

**For information on
10 October 2001**

Legislative Council Panel on Economic Services

“LOGISTICS HONG KONG”

INTRODUCTION

This paper sets out the Administration’s plan to strengthen our infrastructure to support the development and promotion of Hong Kong as the preferred international and regional logistics hub.

BACKGROUND

2. Logistics services span over sea, air and land transport, and involve various policy areas. To ensure connectivity at different stages of the supply chain, both the public and private sectors need to collaborate and co-ordinate their services. Recognising this point, the Committee on Logistics Services Development (CLSD) was set up under the Port and Maritime Board (PMB) in May 2000 to consider how the various segments in the supply chain can work more closely together to promote the development of logistics services in Hong Kong.

3. To further the work of the CLSD, the McClier Corporation was commissioned by the PMB in December 2000 to carry out the “Study to Strengthen Hong Kong’s Role as the Preferred International and Regional Transportation and Logistics Hub” (IRTLH). The key findings of the

IRTLH study are highlighted in the Executive Summary *at Annex*.

THE ADMINISTRATION'S RESPONSE

4. The Government is committed to providing a conducive environment and the necessary infrastructure to facilitate the development and promotion of Hong Kong as the preferred international and regional transportation and logistics hub as well as a base for coordinating and integrating service providers for the global and regional demand and supply chain. The Chief Executive has stated in his Policy Address that

“With Hong Kong’s excellent transportation facilities and the PRD’s high productivity, together we can develop into a logistics hub to link the Mainland with the world. We can promote the development of an inter-modal transportation system and consider other supporting facilities to speed up the flow of goods and information. The provision of integrated services will also strengthen Hong Kong’s competitive advantage as a supply-chain base.”

Strengthening 2 “C”s in 4 “L”s

5. Our priorities will be the strengthening of **Connectivity** between the different modes of transport links between Hong Kong and our cargo sources; and the facilitation of **Collaboration** amongst the players in the chain under the four pillars of “Logistics Hong Kong” : “physical, electronic, human resources and marketing logistics”. The 2 “C”s and 4”L”s have become the cornerstones for “Logistics Hong Kong”.

6. With the globalization of world trade, the advent of the Internet and E-commerce as the prime driver for the new economy, the imminent accession of China into the WTO, and fast changing practices in the demand and supply chain and the logistics sector, we need to reassess how Hong Kong should reposition itself to capture the opportunities arising from these developments.

7. Our key policy objectives are to attract the flow of cargoes through the port and airport of Hong Kong; to facilitate the development of our infrastructure to enable Hong Kong to take advantage of opportunities in “virtual logistics”; and to facilitate Hong Kong companies in providing logistics services under the demand and supply chain that operates through or from Hong Kong.

Organisational Support

8. The Administration has considered the recommendations on “institutional arrangements” in the IRTLH study report. The following new organisations will be set up to support the work of “Logistics Hong Kong” -

- (a) **Policy Steer** : the creation of a new “Steering Committee on Logistics Development” (LOGSCOM) to be chaired by the Financial Secretary to provide the policy steer and to accelerate measures to take forward “Logistics Hong Kong”;
- (b) **Facilitation** : the creation of a new “Hong Kong Logistics Development Board” (HKLDB) to provide a forum for the public and private sector stakeholders to discuss and co-ordinate matters concerning the industry and to carry out joint projects ; and

- (c) **Administrative Support** : the PMB Division in ESB will be restructured to become the “Port, Maritime and Logistics Development Unit”. It will be tasked to support the development of policy initiatives and to coordinate and integrate actions and programmes emanating from LOGSCOM, and HKLDB.

The new organisations will be set up shortly to start operation.

9. The focus of work for “Logistics Hong Kong” in the coming year will be to strengthen the 2 “C”s in the 4”L”s. The agenda for the coming year has been set as follows -

Strengthening connectivity with our cargo hinterland

- (a) p-logistics : to strengthen the infrastructural and inter-modal transportation links under the demand and supply chain that operates through Hong Kong.
- (b) regulatory infrastructure : to improve and expedite customs and immigration clearance.

Strengthening collaboration amongst service providers

- (c) e-logistics : to enhance collaboration and develop the IT links to better integrate and enhance the efficiency of service providers in the demand and supply chain that operates through or from Hong Kong.
- (d) h-logistics : to collaborate with stakeholders for a more integrated short term and long term manpower development programme to support “Logistics Hong Kong”.
- (e) m-logistics : to develop marketing synergies amongst the

promotional programmes of the Airport Authority Hong Kong (AAHK), Hong Kong Port and Maritime Board (HKPMB), Hong Kong Trade Development Council (HKTDC) and Invest Hong Kong to create a more effective promotional campaign for “Logistics Hong Kong”;

- (f) support for SMEs : to review how assistance to SMEs (small and medium enterprises) can be strengthened so as to encourage them to embrace the concepts and practices of 4 “L”s.

