

ITEM FOR FINANCE COMMITTEE

HEAD 31 – CUSTOMS AND EXCISE DEPARTMENT Subhead 603 Plant, vehicles and equipment New Item “Replacement of Three Sector Patrol Launches”

Members are invited to approve a new commitment of \$117 million for replacing three sector patrol launches of the Customs and Excise Department.

PROBLEM

The three existing sector patrol launches (SPLs) of the Damen Mark III (DM III) type of the Customs and Excise Department (C&ED) are reaching the end of their normal economic serviceable life after over 20 years of service. We need to replace the vessels with new ones with enhanced features to better meet the up-to-date operational needs of C&ED.

PROPOSAL

2. The Commissioner of Customs and Excise (C of C&E), on the advice of the Director of Marine (D of M) and with the support of the Secretary for Security, the Secretary for Financial Services and the Treasury, and the Secretary for Commerce, Industry and Technology, proposes to replace the three existing DM III SPLs by vessels with enhanced navigational and anti-smuggling enforcement capabilities.

JUSTIFICATION

Smuggling at Sea

3. Smuggling of general consumer goods (such as computers, electrical appliances and mobile phones) into the Mainland continues to be a concern and accounts for most of the smuggling activities at sea. Despite enforcement efforts by C&ED, as long as there are substantive price and taxation differences between the

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Mainland and Hong Kong, such activities are expected to continue. Similarly, illegal importation into Hong Kong of dutiable commodities (notably cigarettes) continues to be lucrative. Smugglers use various means of conveyance, including fishing and cargo vessels, mechanised sampans and speed boats, and employ different tactics to evade enforcement detection. In 2006, C&ED and the Hong Kong Police Force detected a total of 173 sea smuggling cases, in which 405 persons were arrested and goods with a total value of \$215.2 million were seized.

Functions of SPLs

4. There are five SPLs in the Customs fleet, including three of the DM III type and two of the Challenger type. All of them are steel-hulled vessels which are mainly deployed to perform anti-smuggling patrols and conduct strike and search operations on suspicious vessels in Hong Kong waters. They serve an important function of maintaining a regular Customs presence in Hong Kong waters to deter and interdict smuggling activities. They also act as a command centre during large-scale anti-smuggling operations and provide support to other Customs vessels.

Need to Replace the Existing DM III SPLs

5. D of M advises that the normal life expectancy of steel-hulled vessels in the Government fleet is about 20 years, after which the vessels will be beyond economical repair and may not be able to provide reliable support to sea-borne operations.

6. The three DM III SPLs proposed to be replaced were commissioned in 1986. As they have been in service for more than 20 years, it has become increasingly difficult and costly to maintain them in good operating condition. Many of the spare parts for the vessels (e.g. main engine parts) are of obsolete models and some of them are unavailable in the market while others are costly. The average annual maintenance cost for each DM III SPL has increased from about \$1.0 million when they were first commissioned in 1986 to about \$2.5 million recently, and the figure is estimated to further increase to about \$3.0 million in 2009. D of M has concluded, after a thorough inspection conducted in 2004, that the three DM III SPLs would reach the end of their economic serviceable life by end of 2009, i.e. after 23 years of service.

7. C&ED has also reviewed the strategy in combating sea smuggling activities, including the role and functions of the Customs fleet and the need to

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replace the three existing DM III SPLs. C&ED has concluded that the existing anti-smuggling strategy of regular patrolling and conducting anti-smuggling operations based on intelligence continues to be effective in curtailing sea smuggling activities. In view of the specific role played by the different types of vessels in the Customs fleet, C&ED considers that it is necessary to maintain the existing composition of the Customs fleet so as to maintain C&ED's enforcement capability at sea. For the DM III SPLs, since their functions necessitate a design with a size and height comparable to vessels normally used for smuggling (such as fishing and cargo vessels) to facilitate interception and searching, it is necessary to maintain them in the Customs fleet and to improve their capability to ensure anti-smuggling efficacy. It is therefore recommended that the three existing DM III SPLs should all be replaced with new vessels upon the expiry of their serviceable span. In addition, the features of the replacement vessels should be enhanced to the level of the existing Challenger SPLs to better meet the up-to-date operational needs of C&ED.

