Legislative Council Public Works Subcommittee

Follow-up action arising from the discussion of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link at the Special Meeting on 23 December 2015

INTRODUCTION

At the Meeting of the Public Works Subcommittee meeting on 23 December 2015, Members discussed matters relating to the construction of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") project. This paper aims to provide supplementary information in response to the issue on the decrease in the Economic Internal Rate of Return ("EIRR") from 6% to 4% of the XRL project raised by Members.

UPDATED ASSESSMENT ON PATRONAGE AND ECONOMIC BENEFITS OF THE XRL

2. As explained in the supplementary information paper no. CB(4)333/15-16(02) (Annex A) and CB(4)394/15-16(01) (Annex B) submitted to the Legislative Council Subcommittee on Matters Relating to Railways ("RSC") on 11 and 18 December this year, we estimated the direct economic benefits of the XRL project come from the cost savings due to passenger time savings by using the transport model adopted in the paper (CB(1)503/09-10(02)) submitted to the RSC in November 2009 and inputting updated data (such as growth rate in population and gross domestic product) in 2015 with consideration of the latest planning data and development of Hong Kong and the Mainland (including road and railway network data and public transport data).

Methodology of XRL Patronage Forecast

3. The XRL shuttle patronage is forecasted by a four-stage transport model. This systematic model projects the XRL passenger flow based on various survey data and statistical information, and take into account latest planning data and developments of both Hong Kong and the Mainland.

4. The four-stage transport model is commonly used in transport

infrastructure planning around the world. It comprises the following four stages of trip modelling procedures: –

- trip generation;
- trip distribution;
- modal split; and
- trip assignment.

5. Under the transport model, the study areas in the Mainland and Hong Kong are divided into a number of small zones. Various design data, including demographic and socio-economic data, are inputted for each zone against different design years. A transport network system, including railway and highway networks, has to be set up under the model, incorporating all relevant information of different transport modes operating in the network, such as public transport routes, frequencies, fares, station locations and interchange arrangements.

6. Based on the above-mentioned socio-economic data and transport network information, the transport model projects the number of trips generated from each zone by passenger type (e.g. Hong Kong residents versus non-Hong Kong residents) and trip purpose (e.g. business versus non-business), and distributes the trips between zone pairs to produce a trip distribution matrix. With reference to the generalised travel time cost of various public transport modes, the model simulates the modal choice for different trips between zone pairs. The data is used to forecast the utilisation of various public transport modes and calculate the XRL patronage.

7. When forecasting the distribution of public transport modes, the model projects the incoming and outgoing passenger flow at each railway station, fare revenue and total patronage by taking into account various mixed modes (e.g. interchange from minibus to railway; interchange from bus to ferry), routes, fares and travel time (including interchange and waiting time).

8. As for the XRL long-haul patronage forecast, the model projects the inter-city travel demand and the XRL patronage based on various factors including the ticket fares for railway and air services in Hong Kong and Mainland, journey time, waiting time, time for security check, travel time to and from city centres, frequencies, etc.

Time Saving for Passengers

9. The transport model calculates the travel time from various Hong Kong zones to cross-boundary nodes by different public transport modes. The travel time includes walking time, waiting time, on-board time and interchange time.

10. The average travel time of a cross-boundary public transport mode (e.g. the boundary train or coach) is the average time travelling from various Hong Kong zones to a cross-boundary node by that mode plus the time travelling from the node to a boundary station in Shenzhen. The average travel time savings of that mode refer to the difference between such average travel time and the average time travelling from various Hong Kong zones to the XRL West Kowloon Terminus ("WKT"), and then to a boundary station in Shenzhen by the XRL. The time saving in travelling from the boundary station in Shenzhen to other Mainland destinations by the XRL have not been taken into account; hence the estimated travel time savings are relatively conservative.

Value of Time to XRL Passengers

11. The cost savings due to time savings of passenger refer to the time saved by passengers switching to the XRL which is converted to monetary terms, with reference to "Travel Characteristics Survey 2011" published by the Transport Department. Based on the assumption made on "average time savings" as described in paragraph 10 above, the direct economic benefits of the XRL is calculated.

