

立法會
Legislative Council

LC Paper No. CB(1)2252/02-03
(These minutes have been seen
by the Administration)

Ref: CB1/PL/ES/1

Panel on Economic Services

**Minutes of meeting held on
Monday, 23 June 2003, at 10:45 am
in the Chamber of the Legislative Council Building**

- Members present** : Hon James TIEN Pei-chun, GBS, JP (Chairman)
Dr Hon LUI Ming-wah, JP (Deputy Chairman)
Hon Kenneth TING Woo-shou, JP
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, GBS, JP
Hon Fred LI Wah-ming, JP
Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP
Hon CHEUNG Man-kwong
Hon HUI Cheung-ching, JP
Hon CHAN Kam-lam, JP
Hon SIN Chung-kai
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Howard YOUNG, JP
Hon LAU Chin-shek, JP
Hon Miriam LAU Kin-yee, JP
Hon CHOY So-yuk
Hon Henry WU King-cheong, BBS, JP
- Non-Panel Member attending** : Dr Hon David CHU Yu-lin, JP
- Members absent** : Dr Hon Philip WONG Yu-hong
Hon Abraham SHEK Lai-him, JP
Hon LEUNG Fu-wah, MH, JP

Public officers attending : Agenda Item V

Economic Development and Labour Bureau

Ms Sandra LEE
Permanent Secretary for Economic Development and Labour (Economic Development)

Ms Miranda CHIU
Deputy Secretary for Economic Development and Labour (Economic Development) 1

Mr Alex WONG
Principal Assistant Secretary for Economic Development and Labour (Economic Development)

Lands Department

Mr Herbert LEUNG
Assistant Director of Lands

Agenda Item VI

Economic Development and Labour Bureau

Ms Sandra LEE
Permanent Secretary for Economic Development and Labour (Economic Development)

Mr Wilson FUNG
Deputy Secretary for Economic Development and Labour (Economic Development) 2

Miss Winnie HO
Principal Assistant Secretary for Economic Development and Labour (Economic Development)

Civil Aviation Department

Mr Albert LAM
Director-General of Civil Aviation

Mr Simon CHEAN
Senior Safety Officer

Agenda Item VII

Economic Development and Labour Bureau

Ms Sandra LEE
Permanent Secretary for Economic Development and
Labour (Economic Development)

Mr Wilson FUNG
Deputy Secretary for Economic Development and
Labour (Economic Development) 2

Miss Winnie HO
Principal Assistant Secretary for Economic
Development and Labour (Economic Development)

Civil Aviation Department

Mr Albert LAM
Director-General of Civil Aviation

Miss Lilian FONG
Senior Operations Officer

Clerk in attendance : Mr Andy LAU
Chief Assistant Secretary (1)2

Staff in attendance : Ms Debbie YAU
Senior Assistant Secretary (1)1

Miss Winnie CHENG
Legislative Assistant 5

Action

- I Confirmation of minutes and matters arising**
(LC Paper No. CB(1)1987/02-03 - Minutes of meeting held on
26.5.2003)

The minutes of the meeting held on 26 May 2003 were confirmed.

II Endorsement of the report of the Panel for submission to the Council
(LC Paper No. CB(1)1972/02-03 - Draft report of the Panel on Economic Services for submission to the Legislative Council)

2. Members endorsed the draft report of the Panel for submission to the Council on 9 July 2002.

III Information papers issued since last meeting
(LC Paper No. CB(1)1876/02-03(01) - Tables and graphs showing the import and retail prices of major oil products from May 2001 to April 2003 furnished by the Census and Statistics Department)

3. Members noted the information papers issued since last meeting.

IV Items for discussion at the next meeting scheduled for 28 July 2003
(LC Paper No. CB(1)1959/02-03(01) - List of outstanding items for discussion
LC Paper No. CB(1)1959/02-03(02) - List of follow-up actions)

4. Members noted that the Administration had proposed the following items for discussion at the forthcoming meeting to be held on 28 July 2003:

- (a) Proposed Merchant Shipping (Limitation of Shipowners Liability) (Amendment) Bill;
- (b) Cross-boundary passenger ferry services between the Hong Kong International Airport and the Pearl River Delta;
- (c) Technical Study on Increasing Power Interconnection in Hong Kong : Consultancy Findings; and
- (d) Progress in the Development of a Digital Trade and Transportation Network System.