The Proposed Replacement Vessels

8. The proposed replacement vessels will command advanced hull form, higher speed, better sea keeping capability^{Note} and facilities to enhance both the navigational and anti-smuggling enforcement capabilities of the Customs fleet. A detailed comparison of the facilities and build of the existing SPLs and the proposed replacement vessels is at Enclosure 1. Major enhanced features are summarised as follows –

Encl. 1

- (a) the replacement vessels can operate at a higher speed of 25 knots instead of 22 knots of the DM III SPLs even when the latter were new. At present, the three existing DM III SPLs can only sustain a maximum speed of 18 knots after use for more than 20 years. The higher speed will enhance the capability of pursuing and intercepting target vessels (such as fishing vessels and river trading vessels) in Hong Kong waters which normally travel at a speed of not more than 20 knots;
- (b) advanced laser distance measurement device will be installed to measure the distance between the SPLs and the target vessels for formulating the best course of interception strategy as well as strengthening navigation safety;

/(c)

^{Note} Sea keeping capability is the ability of a vessel to remain stable, and reduce the seasickness of the crew and passengers on board under rough sea conditions.

- (c) night vision equipment will be installed to enhance navigation safety, and enable proactive monitoring of smuggling activities in the waters where visibility is low particularly at night;
- (d) facilities such as dampened seats, noise absorbent materials, etc. will be provided to improve occupational safety and health for the crew; and
- (e) an improved model of derrick and crane will be installed to enable launching of inflatable craft into the sea while the vessel is in motion to enhance the pursuit capability.

FINANCIAL IMPLICATIONS

Non-recurrent Expenditure

9. On the advice of D of M, C of C&E estimates that the total non-recurrent cost for the three replacement vessels with the necessary equipment on board is \$117.0 million, broken down as follows –

	\$ million
(a) Three basic vessels with equipment on board	105.3
(b) Electrical and Mechanical Services Trading Fund (EMSTF) project management services	1.2
(c) Contingency (10% of item (a) above)	10.5
Total	117.0

10. On paragraph 9(a), the estimate of \$105.3 million is for the design and construction of three replacement vessels, equipment on board (such as night vision equipment and laser distance measurement device), power derrick and crane as well as the necessary electrical installations.

11. On paragraph 9(b), the estimate of \$1.2 million is for the payment to EMSTF for providing project management services for the electronic navigational and communications equipment.

12. The estimated cash flow for the procurement of the replacement vessels is as follows –

Year	\$ million
2007-2008	11.7
2008-2009	58.5
2009-2010	46.8
Total	117.0

Recurrent Expenditure

13. C of C&E estimates that the additional annual recurrent expenditure for the three replacement vessels from 2010-11 onwards, net of the annual recurrent expenditure of \$10.1 million for the three existing DM III SPLs, will be \$2.1 million per annum. The breakdown is as follows –

	\$ million
(a) Additional maintenance cost	1.2
(b) Higher fuel consumption	0.9
Total	2.1

14. On paragraph 13(a), the expenditure of \$1.2 million is for the additional maintenance cost for the larger replacement vessels, engines with higher power and more advanced navigational and operational equipment.

15. On paragraph 13(b), the expenditure of \$0.9 million is for the additional fuel cost arising from higher engine power of the replacement vessels.

16. C of C&E will absorb the additional recurrent expenditure of \$2.1 million per annum from within his existing resources. He will also deploy existing staff to man the replacement vessels and no additional staff is required.

