

**For information
on 27 January 2014**

**Legislative Council Panel on Economic Development
The 2014 Policy Agenda
Policy Initiatives of the Transport Branch of the
Transport and Housing Bureau**

Introduction

This paper elaborates on the initiatives set out in the 2014 Policy Agenda that the Government will pursue and continue to pursue to reinforce and enhance Hong Kong's status as an international aviation and maritime centre.

Hong Kong as an international maritime and aviation centre and the global development trend

2. The centre of global economic development is shifting eastward. Asia has become the world's marine transport centre¹. Three out of top four world's busiest ports with highest throughput are in China, including Shanghai, Shenzhen and Hong Kong; China is becoming a world shipping power. The Central Authorities have clearly indicated support under the National 12th Five-Year Plan for Hong Kong to reinforce and enhance its status as an international maritime centre, and to develop into a high-value goods inventory management and regional distribution centre.

3. The Government has started preparations to provide input to formulation of the National 13th Five-Year Plan and is studying how to enhance Hong Kong's position as an international maritime centre, develop high-end maritime services, and strengthen Hong Kong as a high-value goods inventory management and regional distribution centre. The study covers how to attract maritime companies from different places (including Mainland and overseas) to use Hong Kong as a base for their business operations, assuming the strategic position of a maritime services and talent hub; as well as how Hong Kong's positioning would also tie in with the national development towards a world shipping power, becoming the springboard for

¹ In 2012, out of the top ten ports with the highest container throughput, nine are in Asia and seven in China, i.e. Shanghai, Hong Kong, Shenzhen, Ningbo–Zhoushan, Guangzhou, Qingdao and Tianjin.

more maritime companies in the Mainland to enter the international market, thus strengthening Hong Kong as an important international maritime services centre in Asia.

4. To seize the development opportunity and realise this policy goal, we are enhancing our competitiveness, improving transport infrastructure, and strengthening manpower training. Capitalising on its geographical and institutional advantages, Hong Kong is moving towards high value-added services and a knowledge-based economy, matching up with the rapid economic development in Asia and the global development trend. We will also make best endeavors to enhance the efficiency of the port and its supporting infrastructural facilities, having regard to the growth in cargo throughput, with a view to maintaining the competitiveness of the Hong Kong Port (HKP).

5. On civil aviation, we will continue to entrench and enhance Hong Kong's status as an international aviation hub. The major areas of work include enhancing manpower training and development for the aviation industry, pushing ahead with full force the Third Runway proposals, developing the North Commercial District on the airport island, enhancing Hong Kong's capacity to handle the passenger and cargo traffic, maintaining high efficiency in air traffic management, regularly reviewing the demand for air services, as well as strengthening the links between the Hong Kong International Airport (HKIA) and the Pearl River Delta Region, and optimizing the regulatory regime of local airlines.

New Initiatives

6. We will implement the new initiatives as set out in paragraphs 7 to 12 below in 2014.

(a) *Take forward a consultancy recommendation to examine the feasibility of setting up a statutory body to drive the development of the maritime services in Hong Kong. The proposed body will be responsible for driving the diversification and development of maritime services, manpower training, as well as conducting policy research etc., with a view to strengthening and enhancing Hong Kong's position as an international maritime centre.*

7. Commissioned by the Hong Kong Maritime Industry Council, the Consultancy on Enhancing Hong Kong's Position as an International Maritime Centre has been completed. According to the study analysis,

Hong Kong has advantages in soft power; at the regional level, we have the potential to congregate a diversity of high value-added maritime services, and further become the preferred base in Asia for international maritime business. At the same time, Hong Kong is well positioned to serve as a springboard for Mainland maritime companies to “go global” and provide services for overseas enterprises to tap into the Mainland market, thus becoming an important international maritime services centre for China and the Asia Pacific.

8. The study also pointed out that Hong Kong had advantages in developing high value-added maritime services, including ship registration, management, finance, marine insurance, and maritime law and arbitration, but that we needed to strengthen the institutional set-up and dedicate human resources to drive proactively the industry development. The consultant therefore proposed setting up a new statutory maritime body to propel the long-term development of the maritime industry in Hong Kong, including to undertake policy research, support manpower training, and conduct marketing and promotion regionally and internationally, with a view to strengthening and enhancing Hong Kong’s position as an international maritime centre.