5. To cope with the business, members agreed that apart from the regular meeting scheduled for 28 July 2003, a special meeting would be held on 18 July 2003 at 11:45 am. The agenda would be finalized in collaboration with the Administration.

(Post-meeting note: The Chairman subsequently agreed that items (a) and (b) would be discussed at the meeting on 18 July 2003, and items (c) and (d)

on 28 July 2003.)

6. Members also agreed that a joint meeting with the Panel on Environmental Affairs would be held on 18 July 2003 at 10:45 am. The purpose of the joint meeting was to follow up on issues relating to the policy on the development and wide-scale application of renewable energy.

V Petrol filling stations sites - new tendering arrangements

(LC Paper No. CB(1)1959/02-03(03) - Information paper provided by the Administration

LC Paper No. CB(1)2034/02-03(01) - Submission on "Petrol filling stations sites - new tendering arrangements" from Hon Fred LI Wah-ming (Chinese version only)

LC Paper No. CB(1)2059/02-03(01) - The Administration's reply to the submission from Hon Fred LI Wah-ming (Chinese version only)
(*tabled and subsequently issued to members on 24 July 2003*)

7. At the invitation of the Chairman, the Deputy Secretary for Economic Development and Labour (Economic Development)¹ (DS/EDL(ED))¹ briefed members on measures to encourage more competition in the fuel supply market and the new tendering arrangements for petrol filling station (PFS) sites as set out in LC Paper No. CB(1) 1959/02-03(03).

8. The Chairman was concerned about the publicity arrangement and promotional plans for the new tendering arrangements for PFS sites. In order to attract prospective and foreign investors to enter the local fuel supply market with a view to enhancing competition, the Administration should place greater effort in the related publicity and promotional plans. Mr Kenneth TING echoed the Chairman's view and opined that Invest Hong Kong should be invited to provide comprehensive inward investment support services to prospective and foreign investors.

9. DS/EDL(ED)¹ took note of the members' views. She said that as a member of the World Trade Organization (WTO), Hong Kong was committed to maintaining a level-playing field for both local and overseas companies. Regarding publicity arrangement, she said that tenders would be advertised in the local press, and apart from posting the tender documents on the website of the Lands Department, the Administration would also disseminate the relevant information to those companies which had earlier expressed interest in the local fuel supply market.

New tendering arrangements and competition

10. Mr Eric LI welcomed the new tendering arrangements for PFS sites. He however cast doubt on its effectiveness to create a competitive market position. He also queried about the conflicting principles of encouraging newcomers from entering the fuel supply market and maintaining a level- playing field for all market participants. Given the strength of existing players, it would be difficult, if not impossible, for newcomers to compete with them. Mr LAU Chin-shek and Dr LUI Ming-wah were also of the view that instead of introducing new market players, the PFS sites might eventually be awarded to existing players, hence resulting in reduced competition in the fuel supply market.

11. The Permanent Secretary for Economic Development and Labour (Economic Development) (PS/EDL(ED)) pointed out that there had been complaints that the existing tendering arrangements did not provide certainty to tenderers who might be successful in obtaining one site in a particular tender exercise but not necessarily be successful in subsequent tenders. This uncertainty in acquiring a "critical mass" of PFSs, thereby achieving economy of scale, was perceived as a potential drawback which discouraged newcomers from entering the fuel supply market. The new tendering arrangement was intended to facilitate entry of new market players on the one hand whilst maintaining the time-honoured principles of free enterprise, free trade and a level-playing field for all market participants on the other.

