

LC Paper No. CB(1)54/99-00
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seen by the Administration)

Ref: CB1/PL/ES/1

Legislative Council
Panel on Economic Services

Minutes of meeting held on
Monday, 28 June 1999, at 10:45 am
in the Chamber of the Legislative Council Building

- Members present** : Hon James TIEN Pei-chun, JP (Chairman)
Hon Kenneth TING Woo-shou, JP
Hon LEE Wing-tat
Hon MA Fung-kwok
Hon CHEUNG Man-kwong
Hon HUI Cheung-ching
Hon Christine LOH
Hon Bernard CHAN
Hon CHAN Kam-lam
Hon SIN Chung-kai
Hon WONG Yung-kan
Hon Mrs Miriam LAU Kin-ye, JP
Hon Andrew CHENG Kar-foo
Hon FUNG Chi-kin
- Members attending** : Hon NG Leung-sing
Hon Mrs Sophie LEUNG LAU Yau-fun, JP
Hon CHOY So-yuk
- Members absent** : Hon Fred LI Wah-ming (Deputy Chairman)
Hon David CHU Yu-lin
Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, JP
Hon Ambrose CHEUNG Wing-sum, JP
Hon CHAN Yuen-han
Dr Hon Philip WONG Yu-hong
Hon Howard YOUNG, JP
Hon LAU Chin-shek, JP

**Public officers
attending**

: For Agenda Item IV

Mr Stephen IP, JP
Secretary for Economic Services

Mrs Erika HUI
Assistant Commissioner for Tourism

Mr Wilson FUNG
Principal Assistant Secretary for Planning,
Environment and Lands (Planning)

For Agenda Item V

Mr Stephen IP, JP
Secretary for Economic Services

Ms Maria KWAN, JP
Deputy Secretary for Economic Services

Miss Dora FU
Principal Assistant Secretary for Economic Services

Mrs Lessie WEI
Director of Agriculture and Fisheries

Mr M K CHEUNG
Assistant Director (Fisheries)
Agriculture and Fisheries Department

For Agenda Item VI

Mr Stephen IP, JP
Secretary for Economic Services

Mr Richard YUEN
Deputy Secretary for Economic Services

**Attendance by
invitation**

: For Agenda Item IV

Hong Kong Tourist Association

Mrs Amy CHAN
Executive Director

Mr Eric HO
Manager - Project Development

For Agenda Item VI

Hong Kong Shippers' Council

Mr CHAN Wing-kee
Chairman

Mr Willy LIN
Vice Chairman

Mr Clement YEUNG
Executive Director

Representatives of Shipping Lines and Terminal Operators

Mr Roberto GIANNETTA
Manager Director, Commercial Management Ltd

Mr Neil RUSSELL
Chairman, Hong Kong Liner Shipping Association

Mr Melvin TAN
Regional Manager, Far Eastern Freight Conference

Mr Brian M CONRAD
Deputy Executive Director, Transpacific
Stabilization Agreement

Mr Michael SANDPEARL
Director - Marketing, Modern Terminals Limited

Mr Alan LEE
Managing Director, Sea-Land Orient Terminals
Limited

Mr Eric IP
Executive Director, Hongkong International
Terminals Limited

Clerk in attendance : Ms Estella CHAN
Chief Assistant Secretary (1)4

Staff in attendance : Mr Daniel HUI
Senior Assistant Secretary (1)5

I. Confirmation of minutes and matters arising

(LC Paper No. CB(1)1527/98-99 - Minutes of joint meeting of Panel on Economic Services, Panel on Home Affairs, Panel on Planning, Lands and Works and Panel on Public Service held on 14 April 1999

LC Paper No. CB(1)1587/98-99(01) - Draft Report of the Panel on Economic Services for submission to the Legislative Council)

Minutes of the joint meeting of the Panel on Economic Services, Panel on Home Affairs, Panel on Planning, Lands and Works and Panel on Public Service held on 14 April 1999 were confirmed.