Economic Services Bureau

10 October 2001



香港港口及航運局
Hong Kong
Port and Maritime Board

Executive Summary



**Study to Strengthen Hong Kong's Role
as the Preferred International and
Regional Transportation and
Logistics Hub**

2 0 0 1

Competitive Strategy
and
Master Plan
for
Hong Kong
as the
Preferred
International and Regional
Transportation and Logistics Hub

EXECUTIVE SUMMARY

Project Team

McCluer, a specialist in the development of internationally competitive solutions in the fields of transportation and logistics, and Maunsell, a local engineering and consulting organisation, both AECOM Companies, were commissioned at the end of the Year 2000 by the Port and Maritime Board to perform this consulting assignment.

In performing this work, they were supported by local consultants Unicorn Consulting and GML Consulting.

Objective and Background

The objective of this study is to develop and implement a Competitive Strategy and Master Plan for Hong Kong to maintain its position as a transportation and logistics hub as a result of the development of alternative locations including those within the Pearl River Delta.

The importance of this study is accentuated by the fact that the Commission on Strategic Development identified "Trade, Transportation and Logistics" as one of the seven key areas to support Hong Kong's long term vision.

This assignment followed the "Strategic Forum on Developing Hong Kong as a World Class Logistics Centre" completed in March 2000 and the establishment of the Committee on Logistics Services Development (CLSD) in May 2000.

As part of the efforts of the CLSD, three working groups were established to consider how the physical, cyber, regulatory and human resources infrastructure could be enhanced to support the development of the logistics sector.

The McCluer Team interacted with CLSD in order to obtain its input and concurrence as to the overall strategic direction. This was in addition to focused interviews and presentations to private and public stakeholders, which resulted in obtaining the input of over 100 entities.

Approach

The project methodology includes both the analysis of competing locations within the Pearl River Delta and

Shanghai as a Continental Gateway, together with a benchmarking of the characteristics of principal world wide Gateways and Transportation Hubs.

A further element of the analysis included a review of the evolution of the Logistics Sector as part of the Global Supply Chain. This included the industry trends, functional environment and relevant competitive issues.

As part of the process, the input of the three working groups, established by the CLSD to examine the physical, cyber, regulatory and human resource infrastructure, was incorporated. This was in addition to the input obtained from private and public sector stakeholders.

As a result of this, it was determined that an integrated overarching Master Plan was required, which would address the need to create a more productive logistics environment in Hong Kong, while expanding the physical and virtual catchment areas.

The Master Plan was also developed with the objective of obtaining the “buy-in” and potential participation of both the public and private sectors in all phases of the programme. This includes a total of over twenty project and initiatives.

As a result of the feedback received from the CLSD Steering Committee and the Board of the PMB, six target projects were defined. These have the objective of bringing immediate benefit to Hong Kong since it was determined that time is of the essence in implementing the Competitive Strategy.

Competitive Strategy and Master Plan

Hong Kong's Competitive Strategy and Master Plan is motivated by the understanding that alternative low cost transportation options are being developed in Mainland China including the Pearl River Delta. This includes services provided at such locations as:

- Shenzhen, Macau, Guangzhou (air platform)
- Yantian (sea platform)
- Shanghai (sea, air, land, platform)

The Competitive Strategy further aims at capitalising on existing capabilities and resources within the SAR, including:

- The centres of excellence provided by the existing air and seaports and cyber infrastructure
- The logistical location of Hong Kong
- The established trading environment

The Master Plan therefore incorporates three principal elements in order for Hong Kong to enhance its competitive position:

- Creating an efficient integrated logistics platform with sea, air and land modes of transportation and the capability for the integral processing of goods.
- Creating logistics pipelines as part of the PIDN (Port Inland Distribution Network) extending beyond the confines of the SAR, which facilitate the movement of goods to and from Hong Kong focused both on the Pearl River Delta and the Inland (Wuhan and Chengdu.)
- Providing the capabilities for the Small to Medium Sized Business Enterprises (SME/MBE), including trading companies, to participate in the Global Supply Chain and the Virtual Market.

These three elements were the principal motivators of the twenty projects and initiatives defined as part of the overarching Master Plan. This includes the six target projects defined as part of an initial accelerated phase.

Target Projects

The target projects to be completed as part of the initial three-year phase incorporate:

- **The development of an Integrated Operational Plan**, which defines the framework for the creation of a multimodal logistics platform in Hong Kong

and the associated external logistics pipelines.

This plan has the objective of providing an overarching operating concept and “road map” which includes the target projects in addition to seeking areas for productivity improvement between the transportation nodes as part of a re-engineering effort.