IMPLEMENTATION PLAN

17. We plan to procure the replacement vessels according to the following timetable –

/Activity

	Activity	Target Completion Date
(a)	Preparation of tender specifications	October 2007
(b)	Invitation of tender	January 2008
(c)	Tender evaluation and award of contract	May 2008
(d)	Construction of vessels	August 2009
(e)	Delivery of vessels	September 2009

PUBLIC CONSULTATION

18. We consulted the Legislative Council Panel on Security on 6 March 2007. Members were generally supportive of the proposal. At the meeting, some Members requested additional information on the maximum court penalties imposed on smuggling cases at sea in 2006 and C&ED's internal review on the replacement of the three DM III SPLs. We subsequently provided the information to Members on 4 April 2007.

BACKGROUND

19. The existing Customs fleet comprises a total of 19 vessels, including five SPLs, eight inflatable craft, four high speed pursuit craft and two shallow water speed boats. Each type of the vessels plays a specific role in combating smuggling activities in Hong Kong waters. The SPLs perform round-the-clock anti-smuggling patrols in Hong Kong waters and intercept target vessels, while the inflatable craft attached to them are for near-shore sea patrols and diving operations. As for the high speed pursuit craft and shallow water speed boats, they are specifically deployed for the pursuit and interception of target speed boats and mechanised sampans suspected to be engaging in smuggling activities. Details of the functions and areas of deployment of the Customs fleet are at Enclosure 2.

Encl. 2

Security Bureau
Financial Services and the Treasury Bureau
Commerce, Industry and Technology Bureau
May 2007

**Comparison of the Existing Sector Patrol Launches
and the Proposed Replacement Vessels**

	Existing Sector Patrol Launches (SPL)		Proposed vessels
	DM III SPLs to be replaced (CE 2, 5 & 6)	Challenger SPLs (CE 8 & 9)	
Year of commissioning	1986	2000	-
Overall length	26.6 m	32.1 m	30.0 m
Breadth	5.8 m	7.0 m	6.3 m
Maximum speed for new vessel	22 knots	25 knots	25 knots
Seating capacity in wheelhouse	3 no.	8 no.	6 no.
Night vision equipment	No	Yes	Yes
Laser distance measurement	No	Yes	Yes
Power derrick and crane	No	Yes	Yes
CCTV surveillance and monitoring device	No	Yes	Yes
Noise absorbent material in machinery spaces	No	No	Yes
Contraband detector	Portable	Stationary	Stationary

Types and Functions of the Existing Customs Launches/Craft

Type	Model	Qty.	Year of commissioning	Functions
Sector patrol launch	# Damen Mark III	3	1986	<ul style="list-style-type: none"> ◇ To perform anti-smuggling patrols in Hong Kong waters, which is broadly divided into five areas, namely North-west, South-west, South-east, North-east and Mirs Bay; ◇ To carry out strike and search operations on suspicious river trading vessels, fishing vessels, etc; ◇ To act as the command centre during joint anti-smuggling operations;
	Challenger	2	2000	<ul style="list-style-type: none"> ◇ To serve as the observation and case processing platform; ◇ To provide logistic support to other types of Customs vessels; and ◇ To act as the training facility for the launch crew of Customs vessels.
Inflatable craft (normally attached to sector patrol launches)	Avon Sea-rider SR5.4M	5	2000	<ul style="list-style-type: none"> ◇ To provide near-shore and shallow sea patrols in Hong Kong waters; and
	Avon Sea-rider SR6.0M	3	2000	<ul style="list-style-type: none"> ◇ To be used for diving operations.

Type	Model	Qty.	Year of commissioning	Functions
High speed pursuit craft	FB 55	4	2003	◇ To conduct pursuit and interception of speed boats and mechanised sampans in the areas off Mirs Bay, Deep Bay, North-east and North-west sectors in Hong Kong waters.
Shallow water speed boat	Boston Whaler 10M	2	1999	◇ To conduct pursuit and interception of speed boats and mechanised sampans, normally in shallow waters.
Total		19		

Launches proposed to be replaced.
