

The Hong Kong Tariff Adjustment Mechanism

The Hong Kong Government has had long experience with private sector involvement in toll road provision -- beginning in 1972 with the Cross-Harbour Tunnel. Until recently the Government had no tariff policy, instead using the toll level as one of the decision criteria in selecting the concessionaire.

However since the negotiation of the Western Harbour Tunnel concession a new mechanism was developed. This was motivated in part by the arbitration required on the toll increases on the Eastern Harbour Tunnel concession. The legal action resulted from the lack of toll increases on the Cross-Harbour Tunnel (which is very profitable now having been operating for more than 25 years). There have been no toll increases since 1984 which means that it provides significant competition for the new tunnels.

The new Tariff Adjustment Mechanism includes:

1. a defined schedule of tolls, specifying years of increase and the toll rates themselves,
2. a range of acceptable Financial Internal Rates of Return for the particular project
3. a range of acceptable net revenue projections over the concession period (which includes provision for interest payments)
4. a seat on the concession company Board for the Government

The audited accounts are used every year to compare with the projections. When the concessionaire's revenues are greater than the projections the excess is placed into a Toll Stability Fund. The Government also has the right to use this money to defer the toll increase. When the concessionaire's revenue is less than projected, the fund can be used to top up the revenue to the minimum level. If the balance of the fund is insufficient to allow this, then the concessionaire can bring forward a toll increase, subject to vetting of the accounts by Government. If money remains in the Toll Stability Fund at the end of the concession period, this goes to the Government exchequer.

While this reduces the downside risks for the concessionaire and provides the Government in a share in the upside potential, it does not deal with the issue of the early years, since at that time the flexibility to increase fares is also limited.

Source: *Developing Best Practices for Promoting Private Sector Investment in Infrastructure: Roads*. 2000. Asian Development Bank.

For more information on the Hong Kong experience with toll roads, see *Asian Toll Road Development Program: Review of Recent Toll Road Experience in Selected Countries and Preliminary Tool Kit for Toll Road Development*.