

**2013 Policy Address
Policy Initiatives of
Transport and Housing Bureau: Economic Development**

Our Vision

The maritime, logistics and aviation industries constitute around 6% (HK\$105 billion) of Hong Kong's Gross Domestic Product (GDP). The Government attaches great importance to the development of our port, maritime and logistics sectors, which provide about 200 000 jobs. The Central Authorities have clearly indicated support for Hong Kong to reinforce and enhance its status as an international aviation and maritime centre, and to develop into a high-value goods inventory management and regional distribution centre. The Hong Kong International Airport (HKIA) is the world's busiest cargo gateway, and one of the world's 10 busiest passenger airports. At present, there are over 100 foreign airlines operating about 6 700 flights per week, serving about 170 destinations worldwide. The current employment on the airport island is about 65 000 people, and the number would be a few times higher when indirect and induced jobs created by the aviation industry outside the airport island are taken into account.

2. The Government is committed to consolidating Hong Kong's leading position as an international aviation and maritime centre and a regional logistics hub. We will continue to enhance Hong Kong's capacity to handle the needs of the travelling public and shippers, review the demand for air services from time to time, strengthen the regulatory regime of local airlines, and maintain high efficiency in air traffic management. The Government will, in collaboration with the industry, work towards enhancing our maritime services, and will ensure that the port and its supporting infrastructural facilities are provided in a timely manner having regard to the growth in cargo throughput, so as to maintain the competitiveness of the Hong Kong Port.

New Initiatives

3. The Chief Executive has announced in the Policy Address that an Economic Development Commission (EDC) would be established to explore and identify growth sectors which present opportunities for Hong Kong's further economic growth from the perspective of the overall strategy and policy to enhance Hong Kong's growth and development. A number of working groups will be set up under the EDC, including the Working Group on Transportation to make concrete recommendations to the Government. Furthermore, having

regard to the findings of the two consultancy studies underway (viz. the Consultancy Study on Enhancing Hong Kong's Position as an International Maritime Centre and the Study on the Strategic Development Plan for Hong Kong Port 2030), we will review comprehensively the policy formulation and institutional arrangements for supporting the maritime and port development, such as adjusting and reinforcing the work of the Transport and Housing Bureau and Marine Department, as well as the functions of and coordination among the three related advisory bodies (i.e. the Hong Kong Maritime Industry Council, the Hong Kong Port Development Council and the Hong Kong Logistics Development Council), with a view to promoting more effectively the long-term development of the relevant sectors and Hong Kong's position as a maritime centre.

On-going Initiatives

Consolidating Hong Kong's status as an international and regional aviation hub

Improving the infrastructure of the HKIA, replacing the Civil Aviation Department (CAD)'s air traffic control system and developing a new CAD Headquarters

4. To cope with air traffic demand for passengers and cargo up to 2020, the Airport Authority Hong Kong (AAHK) is implementing a midfield expansion project, including the construction of a midfield passenger concourse, 20 aircraft parking stands, automated people mover linking to Terminal 1, a new cross-field taxiway, and relevant airfield infrastructures. The works are expected to be completed by mid-2015.

5. In addition, the new air cargo terminal project is expected to be completed in 2013. This project will increase the airport's cargo handling capacity by 50% to 7.4 million tonnes per year. In line with the medium-term development plan, AAHK will also construct 16 new aircraft parking stands on the western part of the midfield area in two phases by the end of 2014.

6. CAD obtained funding approval from the Legislative Council in May 2007 and January 2008 to implement the replacement of the existing air traffic control (ATC) system and the development of a new headquarters on the Airport Island to enhance operational efficiency of the department and support the long-term growth of the aviation sector. The construction works of the new headquarters were completed in mid-2012, and all units of CAD (except the Air Traffic Management unit) had moved into the new headquarters and commenced

operation by end 2012.

