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**Report of the Panel on Economic Services
for submission to the Legislative Council**

Purpose

This report gives an account of the work of the Panel on Economic Services during the 2004-2005 legislative session. It will be tabled at the meeting of the Legislative Council on 6 July 2005 in accordance with Rule 77(14) of the Rules of Procedure of the Council.

The Panel

2. The Panel was formed by a resolution passed by the Council on 8 July 1998 and as amended on 20 December 2000 for the purpose of monitoring and examining Government policies and issues of public concern relating to economic infrastructure and services, including air and sea transport facilities and services, postal and weather information services, energy supply and safety, consumer protection, competition policy and tourism. The terms of reference of the Panel are at **Appendix I**.
3. The Panel comprises 18 members, with Hon James TIEN Pei-chun and Hon Abraham SHEK Lai-him elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is at **Appendix II**.

Major Work

Partial Privatization of the Airport Authority

4. The Administration issued a Consultation Document in November 2004 to seek the community's views on the regulatory and institutional framework pertinent to the proposed partial privatization of the Airport Authority (AA). Before the public consultation commenced, the Administration sought the Panel's views on the Consultation Document. In the course of deliberations, the Panel raised concerns on a wide range of issues. These included the justifications and timing for privatization, the valuation of AA and its target

rate of return upon privatization, the legal position of the privatization exercise, the future regulatory framework and the relationship between the Government and the privatized AA, the mechanism for determining airport charges and the resultant impacts on the competitiveness of Hong Kong International Airport (HKIA), the scope of activities which the privatized AA could engage in and the related land grant policy as well as the impact of AA privatization on companies and workers on the airport island.

5. The Panel also held a meeting to receive views from major stakeholders which had expressed grave concern about the proposed partial privatization of AA. The concerned staff unions were worried about the future well being of staff working on the airport island whereas the aviation industry was concerned about the mechanism for determining airport charges and the resultant impacts on the competitiveness of HKIA and future aviation development in Hong Kong. The Real Estate Developers Association of Hong Kong also cast doubt on the justifications for the privatization of AA and expressed concern on the future disposal of surplus land being held by AA.

6. In order to allow sufficient time for stakeholders and the public to give views on the privatization proposal, the Administration extended the consultation period for three months. The Administration also acknowledged members' concerns on the need to maintain the competitiveness, service standard and safety of HKIA whilst safeguarding the valuable assets of Hong Kong people. The Administration was requested to review the related issues and further consult the stakeholders before introducing the relevant legislation into the Council for Members' consideration.

Aviation infrastructure

7. 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, the Panel generally supported AA's plan to construct a second passenger terminal building called the SkyPlaza to handle the increasing number of passengers at HKIA. SkyPlaza would be an integrated multi-purpose transportation and airport business centre which would serve as a strategic focal point of HKIA air, sea and land traffic flows. SkyPlaza would also link with various developments in SkyCity. To cope with future demand, the Panel called on the Administration and AA to constantly review the planning and operational needs of HKIA.

Proposed commercial heliport development

8. The Panel noted that since the closure of the Central Heliport in Admiralty in 2003, there was no permanent heliport for commercial services in the urban area. Helicopter operators currently operated from a temporary facility at the West Kowloon Reclamation, which would eventually have to be closed down to make way for the development of the West Kowloon Cultural

District. For the future development of commercial helicopter services, the Panel saw the urgent need for the Administration to put in place a permanent commercial heliport in the central business district.

9. The Panel however had reservation about the Administration's plan to designate a permanent domestic heliport along the waterfront in front of the Western Park Sports Centre in Sheung Wan. Apart from adverse noise impact, the proposed heliport in Sheung Wan would also occupy valuable waterfront space. The proposal was also not accepted by heliport operators. As an alternative, the Administration was requested to further examine the feasibility of the shared-use of the proposed Government helipad at the Hong Kong Convention and Exhibition Centre (HKCEC) with commercial operators. For this purpose, the Panel held two meetings with the Panel on Planning, Lands and Works to discuss the related issues. The two Panels also received views from the Central & Western District Council, Wah Chai District Council, the commercial helicopter industry and other interested parties on the development of heliport facilities in Hong Kong. At the joint meeting on 28 February 2005, the two Panels passed a motion urging the Government to expedite the provision of a permanent commercial heliport and associated facilities in the central business district of the Hong Kong Island, and, under the principle of no unlawful reclamation, allow the heliport at HKCEC to accommodate both commercial uses by helicopter operators and government uses.

Port Development

10. Facing competition from other ports in the region, the Panel considered it necessary for the Administration to introduce measures to improve inland connectivity and reduce cross-boundary trucking costs so as to capture more cargo source in the region. There was also a need to increase the transparency of the mechanism for determining terminal handling charges.

