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**Transport and
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21 February 2018

Ms Anita Sit
Clerk to Finance Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Ms Sit,

Finance Committee
Follow-up Items Arising from Meeting on 19 January 2018

Thank you for your letter of 22 January 2018, requesting us to provide supplementary information on the policy objectives and vision in supporting the development of logistics and port industries, including performance indicators, in relation to discussion item no. FCR(2017-18)48, i.e. the re-grading of the permanent post currently ranked at Assistant Director of Marine under the Transport Branch of the Transport and Housing Bureau to a permanent Administrative Officer Staff Grade C post, at the captioned meeting. Our response is set out below.

Policy Objectives

The logistics industry is one of the four key economic pillars of Hong Kong, whose essential role in the development of Hong Kong can be seen in its increase in value added from \$67.1 billion to \$76.8 billion from 2012 to 2016. To ensure that the logistics industry could continue to achieve a healthy growth in spite of factors such as market trends and external economic situation, we have formulated policy objectives in various aspects, as briefly explained below.

In recent years, the logistics industry has gradually shifted towards the handling of high-value goods and provision of high value-added services. Many overseas brands have set up regional distribution centres in Hong Kong and engaged third party logistics service providers to provide high value-added services, including inventory management, labelling and packaging, before distributing their goods and products to other destinations. This type of logistics business, which is more specialised and provides additional value-added services in the supply chain process, differs from the traditional logistics industries, which focus on handling the transportation of goods. In view of this, one of our policy objectives is to identify dedicated land for this type of high value-added logistics operations to cope with their demand for modern logistics facilities, in order to support the development of high value-added services like third-party logistics.

Moreover, despite the change in Hong Kong's economic landscape, Hong Kong's role as an important entrepot has still remain unchanged. Our highly reliable and efficient logistics services allow goods to be delivered within a short lead time, thereby help keep inventory at low levels and save cost, which in turn increase productivity and facilitate the growth of various industries. Therefore, reinforcing and strengthening Hong Kong's efficient logistics services will continue to be our policy objective with regard to the logistics industry.

As for the port sector, Hong Kong is one of the world's busiest container ports. One of our policy objectives is to review the port back-up land surrounding the Kwai Tsing Container Terminals so as to ensure the optimal use of these sites, as well as to meet the future development needs of the port and logistics industries. In this aspect, we have refined the allocation and management mechanism of port back-up land let out by short term tenancies, with a view to coping with the demand of the port industry for containers storage, cargo handling or container/goods vehicle parking use.

As mentioned by Members at the meeting, in face of strong competition from neighbouring areas, Hong Kong Port (HKP) has gradually transformed into a transshipment hub in the Bay Area, leveraging on our unique position as a free port in South China, as well as the high frequency of sailings and the wide coverage of destinations in terms of port services. In fact, in 2016, about 59% of HKP's throughput is transshipment cargo, rising from 47% in 2006. Therefore, our policy objective in respect of port development is to strengthen HKP's position in the region as a transshipment centre, so to enable the complimentary development of port clusters in the Bay Area for cooperation in the

provision of port services in the area for external trade.

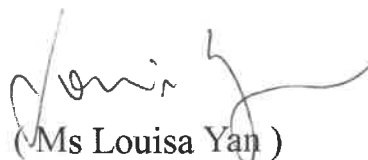
Vision

The logistics and port industries are indispensable parts of Hong Kong's economy. Broadly speaking, through the various policy objectives set out above, we strive to facilitate the healthy growth of Hong Kong's high value-added third party logistics industry. Meanwhile, through the optimal use of port back-up land, we will seek to consolidate HKP's role as a transshipment hub in the Bay Area, as well as to strengthen the competitiveness of HKP, with a view to reinforcing and enhancing Hong Kong's position as the preferred logistics hub in the region and as an international shipping centre.

Performance Indicators

As for the key performance indicators for assessing the effectiveness of the duties of the post concerned, given the market-driven nature of both the logistics and port industries, the development and competitiveness of the industries are not only affected by factors such as the external economic situation, the development of neighbouring areas as well as consumer and other industries' demand, but would also indirectly generate demand for other services (such as banking, insurance and various professional services). It can be seen that the logistics and port industries are closely related with other economic activities. Their development and economic contribution involve and depend on various factors in different aspects, thus may not be directly translated into quantifiable performance indicators for assessing the effectiveness of the work of the post concerned. In mapping out the way forward for the development of Hong Kong Port, we will continue to keep in view of the logistics and port sectors' changing mode of operation, the condition of their human resources, the global economic environment, etc., so as to formulate and implement appropriate measures with a view to achieving the vision of Hong Kong as the preferred logistics hub in the region and as an international shipping centre.

Yours sincerely,



(Ms Louisa Yan)
for Secretary for Transport and Housing