2. Members endorsed the draft Report of the Panel on Economic Services for submission to the Legislative Council meeting on 30 June 1999. Members also authorized the Chairman to revise the draft report to incorporate any further developments relevant to the work of the Panel between then and 30 June 1999 as necessary.

II. Information paper issued since last meeting

(LC Paper No. CB(1)1375/98-99 - Reconstruction of Pak Sha Wan Public Pier

LC Paper No. CB(1)1376/98-99 - Siu Lam Typhoon Shelter

LC Paper No. CB(1)1408/98-99 - Consultancy Study on Red Tide Monitoring and Management in Hong Kong

LC Paper No. CB(1)1422/98-99 - Replacement/upgrading of the Vessel Traffic Services system

LC Paper No. CB(1)1539/98-99 - Import and retail prices of major fuels from May 1997 to April 1999

LC Paper No. CB(1)1585/98-99 - Special Loan Fund for Fishermen affected by the Fishing Moratorium

LC Paper No. CB(1)1586/98-99 - Consultation on the Artificial Reef Development Study)

3. Members noted the information papers issued since last meeting.

III. Items for discussion at the next meeting scheduled for 19 July 1999

4. Members agreed to discuss the item "Follow-up on year 2000 compliance in Government, Government-funded and Government-regulated organizations under the purview of the Economic Services Bureau" at the next meeting of the Panel scheduled for 19 July 1999.

IV Study on the cruise market of Hong Kong

(LC Paper No. CB(1)1587/98-99(04) - Information paper provided by the Administration)

5. Mrs Amy CHAN, Executive Director of the Hong Kong Tourist Association (HKTA), briefed members on the main findings of the Study on the Cruise Market of Hong Kong (the Cruise Market Study) as set out in the information paper provided by HKTA(Annex to LC Paper No. CB(1)1587/98-99(04)).

6. Noting that the building of any new terminal facility would inevitably create competition with the existing cruise berthing facility at Ocean Terminal, Mr CHAN Kam-lam enquired whether there was any agreement reached between the Government and the Ocean Terminal in this respect. He also pointed out that the Administration should consider designating a piece of land for development into a new cruise terminal which would be allocated through a public tender exercise as a means to attract private sector initiatives. This approach would also avoid a situation in which individual private developers submitted proposals on different land locations for building cruise terminal facilities. In response, the Principal Assistant Secretary for Planning, Environment and Lands (Planning) (PAS/PEL(P)) advised that there was an agreement between the Government and Ocean Terminal specifying that the Administration would not build or provide financial support to others for building new terminal facilities unless there was evidence indicating that the facility at Ocean Terminal was insufficient to meet the demand. He further advised that as the Administration had yet to decide on the need for new terminal facilities, there was no question of breaching the agreement. He said that if and when the Administration had taken a decision that Hong Kong needed new cruise terminal facilities, the Administration would then consider

the means to implement the decision. He emphasized that the proposed cruise terminal at North Point was a private sector proposal and the Administration had not taken a decision on it.

7. Mr CHEUNG Man-kwong pointed out that different proposals on a new cruise terminal for Hong Kong had been put forward by different bodies and at various locations. He asked the Administration to clarify its policy on development of new cruise terminal facilities and to guarantee that the right to develop the new cruise terminal, if one was to be built, would be given to the private sector through an open and fair mechanism. The Secretary for Economic Services (SES) remarked that the Cruise Market Study had found that the cruise market of Hong Kong showed significant growth between 1992 and 1997. Singapore and Malaysia had since decided to build new terminal facilities to capitalize on the growing cruise market. The Cruise Market Study also pointed out that Hong Kong would require a modern terminal with the required range of facilities and amenities to attract the new generation of mega-ships that were coming on-stream in the next few years. Additional cruise ships coming to Hong Kong would also benefit Hong Kong's tourist industry. He supplemented that the Cruise Market Study had not made any recommendation on the location for a new cruise terminal. In formulating any proposal on development of a cruise terminal, the private sector had to bear the potential risks in relation to the project. If there should be more than one proposal from the private sector, he agreed that the selection process for the developer should be fair and open. PAS/PEL(P) reiterated that hitherto the Administration had not received any proposal from the private sector regarding the building of a cruise terminal.

