

立法會
Legislative Council

LC Paper No. CB(4)1220/14-15
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by the Administration)

Ref : CB4/PL/EDEV

Panel on Economic Development

Minutes of meeting
held on Wednesday, 27 May 2015, at 8:30 am
in Conference Room 2 of the Legislative Council Complex

Members present : Hon Jeffrey LAM Kin-fung, GBS, JP (Chairman)
Hon CHUNG Kwok-pan (Deputy Chairman)
Hon CHAN Kam-lam, SBS, JP
Hon Andrew LEUNG Kwan-yuen, GBS, JP
Hon WONG Ting-kwong, SBS, JP
Hon Ronny TONG Ka-wah, SC
Dr Hon LAM Tai-fai, SBS, JP
Hon CHAN Kin-por, BBS, JP
Hon Paul TSE Wai-chun, JP
Hon James TIEN Pei-chun, GBS, JP
Hon Steven HO Chun-yin
Hon Frankie YICK Chi-ming
Hon YIU Si-wing
Hon Charles Peter MOK, JP
Hon Kenneth LEUNG
Hon Dennis KWOK
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Dr Hon Elizabeth QUAT, JP
Hon TANG Ka-piu, JP
Dr Hon CHIANG Lai-wan, JP

Members attending: Hon James TO Kun-sun
Hon WONG Kwok-hing, BBS, MH
Hon Michael TIEN Puk-sun, BBS, JP
Dr Hon Kenneth CHAN Ka-lok
Ir Dr Hon LO Wai-kwok, BBS, MH, JP

Members absent : Dr Hon LEUNG Ka-lau
Hon Albert CHAN Wai-yip
Hon CHAN Han-pan, JP
Hon SIN Chung-kai, SBS, JP

Public Officers attending : Agenda item III

Mr WONG Kam-sing, JP
Secretary for the Environment

Mr Vincent LIU, JP
Deputy Secretary for the Environment

Mr Donald NG
Principal Assistant Secretary for the Environment
(Electricity Reviews)

Ms Esther WANG
Principal Assistant Secretary for the Environment
(Financial Monitoring)

Mr Alan CHOW
Chief Electrical and Mechanical Engineer
(Electricity Team)
Environmental Bureau

Agenda item IV

Ms Julina CHAN
Deputy Secretary for Transport and Housing
(Transport)⁵

Mr Michael WONG
Director of Marine

Mr TUNG Hon-ming
Deputy Director of Marine

Ms Shirley LAM
Deputy Director of Marine (Special Duties)

Agenda item V

Ms Julina CHAN

Deputy Secretary for Transport and Housing
(Transport)5

Mr Kerr LI

Assistant Secretary for Transport and Housing
(Transport)11A

Clerk in attendance : Ms Debbie YAU
Chief Council Secretary (4)5

Staff in attendance : Ms Shirley TAM
Senior Council Secretary (4)5

Miss Mandy NG
Council Secretary (4)5

Ms Zoe TONG
Legislative Assistant (4)5

Action

I. Information paper(s) issued since the last meeting

(LC Paper No. CB(4)923/14-15(01) -- Administration's paper on tables and graphs showing the import and retail prices of major oil products from April 2013 to March 2015

LC Paper No. CB(4)943/14-15(01) -- Letter dated 5 May 2015 from Hon Albert CHAN on a consultancy study commissioned by the Hongkong Post (Chinese version only)

LC Paper No. CB(4)1033/14-15(01) -- Administration's paper on updates on the legislative exercise to regulate the uses of the Kai Tak Cruise Terminal)

Members noted the above papers issued since the last regular meeting, and the Administration's plan to introduce into Council in July 2015 a Bill to regulate the uses of the Kai Tak Cruise Terminal.

II. Items for discussion at the next meeting

(LC Paper No. CB(4)1034/14-15(01) - List of outstanding items for discussion

LC Paper No. CB(4)1034/14-15(02) - List of follow-up actions)

2. Members noted that the Panel would hold a special meeting on 6 June 2015 to meet with deputations and the Administration on public consultation on the future development of the electricity market.

3. Members agreed to discuss the following items at the next regular meeting scheduled for Monday, 22 June 2015 –

(a) Port and logistics development; and

(b) Implementation of the Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance 2012.

4. In response to Mr Albert CHAN's request, the Chairman directed and members agreed that the item of "Review the services of the Hongkong Post" would be scheduled for discussion at the Panel meeting to be held in July 2015.