Economic Benefits of the XRL

12. The updated benefits estimated to be brought about by the cost savings due to passenger time savings as a result of the XRL project over 50 years of operation (discounted to 2015 prices at a rate of 4%) would be about $90 billion, with an EIRR of 4%. The EIRR is the net rate of return of the project calculated by subtracting the construction and operation costs during construction and the subsequent 50 years of operation from the economics. The decrease in EIRR as compared with the figure in 2009 (6%) is mainly due to the increase in capital cost for construction of the XRL, the slower growth in long-term population of Hong Kong and the slower economic growth in the Pearl River Delta.

13. Based on the above transport model, the 2015 assessment on patronage compared with that in November 2009 is illustrated in **Table 1**.

Table 1 – Patronage Forecast of XRL

	Base case in 2009			**Updated forecast in 2015**		
	2016	**2021**	**2031**	**2018**[Note]	**2021**	**2031**
Short-haul	84,000	100,800	134,700	90,600	98,200	119,800
Shenzhen (Shenzhen North and Futian)	65,400	75,500	102,100	67,500	74,000	93,400
Humen	5,900	7,400	8,900	4,800	4,800	5,800
Guangzhou South	12,700	17,900	23,700	18,300	19,400	20,600
Long-haul	15,000	18,900	25,300	18,600	21,000	30,000
Total	**99,000**	**119,700**	**160,000**	**109,200**	**119,200**	**149,800**

Note: assuming commissioning in the third quarter of 2018.

14. The patronage forecast in 2015 shows that based on the commissioning of the XRL in 2018, the patronage forecast of first year of commissioning slightly increases compared with the forecast in 2009. On the other hand, the patronage forecast of 2021 and 2031 decreases as compared with the forecast in 2009. The main reason is mainly due to the slower growth in local population and the slower economic growth in the Pearl River Delta. According to the assessment, the patronage of short-haul services in 2021 and 2031 decreases as compared with the forecast in 2009; while the patronage of long-haul services increases as compared with the forecast in 2009 due to improved connectivity of the Mainland high-speed rail network following the commissioning of various high-speed rail lines in the Mainland.

15. The time saving for XRL passengers and the estimated economic benefits of the XRL assessed in 2015 compared with that in November 2009 are tabulated in **Table 2**.

Table 2 – Comparison of forecast in time saving for XRL passengers and the estimated economic benefit of the project

	Base Case in 2009	**Updated forecast in 2015**
Average annual time savings over 50 years of operation	42 million hours	39 million hours
Total economic benefits overs 50 years of operation	$87 billion (discounted to 2009 prices at a rate of 4%)	$90 billion (discounted to 2009 prices at a rate of 4%)

16. However, it should be borne in mind that using only the EIRR, as derived above, to estimate the benefits of the XRL project presents only part of the picture and is in fact conservative since other indirect economic and social benefits, which could be substantial but are difficult to be easily and instantly quantified, have not been taken into account.

17. Also, the above assessment has not fully reflected the benefits brought about by the implementation of co-location of customs, immigration and quarantine ("CIQ") facilities ("co-location arrangements"). We consider that the co-location arrangements will expand the service areas of that railway which is beneficial in generating more induced patronage. In the case of co-location arrangements, the passengers may directly take the XRL train to different cities in the Mainland after they have completed the Mainland and Hong Kong CIQ clearance procedures at the WKT. Since passengers are not necessary to complete the CIQ clearance procedures in a Mainland city with CIQ facilities to continue their journey to their destination, passengers can plan their trips more flexibly. As it is not necessary to go to a Mainland station with CIQ facilities for clearance, passengers can enjoy more freedom to choose among train schedules and routes to reach their destinations directly or indirectly. It greatly facilitates passengers' plan of their trips and enhances connectivity of the XRL. We expect that it will attract more passengers who need to go to different Mainland cities, especially those within the distance (journey time of about four hours) that high-speed railway has strength in. From overseas experience,

within a journey time of four hours, high-speed railway provides an alternative convenient and comfortable transport mode other than by air, hence bring out new transport demand.