7. As regards the replacement of the existing ATC system, CAD is progressively implementing the installation as well as the acceptance and integration testing of the new ATC systems. CAD will conduct integration and pilot testing for the new ATC systems, and provide technical and operational training for the air traffic controllers. Upon satisfactory completion of the work above, the new ATC Centre is expected to commence operation by the second quarter of 2014.

Expanding HKIA into a three-runway system

8. Connectivity is key to enhancing Hong Kong's competitiveness and status as an international business and aviation centre. It is therefore crucial to ensure that the HKIA has sufficient runway capacity to handle the forecast growth in the air traffic volume in the long run. The Government has given in-principle approval to adopt the three-runway system as the future development and planning option for HKIA. AAHK is carrying out the relevant planning work, including the Environmental Impact Assessment (EIA) in light of the study brief issued by the Director of Environmental Protection in August 2012. The EIA is expected to be completed in around two years. The Government and AAHK will liaise with and consult the stakeholders during the process. At the same time, AAHK will carry out other related planning work, including the associated design details and financing arrangements. When the planning report and assessment details are ready, the Government will make a final decision on whether to proceed with the implementation of the three-runway system.

9. According to AAHK's proposal, when the third runway is commissioned in 2023, it can cope with air traffic demand up to at least 2030. By such time, the annual passenger and cargo throughput as well as air traffic movements will increase to 97 million, 8.9 million tonnes and 602 000 from the current 56.5 million, 4 million tonnes and 352 000, respectively.

Reviewing the demand for air services from time to time

10. In 2012, we concluded air services negotiations and initialled an Air Services Agreement with a new aviation partner (the Republic of Seychelles). In addition, we also reviewed and expanded our air services arrangements with eight aviation partners (Luxembourg, India, Kazakhstan, Mongolia, the Mainland, Russia, South Korea and Saudi Arabia) to provide more growth and development opportunities for the civil aviation industry.

11. 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.

Following up the proposals arising from the review on the regulatory regime of the Air Transport Licensing Authority (ATLA) for our local airlines

12. 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. The legislative amendments which aimed at improving the regulatory regime of ATLA were passed by the Legislative Council in 2011. We have drawn up the procedural guidelines for the new regulatory regime to facilitate the new applicants and existing licence holders to make applications under the requirements of the new regulatory regime. In addition, we are also conducting a tender exercise to commission an independent consultant to assist ATLA in discharging its duties under the new regulatory regime. Upon completion of the tender process for the consultant, the new regulatory regime is expected to be implemented in early 2013.

Improving air traffic management

13. To facilitate the long-term development of the civil aviation industry, CAD will continue to liaise with the Civil Aviation Administration of China and the Macao Civil Aviation Authority with a view to improving the airspace planning and the co-ordination of air traffic management in the Pearl River Delta (PRD) Region. The three sides held the latest meeting in June 2012, and agreed to continue pursuing various measures to optimize the usage of the airspace and enhance the communication and coordination among the air traffic management authorities in three places, in accordance with the principles of joint airspace planning, use of common standards and harmonised flight procedure design formulated previously. Examples include rationalising flight procedures and air routes, developing related ancillary systems, such as a network platform used for sharing air traffic related information messages, etc. The three sides also agreed to further push forward the planning proposals of the Southern PRD Terminal Areas to remove airspace constraints within the region and increase regional air transport capability. These measures will adequately cater for the future development of the airports in the region, including the operating mode at the HKIA when a third runway is built.

Consolidating and Reinforcing Hong Kong's Position as an International Maritime Centre and Regional Logistics Hub

Port and Maritime Development

14. Strategically located on the Far East trade routes and at the geographical centre of the fast-developing Asia Pacific region, Hong Kong is a regional hub port and an international maritime centre. The Hong Kong Port provides frequent and comprehensive liner shipping services with about 410 container liner services per week to about 520 destinations worldwide. Added to a superb airport and efficient land boundary crossings and transport facilities, it has enabled Hong Kong to become a regional hub port with a vast service network.