12. DS/EDL(ED)1 added that the Government considered competition was best nurtured and sustained by allowing the free play of market forces. Whilst the Administration could not predict the result of the tendering exercise, the new tendering arrangement was intended to encourage competition in the fuel supply market. A review of the new arrangements, including the response of existing and new market players, and the impact on pump prices, would be made in considering arrangements for subsequent years. It would be purely a commercial decision for tenderers whether to submit a single "super bid" for all the sites in the batch or individual bids for each PFS site in the batch.

13. Whilst welcoming the new tendering arrangements for PFS sites, Mr Fred LI was worried that even if newcomers could enter the fuel supply market through the new tendering arrangements, they were not in a position to compete with existing market players, bearing in mind the extensive network of PFSs operated by existing market players. He also asked the Administration to introduce measures to curb the mal-practice of bid-rigging by existing market players, taking into account four of the 15 PFS sites put up for open tender in 2003-04 were existing PFS sites with expiring lease.

14. DS/EDL(ED)1 replied that the "batching" approach should facilitate potential new entrants to come forward more readily. Having regard to the views expressed by prospective investors, the 15 sites would be tendered in three

batches, each consisting of five sites. The batching of sites into five was considered an optimum starting point for new market participants, taking into account the potential financial commitment and the need to acquire a "critical mass" of PFSs to achieve economy of scale.

15. On possible bid-rigging by existing players, DS/EDL(ED)1 noted that the existing oil companies were multinational corporations which were obliged to comply with their own codes of practice. The Administration would keep in view the position and it should be noted that the Director of Lands was not obliged to award any tenders in the event that any unusual phenomenon in the tender process was observed.

16. As existing market players might have an edge over newcomers in bidding for PFS sites, Mr Fred LI enquired whether arrangements could be made to shorten the leasing period of PFS sites so as to make available more PFS sites for open tender. DS/EDL(ED)1 said that such arrangements would represent a fundamental departure from existing policy. In order to maintain a level-playing field for all market players, the leasing period should remain unchanged. A longer leasing period would allow investors to seek a reasonable return on their investment over a longer period of time.

17. Mr CHAN Kam-lam pointed out that the crux of the issue was whether the new tendering arrangements could help lower the pump prices of petrol. As tender prices remained the sole criteria for assessment, it was unlikely that newcomers could significantly reduce the pump prices to ensure consumer benefit.

18. DS/EDL(ED)1 pointed out that tender price was an objective and fair criteria for assessment. She understood that land cost only constituted about 5% of the average total operating costs of oil companies. In order to maintain a level-playing field for all market players, the Government would not devise special arrangement which would favour new market entrants.

19. In reply to Mr CHAN Kam-lam, the Assistant Director of Lands advised that a reserve price would be set for each site so as to prevent it from being sold at rock-bottom price. In determining the reserve price, the Administration would make reference to the estimated sales volumes of the PFS sites and take into account past tender results, agreed assessment of premium for PFS sites and any open market sales evidence.

20. Ms Miriam LAU pointed out that the ultimate objective of competition was to achieve price reduction. In her opinion, unless there was a structural change to the cost components of oil companies, such ultimate objective could not be achieved simply with the introduction of new tendering arrangements for PFS sites. To this end, she enquired whether the Government was prepared to consider lowering the rate of Government duty which constituted about 60% of the total operating cost of oil companies.

21. PS/EDL(ED) pointed out that revenue-related matters would require careful consideration by the Financial Services and the Treasury Bureau. DS/EDL(ED)1 added that a review of the new tendering arrangements, including the impact on pump prices, would be made in considering arrangements for subsequent years.

Off-shore storage facilities and storage requirements

22. Noting that new entrants to the market could have their fuel storage facilities located off-shore such as in the Mainland, Mr LAU Chin-shek was worried that the Administration's measure would have adverse impact on local employment.