Transport and Housing Bureau
Highways Department
January 2016

For information
December 2015

Legislative Council Panel on Transport
Subcommittee on Matters Relating to Railways

Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL")

Economic Benefits of the XRL and Cost Incurred due to Suspension and Termination

INTRODUCTION

In response to questions raised by Members at the meeting of the Subcommittee on Matters Relating to Railways ("RSC") dated 4 December 2015, this paper provides supplementary information on the updated economic benefits of the XRL and the costs incurred if the XRL were suspended and eventually terminated.

ECONOMIC BENEFITS

2. Generally speaking, in estimating the **direct** economic benefits of a transport infrastructure, we refer to the cost savings due to time savings of passengers, the cost savings in the operation of other public transport modes and the cost savings due to accident reduction. In the case of XRL, the majority (more than 90%) of the direct economic benefits come from the cost savings due to passenger time savings. In the paper submitted to the RSC (CB(1)503/09-10(02)) in November 2009, the benefits brought about by the cost savings due to passenger time savings as a result of the XRL over 50 years of operation (discounted to 2009 prices at a rate of 4%) in the Base Case was about $87 billion, with an Economic Internal Rate of Return ("EIRR") of about 6%.

3. Given the short period of time available, we have estimated again the relevant figures by using the transport model adopted in the paper submitted to the RSC in November 2009 and inputting updated data (such as growth rate in population and gross domestic product).

The updated benefits estimated to be brought about by the cost savings due to passenger time savings as a result of the XRL over 50 years of operation (discounted to 2015 prices at a rate of 4%) would be about $90 billion, with an EIRR of 4%. The decrease in EIRR as compared with the figure in 2009 (6%) is mainly due to the increase in capital cost for construction of the XRL, the slower growth in population and the slower economic growth in the Pearl River Delta. However, it should be borne in mind that using only the EIRR, as derived above, to estimate the benefits of the XRL project presents only part of the picture and is in fact conservative since the other indirect economic and social benefits, which could be substantial but are difficult to be easily and instantly quantified, have not been taken into account.

4. The indirect benefits or positive impacts, which cannot be easily and instantly quantified, that would be brought about by the XRL were elaborated in the paper submitted to RSC in November 2009. These points remain valid today. They include:

(a) improved connectivity with Mainland cities by linking the national high speed rail network;
(b) induced/additional patronage;
(c) fostering market integration and mutual complement with Pearl Delta Region;
(d) creation of employment opportunities in construction, railway operation and further indirect sectors;
(e) enhancing development of service industry;
(f) promoting development of tourism;
(g) benefits and opportunities to re-allocate transportation resources;
(h) environmental benefits; and
(i) transport service of higher quality.

5. The greatest benefit of the construction of XRL is to connect Hong Kong to the many different Mainland cities and provinces. In turn, this will foster closer economic ties between Hong Kong and the Mainland and extend Hong Kong's reach into the Mainland hinterland, helping to strengthen the strategic position of Hong Kong as the southern gateway to the Mainland.

COST OF SUSPENSION AND TERMINATION

Temporary Suspension/Termination of Project

6. As explained in the LegCo paper no. CB(4)280/15-16(02) submitted to the RSC on 30 November this year, if the XRL contracts were suspended or even terminated, there would be additional expenditure incurred to the project including costs for –

(a) settlement of contractors' claims;
(b) upkeeping of essential staff and plants on site as well as arranging regular maintenance and inspection for the unfinished works during suspension period;
(c) securing and protecting the unfinished works, tunnel and works sites, upkeeping the temporary traffic management scheme and monitoring of ground water to address safety concerns; and
(d) termination of all employment contracts, cancelling works subcontracts, compensation of rental agreements and demobilisation of plants.