11. On future port development, the Panel was briefed by the Administration on the findings and recommendations of the Hong Kong Port – Master Plan 2020 Study (HKP2020). The main objective of the HKP2020 Study was to formulate a competitive and sustainable strategy and master plan for Hong Kong's port development over a 20-year time frame. The Study had considered the programme and scale of constructing new port facilities, and identified two possible sites for the development of Container Terminal 10 (CT10), namely Northwest Lantau and Southwest Tsing Yi. A public consultation exercise was conducted by the Administration in November 2004 to solicit public views on the Study. The Administration assured members that it would conduct an ecology study on the Northwest Lantau site and update the Port Cargo Forecast before further assessing the merits of the two proposed sites. The Administration would also take into account the views from the industry and the public before deciding on the way forward.

Public Cargo Working Area Berths Allocation Arrangement

12. In reviewing the Public Cargo Working Area (PCWA) berths allocation arrangement, the Panel expressed the view that the cargo handling activities in PCWAs played a supplementary role in Hong Kong's cargo handling industry and provided some services which could not be provided at the container terminals at comparable costs. Having regard to the special nature of the PCWA as a unique mode of cargo handling in Hong Kong and the possible impacts of open tender on the port and the community at large, the Panel agreed that it was not an appropriate time to introduce open tender for the next berth allocation exercise when the existing Berth Licence Agreement expired on 31 July 2005. The Panel however urged the Administration to put in place sufficient measures to avoid collusion among the existing operators to manipulate the tender prices under the restricted tender system. The Administration should also carry out a comprehensive review on PCWA management including the future arrangements for berth allocation.

Lantau Logistics Park

13. In December 2004, the Administration invited interested parties to express their views on the proposed planning parameters for, and activities to be undertaken, in the future Lantau Logistics Park (LLP). The Panel supported the Government's initiative to boost Hong Kong's transport and logistics capabilities and to consolidate its role as a leading hub. With the Pearl River Delta being one of the most important manufacturing centres in the world today, the Panel shared the view that the LLP was well-situated to take advantage of this. Its development would bring significant long-term benefits to the local economy. To ensure the success of the LLP, the Panel called on the Administration to speed up the implementation programme within the environmental constraints. There was also a need to improve the cross-boundary infrastructure and local road links to the LLP. The Administration should also work out an appropriate financial and institutional arrangements for the LLP which could boost the utilization of the LLP at reasonable prices.

Tourism

14. The Panel had kept various major tourism infrastructure projects under periodic review. These projects included the Hong Kong Disneyland, Hong Kong Wetland Park and the Ngong Ping Skyrail.

Hong Kong Disneyland

15. The Hong Kong Disneyland would be opened in September 2005. In anticipation of the increase in tourist arrivals, the Panel called on the Administration to make the necessary preparation to ensure that adequate supporting facilities and arrangements would be in place. To ensure operational readiness of the theme park, the Panel noted that the Government

had set up a Disneyland Readiness Committee to coordinate the work of departments and organizations concerned in preparation for the opening. Such work covered transport, site management and security, emergency response, communications and promotion, permits and licences and opening events and arrangements. There would also be a comprehensive testing period for the theme park and all supporting facilities before the opening to ensure their smooth operation on opening. The Panel suggested the Administration to take the opportunity of the testing period to provide the elderly and the underprivileged groups in the community an enjoyable visit to the theme park.

Hong Kong Wetland Park

16. Phase II of the Hone Kong Wetland Park was scheduled for completion in early 2006. The Panel had reviewed the tendering arrangements for the operation and management of the Park and the progress of the complementary facilities and services to ensure the smooth opening of the Park. The Panel requested the Administration to consider lowering the admission fees on weekdays so as to boost patronage whilst reducing the pressure of heavy patronage during weekends and public holidays. The Panel also suggested that a balance between the development of eco-tourism and conservation should be maintained through controlling the number of visitors and the design and management of the Park.

Ngong Ping Skyrail

17. The Ngong Ping Skyrail (i.e. the Tung Chung Cable Car System) and the themed village, Ngong Ping Village, were scheduled for completion in early 2006. The Panel noted that all the related works were on schedule. The Panel was also briefed on the proposed Tung Chung Cable Car Bylaw, which sought to empower MTR Corporation Limited under section 22 of the Tung Chung Cable Car Ordinance (Cap. 577) to make bylaws for the management and control of the Cable Car System, prior to its introduction into the Council.

Transport Link in Tsim Sha Tsui East

18. The Panel noted that in order to develop the existing public transport interchange (PTI) at the Tsim Sha Tsui (TST) Star Ferry Pier into an open plaza for tourism purpose, the Administration planned to construct a new PTI in TST East as a replacement and improve the pedestrian links between TST East and other parts of TST. When consulted on the related financial proposal, the Panel had expressed concern about the ease of access to the TST Star Ferry Pier for franchised bus, tourist coach and private car users under the new traffic and transport arrangements and the availability of loading/unloading spaces for goods vehicles. The Administration was requested to improve the design to satisfy the loading and unloading demands of road users whilst ensuring a smooth flow of traffic in the area.