23. DS/EDL(ED)1 said that the Administration had no intention to encourage oil companies to set up their fuel storage facilities off-shore. The Administration merely pointed out that there was no stipulation, statutory or otherwise, which required oil to be stored locally. In the final analysis, oil storage was a commercial decision for the oil companies. In reply to the Chairman, DS/EDL(ED)1 said that the existing oil companies had invested billions of dollars in setting up oil storage facilities locally. As regards potential impact on local employment, she said that data from the Census & Statistics Department showed that the total workforce in PFS sites and non-PFS sites for the whole fuel supply industry were about 1 900 and 1 200 respectively.

24. Mr Eric LI enquired if existing market players were bound by the land leases to keep their fuel storage facilities in Hong Kong. To facilitate transportation of oil from the Mainland, he asked if special arrangements would be introduced to streamline the custom clearance procedure. He also asked whether fuel products transported from the Mainland would be subject to the same level of Government duty.

25. DS/EDL(ED)1 said that existing market players were free to decide where to locate their storage facilities but the land premium paid on their existing storage sites would not be reimbursed should they choose to relocate. She confirmed that Government duty would be imposed in accordance with existing law on fuel products brought in from the Mainland.

26. With the relocation of fuel storage facilities away from Hong Kong, Mr LAU Chin-shek was concerned about the monitoring mechanism for ensuring adequate oil supply in Hong Kong.

27. PS/EDL(ED) said that at present, the minimum storage requirements only applied to diesel and naphtha which were mainly for commercial use. She further said that even if fuel storage facilities were away from Hong Kong, the Administration would have to consider how the oil products concerned could comply with the minimum storage requirements.

28. Mr Henry WU enquired whether the requirement for the PFS sites to install a system to recover petrol vapour emitted during vehicle refuelling would be specified in the tender documents.

29. DS/EDL(ED)1 pointed out that as the concerned legislation had yet to be enacted, the relevant requirements would not be included in the tender documents. In taking forward the proposal, the Economic Development and Labour Bureau had consulted the relevant bureaux and interested parties and they indicated support for the proposal.

30. Summing up, the Chairman asked the Administration to take note of members' concerns expressed at the meeting and closely monitor the implementation of the new tendering arrangements for PFS sites.

VI Proposed amendments to the Air Navigation (Dangerous Goods) Regulations and the Dangerous Goods (Consignment by Air) (Safety) Regulations

(LC Paper No. CB(1)1959/02-03(05) - Information paper provided by the Administration)

31. At the invitation of the Chairman, the Director-General of Civil Aviation (DG/CA) briefed members on the Administration's proposal to amend two sets of regulations in order to effect the latest changes to the international standards in the transport of dangerous goods (DG) by air. To ensure aviation safety, the International Civil Aviation Organization set out requirements regarding the transport of DG by air. These requirements regulated matters such as the classification, packaging, marking, loading and consignment of DG. The general requirements were set out in Annex 18 to the Convention on International Civil Aviation (the Chicago Convention). Detailed provisions were contained in the "Technical Instructions for the Safe Transport of Dangerous Goods by Air" (TI) which were updated biennially. In fact, the industry had already adopted the new requirements and incorporated them into its handbook, viz the International Air Transport Association Dangerous Goods Regulations. The Aviation Advisory Board supported the proposal when being consulted.

32. In reply to the Chairman, the Senior Safety Officer of the Civil Aviation Department said that the new TI came into effect on 1 January 2003. They set out the responsibilities of concerned parties including shippers, freight forwarders and airlines in the transport of DG by air. In the new TI, for example, the definition of DG was revised to include those articles or substances which were capable of posing a risk to the environment in addition to those posing a risk to health, safety and property. The new definition also removed the ambiguity of defining a "significant risk" by replacing the term with "a risk".

33. Members raised no further question on the legislative proposal.

VII Consultancy study on helicopter services and heliport development

(LC Paper No. CB(1)1959/02-03(04) - Information paper provided by the Administration

LC Paper No. CB(1)2059/02-03(02) - Power-point presentation material (*tabled and subsequently issued to members on 24 July 2003*) on helicopter traffic demand and heliport development in Hong Kong provided by the Administration (Chinese version only))

34. With the aid of PowerPoint, DG/CA briefed members on the findings and recommendations of the Consultancy Study on Helicopter Traffic Demand and Heliport Development in Hong Kong (the Consultancy Study) commissioned by the Civil Aviation Department.

