

**Presentation by
Secretary for Economic Development and Labour
at the Special Meeting of the Finance Committee
on Wednesday, 21 March 2007
Session No. 11 - Economic Development**

(This is a draft, please check against oral delivery)

Chairman,

Policy Responsibilities

The overall policy objective of the Economic Development Branch (EDB) of the Economic Development and Labour Bureau is to ensure that we have the best infrastructure to support the economic development of Hong Kong. Our policy responsibility covers tourism, logistics, port and maritime development, civil aviation, energy, competition policy, consumer protection, postal service and meteorological service, etc.

Funding Provision

In 2007-08, the proposed allocation to EDB's policy portfolio is **\$2,530 m**. This represents 1.0% of the Government's total operating expenditure. The proposed allocation is about **\$53 m** (about 2.1%) **less** than the revised estimates (\$2,583 m) for last year.

I will highlight the priorities of the major policy portfolios under this Bureau in the coming year in the ensuing paragraphs.

Work Priorities in the Coming Year

Tourism

Tourism performance last year continued to grow – visitor arrivals exceeded 25 million and the tourism expenditure exceeded \$117 b. The Mainland market grew by 8.4% and continued to be our number-one source market; visitors from other markets grew by 7.8%, and among them, long-haul markets, including Europe, the Americas, Australia and New Zealand, all recorded encouraging growth (4.2% to 11.1%). The outlook of the tourism industry in Hong Kong is expected to remain positive this year.

Being an international financial and commercial centre and Asia's World City, Hong Kong is well-positioned to enhance its cosmopolitan tourism profile. We are one of the safest cities with world-class financial, transportation, telecommunication and tourism infrastructure. We have a unique East-Meets-West culture and are a trend-setter in shopping and dining. All these make us the most preferred city for tourists who wish to enjoy the diversity of a cosmopolitan lifestyle. Enhancing cosmopolitan tourism will be one of our key considerations when investing in tourism infrastructure and formulating our strategy for tourism promotion.

Developing Hong Kong into a leading regional cruise hub is an important step in this direction. The Government announced in October 2006 its plan to develop a new cruise terminal at Kai Tak through an open land tender. We will invite tender for the project immediately after the approval of the Outline Zoning Plan for Kai Tak, now scheduled for the fourth quarter of 2007. While the project is going through the required statutory town planning procedures under the Town Planning Board, we will make use of this time to gauge market response to the development parameters. This will facilitate our tender preparation work and allow more time for potential bidders to prepare their submissions. We expect that the first berth at Kai Tak will be commissioned in 2012.

Besides, we will continue to promote family tourism. Several major tourism projects that came on stream in late 2005 and 2006, including the Hong Kong Disneyland, the Hong Kong Wetland Park and Ngong Ping 360, have special appeal to all ages, making Hong Kong a highlight for visitors with families. In 2006, the number of overnight family visitors increased by 15.8% as compared with 2005. The number of visitors aged under 16 has increased by 23.5% as compared with 2005.

We are also giving full support to the redevelopment project of the Ocean Park. The redevelopment will turn the Ocean Park into a world-class marine-themed attraction and help Hong Kong develop family tourism further. The works commenced smoothly in end 2006. The Ocean Park Corporation has also proposed to develop hotels in the Ocean Park so as to enhance its attractiveness and induce visitors to stay longer.

In addition, we will continue to make optimum use of existing resources to develop and promote green tourism under the principles of nature conservation and sustainable development. We will also continue to actively plan and implement new projects under the "Tourism District Enhancement Programme". These include the Aberdeen Tourism Project to complement the redevelopment plan of the Ocean Park, enhancement of the Lei Yue Mun waterfront, development of a piazza in Tsim Sha Tsui, etc.

On tourism promotion, the Government will continue to work closely with HKTB and the travel trade to promote Hong Kong's tourism development and improve tourism service quality. Strategic promotion targeting the high yield segments, e.g. family and business visitors will also continue, leveraging on mega tourism facilities and events, our position as a regional convention and exhibition hub, and our special cosmopolitan appeal to stimulate growth in tourist arrivals and tourism spending.

Port, Maritime and Logistics Development

The robust growth of Mainland China's international trade, particularly the import and export through Southern China (at above 20% last year) continues to bring opportunities and challenges to Hong Kong's port and logistics development.

In 2006, the port of Hong Kong handled a total of 23.5 million twenty-foot equivalent units (TEUs) of containers, representing an increase of 4.1% over 2005.

To enhance the competitiveness of Hong Kong port and the maritime industry, we have implemented a series of measures including streamlining the port entry procedures by introducing a multiple entry permit for river trade vessels; reducing the port fees and charges; enhancing the mid-stream cargo handling capacity by establishing more services anchorages, and introducing a six-month annual tonnage fee reduction for Hong Kong registered ships. These measures have been brought into operation progressively before 2 January this year.