8. Mr LEE Wing-tat said since a rezoning application had already been approved by TPB for development of a new cruise terminal, the Administration should decide on its policy in land allocation in this respect. He opined that the land to be used for development of a new cruise terminal should be disposed by public tender to maintain Hong Kong's reputation of being an open and fair market. In response, PAS/PEL(P) advised that the rezoning application submitted to TPB involved some 4,000 m² of private land and neighbouring there was some 6,400 m² of land owned by the Government, the majority of which comprised seabed along the coast-line. He further advised that normally land in HKSAR was disposed by public tender or auction but there were many precedents of land being disposed by private treaty, such as land for the development of container terminals. The Administration would have to examine detailed proposal from the private sector before deciding on the means to dispose land for development of a cruise terminal. As regards whether there were areas other than North Point which were also considered suitable by the Administration for building a cruise terminal, he advised that a cruise terminal had been included in the revised Southeast Kowloon development plan. He stressed that any application for change of land use or development of a cruise terminal would need to be considered in the context of overall town planning and correspond with Government's overall planning and detailed policy on

allocation of land for cruise terminal development was still being deliberated internally within the Administration.

9. In reply to Mrs Miriam LAU's question on whether there was any plan to enhance the berthing facility at Ocean Terminal, including provision of additional berths, to make it suitable for use by mega-ships, Mrs Amy CHAN advised that the consultants of the Cruise Market Study had a meeting with the Wharf Group representatives in December 1997 and advised them of the need to upgrade the facilities at Ocean Terminal. In a press release issued by Ocean Terminal in May 1999, it announced that the facilities at the terminal would be up-graded in due course when passenger flows reached a specified level. She added however that HKTA needed to have more detailed information regarding the proposed enhancement work before it could assess whether the enhanced facility could meet the needs of mega-ships.

10. Mrs Miriam LAU opined that the building of new terminal facilities alone could not promote Hong Kong's cruise business and that there had to be other supporting measures in order to attract cruise line operators to use Hong Kong as a home port. In response, SES remarked that any private sector company intending to build a cruise terminal should have a comprehensive plan to attract cruise line operators to use its facility. He also pointed out that given Hong Kong's geographical location, cruise line operators should be able to design many interesting itineraries covering different ports in South China and South East Asian countries. As far as the Administration was concerned, it would establish the necessary immigration and customs control facilities to cater for additional passenger flows.

11. As regards Mr HUI Cheung-ching's query about the discrepancy in the number of cruise passenger throughputs quoted by the Wharf Group and the HKTA, SES explained that this was because the Wharf Group's figure counted only those cruise passengers passing through the Ocean Terminal which was about 62,000 in 1997, but HKTA's figure included those passengers who either flew into Hong Kong and subsequently joined a cruise tour from Hong Kong, or entered Hong Kong on board a cruise ship and left Hong Kong by other modes of transport. These numbered some 40,000. Around 28,000 passengers on cruises-to-nowhere were also included in HKTA's figure.

12. In response to Mr Kenneth TING's question on the growth trend of mega-ships, Mrs Amy CHAN advised that mega-ships which were over 70,000 gross tons had been built since 1990 but they only made up a small percentage of the number of new ships built in the early 1990s. Since 1996-97, most of the new ships built were mega-ships. As regards whether mega-ships could berth at Ocean Terminal, Mrs CHAN advised that with its present facilities, Ocean Terminal could be used by mega-ships as a port of call. The terminal's facilities including baggage handling, immigration control, custom and passenger flow areas would need to be enhanced if it was to be used as a home port or turnaround port by mega-ships.