Domestic helicopter services

35. Noting that there was an upward adjustment in the demand for tourism helicopter services since Hong Kong's recovery from the Severe Acute Respiratory Syndrome fallout, Mr Howard YOUNG was worried that the closure of the existing Central Heliport by end 2003 would adversely affect the development of domestic heliport services.

36. Acknowledging a continued growth in domestic helicopter services, DG/CA said that a replacement heliport on a temporary basis would be provided for in West Kowloon Reclamation for domestic use. The site had been put out for tender on 18 June 2003.

37. Noting that during the period between 1998 and 2002, domestic helicopter services had exhibited significant growth with an average annual growth rate of 26%, Mrs Selina CHOW queried why the projected average annual growth rate from now to 2020 would be reduced to 5.3%. In her view, there would be a steady increase on the demand for domestic helicopter services, in particular tourism/charter helicopter services.

38. The Deputy Secretary for Economic Development and Labour (Economic Development)² (DS/EDL(ED))² explained that commercial helicopter operations at the Central Heliport had been subject to a frequency cap in previous years. The traffic figures for those years did not reflect the genuine demand. The frequency cap was relaxed in 2002, resulting in a significant surge in domestic flight movements. A higher average annual growth rate of 26% from 1998 to 2002 was therefore recorded. In the longer term, the Consultant envisaged that the demand for domestic helicopter services up to 2020 would increase at a reasonable average growth rate of 5.3%.

Cross-boundary helicopter services

39. To sustain the growth of cross-boundary services, Mr Howard YOUNG urged the Administration to consider lowering the fuel tax for helicopters and implementing co-location arrangement for passenger clearance at heliports. He also relayed the operator's concern about the low financial return on the cross-boundary heliport facilities at the Macau Ferry Terminal (MFT).

40. DS/EDL(ED)2 clarified that in accordance with the conditions of the Land Grant, the developer of the MFT was required to build and hand over a cross-boundary heliport facilities at the roof-top of the MFT to the Government. Upon handing-over of the facilities to the Government, the Government awarded a lease to an operator for the management of the facilities. He said that the development cost for the developer and the management fees for the facilities were two separate cost components and should not be mixed together for the calculation of rate of return.

41. As the heliport at MFT was expected to reach its design capacity by 2005-06, Ms Miriam LAU urged the Administration to speed up the expansion programme for cross-boundary heliport facilities in Hong Kong.

42. DS/EDL(ED)2 said that whilst the Administration recognized the need for additional heliports to cater for the forecast growth in cross-boundary helicopter services, the actual demand would hinge on a number of factors e.g. the availability of other modes of transportation and the establishment of flight paths, etc. The Administration took note of the Consultant's recommendation that the existing facilities at the roof-top of the MFT should be expanded to enhance the operations of the MFT heliport in the shortest possible time to meet the anticipated demand up to 2015. The Administration was now considering the appropriate institutional arrangement. For the medium to long term, the Administration would explore the feasibility of providing additional facilities at the western half of the MFT outer pier or on the roof-top of the proposed cruise terminal at the tip of the ex-Kai Tak runway. The Administration undertook to brief the Panel by end 2003 on its development plan for heliport facilities.

Admin

43. In view of the latest development in Macau, Mrs Selina CHOW queried why the long-term projected demand for cross-boundary helicopter services between Hong Kong and Macau would be declining.

44. DS/EDL(ED)2 agreed that the promising economic development and increasing integration with the Pearl River Delta (PRD) region accorded a market for cross-boundary helicopter travel, in particular for time-sensitive travellers. However, in considering the demand for helicopter services between Hong Kong and other regions in PRD, there was a need to consider the development of road-based infrastructure such as Shenzhen Western Corridor and Hong Kong - Pearl River West Link, the financial viability of helicopters services, and availability of

supporting infrastructure such as immigration and custom facilities to sustain the operation of the services at different destinations.

