

**For Information
on 28 October 2002**

Legislative Council Panel on Economic Services

**Briefing by the Secretary for Economic Development and Labour
on issues relating to economic infrastructure**

INTRODUCTION

At the request of Members, this paper updates the progress of our work initiatives in economic infrastructure. We have set out in LC paper No. CB (1) 2336 /01-02 (01) dated 29 July 2002 to Members on economic development issues and work priorities.

POLICY PORTFOLIO

2. The Economic Development Branch (EDB) of the Economic Development and Labour Bureau (EDLB) is responsible for policies encompassing air and sea transport, logistics development, tourism, energy, postal services, meteorological services, competition and consumer protection. Labour and employment issues fall within the portfolio of the Labour Branch (LB) of the EDLB.

ECONOMIC INFRASTRUCTURE INITIATIVES

3. The focus of the EDB's work is to ensure that Hong Kong has an appropriate economic infrastructure for future development. Our efforts in the coming months are specifically targeted towards maintaining and enhancing Hong Kong's position as a preferred international transportation and logistics hub as well as a premier tourist destination in Asia. Recent development in work in the various areas are outlined in paragraphs 4 to 19 below.

Aviation Infrastructure

4. In the 12 months up to September 2002, the Hong Kong International Airport (HKIA) handled a total of **2.35 million tonnes of cargo** and **33.27 million passengers**. The Airport Authority (AA) forecasts that, in the next 20 years, passenger and cargo traffic at the HKIA will increase at an average annual rate of 5% and 6% respectively. To meet the forecast demand in traffic growth, we will continuously upgrade and expand our software and hardware aviation infrastructure. We will also continue to enhance the competitiveness of the HKIA to maintain and enhance Hong Kong's position as an international and regional aviation centre in the face of growing competition from developments of airports in the region.

(a) Expansion of Air Services Network

5. We have been expanding our air services network by pursuing a **progressive liberalisation policy**. We are negotiating more Air Services Agreements with new aviation partners and expanding the agreements with the existing partners to enable more airlines to introduce and expand services to Hong Kong. Our aim is to broaden Hong Kong's aviation network and to facilitate the development of Hong Kong as an international passenger and cargo hub. We aim to conduct negotiations or reviews with 15 aviation partners by the end of this year.

(b) Development of the Hong Kong International Airport

6. Together with the AA, we are continuing with our efforts in ensuring that the HKIA has adequate passenger and cargo handling facilities to meet forecast growth in traffic demand. At present, the HKIA has a capacity to handle 45 million passengers and 3 million tonnes of cargo per annum. To cater for future demand, the AA plans to make further enhancements to airport facilities. Major areas of future developments include -

<u>Passenger Handling Facilities</u>	<u>Expected/Forecast Completion Date</u>
<ul style="list-style-type: none">Expansion of the East Hall to provide for better terminal environment for passengers and additional retail space.	2003

- Enhancements to the Automatic People Mover, check-in facilities, security and immigration facilities, apron facilities and the Tour Group Bus facilities. 2003 – 2007
- Development of an exhibition centre, passenger ferry terminal, sky plaza as well as enhancements and expansion within the terminal building retail area. 2003 – 2007
- Expansion of the Passenger Terminal Building. 2013 – 2021

Cargo Handling Facilities

- Development of a logistics centre on the airport island to process time-critical and high value-added air cargo. Early 2003
- Development of a dedicated express cargo terminal on the airport island to enhance the express cargo handling capacity of the HKIA. Phase I – 2004
Phase II – 2009
Phase III – 2013

7. To strengthen the HKIA's connectivity and its competitiveness, the AA aims at extending the HKIA's passenger and cargo catchment area through cooperating with other airports in the Pearl River Delta and developing multi-modal transportation links. To enable AA to pursue and implement these initiatives, the Chief Executive has, with the endorsement of the Legislative Council, made an Order to enable the AA to engage in a number of airport-related activities such as forming alliances and other forms of cooperation with airports in the People's Republic of China.

(c) Enhancement of Air Traffic Management

8. We are in the process of upgrading the air traffic management systems such as the installation of a satellite-based communications, navigation and surveillance/air traffic management (CNS/ATM) systems to ensure that the existing safe, orderly and efficient flow of traffic is

maintained to cater for the forecast increase in aircraft movements. The study and trial phase of the various elements in the CNS/ATM Systems commenced in 1999 and is expected to be completed in 2007. Implementation of the systems will take place in phases beginning in 2003. The CNS/ATM Systems can further enhance flight safety, increase airspace capacity, achieve savings in flight time and fuel, as well as reduce disruption to air services arising from adverse weather.

Port and Maritime Development

9. In pursuit of our policy objective to strengthen the position of Hong Kong as the **leading hub port in Southern China** and to enhance our competitiveness to become the prominent international maritime centre in Asia, we will, in the next 12 months, attach priority to formulating a **competitive strategy for the Port of Hong Kong**. The Consultancy Study on Hong Kong Port Master Plan 2020 is expected to be completed in a year's time. The Study will update the forecast on cargo volume and also recommend the location for future container terminals. It will also identify initiatives to attract the flow of cargo through Hong Kong.

