

For discussion on
28 May 2010

FCR(2010-11)17

ITEM FOR FINANCE COMMITTEE

HEAD 100 – MARINE DEPARTMENT Subhead 700 General Non-recurrent Item 429 Sea-going Training Incentive Scheme

Members are invited to approve an increase in the commitment for the Sea-going Training Incentive Scheme from \$9 million by \$19.2 million to \$28.2 million for extending its operation up to 2013-14

PROBLEM

We need to maintain a sufficient level of funding for the continuation of the Sea-going Training Incentive Scheme (the Scheme) for four more years to attract more youngsters to join the maritime industry to address the problem of an ageing seafaring elite.

PROPOSAL

2. The Director of Marine, with the support of the Secretary for Transport and Housing, proposes to increase the approved commitment for the Scheme from \$9 million by \$19.2 million to \$28.2 million to extend its operation by four years from 2010-11 to 2013-14.

JUSTIFICATION

The Scheme

3. The Scheme was introduced in 2004 to help attract youngsters to join the maritime industry and develop home-grown sea-going professionals. It is administered by the Marine Department (MD) with an approved commitment of \$9 million. The Scheme was meant to be time-limited in nature to address a critical

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situation and kick-start the maritime industry's own efforts to develop local expertise. Under the Scheme, a cadet may receive a monthly subsidy of \$5,000 during the cadetship training for up to a maximum of 18 months for a deck cadet (\$90,000) or six months for an engineer cadet (\$30,000). A cadet will be eligible to take the Class 3 Certificate of Competency (CoC) Examination after completion of cadetship training at sea for 18 months for graduates of the "Higher Diploma in Maritime Studies" (HDMS) programme run by the Maritime Services Training Institute (MSTI)¹, and for six months in the case of graduates of the "Higher Diploma in Mechanical Engineering" programme run by the Institute of Vocational Education (IVE), Tsing Yi or mechanical engineering programmes of the local universities.

4. The Class 3 CoC is the entry qualification of a sea-going career for any officers or engineers serving onboard merchant ships. An additional incentive was introduced under the Scheme in January 2009 to encourage cadets to attain their first professional qualification and begin their career at sea by reimbursing them the Class 3 CoC examination fee² if they pass the examination.

5. At the time of its launch in 2004, the Scheme aimed at training about 24 cadets each year. Of the approved commitment of \$9 million, a total of \$6.21 million had already been paid out to the cadets as at 30 April 2010, and \$2.69 million have been earmarked for another 44 cadets, leaving an uncommitted balance of only \$0.1 million. Hence, an increase in the approved commitment is required to enable the Scheme to continue to serve its important purpose.

Collaborative efforts of the maritime industry

6. The Scheme involves collaboration between the Government and the maritime industry. The Government provides a financial incentive to attract youngsters to the sea-going career while the industry offers training onboard ships. Apart from training, the industry has also partnered with the Government in the promotional efforts to publicise among the general public, especially the youngsters, the maritime industry and the promising opportunities it offers. These activities include organising the Maritime Week, participating in the annual Education and Careers Expo, conducting secondary school promotion talks and

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¹ The minimum cadetship training was reduced from 24 to 18 months in 2010, after the MSTI two-year programme "Diploma in Maritime Studies" was upgraded to the three-year HDMS as from the 2007-08 academic year.

² The fees of the Class 3 Deck and Engineer CoC Examinations are \$6,020 and \$2,410 respectively.

introducing various scholarship schemes for maritime related studies. Moreover, the maritime industry has taken the initiative to put in extra resources and efforts to develop local expertise. For instance, two shipowners have each made a donation of \$10 million to help establish an International Centre for Maritime Studies as well as a Maritime Library and Research and Development Centre at one of the tertiary institutions in Hong Kong to nurture local maritime talents. Others are footing the bill for local students to attend major maritime-related events like the Marine Money conferences/seminars to broaden their horizons. The Hong Kong Seamen's Union (HKSU) will provide free accommodation at its premises for setting up a study centre with reference books and materials to assist local candidates in their studies for the CoC examinations. HKSU will manage and operate the centre at its cost. The Hong Kong Shipowners Association and HKSU have both organised pre-qualification classes for local candidates to prepare for the CoC examinations.

Effectiveness of the Scheme

7. The majority of cadets receive their education either from MSTI or IVE. Since the launch of the Scheme and with the collaborative promotion efforts of the industry, we observe a growing interest for local talents to join the sea-going profession. By way of illustration, the average annual intake of the MSTI maritime study programme for the period from 2004 to 2009 reaches 38, as compared to only 18 for the period from 1998 to 2003. As a matter of fact, the class size of the MSTI programme has been increased from 25 to 60 since 2009 in response to the overwhelming interest in the programme in recent years. It is especially encouraging that surveys of MSTI revealed that the average percentage of graduates who have opted to work on ocean going vessels upon graduation has recorded a marked increase from 22.4% (17) for the period from 1999 to 2003 to 46.7% (57) since the launch of the Scheme from 2004 to 2008. Of the remaining 53.3% of the graduates during that period, 23% (28) opted to work on river trade vessels while 19.7% (24) took up marine-related jobs like junior marine superintendent, marine consultancy assistant, boarding officer, etc. As for the others, 5.7% (7) pursued further studies and 4.9% (6) served as rank and file or officers of disciplinary forces. The above information reveals that a substantial percentage (89.4%) of MSTI graduates have opted to work on board vessels or taken up jobs related to the maritime industry.

