SOUTH CHINA MORNING POST 13 SEP 1987

$1 billion boom under harbour

Big project's Mr Money sees bonanza at end of his tunnel

By JACK SPACKMAN

ROBBIE Brothers remembers when you could build a tunnel under Hongkong harbour for a mere $250 million or so.

The contract to build the Cross-Harbour Tunnel (started in 1969 and opened in 1972) was $220 million. Fixtures and fittings added another $45 million to the cost.

Today, that's almost loose change to Mr Brothers who is responsible for managing the finances of the second cross-harbour tunnel.

In the past few weeks, expenditure by the New Hongkong Tunnel Company has passed the $1 billion mark, in little more than a year, and it will spend that much again, and again, before the project is finished.

Total cost of the new tunnel, near the eastern boundary of the harbour, will run to about $3.4 billion, or 12 to 13 times the cost of the first tunnel.

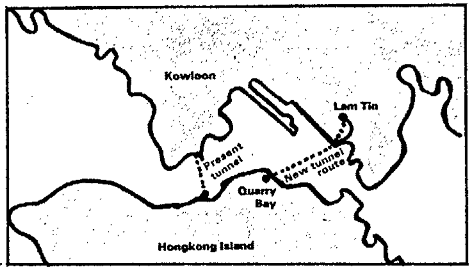
"If nothing else, it illustrates how much more expensive things have become in Hongkong," observes Mr Brothers who was involved in the management of the Cross-Harbour Tunnel from the day it opened and in the planning of it for 10 years before that.

He had worked for Wheelock Marden, a shareholder and manager of the Cross-Harbour Tunnel, for 25 years but like a number of people he decided to make a break at the end of 1985 when control of the group passed to Sir Y.K. Pao.

Mr Brothers started his own financial advisory business and then the New Hongkong Tunnel Company asked him to come on board to manage its financing and to set up a management company to run the facility when it is completed two years from now.

The second tunnel will be no longer than the first and the construction method is the same. The only significant difference is that in addition to four lanes of road traffic, the new tunnel will have a railway tube and a maintenance core.

Construction costs clearly were lower in 1969, said Mr Brothers. There also was an advantage in the fact that the loans to finance the construction of the first tunnel were all written in sterling at fixed, and low, interest rates of five per cent.



As sterling depreciated (in those days the exchange rate was HK$16 to £1), the repayment cost in Hongkong dollars actually fell.

Still, by any calculation, much of the higher cost of building the new tunnel can be put down to inflation over the past 15 years.

But Mr Brothers is convinced that at any price the new tunnel will be a good deal.

He has no doubt that, just like the first harbour crossing, it will set off another economic boom for Hongkong.

"The decision to go ahead with the Cross-Harbour Tunnel was very important to Hongkong," he said.

Confidence

"We were still recovering from the 1967 riots and the tunnel was one of the first acts of faith in our future.

"It set off boom conditions in the economy and I'm sure the new tunnel will do the same."

A little more than a year ago, some of the banks did not share Mr Brothers' confidence about the eastern harbour crossing.

They listened politely to all the talk about long-term commitment to Hongkong but some of them still took a lot of convincing that enough cars and MTR passengers would pass through the tunnel over the next 30 years to allow the company to recoup its investment and, more importantly, pay back its bank loans.

The American bank Shearson Lehman Bros had the task of arranging the finance and, despite the initial caution, it finished up with nearly 50 banks around the world involved in one way or another.

One of the factors that made Shearson Lehman's task manageable has been the involvement of China in the project.

Among the shareholders in the tunnel company is CITIC, the China International Trust and Investment Corporation, with 9.5 per cent of the equity.

CITIC's involvement was taken by many bankers as a Beijing seal of approval on the project.

By the time the Bank of China and the Hongkong Bank, through subsidiaries, had let it be known that they wanted to take a lead in arranging the financing, other banks were lining up for their share.

By far the biggest shareholder in the company is Kumagai Gumi, the Japanese construction giant which also has the contract to build.

The Japan-based Kumagai Gumi and a local subsidiary between them hold 71.25 per cent of the company.

Other shareholders include the Hongkong Government (five per cent), Paul Y Construction (6.65), Lilley Construction of Britain (4.75) and Marubeni of Japan (2.85).

Between them, they subscribed equity capital of $1.1 billion, sufficient to get work started and to convince the international bankers that this was no lightweight scheme.

At the end of last month, the company's spending reached the level of its equity.

To show for that, it has five precast concrete tubes floating in the harbour and plans for 10 more.

These 40,000-ton units, as big as an ocean-going vessel, will be placed on the harbour floor and joined together to complete the tunnel, the same process used for the Cross-Harbour Tunnel.

□ Mr Robbie Brothers: foresees another economic boom from the new tunnel.

"Our schedule allows for completion by January 1990 but with any luck we'll bring it in four months ahead of that," said Mr Brothers.

Any delay on the project could result in financial penalties being imposed by the Government. By the same token, an early finish will mean the tunnel can start generating revenue earlier.

"It's going to take a lot of cars going through there at $10 a time to pay back $3 billion," said Mr Brothers.

The developing partners will have a franchise on the road portion of the tunnel until the year 2016 and on the rail portion until 2008.

The rail portion will be leased to the MTR but on the road portion the company will have the right to collect and keep all the tolls for 27 years after it opens.

Right now, they're doing their sums on the basis of about 60,000 vehicles a day or 20 million a year, using the tunnel, about half the number now going through the Cross-Harbour Tunnel.

Repaid

But if the pattern at the new tunnel is anything like that at the old, the bankers will find their loans being repaid well ahead of time.

In its first full year of operation (April 1973 to March 1974), the Cross-Harbour Tunnel collected tolls from 13 million vehicles. Six years later, the annual throughput had passed 33 million. This year, approach road congestion permitting, it could reach 40 million.

On the drawing boards is a fast road link between the Kowloon end of the new tunnel and the Tate's Cairn Tunnel.

The combination of the new link road and the second harbour tunnel will considerable relieve traffic congestion on Hongkong island and on the Kowloon peninsula, according to Mr Brothers.

It will enable motorists to speed from Hongkong island to beyond Sha Tin in minutes, opening up new residential, industrial and commercial areas in what is now a backwater on Kowloon side.

China-backed CITIC and Kumagai Gumi already have joined forces, along with Mr Li Ka-shing's Cheung Kong to develop a huge residential and commercial complex at Lam Tin, in between the Cha Kwo Ling tunnel exit and Kwun Tong where the MTR currently reaches the end of its line.

The development will soak up $2 billion and provide close to 3,000 homes close to the new MTR station at Lam Tin.

Also on the Government's drawing boards is another tunnel through a mountain that will link Lam Tin with Junk Bay, thereby opening up more valuable property for development.

In another six months or so, Mr Brothers will begin assembling his management team of about 200 to run the new tunnel.

With four lanes for road traffic, it will need 14 toll collection booths, the same as the existing tunnel, he said.

"That's the optimum figure to handle all the traffic without slowing it down," he said.

He believes, unlike many motorists, that it's the congestion leading to the tunnel rather than the toll collection that causes delays.

Toll for cars in the new tunnel will be fixed at $10, the same as that at the existing tunnel.

And according to the ordinance governing the new facility, the Government will not be able to impose a traffic tax for the first five years – and then only on the grounds of relieving congestion.

By the time that, for motorists, unhappy stage is reached, the new tunnel should be paid for and profitable.

Then, some of the doubting Thomases in the banking community will be eating their words, if not their hats.