9. The proposed new statutory maritime body will help drive and implement the development strategy and specific measures devised by the Government. The industry (including the Hong Kong Maritime Industry Council and the Sub-group on Maritime under the Economic Development Commission) in general supports the consultant’s recommendation. In the coming year, the Government will work out the functions, funding, structure, mode of operation etc., to ensure that the new body is practicable in terms of financial and business sustainability. We will consult the industry and the Legislative Council with a view to commencing the legislative process as early as possible.

(b) With the support of the Working Group on Transportation under the Economic Development Commission, conduct a study on the feasibility of establishing a civil aviation training institute, with a view to enhancing the skills for local and overseas practitioners of the aviation industry, thereby nurturing talents for the aviation industry, enhancing the safety standards and efficiency of air transport, and further strengthening Hong Kong’s leading status as a major aviation hub in the region.

10. At present, a wide array of aviation-related training courses are provided by the aviation industry, post-secondary education institutes, the Vocational Training Council, and the Civil Aviation Department (CAD), etc, to existing practitioners and those who are interested to join the aviation industry. The Government is committed to entrenching Hong Kong's leading status as a major aviation hub in the region. As the civil aviation industry continues to grow rapidly, Hong Kong needs to enhance training for practitioners of the aviation industry in order to cope with the associated opportunities and challenges.

11. With the support of the Working Group on Transportation under the Economic Development Commission, CAD will commission a consultancy study to explore the feasibility of establishing a civil aviation training institute. As a preliminary idea, the proposed civil aviation training institute will provide vocational or qualification training for local and overseas practitioners and persons who are interested to join the aviation-related sectors.

12. The preparation work for the consultancy study has already commenced. The scope of the study will include an assessment on the current and future manpower situation in Hong Kong and overseas aviation industry vis-à-vis the demand for training, and the feasibility of establishing a civil aviation training institute in Hong Kong and related issues, such as the scale of the institute, types and level of training to be offered, trainers, and interaction and collaboration with the stakeholders (including those existing training institutes), etc. Upon the completion of the consultancy study, the Government will carefully consider the outcome of the study.

On-going Initiatives

13. In addition, we will continue to implement various on-going initiatives in 2014, with details set out in paragraphs 14 to 41 below.

Manpower Training

(a) ***Taking forward initiatives under the Maritime and Aviation Training Fund to support manpower development for the maritime and aviation industry.***

14. On 10 January 2014, the Finance Committee of the Legislative Council approved \$100 million to establish the Maritime and Aviation Training Fund

(MATF) for use over a period of five years (from 2014-15 to 2018-19), to sustain and enhance the five existing training and scholarship schemes and launch new initiatives, to –

- (a) attract more new blood to expand the pool of talent and address the issue of aging workforce in the maritime and aviation sectors;
- (b) diversify expertise of the workforce to meet manpower demands of the sectors, especially in providing high value-added services; and
- (c) enhance the overall competency and professionalism of the sectors and in turn our global competitiveness as an international maritime centre.

15. In addition to encouraging young people to enrol in aviation- and maritime-related professional and skills training programmes, the target and scope of funding has also placed emphasis on supporting the manpower training for the local maritime sector for upgrading the overall marine safety in Hong Kong as well as the professional standard of the relevant workforce.

16. Implementation details for each of the new initiatives will be worked out shortly through the tripartite collaboration among Government, the industry and the academia. We aim to roll out the various funding/scholarship schemes starting from April this year with a view to building up a wealth of professional and skilled talent that is vibrant, diversified and competitive to support the long-term development of our maritime and aviation sectors. The Government, industry stakeholders and education institutions will set up tripartite committees for the maritime- and aviation-related initiatives respectively to monitor and review their implementation.

Maritime-related Initiative

- (b) ***Working with industry players to consolidate and enhance our position as an international maritime centre.***

17. In respect of infrastructural facilities and business environment, we will continue to enhance the infrastructure of sea, land and aviation transport and strengthen multi-modal transport connectivity; upgrade the cargo-handling capacity and efficiency of the airport and port of Hong Kong. Through platforms such as the Hong Kong Port Development Council, the Hong Kong Maritime Industry Council, and the Sub-group on Maritime under the Economic Development Commission, the Government and the

industry will join hands in conducting marketing and promotion in the Mainland and overseas. To enhance the attractiveness of Hong Kong as a maritime centre, the Government will continue to work with our trade partners to establish arrangements on avoidance of double taxation covering shipping income². This will create a more competitive business environment and encourage more shipping companies to relocate to or set up branch operation in Hong Kong.