8. On participation in the Scheme, the number of graduates from MSTI and other institutions joining the Scheme since its launch from July 2004 to 31 March 2010 totalled 123, or about 21 per year on average. As mentioned in paragraph 5 above, the Scheme sets out to attract 24 cadets a year. In other words, the Scheme has achieved almost 90% of its target and is deemed satisfactory.

/Moreover

Moreover, among the graduates joining the Scheme, 70.7%, including 48 deck and 39 engineer cadets, have successfully completed their sea-going training with the remainder still on training. Of those who have completed training, 29 (60.4%) deck cadets and 28 (71.8%) engineer cadets have already obtained their Class 3 CoC and four engineer cadets have even obtained the Class 2 CoC. These figures show not only that the participants in the Scheme have stayed in the industry but also that they have achieved good progress in obtaining the professional qualifications.

9. Recently, MD has extended eligibility for joining the Scheme to graduates of the mechanical engineering programme of the Hong Kong University of Science and Technology (in addition to the University of Hong Kong and the Hong Kong Polytechnic University). So far, MD has received quite a number of enquiries from university students on the Scheme.

10. With a larger intake of MSTI and the increasing interest of university graduates in the mechanical engineering discipline, it is expected that there will be more cadets joining the Scheme in the coming years. We estimate the number to rise to 38 for 2010.

Manpower shortage

11. Although the Scheme has been effective, the problem of manpower shortage for Hong Kong's maritime industry will likely be more challenging in the near future because of ageing of our seafaring elite. The majority of serving professionals who joined the industry in the 70's and 80's will reach the retirement age within the next decade. According to MD, as many as 488 professionals, or 65% of the existing workforce, will be retiring from service between 2009 and 2019. The extent of the problem can best be demonstrated by the fact that over the past four years, Hong Kong imported over 200 foreign nationals and Mainlanders to work as marine superintendents or ship managers.

Timeframe for the proposed extension

12. We consider that the time is not yet ripe to leave it to the maritime industry to solve the problem on its own. The maritime industry is unique in that shipping companies can employ globally and lack the initiative to train up Hong Kong cadets who receive comparatively higher wages. However, we need home-grown professionals to support our industry's growth, as well as to provide essential services for our port. The continuation of the Scheme, though not a complete solution, will help stabilise the situation.

13. It is heartening to see the Scheme beginning to bear fruits: more and more local youngsters are interested in the sea-going career; an increasing number of university graduates are ready to join the industry; MSTI has substantially expanded the class size of its HDMS programme from 25 to 60 in response to increasing demand; and last but not least, the industry has realised the importance of its contribution and is playing an active role to promote and support maritime education and training. The momentum must be maintained for now if we are to contain the problem, and bring the supply of local sea-going professionals back on the normal track eventually.

14. The Scheme is meant to help address the present manpower shortage that threatens our maritime industry's further growth and our ability to provide essential port services as a leading regional hub port. It is also meant to be a primer to revive the normal supply of sea-going professionals. During the extension of the Scheme, we will review the situation in consultation with the industry to map out a sustainable strategy of addressing the shortage of maritime professionals.

15. The first cohort of the expanded class size of the MSTI's HDMS programme will graduate in 2012. They will be required to undergo sea training for 18 months before being eligible to take the Class 3 CoC examination sometime in 2014. Extending the Scheme for four years will enable us to ascertain whether the interest of our youngsters to opt for a sea-going career is a sustained and increasing one. It will also furnish us with further data and information to help review the situation and project future trends. Given that the Scheme is meant to be time-limited in nature, we will work with the industry to explore other sustainable means to nurture local maritime professionals for the longer term.

FINANCIAL IMPLICATIONS

16. The increase in commitment is intended to benefit about 230 participants based on the recent trend and the enlarged class size of the MSTI maritime study programme. As with the existing arrangements, each cadet will be offered a monthly allowance of \$5,000 (18 months for a deck cadet and six months for an engineer cadet) and be reimbursed the Class 3 CoC examination fee, subject to passing of the examination. The additional financial commitment by year is at Enclosure 1 and the estimated cash flow from 2010-11 to 2014-15 is at Enclosure 2. There is sufficient provision to meet the financial commitment in 2010-11. The additional resources required for subsequent years will be reflected in the Estimates of the relevant years.