7. If the application for additional funding for the XRL project cannot be approved by LegCo Finance Committee by end February 2016, as a responsible project manager, the MTR Corporation Limited ("MTRCL") may need to issue a suspension notice to its contractors in order to keep the total cost (including suspension costs) within the amount allocated by the Government, i.e. $65 billion. The MTRCL assessed that the suspension cost would be about **$0.233 billion per month**. If so, with each month passing from end-February 2016, instead of spending money on constructing the XRL, the money would be spent on suspension-related items. The XRL contracts between MTRCL and the contractors allow for a suspension period of a maximum of 180 days (about six months). If the XRL contracts are subsequently terminated after the 180 days of suspension, there will be another lump-sum cost to terminate including settlement of historical claims and costs of protecting the works at about **$3.4 billion**. The total additional cost incurred above could therefore be in the region of **$4.8 billion (i.e. $0.233 billion x 6 months + $3.4 billion)**. The Monitoring and Verification ("M&V")

Consultant advises the Highways Department that this estimation of additional cost incurred is reasonable. MTRCL also points out that should the works be suspended or terminated, the contractors may take a different view as to their entitlements for the cost of works completed, which would lead to a lot of disputes and a much higher additional cost to the XRL project. The M&V Consultant concurs with this view.

Resumption after Termination

8. If the existing XRL contracts were terminated, it might take two to three years before the contracts could be resumed because new tenders would have to be invited to engage new contractors to finish the remaining works. During the interim, it might be sufficient to provide minimum protection to the unfinished works. Under this scenario, the MTRCL (assuming that the Corporation will remain as the Project Manager) would need to arrange new contractors to proceed with the outstanding works. The construction costs would likely further escalate due to the possible increase in labour and material costs. Furthermore, due to increase in difficulty and risk to the new contractors to work on the unfinished works, the returned tender price would likely be much higher. Together with the additional costs for design review, project management, insurance and maintenance of the existing works during the waiting period, M&V Consultant estimates, as a ballpark figure, that the resumption cost until completion of the project could be up to $28.2 billion. Together with the cost for suspension/termination of $4.8 billion (as referred to in paragraph 7 above), the cost estimated to be incurred under this scenario is about **$33 billion**.

Abandonment of XRL Project

9. If the XRL project were abandoned, the designs and the unfinished works of the XRL project would become **abortive**. It should also be noted that the additional expenditure of $4.8 billion as referred to in paragraph 7 above assumes that the XRL project would eventually be resumed within two to three years after suspension or termination of existing XRL contracts. Hence, only minimum amount of protection, such as temporary stabilisation would be provided to the unfinished works. Part of the works will still rest on temporary supports, and

temporary roads would be maintained as their current status and would not be reinstated immediately.

10. However, if the XRL project were abandoned, **the Entrustment Cost of $65 billion would be wasted**. The Government would still need to complete most of the remaining works, including the remaining short section of railway tunnel, most of the civil and structural works at West Kowloon Terminus ("WKT") (including excavation works, structural columns, slabs within the Terminus and the rooftop) and the permanent road network around WKT (including the road tunnel at Lin Cheung Road and Austin Road and the road network around Jordan Road) in order to ensure that the safety of the public would not be compromised and people would not suffer from a long-term traffic inconvenience. A very rough estimate by the M&V Consultant is that the cost for completing these essential works would be no less than **$10.6 billion**. Furthermore, Government would need to continue maintaining these works until there is a new initiative for their use. Rough estimates of the maintenance cost could be as much as **$0.1 billion** per year. Separate approval from LegCo would have to be sought for the above additional amounts of money. Together with the loss of Entrustment Cost of $65 billion (which includes the cost for suspension/termination of $4.8 billion as referred to in paragraph 7 above), the total cost estimated to be incurred under this scenario is at least **$75.6 billion**.

