

**For information
on 16 October 2009**

Legislative Council Panel on Economic Development

Policy Initiatives of the Transport Branch of the Transport and Housing Bureau

Introduction

This paper elaborates on the on-going initiatives relating to the air and maritime transport portfolio in the 2009-10 Policy Agenda. On civil aviation, we have been strengthening Hong Kong's status as an international and regional aviation hub, focusing on liberalising our air services regime, increasing the runway capacity, improving airport infrastructural facilities and improving the connectivity between the airport and the Pearl River Delta (PRD) Region. On marine transport, our policy objectives are to enhance the competitiveness of the Hong Kong Port and to strengthen Hong Kong's position as an international maritime centre.

2009-10 Policy Agenda

On-going Initiatives

2. We will continue to implement the on-going initiatives, including –

Chapter 1 – Developing the Infrastructure for Economic Growth

(a) ***Studying in conjunction with the Airport Authority (AA) the engineering and environmental feasibility of building a new runway at the Hong Kong International Airport (HKIA).***

- It is important that the HKIA has sufficient runway capacity to handle the forecast growth in traffic. In July 2008, the AA commissioned an Airport Master Plan 2030 Study to review the airport facilities with a view to maintaining the status and competitive edge of Hong Kong as an international and regional aviation centre. A key issue in the Study is the possibility of building a third runway, the engineering and environmental feasibility of which is being looked into in studies

commissioned by the AA in September 2008. These studies are scheduled for completion in two years' time.

(b) Improving air traffic management through the establishment of a new air route to cater for flights between Hong Kong and the eastern part of the Mainland and the implementation of the recommendations of a study to increase our runway capacity by improving the existing infrastructure of the HKIA, air traffic control and flight procedures.

- To facilitate the long-term development of the civil aviation industry, the Civil Aviation Department (CAD) will continue to liaise with the Civil Aviation Administration of China (CAAC) and the Macao Civil Aviation Authority (CAAM) with a view to improving the use of airspace and the co-ordination of air traffic management in the PRD Region. Specifically, we will continue to pursue with the CAAC the establishment of another new air route to cater for flights between Hong Kong and the eastern part of the Mainland.
- With the progressive increase of the runway capacity to 68 movements per hour by 2015, the Airport Authority Hong Kong will carry out a midfield expansion project to provide additional aircraft stands and apron facilities and a new passenger concourse. The project can maximise the use of the two existing runways and increase the handling capacity of the airport to 70 million passengers and 6 million tonnes of cargo, which is expected to cope with air traffic demand up to 2020. The preliminary study on the project will be completed in 2010. The above facilities will be provided in phases, having regard to the increase in the air traffic demand.

(c) Continuing to foster closer co-operation between the HKIA and Shenzhen Airport, including further planning of the Hong Kong-Shenzhen Western Express Line as a multi-purpose railway which complements the planning and development of Qianhai, Shenzhen and northwestern part of the New Territories and exploits the synergy from the complementary strengths of the two airports.

- The Shenzhen Airport has a wide domestic network covering some 70 Mainland cities, compared with the HKIA's 40, whilst the HKIA has an extensive international network connecting to 110 overseas destinations. For the two airports to fully complement each other and achieve a win-win situation, the Government and the Shenzhen Municipal Government established a Task Force in December 2007

with a view to fostering closer cooperation between the two airports, including the proposal of establishing a rail connection between the two.

