		19 August 2007		28 December 2008		1 August 2009		4 September 2010	
	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary
Motorcycles	\$25	\$17	\$30	\$17	\$35	\$18	\$40	\$20	\$45	\$20	\$50	\$20
Private cars and Taxis	\$30	\$25	\$35	\$25	\$40	\$28	\$45	\$30	\$50	\$30	\$55	\$30
Public and private Light buses	\$75	\$75	\$90	\$75	\$105	\$90	\$120	\$100	\$135	\$100	\$150	\$100
Light goods vehicles	\$75	\$28	\$90	\$28	\$105	\$30	\$120	\$32	\$135	\$32	\$150	\$32
Medium goods vehicles	\$85	\$35	\$100	\$35	\$115	\$35	\$130	\$40	\$145	\$40	\$160	\$40
Heavy goods vehicles	\$105	\$40	\$120	\$40	\$135	\$40	\$150	\$45	\$165	\$45	\$180	\$45
Single-decked buses	\$75	\$75	\$90	\$75	\$105	\$90	\$120	\$100	\$135	\$100	\$150	\$100
Double-decked buses	\$90	\$90	\$105	\$90	\$120	\$105	\$135	\$120	\$150	\$120	\$165	\$120
Extra axle	\$35	\$0	\$40	\$0	\$45	\$0	\$50	\$0	\$55	\$0	\$60	\$0

History of Toll Changes of Route 3 (page 3 of 3)

	1 January 2011		1 August 2011		1 August 2012	
	Statutory	Conces- sionary	Statutory	Conces- sionary	Statutory	Conces- sionary
Motorcycles	\$50	\$20	\$55	\$20	\$60	\$20
Private cars and Taxis	\$55	\$33	\$60	\$33	\$65	\$33
Public and private Light buses	\$150	\$100	\$165	\$100	\$180	\$100
Light goods vehicles	\$150	\$34	\$165	\$34	\$180	\$34
Medium goods vehicles	\$160	\$40	\$175	\$40	\$190	\$40
Heavy goods vehicles	\$180	\$45	\$195	\$45	\$210	\$45
Single-decked buses	\$150	\$115	\$165	\$115	\$180	\$115
Double-decked buses	\$165	\$135	\$180	\$135	\$195	\$135
Extra axle	\$60	\$0	\$65	\$0	\$70	\$0

Existing and New Concessionary Tolls of Route 3

	Existing Statutory Tolls	Existing Concessionary Tolls	New Concessionary Tolls*	Actual Increase in concessionary tolls
Motorcycles	\$60	\$20	\$20	\$0
Private cars and taxis	\$65	\$33	\$36	\$3
Public and private Light buses	\$180	\$100	\$100	\$0
Light goods vehicles	\$180	\$34	\$38	\$4
Medium goods vehicles	\$190	\$40	\$43	\$3
Heavy goods vehicles	\$210	\$45	\$48	\$3
Single-decked buses	\$180	\$115	\$115	\$0
Double-decked buses	\$195	\$135	\$135	\$0
Extra axle	\$70	\$0	\$0	\$0

* The new concessionary tolls takes effect on 1 January 2013.