11. About 75% of the XRL works have already been completed. As the XRL involves a lot of construction contracts, termination of these contracts would cause unemployment. Abandonment of the project will result in huge abortive works leading to unnecessary wastage of social resources and billions of additional cost. Furthermore, the benefits brought about by the XRL set out in paragraphs 3 and 4 above would also be lost. This will undoubtedly weaken the competitiveness and development potential of Hong Kong. It is imperative that we proactively endeavor to complete the remaining works according to the revised programme such that the substantial benefits of the XRL could be realised as early as possible in order to promote the development and progress of Hong Kong.

Transport and Housing Bureau
Highways Department
December 2015

For information
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Legislative Council Panel on Transport
Subcommittee on Matters Relating to Railways

Follow-up action arising from the discussion of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link at the Special Meeting on 14 December 2015

INTRODUCTION

At the Special Meeting of the Subcommittee on Matters Relating to Railways ("RSC") meeting on 14 December 2015, Members discussed matters relating to the construction of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") project. This paper aims to provide supplementary information in response to the follow-up actions raised by Members.

UPDATED ASSESSMENT ON PATRONAGE AND ECONOMIC BENEFITS OF THE XRL

2. As explained in the supplementary information paper no. CB(4)333/15-16(02) submitted to the RSC on 11 December this year, we estimated the direct economic benefits of the XRL project by using the transport model adopted in the paper (CB(1)503/09-10(02)) submitted to the RSC in November 2009 and inputting updated data (such as growth rate in population and gross domestic product). The majority (more than 90%) of such direct economic benefits brought about by the XRL project come from the cost savings due to passenger time savings. The updated benefits estimated to be brought about by the cost savings due to passenger time savings as a result of the XRL project over 50 years of operation (discounted to 2015 prices at a rate of 4%) would be about $90 billion, with an Economic Internal Rate of Return ("EIRR") of 4%. However, it should be borne in mind that using on the EIRR, as derived above, to estimate the benefits of the XRL project presents only part of the picture and is in fact conservative since the other indirect economic and social benefits, which could be substantial but are difficult to be simply and instantly quantified, have not been taken into account. Also, when the Government decides to take forward large scale transport infrastructure projects, the EIRR

derived from passenger time savings is not the only consideration. Other economic and social benefits, including the development potential induced by the projects and the impacts on improving people's livelihood and competitiveness of Hong Kong, will also be taken into account[1].

3. The indirect benefits or positive impacts, which cannot be simply and instantly quantified, that would be brought about by the XRL project were elaborated in the paper submitted to RSC in November 2009. We have made reference to relevant research studies in the past few years about the impact on the socioeconomics of the development of high-speed railway networks in the Mainland and overseas and consider that these points remain valid today. They include:

(a) improved connectivity with Mainland cities by linking the national high speed rail network;
(b) induced/additional patronage;
(c) fostering market integration and mutual complement with the Pearl Delta Region;
(d) creation of employment opportunities in construction, railway operation and further indirect sectors;
(e) enhancing development of service industry;
(f) promoting development of tourism;
(g) benefits and opportunities to re-allocate transportation resources;
(h) environmental benefits; and
(i) transport service of higher quality.

4. The indirect benefits brought about by the XRL are expected to be in four main areas:

Enhancing productivity

5. The Hong Kong economy has close ties with many Mainland cities and regions. There is overseas research showing that the productivity of a region can be improved by enhancing the external transportation connection of this region. The XRL enhances the connectivity of Hong Kong with many Mainland cities and regions. Through expanding import and export, enhancing

[1] Using the seven new railway projects under the Railway Development Strategy 2014 as an example, the overall EIRR is estimated at about 2%.

matching between producers and consumers, and transferring technology and information in a more convenient way, productivity of the broader region can be fostered. Different market demands in the region can complement each other and hence give full play to their various socio-economic roles. The greater synergy so created will boost the overall productivity in the region. Some pillar industries of Hong Kong economy, such as financial services, trade, tourism and producer and professional services, stand to benefit in particular.