- The pre-feasibility study of the rail link has confirmed that it is technically feasible. To reflect its many functions in supporting the future developments of the two airports, Qianhai and the Northwest districts of the New Territories, the rail link is now named the “Hong Kong-Shenzhen Western Express Line” (WEL). The Government and the Shenzhen Municipal Government signed a cooperation arrangement on the project in August 2009 to take forward its planning. The future developments mentioned above will greatly affect the further planning of the proposed WEL, including its alignments, functions, and operation requirements etc. We are looking at the way forward for the project together with the Shenzhen side having regard to these considerations.
- (d) ***Reviewing the demand for air services from time to time and continuing to formulate appropriate development strategies to support the continued growth and development of the civil aviation industry.***
- We reviewed and expanded our air services arrangements with 12 aviation partners in 2008-09 to provide more growth and development opportunities for the civil aviation industry.
 - We will continue to review the demand for air services from time to time and initiate air services negotiations with our aviation partners with a view to increasing air traffic capacity to meet market demand.
- (e) ***Continuing to assist the AA to expand inter-modal connections to strengthen the links between the HKIA and the PRD Region.***
- Since the launch of the transit passenger ferry service between the HKIA and the PRD Region in September 2003, the services now serve over 2 million passengers a year. A new route to Nansha was launched in June 2009. There are currently seven routes serving Macau, Shekou, Shenzhen Fuyong, Donguang, Zhongshan, Zhuhai (Jiuzhou) and Nansha.

- To further enhance the connectivity between the HKIA and the PRD Region, a new SkyPier is expected to commence operation in December 2009. The AA will seek to increase the number of destinations for the ferry services and frequencies of existing services to the PRD Region.
- (f) ***Replacing the CAD's air traffic control system and developing a new CAD Headquarters on the Airport Island to support the long-term growth of the aviation industry.***
- With funding approval from the Legislative Council in May 2007 and January 2008, the CAD is pursuing the replacement of its existing air traffic control (ATC) system and the development of a new headquarters on the Airport Island to enhance operational efficiency and support the long-term growth of the aviation sector. In this regard, the tendering exercises for the replacement ATC system are underway and the design and construction works for the new headquarters have also begun.
- (g) ***Continuing with the review on the regulatory regime of the Air Transport Licensing Authority (ATLA) for our local airlines.***
- The ATLA, established under the Air Transport (Licensing of Air Services) Regulations (Cap 448A), is responsible for granting licences to local airlines to operate scheduled air services between Hong Kong and any point in the world. We are reviewing the ATLA's regulatory regime with a view to enhancing regulatory oversight and promoting competition and innovation in the airline industry. The intention is to consult the relevant stakeholders in the first quarter of 2010. Subject to such consultation, we will consider the need to amend Cap 448A.
- (h) ***Promoting ship finance in Hong Kong.***
- To further enhance the attractiveness of Hong Kong's maritime services, a working group to promote ship finance for Hong Kong shipowners running charter hire business, was formed under the Hong Kong Maritime Industry Council. Members include representatives of shipowners, ship brokers and bankers, and the Hong Kong Export Credit Insurance Corporation.
 - Given the impact of economic cycle faced by shipping industry and the recent financial tsunami, the Working Group reckoned that the cover limit, the need for and feasibility of additional funding for ship financing, would need to be further considered.

(i) ***Implementing measures to enhance the competitiveness of the Hong Kong Port.***

- We are working closely with the industry to implement measures to enhance port competitiveness, particularly connectivity with cargo sources and port productivity.
- We would continue to explore ways to reduce the cost differential between Hong Kong and the neighbouring ports, and continue to facilitate dialogue among relevant parties with the aim to enhancing the transparency of the terminal handling charges and its determining mechanism.
- To attract more river trade vessels to Hong Kong, thereby increasing the cargo volume, we are also exploring measures to facilitate river trade vessels calling Hong Kong.
- To enhance port productivity, we would continue to work in conjunction with relevant departments to make available suitable adjacent port back-up land to meet port operational needs. Over 65 hectares of land off Kwai Tsing Container Terminals was let out by way of short term tenancy for the use of the industry by end of 2008.
- To strengthen Hong Kong's position as a regional hub port, we are taking forward a project to deepen the Kwai Tsing container basin and its approach channels to 17 metres, for completion by end of 2012, to meet the draught requirements of the new generation of ultra-large container vessels.
- According to the Study on Hong Kong Port Cargo Forecasts 2005/06 completed in April 2008, a new container berth would be required the earliest in 2015. Given the long lead time for new container terminal development, we are actively studying the feasibility of Southwest Tsing Yi for the Container Terminal 10 development. The concerned feasibility study commissioned in March 2009 is scheduled for completion in early 2011. We shall continue to monitor the changes in cargo throughput, with a view to working out the optimal timing for providing the new berths.