III. Future development of the electricity market in Hong Kong

(LC Paper No. CB(4)727/14-15(01) -- Administration's paper on public consultation on the future development of the electricity market

LC Paper No. IN10/14-15 -- Information note on "Electricity markets in selected places" prepared by the Research office of the Legislative Council Secretariat

LC Paper No. CB(4)1034/14-15(03) -- Paper on the future development of the electricity market prepared by the Legislative Secretariat (background brief))

Presentation by the Administration

5. At the invitation of the Chairman, Secretary for the Environment ("SEN") briefed members on the public consultation on the future development of electricity market ("the 2015 Consultation"). He highlighted that the review was guided by the four energy policy objectives of safety, reliability, affordability and environmental protection. The details of the briefing were set out in the LC Paper No. CB(4)1120/14-15(01) (Chinese version only).

Discussion

Readiness of introducing competition in 2018

6. Mr CHAN Kam-lam expressed disappointment that the consultation paper did not set out any measures to enhance the electricity supply services provided to consumers through market liberalization. He considered the four energy policy objectives highlighted by the Administration were hurdles to introducing competition to the electricity market, and was worried that the market would remain status-quo without any competition. Mr TANG Ka-piu opined that the two power companies had *de facto* monopolized the electricity supply market.

7. Mr Andrew LEUNG welcomed the 2015 Consultation. While concurring that market liberalization was a very lengthy process, he however expressed grave concern on the slow progress made by the Administration since mid 1970s in introducing competition to the electricity market. Indeed, little had been achieved in the past few decades, neither in respect of increased interconnection between the power grids of the two power companies nor the segregation of generation and transmission/distribution businesses of the power companies. Mr LEUNG considered that to show its determination to introduce competition, the Administration should set up an independent body to study this matter or it would just enter into new Scheme of Control agreements ("SCAs")¹ with the power companies upon the expiry of the existing ones.

¹ The current SCAs entered into between the Government and the two power companies will expire in 2018, and the Administration is conducting the 2015 Consultation to invite public views on, inter alia, improvements to the future regulatory framework.

8. SEN assured members that the Administration was committed to introducing competition to the electricity market when the requisite market conditions were present and had conducted a consultancy study to look into the experiences of other overseas markets. He pointed out that while a key determining factor on introducing competition to the electricity market was the availability of stable and reliable sources of new supply, there would unlikely be any substantial new source of supply locally after the expiry of the current term of SCAs in 2018. Nevertheless, the Administration adopted a positive view on the development of small-scale distributed power generation. Moreover, to pave the way for Hong Kong to introduce competition in the longer term, the Administration planned to conduct the necessary preparatory work including discussing with the power companies on publication of their segregated annual cost data pertaining to their generation, and transmission and distribution systems. SEN added that accounts separation was the usual first step, followed by business separation, which could be in the form of functional or corporate segregation.

Admin

9. Deputy Secretary for the Environment ("DSEN") added that the Administration planned to conduct a study to look into the detailed arrangements for strengthening the interconnection between the Mainland and Hong Kong, as well as that between the existing grids in Hong Kong to pave way for the introduction of competition to the electricity market. Mr Andrew LEUNG enquired whether the Administration would consider setting out the framework for introducing competition to the electricity market, including the allocation of land for the establishment of power plant(s), in order to attract new players.

(Post-meeting note: The Administration's written response was issued to members vide LC Paper No. CB(4)1174/14-15(02) on 15 June 2015.)

10. Mr Ronny TONG expressed disappointment about the Administration's view that it was difficult for Hong Kong to introduce competition to the electricity market at this stage claiming that stable and reliable sources of new supply were unavailable as the public preferred over local generation. In his opinion, the Administration should introduce more supply sources for individual customers to make their own choices in a competitive market.

11. SEN responded that the 2015 Consultation had invited the public to give views on the importance of choice in respect of electricity supply.

12. The Chairman shared the views of some United States ("US") experts that while market liberalization could introduce competition to provide more choices to consumers, the outcome in respect of supply reliability and affordable tariff might not be as desirable as expected.

13. Mr YIU Si-wing considered that among the four energy policy objectives, supply reliability and safety were of utmost importance, followed by environmental performance and affordability. In this regard, he urged the Administration to be prudent in considering market liberalization by studying the outcomes of liberalization of overseas electricity markets. Mr YIU enquired about the Administration's study on the introduction of competition to the electricity markets in overseas.