- **The establishment of an Intra-Asian Integrator Hub** in Hong Kong with intercontinental capability by defining the operational and physical (facility and infrastructure) needs and characteristics of such a project.

This includes both the air side and land side needs at the airport together with the connectivity issues required for the movement of time critical freight to and from it, using both land and high speed boat transportation systems.

- **The creation of Value Added Logistics Parks,** which enable the efficient processing of goods as an integral part of a multimodal logistics system. These are to be located on a phased basis at the airport, Tsing Yi and Tuen Mun.

The characteristics of the initial VALP are to be defined in terms of its capability to accommodate multiple custom-built third party logistics providers and transportation companies, together with a common use facility focused on SME/MBE participation.

A further element of this project is the definition and implementation of dedicated road/rail feeder systems between the VALP, the air platform and future high speed boat feeders. This enables the VALP to be part of a more productive transportation and processing environment.

-
-
- **The establishment of a PRD Road - Fast Track Pipeline** to facilitate the movement of freight from select gateways, freight villages or inland ports within Mainland China, with a focus on the Eastern Pearl River Delta.

This project includes the location of the pipeline routing together with the definition of the facility and operational requirements (customs, licensing, security, cyber interfaces and support needs.)

- **The establishment of a PRD High Speed Boat – Fast Track Pipeline** to facilitate the movement of time critical freight from the catchment area within the Western Pearl River Delta.

This project includes the location of the pipeline routing, together with the definition of the facility and operational requirements required to facilitate the movement of time critical freight from selected gateways, freight villages or inland sea and air ports.

- **The establishment of an Inland Logistics Rail Pipeline** capitalising on the Rail Feeder being developed by the KCRC to the Mainland, together with the development of a freight village in Pinghu and the potential for the operation of inland block trains.

This project involves the definition of the inland gateways, freight villages or inland ports as part of the logistics pipeline together with the associated facility and operational requirements (customs, licensing, security, cyber interfaces and support systems.)

The definition of the technical needs of the individual target projects is to be complemented by a commercial effort aimed at promoting the projects and obtaining the buy-in and participation of private sector organisations.

This initial effort will be further complemented by the initiatives focused on Cyber and Regulatory, Human Resource and Institutional issues which need to be addressed in order to implement the projects. These incorporate:

- The **Cyber Initiative** which capitalises on using the existing IT infrastructure while supporting the creation of a Logistics System, which facilitates the movement and processing of goods in Hong Kong.
- The **Human Resource Initiative** which includes the seeks to develop and enhance the human resources capability in Hong Kong to support the new initiatives for the logistics sector.
- The **Institutional Initiative** which is driven by the multi-disciplinary and multi-organisational characteristics of integrated transportation and value added logistics programme. This motivates the creation of a Freight and Logistics Services Development Unit (FLSDU) in order to both champion and undertake a complex and multifaceted programme on an expedited basis, and this will be complemented through the creation of a Logistics Council of Hong Kong (LCHK) which will act as a means of collaboration between different private and government entities in the fields of transportation and value added activities as part of a proactive logistics promotion programme.

Implementation Methodology

The methodology to be used as part of the Competitive Strategy aims at implementing both private and private/public sector projects as part of an overarching plan developed by the Government.

In addition, it incorporates a commercial approach in order to seek private sector involvement and its consequent participation in individual projects.

It further incorporates a mechanism for different bureaux and departments as well as associated organisations such as AA, PMB, KCRC, TDC, Invest Hong Kong, CILT, HKLA, and HKPC and Tradelink to work towards a common goal as part of the Competitive Strategy.

The first nine-month phase of the Implementation Methodology will involve:

- Development of the IOP (Integrated Operational Plan) as the overarching framework of the Logistics System.
- Defining the scope and characteristics of the individual target projects as part of the integrated programme.
- Finalising the Institutional Framework in order to enable the fast track implementation of the projects, including the creation of the FLSDU and the LCHK.
- Promoting the programme with potential participants and users.
- Creating a Logistics Services Development Fund.
- Incorporating SME/MBE participation as one of the target projects.
- Addressing Human Resources issues as part of an overall initiative.
- Addressing Cyber issues relevant to the projects as part of an overall initiative.

Subsequent to this, a two-year implementation phase will follow, which aims at completing the target projects on a public/private or private sector basis.

The subsequent phases of the overall programme have a target completion date at the end of 2005. This results in a five-year period for the finalisation of the effort which commenced with the definition of the Competitive Strategy and Master Plan.

As a result of this programme, Hong Kong will have the institutional, human resource and logistic structure in place for it to continue as a Centre of Excellence and Gateway to China both as an International and Regional Transportation and Logistics Hub.