- (j) *In the context of cross-boundary logistics co-operation, further enhancing collaboration on the basis of the achievements so far, and continuing to discuss with the Guangdong authorities measures to reduce cross-boundary trucking cost, with a view to enhancing freight flow and logistics efficiency between the two sides.*
- On the basis of the good progress made in the relaxation of regulatory and licensing requirements on cross-boundary container trucks as well as improvements in the service level and efficiency of inland control points, we shall continue to engage the Guangdong authorities to explore measures for further enhancement of freight flow and logistics efficiency between the two sides.
- (k) *Facilitating the development of a logistics cluster and high value-added third party logistics services in Hong Kong by making available suitable sites around the Kwai Tsing area and keeping in view the development of the Lantau Logistics Park (“LLP”) in the light of the need of the logistics sector and the global and local economic situation.*
- With its convenient access to both the port and the airport, the Kwai Tsing area is ideal for the development of a logistics cluster offering high value-added logistics services with which Hong Kong enjoys competitive advantages among economies in the region. A number of permanent sites in the Kwai Tsing area suitable for the provision of logistics services, with a total site area of some 29 hectares, have been identified. They will be gradually released from 2010 onwards. We shall include in the land lease terms conducive to the anchoring of professional third party logistics service providers and leading brands as appropriate. In parallel, we shall continue to keep in view the development plan of the LLP. We shall take into account the need of the logistics sector and the global and local economic situation, including the market response to the said Kwai Tsing sites and how Hong Kong takes advantage of, and positions itself in, the rapid growth of the Mainland economy.
 - Among the above-mentioned sites in Kwai Tsing, an area of about 15 hectares near the Stonecutters Island has been reserved for the Port Rail Terminal (PRT). In view of the continuous drop in the throughput of cross-boundary rail freight, we have come to the view that the Port Rail Line (PRL) should not be pursued further. The Railway Development Strategy 2000 made it clear that the implementation of the PRL hinges on the growth of the rail-borne

freight to the Kwai Tsing Container Terminals (“KTCT”). In the meeting of the Legislative Council Transport Panel Subcommittee on Matters relating to Railways held on 29 June 2004, Members suggested that the Administration should take into account various factors including timing for construction and cost-effectiveness when the review of the individual railway projects, including the PRL, is conducted. In the past years, the rail freight volume decreased from 209,000 equivalent Twenty-foot Equivalent Units (“TEUs”) in 1987 at its peak to only 11,900 equivalent TEUs in 2008. We take the view that the PRL should not be pursued. One of the considerations is that whether cargoes from the deep hinterland in the Mainland will come via the Pearl River Delta when the PRL is completed is debatable because there are many emerging ports along the coast of the Mainland. The transport costs of using these ports are lower, and the ports are more competitive in terms of time depending on the origin of the cargoes. The current reserved site for the Port Rail Terminal (PRT) is outside the KTCT. Therefore, containers arriving at the PRT will have to be loaded on local trucks for further journeys to the container terminals. This double handling of rail container cargoes will make the PRL less attractive in terms of costs as compared with the other more direct transportation modes. These local trucks will lead to deterioration of the current congestion of the road network at Kwai Tsing area. Furthermore, there is only one rail crossing point at Lo Wu and rail freight routing is comparatively restrictive. If the PRL is to be pursued, the freight will run along the existing East Rail Line or West Rail Line. Both options will mean the freight trains will occupy the available train paths for passenger trains, thus reducing the capacity of these existing domestic passenger lines. The site in Kwai Chung originally reserved for the PRT is therefore to be released for permanent logistics use as mentioned above.

Members’ Views

3. We welcome Members' views on the various initiatives.

**Transport Branch
Transport and Housing Bureau
15 October 2009**