

(Translation)

**Meeting of the Public Works Subcommittee of
the Legislative Council on 19 January 2016**

**Hong Kong Section of the
Guangzhou-Shenzhen-Hong Kong Express Rail Link**

Opening remarks by the Secretary for Transport and Housing

Chairman,

Thank you for allowing me to say a few words first.

2. At the meetings on 23 December last year and 13 January last week, there were Members requesting the Government to explain again the outcome and costs which would be incurred if no additional funding was approved for the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") project by the Finance Committee ("FC") of the Legislative Council ("LegCo") before a certain deadline. Let me explain the matter briefly.

3. As pointed out in the paper (Paper No. CB(4)280/15-16(02)) and supplementary information paper (Paper No. CB(4)333/15-16(02)) submitted by the Transport and Housing Bureau to the LegCo Subcommittee on Matters relating to Railways, as well as in the papers (Paper Nos. PWSC(2015-16)50 and PWSC(2015-16)51) submitted to the Public Works Subcommittee in November and December 2015, suspending or even terminating the XRL works contracts would incur various additional expenditure items.

4. According to the information provided by the MTR Corporation Limited ("MTRCL"), the Entrustment Cost of \$65 billion for the XRL project will be used up in July 2016. However, this does not mean that we can wait till July to secure the approval for the additional funding. This is because suspending or terminating the XRL works contracts will also incur additional expenditure items. So long as we have not obtained approval for the additional funding from the FC, the MTRCL, as a responsible project manager, has to issue suspension notice on a certain day in order to keep the final total cost (including suspension and even termination costs) within the amount of Entrustment Cost provided by the Government, i.e. \$65 billion.

5. The Government and the MTRCL are closely monitoring the situation of the project expenditure. Depending on progress, we may need to consider by around the end of February 2016 whether the project should be suspended. The MTRCL assessed that the suspension cost would be about \$0.233 billion per month. Under this scenario, part of the funding originally allocated for the construction of the XRL will be used to cover the suspension-related expenditure.

6. The XRL works contracts between the MTRCL and the contractors allow for a suspension period of a maximum of 180 days (about six months). If the works contracts are subsequently terminated because the additional funding is not approved within the remaining term of the LegCo, another lump-sum cost of about \$3.4 billion will be involved for the termination, including costs for settling previous claims and protecting the works. The Monitoring and Verification ("M&V") Consultant engaged by the Highways Department is of the view that MTRCL's estimation is conservative. Should the works be suspended or terminated, the contractors may well take a different view from that of the MTRCL regarding their entitlements for the cost of works completed. This may lead to a lot of disputes and consequently an even higher additional cost.

7. In any case, suspending and terminating the XRL project eventually will incur an additional cost of at least \$4.8 billion in total, i.e. \$0.233 billion per month times 6 months (which is around \$1.4 billion) plus \$3.4 billion. Such an amount of not less than \$4.8 billion will have to be settled within the existing Entrustment Cost of \$65 billion.

8. Upon termination of the contracts, the Government will have to wait until the start of the term of the newly elected LegCo to apply for the additional funding. By then, both the time and costs required to complete the project will change. First, it may take two to three years to complete the retendering exercise and arrange new contractors to finish the remaining works. During the interim, we still have to provide minimum protection to the unfinished works.

9. Besides, the labour and material costs may rise by that time. Moreover, due to increase in difficulty and risk for the new contractors to work on the unfinished works, the returned tender price may 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, the M&V Consultant estimates that the resumption cost until completion of the project will be as high as

\$28.2 billion. In other words, the total cost for completing the whole XRL project will amount to around \$93.2 billion and the time of completion will be further delayed. This will bring an enormous cost to our society.

10. The Government will definitely not suggest giving up the XRL project and leaving it “unfinished”. This is because to do so will mean that all the designs and unfinished works of the project will become abortive. Under such circumstances, not only will the Entrustment Cost of \$65 billion be wasted, but the Government will also need to undertake the necessary remedial works to ensure safety and to rationalise the road traffic arrangements. Examples of such works include most of the civil and structural works at the West Kowloon Terminus (“WKT”) (including the excavation works and construction of structural columns, slabs and the rooftop) and the permanent road network around WKT. The M&V Consultant estimates that the cost for completing these essential works will be no less than \$10.6 billion. Together with the Entrustment Cost of \$65 billion wasted, the total cost will be at least about \$75.6 billion. This amount has not included the cost for maintaining these works until there is a new plan for their use. A rough estimate of such maintenance cost is \$0.1 billion per year.

11. The additional costs incurred will still require funding approval by the LegCo. Therefore, the actual situation we are facing is that it is not just a question of letting the \$65 billion go into waste and “quit”. If we leave the project unfinished, then in addition to the loss incurred by the project cost, the expected benefits from adjoining developments, as well as benefits which XRL can bring to Hong Kong’s external connectivity, economy and the community as a whole will also be lost.

12. Chairman, we understand the community is concerned with the cost overrun and delay of the XRL project. The Government reserves its right under law and contract to pursue the culpability of the MTRCL as the project manager. We should not turn a blind eye to the consequences and suspend and terminate the project or even leave it unfinished just because we are not satisfied with the cost overrun and the performance of the MTRCL (or even the Government).

13. The Government’s aim is to implement the co-location of customs, immigration and quarantine (“CIQ”) facilities (“co-location arrangement”) upon the commissioning of the XRL. Compared with the separate-location model, the co-location arrangement can greatly facilitate CIQ clearance and increase patronage, thereby realising the full

potential of the XRL. Some Members are concerned about whether the co-location arrangement is achievable for the XRL. The Government has reiterated on a number of occasions that the implementation of the co-location arrangement will be in full compliance with the Basic Law and the “one country, two systems” principle. There will not be any distortion of the Basic Law, nor will the rule of law be prejudiced. We will not compromise the “one country, two systems” principle in exchange for economic benefits. The Government is still discussing possible options with the Mainland authorities. In any case, the specific implementation details of the co-location arrangement will require community consensus, so there is no need to make groundless conjectures for the time being.

14. The Government urges Members to consider the co-location arrangement and the application for additional funding for the XRL separately, so that the project will not have to be suspended or left unfinished.

15. Thank you, Chairman.