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Panel on Development

Meeting on 25 May 2010

**Background brief on development-related issues under the
Framework Agreement on Hong Kong/Guangdong Co-operation**

Purpose

This paper sets out the background of the Framework Agreement on Hong Kong/Guangdong Co-operation (Framework Agreement) and issues under the Framework Agreement which are under the purview of the Panel on Development (the Panel), viz. supply of Dongjiang water and development of the Lok Ma Chau Loop (the Loop), and provides a summary of major views and concerns expressed by members in previous discussions on these two subjects.

Background

The Framework Agreement

2. In January 2009, the National Development and Reform Commission promulgated the Outline of the Plan for the Reform and Development of the Pearl River Delta (the Outline), which elevates the development of the Pearl River Delta region to the strategic level of national development, specifying Hong Kong/Guangdong co-operation as a national policy. One of the most important tasks in deepening Hong Kong/Guangdong co-operation is the joint formulation of the Framework Agreement as an official agreement between the two governments. The Framework Agreement will translate the Outline's macro policies into concrete measures and serve as an agenda for Hong Kong-Guangdong co-operation. The two governments signed the Framework Agreement on 7 April 2010.

Composition of the Framework Agreement

3. The Framework Agreement consists of the main text and the list of annual major initiatives. The main text contains 11 chapters covering a wide range of topics, viz. the preamble, cross-boundary infrastructural facilities, modern service industries, manufacturing industries and innovation and technology, business environment, quality living area, education and talent, major co-operation areas, regional co-operation plans, as well as mechanisms and arrangements. The list of annual major initiatives sets out specific measures for the two sides to implement the Framework Agreement during the year. The policies, measures and items set out in the Framework Agreement will be implemented jointly or respectively by Hong Kong and Guangdong depending on the circumstances. Hong Kong and Guangdong have put forth specific policies, measures, and major initiatives in various areas. These include, among others, implementation of the agreement on Dongjiang water supply and developing the Loop into an area for higher education, supplemented by high technology research and development and creative industries.

Supply of Dongjiang water

4. Chapter Two of the Framework Agreement states that the Dongjiang Water Resources Allocation Scheme would be optimized, and the agreement on Dongjiang water supply would be implemented to realise the ultimate annual supply quantity of 1 100 million cubic metres (mcm).

5. Hong Kong enjoys a reliable supply of fresh water. About 20% to 30% of Hong Kong's fresh water supply is surface water collected from local water gathering grounds, and the remaining 70% to 80% has to be imported from Guangdong. The long-term supply of Dongjiang water is secured under agreements with the Guangdong Provincial Government, which will be subject to periodic review of water prices and supply quantities. The current agreement was signed in December 2008, under which an annual lump sum payment will be made to the Guangdong side in exchange for a reliable and flexible supply of Dongjiang water to meet the needs of Hong Kong even under extreme drought conditions. The Guangdong side has agreed to supply Dongjiang water with quality up to the latest national Type II Standard of GB 3838-2002. Hong Kong can inform the Guangdong side the actual demand of the territory on a monthly basis, thereby achieving a better control of the storage level in Hong Kong, minimizing water overflow and saving the pumping costs.

Major views and concerns

6. The Administration briefed the Panel on the supply of Dongjiang water on 28 October 2008. Noting that the ultimate annual supply quantity was set at 1 100 mcm as against the actual annual supply quantity of about 800 mcm, some members were concerned whether the "reserved capacity" would lead to a higher purchase price. They asked whether the Administration would negotiate for a lower ultimate supply quantity, whether a lower ultimate supply quantity would have any effect on the Dongjiang water price, and whether there would be flexibility in Dongjiang water price. The Administration explained that it was necessary to retain the ultimate supply quantity of 1 100 mcm for long-term planning purposes and development needs. Even if the quantity was reduced, it would have no bearing on the water price of Dongjiang water as the price of Dongjiang water would be set out in the agreement. It would be impossible to ask for a low water price with a small quantity but at the same time requiring a large guaranteed supply. The Administration also advised that there was no "reserved capacity" under the agreement for the supply of Dongjiang water.

Development of the Lok Ma Chau Loop

7. Chapter 8 of the Framework Agreement states that based on the research and development jointly undertaken by the Hong Kong-Shenzhen Joint Task Force on Boundary District Development, efforts would be made to explore the possibility of developing the Loop into an area for higher education, complemented with high technology research and development, as well as cultural and creative industries.

8. The Loop with a land area of about 87 hectares is located inside the Closed Area. Upon completion of Stage I of the Shenzhen River Regulation Project including the Loop section in May 1997, the administrative boundary between Hong Kong and Shenzhen in the area has followed the centre line of the new river channel. The Loop lying to the south of the centre line of the new river channel was then delineated as part of the Hong Kong Special Administrative Region. The Loop is one of the 10 Major Infrastructure Projects announced by the Chief Executive in the 2007-2008 Policy Address. Under the Co-operation Agreement on Recently Initiated Major Infrastructural Projects signed by Hong Kong and Shenzhen on 18 December 2007, the Hong Kong-Shenzhen Joint Task Force on Boundary District Development was set up to co-ordinate and steer work on the studies in relation to the planning and development of land in the border area.

Major views and concerns

9. The Administration briefed the Panel on the proposal to launch the Planning and Engineering Study on the Development of Lok Ma Chau Loop (the Study) at the Panel meeting on 24 February 2009. On the recommendation of the Public Works Subcommittee made at its meeting on 8 April 2009, the Finance Committee approved the funding proposal on 24 April 2009.