Peak improvement projects

19. The Peak was the most popular tourist attraction in Hong Kong. The Panel noted that the Administration had already launched a visitor signage improvement scheme in the Peak and planned to implement other improvement measures to make the Peak a more attractive place and to improve the quality of the experience for both the local community and visitors. When consulted on the proposed improvement works, the Panel made various suggestions to the Administration to refine the design. The Panel also urged the Administration to improve the traffic and transport accessibility to the Peak.

Central Police Station Compound

20. The Panel noted that there had been increasing public demand for more to be done to preserve heritage assets in Hong Kong. Given budgetary and other constraints on Government, the Administration had adopted a new approach to preserve and make full use of the heritage assets by engaging private sector resources in projects with commercial potential. The heritage tourism development project at the Central Police Station Compound (the Compound) was one of the projects being contemplated by the Administration.

21. Whilst supporting the Administration's initiative to develop a heritage tourism facility at the Compound, the Panel had expressed concern about the potential conflict between the preservation requirements and commercial viability of the project. The Panel called on the Administration to work out a mode of operation which would be both financially sustainable and beneficial to the community. In the meantime, the Administration should also ensure the sustainable development and proper conservation of the Compound.

Cruise terminal facilities

22. In reviewing the tourism infrastructure development in Hong Kong, the Panel also took the opportunity to call on the Administration to take steps to develop new cruise terminal facilities in Hong Kong to meet the forecast demand.

Work of the Hong Kong Tourism Board

23. In view of wide public concern about the use of additional funding by the Hong Kong Tourism Board (HKTB) in the coming two years and how the Government monitored the operation of HKTB, the Panel held a meeting with the Administration and HKTB to follow up the related issues.

24. The Panel noted that in order to prepare for the opening of various major tourism facilities in 2005-06, the HKTB would leverage on this opportunity to launch a global marketing campaign and strategic promotions. The HKTB

would make use of the \$440 million funding to launch a series of strategic promotions worldwide in the coming two years , including a thematic global marketing campaign named "2006 Discover Hong Kong Year" – a time-limited campaign to showcase the new image of Hong Kong and promote Hong Kong as a “must-visit” destination in 2006; and a promotional programme targeted at business and family visitors, leveraging on mega events and new tourism products to attract them to visit and spend in Hong Kong. Separately, the HKTB would deploy \$30 million to enhance its Quality Tourism Services Scheme in the coming two years.

25. The Panel urged the Administration to ensure that the work and spending of HKTB would be value for money and that an effective mechanism was in place to monitor the expenditures of HKTB to safeguard public interest.

Protection of outbound travellers

26. On 18 October 2004, two Taiwan package tours (with a total of 37 tour participants) organized by Kwan Kin Travel Services ran into a serious traffic accident in Jiufen, Taiwan. The Panel was gravely concerned about the safety of and insurance for tour groups and had reviewed with the Administration and the Travel Industry Council of Hong Kong measures to reduce operational risks and enhance protection for outbound travelers. Some members requested the Administration to consider requiring travel agents to take out professional indemnity insurance on a mandatory basis so as to strengthen protection of outbound travellers. The Panel also recognized the merits and importance of individual travellers to take out their own travel insurance according to their own needs. However, under the existing legislation, there were limitations for marketing staff of travel agents to advise their customers to take out individual insurance cover as only appointed insurance agent could provide advice to potential policy holder on matters related to the policy. The Panel therefore asked the Administration to assist the industry by exploring whether certain flexibility could be made with regard to the insurance requirements.

Electricity market

Electricity tariff

27. The 6.5% increase in average net tariff by Hong Kong Electric Co. Ltd. (HEC) and the cancellation of tariff rebate by CLP Power (CLP) for 2005 had aroused much public concern. The Panel considered that the permitted rate of return of 13.5% on fixed assets and the additional 1.5% on assets financed by shareholders' fund as stipulated in the Scheme of Control Agreements (SCAs) signed between the Government and the two power companies were too high in present-day economic climate. Given that HEC and CLP were earning huge profits over the years and that a majority of the general public had not yet benefited from the recovery of the local economy, the Panel took the view that the proposed tariff adjustments by the two power companies for 2005 would

adversely impact on the economy and add to the financial burden of the consuming public and the business sectors. On 16 December 2004, the Panel passed a motion strongly opposing to and condemning the respective proposals of CLP and HEC to stop offering tariff rebates and raise electricity tariff in 2005, and urging the Government to expeditiously launch a consultation exercise on the development of the electricity market in 2008.