Logistics

10. To strengthen Hong Kong as the **preferred international transportation and logistics hub in Asia**, we will focus on projects which will significantly enhance Hong Kong's connectivity with the hinterland and our overall competitiveness in providing integrated logistics services. With this in mind, in the next 12 months, we will attach priority to -

- developing a **value added logistics park (VALP)** to provide a designated facility for handling high value, time critical merchandises; and
- developing the technical requirements and business model for a **Digital Trade and Transportation Network System** to provide a neutral e-platform for the exchange of information and data among participants in the supply chain, thereby enhancing speed and reliability;
- undertaking a joint study with the designated research institute of the State Development and Planning Commission to explore the scope for cooperation between Hong Kong and the Mainland in logistics development. Within this broad context, we will also explore the

feasibility of two specific concepts, namely “**logistics pipelines**” and “**inland freight villages**”. Logistics pipelines are dedicated transportation systems linking two or more logistics nodes, which provide speedy, non-stop service without the need for customs clearance or transport interchange on the way. Inland freight villages are bonded areas providing distribution and logistics services, which enable customs clearance of cargo away from the airport and port.

Tourism Infrastructure

11. We are making good progress on the tourism projects scheduled for completion in 2005 –

- (a) Reclamation for Hong Kong Disneyland (HKD) Phase 1 is almost completed. Two major infrastructure contracts are also progressing on schedule. We will continue to work closely with The Walt Disney Company with a view to opening HKD in 2005.
- (b) a Provisional Agreement in respect of the **Tung Chung Cable Car System** was executed at the end of July 2002. The MTR Corporation Limited (MTRCL) has since started detailed design of the system and taken forward relevant statutory procedures; and
- (b) construction works for Phase 2 of the **Hong Kong Wetland Park Project** are proceeding on schedule. Detailed design for the exhibits is in progress.

12. In the meantime, we are enhancing and repackaging our existing tourist attractions through the current improvement works in Central and Western District, Sai Kung and Lei Yue Mun, and those to be implemented in Tsim Sha Tsui Promenade, Stanley and the Peak.

13. As regards heritage tourism development projects, preparatory work for inviting private sector proposals for the tourism-themed development at the **former Marine Police Headquarters** has been substantially completed. Invitation for proposals will be issued in early November 2002. We have formed an interdepartmental working group to examine issues concerning the involvement of the Private Sector to develop

the **Central Police Station, Victoria Prison and the former Central Magistracy Compound** into a tourism-themed development, including the reprovisioning of existing users at the compound and the means to expedite the development process.

14. The Government has established a high-level task force to provide policy steer and co-ordinate inter-departmental efforts in matters concerning the development of the **Aberdeen Harbour tourism node** and the future development of **Ocean Park**. Ocean Park is currently working out its long term strategic plan. We will work closely with the Park as it maps out its strategy.

15. Taking into account findings of an engineering feasibility study (by Territory Development Department) and a study on cruise market trends (by the Hong Kong Tourism Board), we will establish an interdepartmental working group to consider issues concerning the early development of the **tourism node at Southeast Kowloon** together with a **modern cruise terminal**. The working group will draw up recommendations on the way forward.

Energy

16. In pursuit of our energy policy to ensure **reliable and safe supply at reasonable prices**, we are concentrating our efforts on -

(a) Interim Review of Scheme of Control (SOC) Agreements

17. We will initiate discussions with the power companies on the 2003 interim review of the SOC Agreements.

(b) Electricity Market Review

18. The existing Scheme of Control (SOC) Agreements with the two power companies will expire in 2008. To ensure that we will continue to have reliable supply at reasonable prices to support Hong Kong's economic development, a review of the electricity supply market will be conducted. Our aim is to draw up in good time a broad framework for the development of electricity supply sector after 2008.

(c) Electricity Supply – Interconnection

19. The Electrical and Mechanical Services Department is considering the findings of the consultants in the detailed technical study on increasing interconnection between the two power companies with the view to taking them forward in the context of the electricity market review.

OPERATING EXPENDITURE ENVELOPE

20. Government aims to attain a balanced Operating Account by 2006-07 and we are expected to deliver the target efficiency savings in the coming years according to schedule. While we will endeavour to meet these targets, we will continue to give priority to aviation and maritime safety, and reliable and safe supply of energy which are pivotal to Hong Kong's economic development. Similarly, work relating to the regulatory responsibilities and related functions, as well as international obligations will continue while we will strive to improve operational efficiency. EDB of EDLB should be able to meet the 1.8% efficiency savings in 2003-04.

21. In this connection, we will aim to cope with the on-going and future work demand by -

- (a) simplifying organisation structure and streamlining procedures;
- (b) integrating inter-related or overlapping functions at both the policy and implementation levels;
- (c) devolving certain duties requiring substantial input and/or technical support at departmental level from the EDLB to relevant departments; and
- (d) reviewing the demand for services and work priorities on a regular basis.

22. Details of how to achieve the savings with improved efficiency will be reflected in the 2003-04 draft Estimates to be announced early next year.

MEMBERS' ADVICE

23. Members' views on the various issues are welcomed.

Economic Development and Labour Bureau
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