14. DSEN responded that the Administration had looked into the experiences of Australia, Singapore, the United Kingdom ("UK") and the US in market liberalization. In respect of supply reliability, there had been cases of reduction in generation capacity and lowered level of supply reliability following market liberalization. The major blackout and energy crisis in California in 2000 was a case in point. In the UK, market liberalization had lowered investment incentives and as the reserve margin was expected to drop to around 2% in 2015-2016, the regulator had to introduce various measures to encourage investment in generation capacity. On affordability, tariffs in the UK and Australia dropped in the initial period following the introduction of competition probably due to efficiency gains from privatization. However, tariff rates were subsequently increased due to network costs etc. Overall speaking, the experiences in these jurisdictions showed that market liberalization had delivered mixed outcomes, and there was no conclusive evidence to suggest that market liberalization would help improve electricity supply.

Admin

15. Mr YIU Si-wing and Mr Frankie YICK requested the Administration to provide a detailed analysis on the pros and cons of introducing competition to overseas electricity markets, and the lessons drawn from their experiences.

(Post-meeting note: The Administration's written response was issued to members vide LC Paper No. CB(4)1174/14-15(02) on 15 June 2015.)

Future regulatory framework

16. Mr TANG Ka-piu referred to the Consumer Council's study that the current SCAs were unfair to consumers as the power companies were allowed to earn a high risk-free permitted rate of return ("RoR") on their average net fixed assets the cost of which was transferred to consumers in the form of tariff. He expressed concern that the power companies had achieved a stable electricity supply at the expense of consumers by increasing the reserve margins through constructing more generation units, and brought up the tariff. Noting the Administration's view that Hong Kong might not be ready to introduce competition to the electricity market in 2018 given the lack of new supply sources, Mr TANG expressed doubt on the Administration's bargaining position

in negotiating the new SCAs with the power companies and reducing the permitted RoR to 6%-8% as suggested in the consultation paper.

17. Mr Ronny TONG shared Mr TANG's concern and considered it hard for the Administration to negotiate for better terms in the SCAs. Mr TONG opined that the Government should take heed of the public views to improve the existing framework of electricity supply, and introduce competition with a view to enhancing the Administration's bargaining position with the power companies.

18. SEN explained that the Administration had invited the public to comment on the extent to which the current contractual arrangement by SCAs had achieved the four energy policy objectives, and the possible means of improvement. He also welcomed views in respect of duration, permitted RoR, tariff approval mechanism, fuel cost arrangement and incentive and penalty scheme relating to the performance of the power companies in the future contractual arrangement between the Government and the power companies.

19. Mr TANG Ka-piu noted with concern that although the permitted RoR was reduced to 9.99% since 2009, the power companies still adjusted the tariff upward. For example, CLP Power Hong Kong Ltd ("CLP") had increased its tariff by about 30% to 35% on average from 2009 to 2015. He was worried that the power companies would be eager to construct more gas generation units under the new fuel mix, and hence consumers might still suffer from the ultimate tariff increase even if the permitted RoR was successfully reduced. Mr TANG suggested reducing the permitted RoR to 5% or below.

20. Mr CHAN Kam-lam considered that a high level of RoR might be permitted to attract new market players. However, as the two power companies had been established and operating for decades, the permitted RoR should be further lowered to 5%-6% under the new SCAs. Dr Elizabeth QUAT enquired about the impacts on tariffs if the permitted RoR was reduced to 6%, 7% or 8%.

21. SEN noted that the public understood and supported using cleaner fuel to help reduce carbon emission, and they were prepared to pay more to protect the environment. To ensure that the increase in tariff would be kept at a reasonable range under the new fuel mix plan, the Administration would exercise due care in reviewing the capital projects proposed by the power companies. In view of the downward trend of the risk-free rate and changes in risk appetites in recent years due to the global economic situation, the consultant engaged by the Administration in conducting the mid-term review of SCAs in 2013 suggested that consideration could be given to reducing the permitted RoR to the range of about 6% to 8%.

22. Dr Kenneth CHAN considered that the point of contention in the 2015 Consultation was the permitted RoR as it would determine the level of tariff payable by the general public. To enable the public to ascertain the room for downward adjustment of the permitted RoR, he urged the Administration to disclose the relevant findings in the consultancy report which suggested that the permitted RoR could be lowered to the range of about 6% to 8%.

(Post-meeting note: In response to Dr Kenneth CHAN's letter date 27 May 2015 requesting the said disclosure (LC Paper No. CB(4)1074/14-15(01), the Administration provided its response on 5 June 2015 (LC Paper No. CB(4)1127/14-15(01).)

23. Mr CHAN Kam-lam considered the reserve margin of 20% to 35% too high when compared to some overseas electricity markets where the reserve margins were as low as 2% to 5% while putting supply reliability at a high risk. In his opinion, both of the tariff and supply reliability should be kept at reasonable levels so that the reserve margin could be adjusted downward to 10% to 15%.