13. Referring to para 14 of the information paper provided by HKTA, Mr NG Leung-sing sought explanation on the basis of estimating incremental spending by tourists in Hong Kong of HK\$125 million to \$315 million per annum as a result of the provision of a new cruise terminal. Mrs Amy CHAN explained that the estimate was based on the assumption that there would be one additional cruise ship every three years using Hong Kong as a home port. The cruise passengers were expected to spend on shopping and excursions during the ship's stay in Hong Kong.

14. In reply to Mr NG's further question on the Administration's policy in developing the cruise market, SES advised that the Administration would try to ensure the provision of adequate cruise terminal facilities and the HKTA would continue its promotion efforts to attract cruise passengers. He emphasized that a good commercial environment to attract private sector investments was most important for developing the cruise market successfully.

V. Consultancy study on fisheries resources and fishing operations in Hong Kong Waters

(LC Paper No. CB(1)1589/98-99(05) - information paper provided by the Administration)

15. Introducing the main points in the information paper provided by the Administration, the Director of Agriculture and Fisheries (DAF) said that views on the recommendations of the Consultancy Study on Fisheries Resources and Fishing Operations in Hong Kong Waters had been received during a public consultation exercise. The majority of the submissions generally supported the implementation of the six high priority management options as recommended by the consultant with a view to rebuilding fish stocks in Hong Kong waters. There were however divergent views on the extent and pace of implementation. The Agriculture and Fisheries Department (AFD) had set up a Working Group on Fisheries Management comprising representatives from the fishing community, green groups, academics and relevant government departments/bureaux, to advise on matters relating to implementation of the management measures.

16. Mr WONG Yun-kan expressed his support for the six priority fisheries management strategies and opined that the fishing community's main concern was that the implementation of these strategies might have adverse impact on the livelihood of fishermen. On the establishing of nursery and spawning ground protection areas, he said that the fishing community had proposed to the AFD that the Tolo Harbour and Eastern Waters should also be designated as spawning ground protection area. He further pointed out that the Administration should disallow reclamation work in the nursery and spawning grounds in order to achieve the objective of conserving Hong Kong's fisheries resources. In response, the Assistant Director of Agriculture and Fisheries

(AD/AF) advised that details about the designation of nursery and spawning ground protection areas, including proposals from the fishing community, would be discussed by the Working Group on Fisheries Management. As regards reclamation works, he remarked that environmental impact assessment studies would be carried out before approvals for commencement of major reclamation works were given. Measures would also be taken to minimize the adverse impact on the environment arising from the reclamation works concerned.

17. On habitat enhancement and restoration, Mr WONG enquired whether the Administration had any plan to step up the deployment of artificial reefs for rebuilding fish stocks in Hong Kong waters. DAF advised that deployment of artificial reefs was an effective means for rebuilding fish stocks and the AFD would consider more suitable locations for deployment of artificial reefs but the details of implementation would have to be discussed by the Working Group on Fisheries Management. She further advised that the Fisheries Protection Ordinance had been amended to increase the level of fine to deter destructive fishing and to extend controls over such activities.

18. As regards the option of restocking, DAF remarked that this method of rebuilding depleted fisheries resources could only succeed if the fishing community would co-operate with AFD during implementation. Mr WONG agreed that co-operation by fishermen was important and suggested that the restocking programme should be scheduled in such a way that fishermen could still fish at specified areas when the programme was in progress. On promotion of recreational fishing as an alternative employment for fishermen, DAF agreed to discuss this option with the Working Group on Fisheries Management.

