

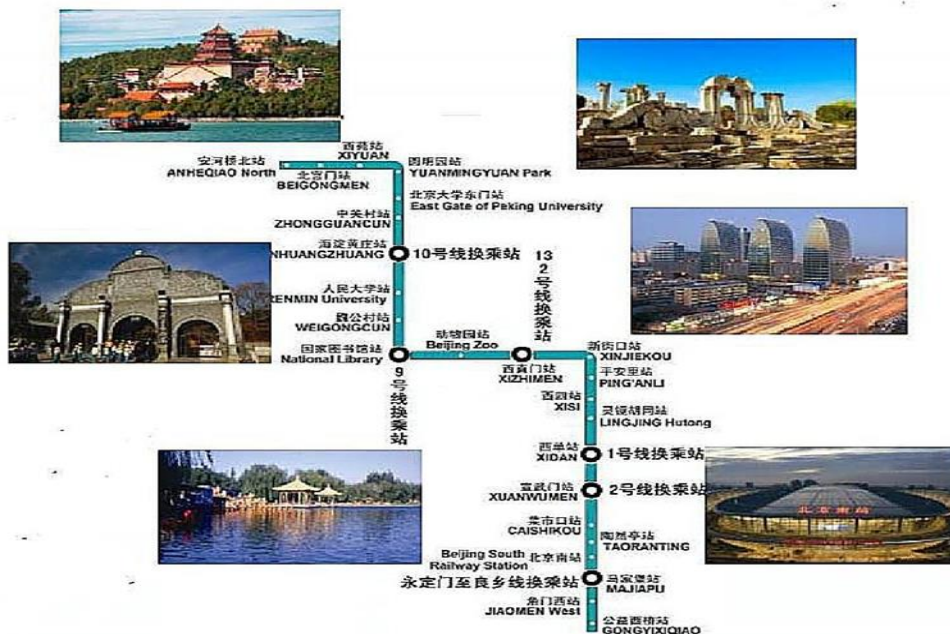
CASE STUDY

Municipal Finance

MF Case 25: Beijing, China Beijing Subway line 4 project

Project Introduction: Beijing metro line 4 began to be constructed in August 2010, and was officially open on September 28th, 2009. The project has a total investment about 15.3 billion yuan, and it is composed of two comparatively independent parts, i. e. part A and part B. Part A is the civil works, including tunneling, demolition, laying tracks, etc. The cost of part A is 10.7 billion yuan (about 70% of the total cost), of which is paid by the government. Part B adopts PPP model to provide electro-mechanical facilities, of which the cost is 4.6 billion yuan. The SPV company, Beijing MTR Corporation Limited is mainly responsible for part B. The company is also the franchise of the whole project, which is responsible for the operation and maintenance of the project, and the concession period is 30 years. The registered capital of the SPV company is 1.5 billion yuan, of which 49% is from social investment while 51% is from government investment. The remaining 3 billion yuan required by part B is provided by project financing from commercial banks.

Beijing Subway line 4 project



Source: Mingyi Lu. Case Study on Applications of PPP Financing Method in Rail Transportation Sector[D], China University of Geosciences (Beijing), 2014.

Funding Sources:

Beijing MTR Corporation Limited recoups the investment by passenger fares and commercial advertising revenues. Subway fares are the core of operating income in the metro project and pricing power of line 4 project is grasped by the government. Beijing adopted a policy of the unity of the 2 yuan subway fares before, and since December 28th, 2014, the subway fares were charged by mileage. As the passenger fares before were too low to cover the operating cost, the government had to provide subsidies to the project to make up the gap between actual price levels and government pricing, which increased the governments' financial burden. After the reform of subway fares, the burden of the government has been greatly mitigated. The government collects rent from the franchise company for the asset of part A, and adjust the rent according to the passenger flows.

Relevance of the cases:

Beijing Metro Line 4 project, it was designed as AB two parts. Part A is civil works such as land acquisition and house demolition, cave structure and orbital construction. This part of the project is difficult to design a profit, so investment is undertaken by government. This part of the investment is about 10.7 billion yuan, for pure public financial support. However, vehicles, signals, automatic fare collection systems and other equipment that related to operation, the investment is about 4.6 billion yuan, this part of the investment can produce stable earnings, so it is designed as a PPP project to attract green finance capital.

References

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Credentials

Authors: Ute Zimmermann, Zhuo Yao and Michael Lindfield – with Florian Steinberg.

Edited by: Florian Steinberg