18. Last year, the Hong Kong Port Development Council and the Hong Kong Maritime Industry Council conducted promotion visits to Taipei and Shanghai to promote to the local industry the various maritime and related services provided by the Hong Kong maritime cluster. We organised the third Asian Logistics and Maritime Conference in November last year, attracting the participation of over 1 600 trade representatives from local and Mainland, as well as different countries or regions in Asia, Europe and America. We are planning to take part in a large-scale international maritime exhibition in Greece in June this year to promote to the local maritime industry Hong Kong's competitive edges in providing high value-added services such as ship registration, maritime law and arbitration, as well as ship management, broking and finance etc. We will also take the opportunity to market Hong Kong as a preferred base for establishing maritime business in Asia.

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

19. HKP is one of the busiest container ports in the world. In the past decade, it handled an annual average of more than 22 million TEUs. We will continue to optimize our port facilities and enhance the port's handling capacity, including monitoring the dredging project of the Kwai Tsing Container Basin and its approach channels to a depth of 17.5 meters. This will enable HKP to meet the draught requirements of the new generation of ultra-large container ships at all tides. The project commenced in August of 2013 and is expected to be completed earliest towards the end of 2015.

20. In view of the scarce land resources in Hong Kong, both government and the trade recognised the need to rationalize and increase the utilization of

² As of now, Hong Kong has established arrangements with 37 trading partners on avoidance of double taxation covering shipping income. They are Austria, Belgium, Brunei, Canada, Chile, Czech, Mainland of China, Denmark, France, Germany, Guernsey, Hungary, Indonesia, Ireland, Italy, Japan, Jersey, Korea, Kuwait, Liechtenstein, Luxembourg, Malaysia, Malta, Mexico, the Netherlands, New Zealand, Norway, Portugal, Qatar, Singapore, Spain, Sri Lanka, Switzerland, Thailand, the United Kingdom, the United States and Vietnam.

the existing container port and back-up facilities for enhancing the port efficiency and maintaining the competitiveness of HKP. Government will continue to work closely with the trade this year to review the existing port facilities and the management mechanism of adjacent port back-up land with a view to working out a feasible option for enhancing the efficiency of the existing port facilities to meet the future operational need of HKP.

21. The government is conducting two consultancy studies for the long term development of HKP, i.e., “The Preliminary Feasibility Study of developing CT10 at Southwest Tsing Yi” and “Study on the Strategic Development Plan for Hong Kong Port 2030”. The two studies are expected to be completed soon. By then, the government will take all relevant factors into consideration, such as local demand and external economic trends, in setting the direction and strategy for the port’s long term development.

Logistics-related Initiative

(d) Facilitating the provision of high value-added third party logistics services in Hong Kong by making available suitable sites for the development of modern logistics facilities.

22. With the continuous development of the logistics industry towards the provision of high value added services, Hong Kong is developing into a high value goods inventory management and regional distribution centre. Comparatively, Hong Kong still has advantages over neighboring cities in providing high value added services, given our multimodal transport network, highly efficient transport infrastructure such as airport and port, free port status and sound judicial system protecting intellectual property, efficient customs clearance and accumulation of rich experience in providing third party logistics services.

23. Under the vibrant development of the Mainland consumer market, the demand of online trade in the region for high value added logistics services has increased. To increase the provision of logistics facilities in Hong Kong and to support the development of high value added services by the industry, we disposed of a site of about 2 hectares in Tsing Yi dedicated for logistics development in May 2013. At present, we are conducting a traffic impact assessment on the 10 hectares of land reserved in Tuen Mun West to confirm the feasibility of developing logistics facilities thereon. In parallel, we will continue to identify suitable land and consider reserving land in new development areas for developing modern logistics facilities, so as to support

the logistics industry's development towards provision of high value added services.

Aviation-related Initiative

(e) Working with the Airport Authority in considering initiatives to enhance airport capacity and airport services. Major projects being considered include the expansion of the Hong Kong International Airport into a three-runway system and implementing the midfield expansion project.

24. The Government has given in-principle approval in March 2012 for the Airport Authority (AA) to adopt the three-runway system (3RS) as the future development option for HKIA. Since then, AA has actively embarked on the planning work for the project, namely the statutory Environmental Impact Assessment (EIA), scheme designs and financing arrangement studies.

25. The EIA work is progressing according to the plan, and AA has been liaising with the stakeholders closely during the process. AA expects that the EIA process will be completed by Q3, 2014. Subject to the successful completion of the EIA process and the subsequent LegCo's approval of the funding arrangement, AA aims to start the construction works as early as possible with a view to commissioning the 3RS in 2023.