Inducing Employment

6. As a cross-boundary transport infrastructure, the XRL will not only create job opportunities in the transportation sector in the railway operation and maintenance, as well as in retail, catering and station management at the West Kowloon Terminus ("WKT"). Employment opportunities will be indirectly created in sectors supplying to and supporting the XRL operation. Furthermore, induced employment will be created as a result of increased economic activities promoted by the XRL through improved connectivity with Mainland.

7. As at the end of September 2015, there was a daily average of about 6,712 construction workers and technical / professional staff members employed for the construction and electrical and mechanical works for the XRL project. When the XRL comes into operation, it will provide 10,000 employment opportunities, which include those relating to railway operation, maintenance, station management, catering, retails, boundary control, etc.

Promoting Tourism

8. Connecting Hong Kong and its neighbouring cities by the XRL will help them complement each other. Locals and foreigners may depart from Hong Kong and speedily go to various Mainland cities along the XRL corridor, hence there are opportunities to develop various tour products, e.g. "one-trip multi-stops" by the rail link from Hong Kong to the Mainland, air-railway inter-model products, or development of new tourist attractions. This will attract overseas travellers to make Hong Kong their start or end point of rail journeys.

Strengthening the Position of Hong Kong as the Southern Gateway to the Mainland

9. The strategic benefit of the construction of the XRL is to speedily connect Hong Kong to the many different Mainland cities and provinces. In turn, this will foster closer economic ties between Hong Kong and the Mainland and extend Hong Kong's reach into the Mainland hinterland, helping to strengthen the key position of Hong Kong as the southern gateway to the Mainland.

COMPARISON OF ECONOMIC BENEFITS OF CO-LOCATION OF CUSTOMS, IMMIGRATION AND QUARANTINE FACILITIES AND SEPARATE-LOCATION MODEL

10. In the paper submitted to the RSC in November 2009, we adopted a transport model to estimate the patronage of the XRL, the result of which at the time was based on the induced patronage brought about by speedy connection by XRL of Hong Kong and major destinations in the Mainland. We recently used the above transport model by inputting updated data (such as growth rate in population and gross domestic product) to estimate again the patronage.

11. If co-location of customs, immigration and quarantine ("CIQ") facilities ("co-location arrangements") is implemented, the passengers may directly take the XRL train to different cities in the Mainland after they have completed the Mainland and Hong Kong CIQ clearance procedures at the WKT. If the co-location arrangements are not implemented, passengers must (and can only) complete the CIQ clearance procedures in a Mainland city with CIQ facilities to continue their journey to their destination. The implementation of co-location arrangements will enable passengers to plan their trips more flexibly. With the co-location arrangements, since it is not necessary to go to a Mainland station with CIQ facilities for clearance, passengers can enjoy more freedom to choose among train schedules and routes to reach their destinations directly or indirectly. It improves the efficiencies of their trips and greatly facilitates passengers' plan of their trips and enhances connectivity of the XRL. We expect that it will attract more passengers who need to go to different Mainland cities. Hence, co-location arrangements will definitely induce more patronage than separate-location model and maximise the effectiveness of the XRL.

12. The common target of the Hong Kong Special Administrative Region ("HKSAR") Government and the Central Government is to both ensure the maximum economic and social effectiveness of the XRL, and strictly comply

with the Basic Law without violating the "one country, two systems" principle. The HKSAR Government has been discussing with the Mainland authorities, with the goal being to implement co-location arrangements at the WKT at the commencement of service of the XRL.

13. In fact, we understand that currently the high speed train stations in the Mainland (including the four short-haul stations within Guangdong Province and the other sixteen long-haul stations in the whole Mainland which the XRL will have direct connection under planning) do not have any established clearance facilities. Although Hong Kong currently has Intercity Through Train to Guangzhou, Shanghai and Beijing, the XRL is served in Guangzhou by Guangzhou South Railway Station, not the Guangzhou East Railway Station which serves the Intercity Through Train. For Shanghai and Beijing, there is clearance staff at both stations to perform CIQ clearance procedures for the passengers taking the Hong Kong Intercity Through Trains. Since the schedule of the Intercity Through Train to Shanghai and Beijing is not frequent (on alternate days respectively), so the Mainland side can make this special arrangement. However, the Mainland side has difficulty to set up CIQ facilities in the sixteen, or even more cities which the XRL will connect directly and implement separate-location model for XRL passengers. Moreover, since passengers on the train have not yet gone through CIQ clearance processes, it is necessary to implement closed-off management of passengers, whereby passengers departing from Hong Kong and those departing from the Mainland are separated. The operational efficiency of the XRL will be lowered as the seats in "Hong Kong passengers section" and "Mainland passengers section" cannot be used in the most efficient way. Similarly, in order to separate passengers crossing the border from those travelling within the Mainland, platform and passageway management within mainland stations will also be very complicated, and hence reduce the overall efficiency of the XRL.