It is also imperative that we ensure the supply of maritime professionals to sustain and further develop our shipping and maritime industry. Apart from putting in place the Sea-going Training Incentive Scheme in 2004 and the Ship Repair Training Incentive Scheme last year, we will establish a Maritime Scholarship shortly so that the first awards will be made in 2007-08 academic year. This scholarship will encourage local and Mainland talented graduates to take up a post-graduate programme in Hong Kong and eventually join our shipping and maritime industry.

We have been working closely with the industry to implement the recommendations of the study on "Hong Kong Port - Master Plan 2020". We have engaged consultants to update the Port Cargo Forecast to work out the optimal timing for the construction of Container Terminal 10 and conduct an ecological, fisheries and water quality study at Northwest Lantau to assess the environmental suitability of this location for development of container terminals. The studies are expected to complete by the first half of this year.

The Hong Kong Shipping Register (HKSR) continues to grow at a steady pace. The HKSR crossed the 33 million gross tonnage mark (over 1 100 vessels) in January this year and is among the top five largest shipping registers in the world.

The Hong Kong logistics industry is increasingly specialized in value-added supply chain management services. We are therefore keen to promote e-logistics. We are working with the Hong Kong Productivity Council on a pilot project called the On-Board Trucker Information System, with a view to applying information technology to trucking operations. We are also partnering with the Hong Kong Productivity Council to offer a series of training programmes on automation techniques to promote better understanding of e-logistics among practitioners.

In addition, to lower the cost of cross-boundary trucking, we have been in discussion with the Guangdong authorities and achieved good progress. With the consensus of both Hong Kong and Guangdong, the Liaobu inland control point in Dongguan has come into operation last December. It adopts an express clearance system to raise the efficiency of inspection.

To capitalize on the benefits brought to our logistics industry by the country's 11th Five-Year Plan, the Government held the Economic Summit under which the Focus Group on Maritime, Logistics and Infrastructure formulated a series of strategic proposals, including enhancing the cost-effectiveness of cross-boundary freight transport and planning for the provision of port infrastructure from a macro perspective. We will study the proposals in details with a view to strengthening our logistics industry.

Civil Aviation

On civil aviation, last year we signed Air Services Agreements with Ethiopia, Mexico and Kazakhstan, taking our total number of international aviation partners to 58. We also reviewed or expanded air services arrangements with 14 existing aviation partners. We will continue to pro-actively implement our progressive liberalisation policy in air services. We will continue to expand our aviation network by increasing the frequency of flights and number of destinations through concluding more new air services agreements and expanding existing traffic arrangements. Currently, there are 85 airlines based in Hong Kong, operating over 5 600 scheduled flights every week to about 150 destinations.

Furthermore, we will replace the Civil Aviation Department's (CAD) air traffic control system and develop a new CAD Headquarters on the Airport Island to accommodate under one roof the department's various divisions which are currently scattered geographically. This will enable us to utilize resources more efficiently to support the long-term growth of the aviation industry. The Airport Authority is conducting the tendering exercise on the development of a third air cargo terminal, and will examine whether there is a need for a third runway and conduct relevant technical and environmental feasibility studies.

Energy

The current Scheme of Control Agreements between the Government and the two power companies will expire in 2008. We completed two rounds of public consultation last year to seek views on the future development of our electricity market.

In the light of comments received, we are negotiating with the two power companies on the post-2008 regulatory arrangements with an aim to mapping out a scheme that will best serve the overall interest of Hong Kong. This includes reducing the permitted rate of return of the power companies, encouraging them to reduce emissions of pollutants, and ensuring stable and reliable supply of electricity. The Government is actively pursuing this policy initiative and we hope to finalise the regulatory arrangements within this year.

Separately, CLP Power Company Limited (CLP) anticipates that the current Yacheng gas field of Hainan Island will be depleted by early 2010s. To maintain a stable electricity supply, CLP proposes to construct a liquefied natural gas receiving terminal in Hong Kong to replace the supply from Yacheng.

With the assistance of a professional energy consultant, we are currently examining CLP's Financial Plan. Government will approve the proposal only if it can be established that there is a genuine need for the terminal and that the proposal is reasonable in all respects.

Competition Policy

Last year the Competition Policy Review Committee (CPRC) completed its review on the effectiveness of Hong Kong's competition policy and delivered its findings. The CPRC recommended that a new cross-sector competition law be introduced, and that an independent Competition Commission be set up to enforce the law.

Based on the recommendations of CPRC, the Government conducted a three-month public consultation, from November 2006 to February this year. We will brief the Legislative Council Panel on Economic Services on the results of the public consultation at its meeting of 26 March 2007.

Consumer Protection

The Consumer Council will shortly begin a review of the current consumer protection laws, with a view to ensuring that we can continue to implement effectively our policy objective of safeguarding the legitimate interests of consumers, in particular with regard to fair transactions.

To enhance consumer confidence and to deter trade mal-practices, the Council will explore the best possible means to improve legal protection of consumers in Hong Kong by examining the current consumer protection laws.

**Economic Development and Labour Bureau
21 March 2007**