26. With the three-runway system in place, AA expects that the capacity of HKIA will increase from 420,000 flight movements per year under the two-runway system to 620,000 per year. The additional capacity can cope with the air traffic demand of HKIA until at least 2030. By that time, the HKIA will handle at least 97 million passengers and 8.9 million tonnes of cargo annually, up from 56.5 million passengers and 4 million tonnes of cargo in 2012.

27. Separately, to cope with both short and medium term air traffic demand and to tie in with the designed capacity of the two-runway system by increasing the handling capacity of HKIA to 70 million passengers and 6 million tonnes of cargo per annum, AA is implementing Phase 1 of its midfield expansion project. A passenger concourse is under construction to provide 20 additional aircraft stands. The project started in late 2011 and is expected to be completed by phases in 2015. At the same time, AA has started designing the development of Phase 2 of the midfield expansion project and is exploring the feasibility of providing additional aircraft stands. AA will also construct new aircraft parking stands on the western part of the

midfield area with a view to be completed by phases by the end of 2014. Upon completion of all these expansion projects, the number of aircraft stands will increase by more than 30%.

28. In October 2013, the third air cargo terminal came into full operation, which increased the overall cargo handling capacity of the airport by 2.6 million tonnes per annum. This facility will help strengthen the position of Hong Kong as an international and regional logistics centre.

(f) Working with the Airport Authority to develop the North Commercial District on the airport island. The aim is to maximise the development potential of this site, taking into account the future development of the Hong Kong International Airport including the three-runway system, and the synergy with Lantau as well as the Western Pearl River Delta Region.

29. To support the long-term economic development of Hong Kong, we will ensure the optimal use of the limited land on the Airport Island. We will work together with AA on the timely development of the North Commercial District (NCD) of the HKIA. The aim is to maximise the development potential of the site, taking into account the future expansion of the HKIA, including the three-runway system, as well as the synergy with the development on Lantau. On 17 December last year, the AA Board decided that AA would proceed immediately with the development of a new hotel at the NCD as the area's first phase of commercial development. AA will continue to actively pursue relevant planning work to finalise a Master Layout Plan for the entire NCD development.

(g) Assisting the Airport Authority to expand inter-modal connections to strengthen the links between the Hong Kong International Airport and the Pearl River Delta Region.

30. The HKIA is a gateway of Mainland China, supported by an integrated and multi-modal transport network. Cross-boundary coaches, limousine and ferry services connect passengers between the Pearl River Delta (PRD) and international destinations via the HKIA. Last year, an average of about 550 round trips by coaches were made every day to link the HKIA with 110 PRD cities and towns.

31. The SkyPier at HKIA provides speedy ferry services for air-to-sea/sea-to-air transit passengers travelling to and from the PRD and

Macao. SkyPier is currently connected to eight PRD ports, namely Shekou and Fuyong of Shenzhen, Dongguan, Zhongshan, Zhuhai Jinzhou, Nansha, Macao Taipa and Maritime Ferry Terminal in Macao.

32. With the planned completion of various major transport infrastructure in Hong Kong and PRD Region, including the Hong Kong-Zhuhai-Macao Bridge (HZMB), Guangzhou-Shenzhen-Hong Kong Express Rail-link, Tuen Mun Western Bypass and Tuen Mun-Chap Lap Kok Link in the coming future, the travelling distance for passengers and cargo to the HKIA will be further shortened and the network between Hong Kong and the PRD Region will be strengthened. To maximise the synergy effect between HZMB and HKIA and facilitate passengers in the Region, AA is exploring the expansion of intermodal facilities and provision of dedicated bus services for transit passengers to and from the HKIA.

(h) Improving air traffic management through optimising the use of airspace as well as implementing enhancement measures on air traffic control system.

33. CAD will continue to enhance air traffic management to regulate the continued growth of air traffic movements. The tripartite Technical Working Group formed by Hong Kong CAD, the Civil Aviation Administration of China and the Macao Civil Aviation Authority held its latest round of working-level meetings in May and December last year to continue taking forward the various measures to enhance the airspace management of the Pearl River Delta region, including improving flight procedures and air routes, establishing additional handover points, as well as developing network platform for sharing air traffic information and the multi-airport departure release system. In addition, in view of the rapid development of air transport and aviation technology, and to meet the latest international requirements in air traffic management, CAD is upgrading its air traffic management system to maintain its high efficiency in air traffic management, thereby consolidating Hong Kong's leading status as a major aviation hub in the region. The new system is expected to come into operation in early 2015 after appropriate testing.