DETAILS OF IMPLEMENTATION OF CO-LOCATION ARRANGEMENTS

Differences between "geographical boundary of the HKSAR" and "high degree of autonomy of the HKSAR"

14. In accordance with the provisions of Article 31 and sub-paragraph 13 of Article 62 of the Constitution of the People's Republic of China, the Third

Session of the Seventh National People's Congress decided on 4 April 1990 the following –

(a) The HKSAR is to be established on 1 July 1997; and

(b) The area of the HKSAR covers the Hong Kong Island, the Kowloon Peninsula, and the islands and adjacent waters under its jurisdiction. The map of the administrative division of the HKSAR would be published by the State Council separately.

15. In accordance with the decision above, the State Council approved at its 56th Executive Meeting on 7 May 1997 and, by way of promulgating the Order of the State Council of the People's Republic of China No. 221, published on 1 July 1997 the map of the administrative division of the HKSAR, with a description of the boundary of the administrative division of the HKSAR.

16. Section 3 of the Interpretation and General Clauses Ordinance (Chapter 1 of the Laws of Hong Kong) defines the HKSAR as "the Hong Kong Special Administrative Region of the People's Republic of China, the geographical extent of which is the land and sea specified or referred to in Schedule 2". Schedule 2 states that the HKSAR is "the land and sea comprised within the boundary of the administrative division of the Hong Kong Special Administrative Region of the People's Republic of China promulgated by the Order of the State Council of the People's Republic of China No. 221 dated 1 July 1997".

17. According to the legal documents mentioned above, since the WKT of the Hong Kong Section of the XRL is situated in the Kowloon Peninsula, it is certainly within the geographical area of the HKSAR. Even if the co-location of the CIQ facilities of the HKSAR and the Mainland at the WKT is implemented, no area within the WKT will be carved out of the HKSAR's territory.

18. As regards the difference between the HKSAR's geographical area and the high degree of autonomy it enjoys, the HKSAR's **geographical area** is the territory of the HKSAR specified in the legal documents mentioned above, while the HKSAR's **high degree of autonomy** is the autonomy that the HKSAR enjoys as authorised according to the Basic Law. According to Articles 2 and 12 of the Basic Law, the National People's Congress authorises the HKSAR to

exercise a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of final adjudication, in accordance with the provisions of the Basic Law. The HKSAR is a local administrative region of the People's Republic of China, which enjoys a high degree of autonomy and come directly under the Central People's Government. Article 13 of the Basic Law stipulates that the Central People's Government shall be responsible for the foreign affairs relating to the HKSAR and authorises the HKSAR to conduct relevant external affairs on its own in accordance with the Basic Law.

The scope of Article 18 of the Basic Law and other details

19. Regarding the questions raised by certain Members on whether implementing Mainland laws relating to CIQ at the WKT would constitute matters outside the limits of the autonomy of the HKSAR specified in Article 18 of the Basic Law, and questions relating to the enforcement power of Mainland officials at the WKT, as has been reiterated by the HKSAR Government on various occasions, the arrangements and details of the implementation of colocation are still under study and discussion. The Government and the relevant Mainland officials will meet and discuss the issues further. The HKSAR Government will provide further information to the public and LegCo in due course.

Department of Justice
Transport and Housing Bureau
Highways Department
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