VI. Terminal Handling Charges

(LC Paper No. CB(1)1587/98-99(07) - information paper provided by the Administration)

Discussion with the Hong Kong Shippers' Council (HKSC)

19. Mr CHAN Wing-kee, Chairman of HKSC, informed members that HKSC welcomed the shipping companies' recent announcement on freezing the Terminal Handling Charges (THC) for one year. However, HKSC maintained its view that THC should be abolished by incorporating it into the freight rates i.e. back to the pre-1990's arrangement. If THC could not be abolished in the short term, HKSC would request shipping companies to reduce THC by 30% across-the-board. Since THC levied by shipping companies were much higher than the terminal charges they paid to container terminal operators, there should be a large margin for shipping companies to reduce THC.

20. Regarding a proposed mechanism for consultation between HKSC and shipping companies on the increase in THC, Mr CHAN Wing-kee advised that

HKSC requested that shipping companies be required to give a 90-day prior notification on proposed increase in THC and provide data to HKSC to justify the proposed increase. If no satisfactory solution could be reached, the HKSAR Government should act as a mediator to resolve the issue.

21. Mrs Miriam LAU noted that shipping companies had indicated that they did give prior notification to shippers on proposed increase of THC and that shippers could in fact negotiate the THC with the shipping lines. She asked whether HKSC was making use of the existing mechanism. Mr CHAN Wing-kee replied that shipping companies currently gave a few days' prior notification on increase of THC. Although shipping companies, when requested, were willing to discuss the proposed increase in THC with shippers, the shippers would not be able to influence the shipping companies' decision and insufficient data were provided to justify the proposed increase in THC.

22. In reply to the Chairman's question on whether Hong Kong exporters had any flexibility in choosing a shipping line for shipment of goods, Mr CHAN Wing-kee advised that as most Hong Kong's exports were on FOB (Free On Board) terms, the right to choose a shipping line lied with the importer. Mr Willy LIN added that in the case of Hong Kong importers who normally purchased only a small quantity of goods, the right to choose a shipping line lied with the overseas exporter.

23. Responding to the comment that freight rates had been declining over the years, Mr CHAN Wing-kee remarked that while freight rates had declined, the increase in THC, which were paid by Hong Kong exporters, was more than the reduction in freight rates.

Discussion with the representatives of shipping lines and terminal operators

24. Mr Neil RUSSELL, Chairman of Hong Kong Liner Shipping Association, said that the Executive Committee of the Association had discussed HKSC's proposed 30% reduction in THC and had passed all the relevant data to the ship owners for consideration. The ship owners' decision would be made known to HKSC when available. He disagreed that THC was levied in a monopolistic manner because different shipping companies charged different THC based on their own cost data. Moreover, different THC were applied to different trades and there were all-inclusive rates in some Pacific routes. He further advised that even though most of Hong Kong's exports were on FOB terms, Hong Kong exporters could discuss with the importers on the problem relating to THC and agree on who should bear the THC. He emphasized that the Association hoped that the current issue on THC could be resolved among the parties concerned without the need for legislation. He cautioned that regulating commercial activities through legislation would be perceived negatively by shipping lines leading to reduced allocation of tonnage to Hong Kong by liner conferences. He hoped that increased competition in container handling services could lead to reduction in THC.

25. Mr Roberto GIANNETTA, representative of the Intra-Asia Discussion Agreement (IADA), echoed the views of Mr RUSSELL and emphasized that there was no monopolistic agreement among shipping lines in setting THC. IADA had reviewed the relevant cost data and made recommendations to shipping lines on THC. He reiterated that Hong Kong exporters were able to negotiate with importers on the responsibility for paying THC and that a healthy dialogue existed between shippers and shipping lines on the issue of THC.

26. Mr RUSSELL commented that as the demand for outbound shipping service was much higher than inbound service, this pressure would result in higher freight rates and THC for outbound shipping service in Hong Kong. He remarked that some shipping lines had in fact waive THC in respect of inbound service to ensure that sufficient inbound service were available for turnaround to meet the need for outbound shipments.