45. As to whether the operating hours of the heliport could be extended to absorb the extra demand, DG/CA advised that in order to comply with the statutory noise control requirements, cross-boundary helicopter services could only be provided between 8 am and 11 pm.

46. Dr David CHU supported the proposal as cross-boundary helicopter services could help enhance Hong Kong's position as a tourism hub in the region. He remarked that it might be much easier for the Administration to identify suitable sites for the operation of cross-boundary helicopter services in the New Territories. He also enquired if the Administration had liaised with the Guangdong Province to facilitate the provision of new cross-boundary helicopter services between PRD and Hong Kong.

47. DS/EDL(ED)2 advised that the Administration had sought the view of the industry about the preferred location of the heliport facilities. The industry's view was that heliports at the town centre were more conducive to capturing the premium market. On liaison with counterparts in the Mainland, he said that the Administration maintained regular contact with the Civil Aviation Administration of China (CAAC) about aviation-related matters, including helicopter service.

48. Mr Henry WU was concerned about the reliability of the demand forecasts prepared by the Consultant and asked the Administration to review the demand for cross-boundary helicopter services to avoid excessive provision of facilities in the end.

49. DS/EDL(ED)2 explained that the Administration had reviewed the findings of the Consultants, taking into account the latest changes in the economy and other infrastructural developments. The Consultant's forecasts referred to the overall demand situation and were not specific to individual cities in the PRD. The Administration was now exploring with CAAC as well as the operators on relevant issues such as the provision of charter services and other scheduled flights. PS/EDL(ED) stressed that the Administration planned to expand the facilities in phases to take into account the latest changes in demand. In that connection, DG/CA remarked that the Consultant also recommended a review of the helicopter market in 2008.

50. Mr HUI Cheung-ching supported the proposal as he foresaw a tremendous growth in cross-boundary helicopter services due to increasing integration between Hong Kong and PRD. Regarding the financial return on investment in heliport facilities, DG/CA said that the Consultant envisaged that in a low case demand scenario, the return could be as low as 1%. He would provide further information on the estimated level of financial return for the development of cross-boundary heliports.

Development mode

51. On the development mode for cross-boundary heliport infrastructure, Ms Miriam LAU sought clarification whether the Administration preferred to take forward the project through public-private partnership (PPP) or by public fund. She cautioned that the Administration should avoid inviting private participation on one hand, whilst developing the same facilities on its own at a subsequent stage. Mrs Selina CHOW shared Ms LAU's view.

Admin

52. DS/EDL(ED)2 advised that the Administration needed to examine further the preferred location for future heliports and the mode of development which would bring the maximum benefits to the society. The Administration undertook to brief the Panel on the development plan for heliport facilities in due course.

53. Given the substantial benefits associated with the development of helicopter service in Hong Kong, Mrs Selina CHOW was not satisfied with the time taken for the Administration to come up with a firm decision on how to take forward the related development for heliports and helicopter service.

54. PS/EDL(ED) highlighted that the Administration also saw the urgent need to develop helicopter facilities. On domestic heliports, the main problem was the availability of suitable sites. The Administration had been actively searching for suitable sites on both sides of the harbour to provide for a permanent domestic heliport. However, given the strong public objection to further reclamation in the harbour for commercial uses and the potential clashes with other existing waterfront uses, it was unlikely that an ideal site for a permanent domestic heliport could be identified. The Administration was exploring whether a site at the Sheung Wan waterfront could be used. However, that site was not free of problems. The Administration had in the meantime secured a site on the West Kowloon Reclamation for the reprovisioning of the Central Heliport. On cross-boundary heliports, given the financial commitment of the proposed development and in view of the budget deficit faced by the Government, the Administration also needed to explore whether the development could be taken forward in the form of public-private partnership. She reassured members that the Government was fully aware of the need not to compete directly with the private operators. The Administration would report to the Panel in due course.

Admin

VIII Any other business

55. There being no other business, the meeting ended at 1:05 pm.