15. At present, there are over 700 companies in Hong Kong running businesses related to the maritime industry and providing diversified international maritime services. Not only is Hong Kong a place where shipowners concentrate, our markets for marine insurance and international arbitration services are also well established. Leading and renowned classification societies have all set up offices in Hong Kong. Furthermore, the Hong Kong Shipping Register (HKSR) continues to perform well in terms of ranking. According to the Danish Shipping Statistics November 2012 published by the Danish Shipowners' Association, Hong Kong has risen to the third position in the world in ranking as a place for ship registration. As at end-December 2012, 2 193 ships with a total gross tonnage of 78.9 million were registered with the HKSR. This represents a 15% increase in gross tonnage from a year ago.

16. Hong Kong is a deep-water harbour. To maintain the competitiveness of the Hong Kong Port, we plan to seek funding approval from the Legislative Council later this year for a project to dredge the Kwai Tsing container basin and its approach channels from the present navigable depth of 15 metres to 17 metres. This will enable the Kwai Tsing container terminals to meet the draught requirements of the new generation of ultra-large container ships at all tides. Subject to approval for the funding application, the project is expected to be completed by 2016.

17. We are conducting the preliminary feasibility study for the proposed development of Container Terminal 10 at Southwest Tsing Yi. We are also proceeding with the Study on the Strategic Development Plan for Hong Kong Port 2030. Both studies are expected to be completed in a few months' time. We will consider the need to develop Container Terminal 10 having regard to the study results, global and local economic situation, performance of the port sector

and views of stakeholders, etc.

18. To build on the Central Authorities' support to Hong Kong under the National 12th Five-Year Plan and chart a blueprint for the future development of Hong Kong as a maritime centre, we are due to complete the Consultancy Study on Enhancing Hong Kong's Position as an International Maritime Centre. The aim of the Study is to review Hong Kong's strengths and challenges we face as compared with other maritime centres; analyze the development potential of the related maritime services, including ship management, finance, insurance, law, arbitration, as well as ship broking and ship chartering etc. With reference to the policies and measures adopted by other international maritime centres, and having regard to future opportunities and challenges, the Study will make recommendations on the development roadmap of Hong Kong as an international maritime centre. The Study is expected to be completed in the first half of this year.

19. Meanwhile, the Government has been working with the industry through the Hong Kong Maritime Industry Council to support maritime-related manpower training. Supported by the industry, the Government has put in place a number of maritime training and subsidy schemes to develop a pool of talents to consolidate and reinforce our position as an international maritime centre. These include scholarship schemes for training professionals in maritime services and incentive schemes for training sea-going officers and ship-repair technicians. So far, over 850 persons have benefited under the various schemes. We will continue to support the industry in manpower training.

20. In addition, due to the international nature of shipping operations, shipping companies are more susceptible to double taxation than other taxpayers. To reinforce our position as an international maritime centre and enhance the competitiveness of our maritime industry in the global market, Hong Kong has entered into double taxation relief agreements covering shipping income with 34 major trading partners. We will continue to proactively engage other trading partners in establishing related relief arrangements.

21. The service industries of Hong Kong have a sophisticated and solid foundation. We will continue to make good use of such strengths, including our rule of law and judicial system, free flow of capital and information, and efficient customs clearance, in developing the maritime services industry of Hong Kong, so that we might support the development of the maritime industry worldwide and in the Mainland, and to create more jobs for Hong Kong.

Logistics Development

22. Hong Kong is a regional logistics hub with free port status, efficient and well-established external transport network, convenient multi-modal transport connectivity, efficient customs clearance and comprehensive protection for intellectual property, etc. In recent years, the increasing demand for high-value consumer goods in Asian markets has attracted many overseas brands to set up regional distribution centres in Hong Kong where the goods are stored, and to engage third party logistics service providers to provide a range of customized logistics services that are tailored to the needs of individual clients. These services include inventory management, packaging, labelling, quality control, and distribution of goods to points of sale in Asia just-in-time and just-enough in support of the brand's regional sales network. This development trend has spinned the sector's shift towards the provision of high value-added logistics services, which in turn helps consolidate Hong Kong's position as a regional logistics hub.