34. Over the last year, through various enhancement measures of air traffic management, CAD has increased the maximum runway capacity from 63 to 65 movements per hour. Continued efforts will be made to further increase the capacity to 68 movements per hour in 2015 as planned to meet air traffic demands.

- (i) Reviewing the air services arrangements with our aviation partners, with the objective to further liberalising our air service regime, thereby supporting the continued growth and development of the local civil aviation industry.***

35. In 2013/14, we reviewed and expanded our air services arrangements with eight aviation partners (Belgium, Qatar, Mongolia, Myanmar, the UK, Bangladesh, South Africa and New Zealand) to support the growth of the civil aviation industry and to provide further development opportunities. At present, Hong Kong has signed Air Services Agreements (ASAs) with 62 countries and regions. 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.

- (j) Supporting the Air Transport Licensing Authority in regulating our local airlines.***

36. The Air Transport (Licensing of Air Services) (Amendment) Regulation 2011 (“the Amended Regulations”) has come into operation on 22 April last year. The Amended Regulations strengthens the financial monitoring capability of the Air Transport Licensing Authority (ATLA), and puts in place requirements for licence holders to notify ATLA of specific incidents and to submit annual financial statements, thus enabling ATLA to more effectively assess the capability of licence holders to operate their air services on a continual basis.

37. To ensure a smooth rollout of the new regulatory regime, we have conducted briefing sessions for licence holders before the commencement of the Amended Regulations. The transition of the operational arrangements to the new regulatory regime has been smooth, with all incumbent licences successfully converted to the new licences stipulated under the Amendment Regulations. Moreover, ATLA has formulated procedural guidelines in regard to the new regulatory regime to facilitate the new applicants and existing licence holders in complying with the relevant requirements of the regulatory regime.

Marine Safety-related Initiative

- (k) Reviewing comprehensively the existing regulatory regime on local passenger-carrying vessels to enhance marine safety. We will take***

into account the recommendations in the report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012.

38. After the release of the Report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012 in April last year, to follow up on the recommendations of the report, the Secretary for Transport and Housing promptly set up the Steering Committee on Systemic Reform of the Marine Department (Steering Committee) in May to steer the Marine Department (MD) to undertake a comprehensive systemic review and reform. The Steering Committee has focused on three areas, including the improvement measures to enhance marine safety, the review of and improvements to the business processes and operational procedures of MD, and the manpower resources strategy and training matter of MD. In addition, with respect to possible problems with MD officers in carrying out their duties in the past as mentioned in the report, including possible maladministration and negligence of duty, an Investigation Team was set up in June to conduct an internal investigation on MD to identify any possible responsibilities and to ensure that the investigation is comprehensive, thorough and fair. The Investigation Team will later submit a report to the Secretary for Transport and Housing.

39. To enhance safety of local passenger-carrying vessels, MD had introduced the first phase of improvement measures by amending the Code of Practice in late November last year. The measures included enhancing look-out by crew, provision of a muster list, review of minimum manning scale, improving signage relating to lifejackets and fitting watertight-door alarms in wheelhouse. These measures will take effect by phases within a year. The work for the second phase has commenced this year. MD will deal with the improvement measures relating to the installation of navigation equipment and lifejackets. It will, where necessary, provide appropriate financial assistance to the industry to help facilitate them in meeting the requirements for enhancing marine safety. The Department is now working out the implementation details in consultation with the industry.

40. In addition, regarding the business and operational processes of MD, the Efficiency Unit (EU) is assisting the MD in the systemic review. The first phase of the review covered how the licensing and regulatory procedure work for local vessels could be improved. The EU is now preparing the report of the first phase review and will brief the Steering Committee when ready. Upon endorsement by the Steering Committee, MD will implement the proposals at the earliest opportunity. The second phase of the review will commence shortly in February. MD, in collaboration with the EU, will

review the work and operational process of other sections of the Department.

41. As regards the longstanding issue of manpower shortage of professional grades in MD, the Steering Committee has agreed to MD's proposal to revise the entry requirements currently applied to the two professional grades (i.e. the Marine Officer grade and the Surveyor of Ships grade) so as to engage young graduates at an earlier stage, and enhance the training programmes for new recruits by providing them with on-the-job and appropriate training in MD to meet their job needs. MD is actively working towards the implementation of the proposal.

Members' Views

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

**Transport Branch
Transport and Housing Bureau
January 2014**