Future development of the electricity market in Hong Kong

28. In February 2005, the Administration started a public consultation on options for future development of the electricity market after the expiry of the current SCAs in 2008. The consultation was carried out in two stages. The Stage 1 consultation sought to identify issues that should be considered and proposed possible options for the post-2008 electricity market. Based on views collected at this Stage, the Administration would map out the framework of the future electricity market and commence the Stage II consultation in the second half of 2005.

29. When consulted, the Panel called on the Administration to take into account a number of principles in deciding on the way forward for the future development of the electricity market. These included the need to ensure the stability, safety and reliability of electricity supply at reasonable prices, the provision of a transparent and flexible regulatory framework to cope with changes in circumstances, the wider use of renewable energy and reduction of emissions of pollutants in the generation of electricity, and the implementation of power interconnection to enhance competition.

30. The Panel would continue to monitor issues relating to the future development of the electricity market in Hong Kong.

Retail prices of oil products

31. As the adjustments of local oil product prices were always quick in going up but slow in coming down and the pace of price adjustments by various oil companies tended to be synchronized, while product pump prices often failed to truly reflected import costs, the Panel met with the major oil companies in Hong Kong to exchange views on the related issues. The Panel also urged the Administration to take heed of any unfair mode of competition that might emerge in the local oil market. The Administration should also monitor closely the situation with a view to increasing competition in the oil industries and enhancing the transparency of product prices, thereby safeguarding commercial clients and the public against high oil prices.

Town gas

32. The Panel was briefed by the Hong Kong and China Gas Company Limited (HKCG) on its plan to introduce natural gas, apart from naphtha, as a

feedstock for production of town gas in 2006. The Panel agreed that diversification in the use of feedstock for town gas production would enhance supply reliability. HKCG and the Administration also assured members that the change in fuel mix would not bring about additional costs to consumers, both in terms of the town gas supplied or the appliances currently in use. Moreover, replacement of naphtha by natural gas as a feedstock should yield environmental benefits with reduced emissions. When reviewing the matter, the Panel also took the opportunity to request the Administration to examine the possibility of introducing natural gas as a domestic fuel at consumer level.

Legislative proposal

33. The Panel was also briefed on a number of legislative proposals prior to their introduction into the Council. These included the Administration's proposal to amend the Carriage by Air Ordinance (Cap. 500) to apply the Convention for the Unification of Certain Rules for International Carriage by Air signed at Montreal on 28 May 1999, which would bring Hong Kong's aviation regulatory framework governing airlines' liabilities towards passengers and shippers in line with international standards. The Panel also noted the proposed amendment to the Civil Aviation Ordinance (Cap. 448) to release certain aircraft owners from strict liability which could help strengthen the international aviation hub status of Hong Kong.

34. When consulted on the legislative proposal to impose compulsory third party risks insurance requirements on all vessels operating within Hong Kong, the Panel noted the concern expressed by the trade that the proposal might induce an increase in insurance premium and add to operating costs. The Panel called on the Administration to ensure a sufficient pool of insurers who offered this type of insurance such that competition amongst them would help ensure a reasonable premium level.

35. During the period from October 2004 to June 2005, the Panel held a total of 15 meetings. Two of which were joint meetings with the Panel on Planning, Lands and Works. The Panel paid a visit to the Hong Kong Disneyland in April 2005 to review the progress of the project. To better understand the aircraft safety monitoring and maintenance and repair arrangements, the Panel also paid a visit to Cathy City on the airport island and met with the senior management of Cathay Pacific to discuss issues relating to aviation development.

Council Business Division 1
Legislative Council Secretariat

21 June 2005

Panel on Economic Services

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to economic infrastructure and services, including air and sea transport facilities and services, postal and weather information services, energy supply and safety, consumer protection, competition policy and tourism.
2. To provide a forum for the exchange and dissemination of views on the above policy matters.
3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.
4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.
5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

Legislative Council
Panel on Economic Services

Membership list for 2004 - 2005 session

Chairman	Hon James TIEN Pei-chun, GBS, JP
Deputy Chairman	Hon Abraham SHEK Lai-him, JP
Members	Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP Dr Hon David LI Kwok-po, GBS, JP Hon Fred LI Wah-ming, JP Dr Hon LUI Ming-wah, JP Hon CHAN Kam-lam, JP Hon SIN Chung-kai, JP Hon Howard YOUNG, SBS, JP Hon LAU Chin-shek, JP Hon Miriam LAU Kin-yee, GBS, JP Hon Jeffrey LAM Kin-fung, SBS, JP Hon Andrew LEUNG Kwan-yuen, SBS, JP Hon WONG Ting-kwong, BBS Hon Ronny TONG Ka-wah, SC Hon CHIM Pui-chung Hon KWONG Chi-kin Hon TAM Heung-man (Total: 18 members)
Clerk	Mr Andy LAU
Legal Adviser	Miss Anita HO
Date	27 October 2004