10. On Members' concerns about the study area and the duration of the Study, the Administration advised that although future development would mainly focus on the Loop, the existing infrastructure and transport facilities in the area were insufficient in meeting future development needs. It was therefore necessary for the Study to review and recommend the provision of necessary infrastructure in the adjoining areas to support the development of the Loop by enhancing its external linkage, and there were difficulties in further expediting the Study.

11. As regards concerns about the impact of the proposed development of the Loop, Kwu Tung North New Development Area and Fanling North New Development Area on the traffic flow of San Tin Highway and Fanling Highway, the Administration advised that a detailed Traffic Impact Assessment would be conducted under the Study to project traffic growth and recommend provision of necessary transport infrastructure to meet the growing traffic demand. The alignment of the proposed Fanling Bypass, and the widening of the San Tin Highway and Fanling Highway would be examined in the context of the development of the New Development Areas. The Administration would also explore the feasibility of providing another access road to link the Loop directly with the Kwu Tung North New Development Area, which would in turn be linked to the Fanling North New Development Area.

12. Since the Loop had been used as a dumping ground for mud extracted from the river training works, some Members expressed concern about the treatment of the contaminated mud in the Loop. The Administration advised that detailed site investigation and assessment work would be conducted as required under the Environmental Impact Assessment (EIA) Ordinance (Cap. 499) and in accordance with the guidelines of Environmental Protection Department, the EIA Study would in particular examine the issue of contaminated mud in the Loop. The EIA Study would ascertain the quantity of contaminated mud involved and come up with the recommended methods of treatment.

13. In response to concerns about cost sharing, interface and selection of consultants for different study areas, the Administration advised that that while Shenzhen and Hong Kong would meet the costs separately for the studies to be carried out in the study areas within Shenzhen and within Hong Kong respectively,

they would share the cost equally for the study on the Loop. Shenzhen and Hong Kong had set up two working groups to coordinate various tasks related to the studies. Officers and professionals from one side would attend the project meetings of the other side to keep abreast of the latest development of and problems encountered in the studies.

14. Some Members expressed reservation about the selection of higher education as the leading use in the Loop and considered this not in the interest of Hong Kong. As local universities and research institutions might not be able to compete with international ones for the development opportunities in the Loop, these Members asked whether the local education sector had been consulted and whether the universities and research institutions to be established in the Loop would be local or international in nature. They also expressed concern about the criteria that the Administration would use in choosing partner institutions. The Administration advised that the relevant proposal had received the general support of both governments. Hong Kong's higher education institutions had attained international standards and the Administration would gauge and relay their views to the Hong Kong-Shenzhen Joint Task Force on Boundary District Development for consideration.

Latest development

15. The Administration will brief the Panel on development-related issues under the Framework Agreement on 25 May 2010.

16. A list of relevant papers with their hyperlinks is in the **Appendix**.

Development-related issues under the Framework Agreement on Hong Kong/Guangdong Co-operation

List of relevant papers

Council/Committee	Date of meeting	Paper
Panel on Development	28 October 2008	<p>Administration's paper on "Dongjiang Water Supply" (LC Paper No. CB(1)90/08-09(03)) http://www.legco.gov.hk/yr08-09/english/panels/dev/papers/dev1028cb1-90-3-e.pdf</p> <p>Background brief on "New arrangement for supply of Dongjiang water" (LC Paper No. CB(1)90/08-09(04)) http://www.legco.gov.hk/yr08-09/english/panels/dev/papers/dev1028cb1-90-4-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)395/08-09) http://www.legco.gov.hk/yr08-09/english/panels/dev/minutes/dev20081028.pdf</p>
Panel on Development	24 February 2009	<p>Administration's paper on "The Planning and Engineering Study on Development of Lok Ma Chau Loop: Consultants' Fees and Site Investigation" (LC Paper No. CB(1)816/08-09(05)) http://www.legco.gov.hk/yr08-09/english/panels/dev/papers/dev0224cb1-816-5-e.pdf</p> <p>Background brief on "Lok Ma Chau Loop" (LC Paper No. CB(1)816/08-09(06)) http://www.legco.gov.hk/yr08-09/english/panels/dev/papers/dev0224cb1-816-6-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)1633/08-09) http://www.legco.gov.hk/yr08-09/english/panels/dev/minutes/dev20090224.pdf</p>

Council/Committee	Date of meeting	Paper
Public Works Subcommittee	8 April 2009	Administration paper on "735CL Planning and engineering study on development of Lok Ma Chau Loop -- consultants' fees and site investigation" (PWSC(2009-10)2) http://www.legco.gov.hk/yr08-09/english/fc/pwsc/papers/p09-02e.pdf
Finance Committee	24 April 2009	Minutes of meetings (LC Paper No. PWSC75/08-09) http://www.legco.gov.hk/yr08-09/english/fc/pwsc/minutes/pwsc20090408.pdf (LC Paper No. FC146/08-09) http://www.legco.gov.hk/yr08-09/english/fc/fc/minutes/fc20090424.pdf
Panel on Commerce and Industry	18 May 2010	Administration's paper on "Framework Agreement on Hong Kong/Guangdong Co-operation" (LC Paper No CB(1)1559/09-10(01)) http://www.legco.gov.hk/yr09-10/english/panels/ci/papers/cicb1-1559-1-e.pdf