27. Mr Kenneth TING remarked that while the European liner conference had agreed to establish a more transparent system for setting THC in future, the Transpacific Stabilisation Agreement (TSA) had yet to agree to follow suit. He said that failing TSA's agreement to a more transparent system in setting THC, he would consider proposing a bill to regulate the level of THC. In response, Mr RUSSELL advised that the situation with respect to THC in European liner conference was different from that of the transpacific liner conference. He reiterated that currently shippers could negotiate THC with carriers and that shipping services were provided in an open and competitive market in Hong Kong.

Discussion with the Administration

28. Mr Kenneth TING commended the Economic Services Bureau's efforts in bringing HKSC and the liner conferences together to resolve the issue of THC. He opined that ESB should continue to be the mediator if there was any dispute in future between HKSC and liner conferences in setting THC. In response, SES advised that during a meeting between HKSC and the liner conferences held in February 1999, the liner conferences agreed to freeze THC for one year and to further discuss with HKSC on a more transparent system in setting THC. He added that ESB acted as a facilitator at the meeting and would be happy to chair similar meetings in future to resolve the issue on THC.

29. Mr HUI Cheung-ching expressed grave concern about the high THC in Hong Kong which was eroding Hong Kong's competitiveness. He opined that it was incomprehensible that THC in Hong Kong was higher than similar charges in Japan where labour costs were higher than Hong Kong. He requested the Administration to deal with the situation as soon as possible. The Deputy Secretary for Economic Services (DS/ES) agreed that due to high operating costs, THC in Hong Kong was high as compared with neighbouring

ports. He pointed out that unlike many overseas ports, container terminals in Hong Kong were owned by the private sector without Government subsidy and THC were therefore relatively higher. SES considered that the current dialogue between HKSC and the liner conferences was achieving some results and he hoped the issue could be resolved through consultations without the need to introduce any legislation.

30. Mrs Miriam LAU declared interest as a member of the Sub-committee under the Hong Kong Port and Maritime Board to look at measures to improve the competitiveness of the Hong Kong container port. She expressed reservation about direct intervention by the Administration in setting THC which was a purely commercial matter. She pointed out that the operational cost of container terminals had to be lowered before THC levied by shipping lines could be reduced, and enquired about measures proposed by the Administration in this respect. DS/ES replied that the Sub-committee was examining various measures aiming at reducing operational costs of container terminals. Moreover, he believed that increased market competition amongst container terminals by means of increased capacity should have a positive effect in lowering THC. ESB would continue to monitor the market situation to ensure that there were sufficient container handling capacity to satisfy market demand such that the level of THC could be determined by market forces.

31. Mr CHAN Kam-lam agreed that high THC would affect Hong Kong's competitiveness but objected to the suggestion that THC should be regulated by legislation. He considered that ESB should continue to play an active role to resolve the conflicts between HKSC and the liner conferences over the issue of THC. SES reiterated that the Administration was concerned about means to maintain Hong Kong's competitiveness. Apart from having established a Sub-committee under the Port and Maritime Board to consider measures to improve the competitiveness of the Hong Kong container port in the long term, the Administration would also explore co-operation with neighbouring ports in the Mainland to increase the cargo bases which would be beneficial to both sides.

32. Mr CHEUNG Man-kwong noted that scheduled shipping services were provided by only a few liner conferences and this had created a quasi-monopolistic market situation. He referred to a paper provided by the Trade and Industry Bureau setting out the Administration's policy in market competition which indicated the option of a legislative approach to ensure market competition. He enquired whether the Administration would consider a legislative approach in the current case or the Administration was satisfied and content to continue to assume the role of a mediator between HKSC and the liner conferences. SES responded that the Administration had examined the option of a legislative approach but experiences in overseas countries showed that legislation was not an effective means in regulating THC. He remarked that members of this Panel also had divergent views in this respect. Since ESB's current efforts in facilitating a continuous dialogue between HKSC and

the liner conferences were welcomed by the parties concerned, this approach would be continued.

VII. Any other business

33. There being no other business, the meeting ended at 1:05 pm.

Legislative Council Secretariat
6 October 1999