Encls.1&2

PUBLIC CONSULTATION

17. The Human Resources Task Force of the Hong Kong Maritime Industry Council³ (MIC) was consulted on 19 January 2010. It considered the Scheme effective in encouraging local youngsters to take up sea-going training and beneficial to the development of the maritime industry. It pledged full support for the Government to extend the Scheme.

18. We consulted the Legislative Council Panel on Economic Development on the proposal on 26 April 2010. Members were generally supportive of the proposal. Members also requested further information on the statistics of graduates choosing to go to sea or taking up other professions. Such additional information has been provided in paragraph 7 above.

BACKGROUND

19. Hong Kong is a major international maritime centre. Hong Kong's maritime sector provides a whole range of quality maritime services for the global shipping community. The Central Government has also stated clearly in its 11th Five Year Plan support for Hong Kong to maintain its status as an international maritime centre. Premier Wen Jiabao, in his report to the National People's Congress in March 2010, reaffirmed the Central Government's support for Hong Kong to strengthen and promote its position as an international maritime centre.

20. The success of our maritime industry is largely attributable to a strong pool of maritime professionals, many of whom possess sea-going experience. The industry, however, has been faced with an acute shortage of professionals with a sea-going background for the last decade. The problem, if unattended, will only get worse and also erode Hong Kong's edge as a major maritime centre and regional hub port because it hampers our ability to provide essential services, such as pilotage, vessel traffic regulation, surveying, ship management, ship repair, etc.

21. The problem is two-fold. First, all sea-going officers begin their career as a cadet and spend three to five years at sea to progress to senior officer level. A sea-going career appears to be unattractive to the youngsters today largely because they do not want to leave home for too long and life at sea is perceived to be less colourful. Second, the international nature of the maritime industry is unique in that it can employ globally. Hong Kong cadets would hence seem unattractive to shipping companies as their pay is higher than their peers elsewhere.

22.

³ MIC is a high-level advisory body, chaired by the Secretary for Transport and Housing, to advise the Government on measures and initiatives to further develop Hong Kong's maritime industry. Its membership comprises senior representatives from the private sector and the Government.

22. With the support of MIC, the Scheme was introduced in 2004 to arrest and reverse the trend of declining number of home-grown sea-going professionals. It involves collaboration between the Government and the industry in that the Government undertakes to provide a financial incentive to attract youngsters to the sea-going career while the industry endeavours to provide the required training onboard ships for Hong Kong cadets and active support in the form of sponsorships and internship opportunities.

Transport and Housing Bureau
May 2010

Estimated Additional Financial Commitment by Year

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | Total |
|------------|----------------|----------------|----------------|----------------|--------------|
| \$ million | 3.14 | 3.69 | 5.67 | 6.70 | 19.20 |

For 2010-11:

For 30 deck cadets:

$$30 \times \$5,000 \times 18 \text{ months} + 30 \times \$6,020^1 = \$2.88 \text{ million}$$

For 8 engineer cadets:

$$8 \times \$5,000 \times 6 \text{ months} + 8 \times \$2,410^2 = \$0.26 \text{ million}$$

Total commitment for 2010-11 = \$3.14 million

For 2011-12:

For 35 deck cadets:

$$35 \times \$5,000 \times 18 \text{ months} + 35 \times \$6,020 = \$3.361 \text{ million}$$

For 10 engineer cadets:

$$10 \times \$5,000 \times 6 \text{ months} + 10 \times \$2,410 = \$0.324 \text{ million}$$

Total commitment for 2011-12 = \$3.685 million (say \$3.69 million)

¹ The Class 3 CoC examination fee for a deck cadet is \$6,020.

² The Class 3 CoC examination fee for an engineer cadet is \$2,410.

For 2012-13:

For 55 deck cadets:

$$55 \times \$5,000 \times 18 \text{ months} + 55 \times \$6,020 = \$5.281 \text{ million}$$

For 12 engineer cadets:

$$12 \times \$5,000 \times 6 \text{ months} + 12 \times \$2,410 = \$0.389 \text{ million}$$

Total commitment for 2012-13 = \$5.67 million

For 2013-14:

For 65 deck cadets:

$$65 \times \$5,000 \times 18 \text{ months} + 65 \times \$6,020 = \$6.241 \text{ million}$$

For 14 engineer cadets:

$$14 \times \$5,000 \times 6 \text{ months} + 14 \times \$2,410 = \$0.454 \text{ million}$$

Total commitment for 2013-14 = \$6.695 million (say \$6.70 million)

Enclosure 2 to FCR(2010-11)17

Estimated Cash Flow Requirements by Year

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Total |
|---|----------------|----------------|----------------|----------------|----------------|--------------|
| Committed ¹ (\$ million) | 1.78 | 0.91 | - | - | - | 2.69 |
| Additional ² (\$ million) | 1.61 | 3.43 | 4.65 | 6.19 | 3.32 | 19.20 |
| Total (\$ million) | 3.39 | 4.34 | 4.65 | 6.19 | 3.32 | 21.89 |

¹ Estimated cash flow required for the existing balance.

² Estimated cash flow requirements by year for the increase in commitment.