23. To support the sector's development in this aspect, we have released two logistics sites in Tsing Yi with a total area of 4.8 hectares for the development of modern logistics centres. In addition to warehousing service, modern logistics centres provide a range of high value-added services. They use advanced technologies such as electronic identification and radio frequency identification (RFID) for handling and tracking the goods accurately. They are also equipped with automated facilities and tight security system for handling cargo movement in and out of the centres. We will release the third logistics site of about 2.1 hectares in Tsing Yi early this year. Meanwhile, we are actively identifying other suitable sites for modern logistics development.

24. Through the Hong Kong Logistics Development Council, we will continue to collaborate with the sector to explore and implement initiatives that will help promote industry development in respect of manpower training, technology application, marketing and promotion, etc. To promote e-logistics, the Government has sponsored industry organizations to conduct "A Feasibility Study for Cross-Border Supply Chain Visibility Across Guangdong, Hong Kong and Asia". The study aims to examine the economic benefits brought about by enhancement in cross-boundary supply chain visibility (SCV), its technical feasibility and business model. The study is proceeding to its second phase under which pilot case studies will be launched and completed by the end of this year. The study findings will help explore how to enable the wider use of electronic platforms to enhance SCV and strengthen the competitiveness of local logistics enterprises.

Marketing and Promotion

25. On marketing and promotion, we co-organized with the Hong Kong Trade Development Council the Second Asian Logistics and Maritime Conference in November 2012, which attracted the participation of about 1 300 industry experts and service users from over 21 countries or regions and a number of provinces in Mainland China. The Conference was successful in highlighting Hong Kong's premier status as a regional logistics hub and an international maritime centre. It also updated the participants on the latest global trends and facilitated them to expand their networks. We plan to organise another international conference of similar nature in the second half of this year to further reinforce Hong Kong's role as a hub and intermediary in the global market.

26. The joint delegation of the Hong Kong Port Development Council and Hong Kong Maritime Industry Council visited Dalian in November 2012 to promote the various maritime and related services provided by Hong Kong as an international maritime centre. We will continue to maintain close contact with major maritime centres in the Mainland so as to create greater business opportunities for the industry through complementary development on a mutually beneficial basis. The Hong Kong Logistics Development Council will visit Europe in the first half of this year to promote Hong Kong's competitive edges in providing high value-added logistics services and to attract European companies to establish their regional distribution centres in Hong Kong. We will continue to work in partnership with the industry to conduct local and overseas promotional activities and facilitate the sector in seizing development opportunities.

27. We will also continue to improve our maritime, land and aviation transport facilities and their linkages, and promote the development of maritime services in collaboration with the industry, with a view to reinforcing Hong Kong's position as a regional hub port and an international maritime centre.

Maritime Management

28. Further to the vessel collision incident on 1 October last year, the Chief Executive has set up an independent Commission of Inquiry to conduct investigation into the matter. Upon completion of the investigation, the Commission of Inquiry will submit recommendations for improvement to the Government. In parallel, the Transport and Housing Bureau, Marine Department as well as the industry are reviewing comprehensively the existing regulatory regime and related legislation on local passenger-carrying vessels and

the crew. After the incident, the Marine Department has also adopted immediate measures to strengthen inspection and enhance the safety of passenger-carrying vessels. During the pyrotechnic display on the New Year's Eve last year, the Marine Department adopted new management measures in collaboration with other enforcement agencies in enhancing the safety of passenger-carrying vessels. In the coming months, the Government will continue to cooperate with the investigation work of the independent Commission of Inquiry. The Government will also take follow-up actions arising from the recommendations of the Commission of Inquiry and the Local Vessels Advisory Committee on maritime safety to prevent the recurrence of similar incidents in future in response to public concern on marine traffic safety.

Transport Branch
Transport and Housing Bureau
16 January 2013