24. Mr Steven HO criticized that the current level of reserve margin was too high. According to his understanding, the electricity demand of Hong Kong always met the forecast, except during the northern migration of industries which had driven down the demand, leaving a reserve margin of 20% to 30%. As the economic growth in the near future was forecast to be about 1%, coupled with the Administration's efforts to promote energy savings, there would be a lesser need for investment in generation capacity. He enquired about the risk if the power companies kept the reserve margin at about 15%. Mr Frankie YICK also urged the Administration to review the reserve capacity and address the public concern on electricity tariff.

25. DSEN advised that the Administration would strive to ensure that the power companies would keep the reserve margin at a reasonable level. As some coal-fired units were scheduled to be retired without any replacement in the coming few years, the resultant reserve margins of the power companies would drop to about 20% to 30% by 2018.

Fuel mix implementation

26. Members noted that having regard to the views received in the consultation on two fuel mix options during March to June 2014 ("the 2014 Fuel Mix Consultation"), the 2015 Consultation laid out the plan to implement the fuel mix for electricity generation in 2020, which was to increase the percentage of local gas generation to around 50%, and maintain the current interim measure to

import 80% of the nuclear output from the Daya Bay Nuclear Power Station ("DBNPS") so that nuclear import would account for around 25% of the total fuel mix. The new fuel mix would be able to help meet the pledged environmental targets for 2020, i.e. reducing carbon intensity by 50% to 60% when compared to 2005; and reducing the emissions of sulphur dioxide by 35% to 75%, nitrogen oxide by 20% to 30% and respirable suspended particulates by 15% to 40% when compared to 2010.

27. Mr CHAN Kam-lam expressed concern on increasing the percentage of local gas generation to around 50%, and urged the Administration to strike a balance among the use of natural gas, coal and nuclear power in future fuel mix for electricity generation. Dr Elizabeth QUAT enquired about the impact on tariff if the usage of natural gas was increased to 40% or 60% instead.

28. Dr LO Wai-kwok pointed out that according to the paper of the Public Consultation on Hong Kong's Climate Change Strategy and Action Agenda published in 2010, it was proposed to increase the use of imported nuclear power and natural gas in the fuel mix for electricity generation to about 50% and 40% respectively, with the rest 10% to be made up by coal and RE. However, as a result of the tsunami generated by the earthquake in Japan on 11 March 2011 and the resulting nuclear incidents in Fukushima Prefecture, the public was very concerned about the use of nuclear power in the fuel mix. Given that the Mainland had subsequently concluded that the development of nuclear power should be maintained after examining the nuclear plants and related projects including those in South China, he enquired about the use of nuclear power against natural gas in local fuel mix having regard to their relative cost and environmental implications. He also suggested that the Administration should explore the feasibility to partner with relevant parties in the development of new nuclear plants in the South China.

29. DSEN advised that the cost of CLP to import the first 70% of the electricity output of DBNPS was relatively low given that the deal had first been entered a long time ago. However, the cost of the additional import of about 10% of output of DBNPS for 2014-2018 was much higher, and cost differential between the 10% additional nuclear power and that of natural gas was not significant. He cautioned that the future cost of nuclear power should not be assumed to be as low as the current one. DSEN further said that the cost of additional import of about 10% of DBNPS' output beyond 2018 would be subject to further discussion between CLP and the relevant Mainland authorities.

30. Mr Frankie YICK noted that the power companies had to invest on gas-fired generation units as a result of the increased use of natural gas, and it was necessary to strike a balance in setting the permitted RoR in the new SCAs in

order not to undermine their investment incentives. In this regard, he suggested the Administration to review the future fuel mix plan having regard to the Mainland's decision to develop nuclear power plants in South China.

31. DSEN advised that it was difficult to raise the amount of nuclear power which could be taken from DBNPS in a year to over 80%. During the 2014 Fuel Mix Consultation, many respondents expressed reservation about further increasing the amount of nuclear import in a massive scale.

32. Referring to the use of around 25% of coal (and renewable energy ("RE")) in future fuel mix, Dr Elizabeth QUAT enquired about the basis of determination on the amount of RE to be used and the edge of Hong Kong in developing RE.

33. Dr Kenneth CHAN relayed a survey conducted by a green group that about 50% of the public expressed support on the connection of distributed RE to the grid of power companies and allowing RE producers to receive payment for the electricity they generated and exported to the grid. He considered that this could serve as a pilot run in preparation for the introduction of competition to the electricity market as well as further promotion of RE.

34. SEN pointed out that the consultation paper had set out different options to develop RE. It aimed to encourage people to use more electricity generated from RE facilities. The Administration adopted an open attitude towards further promotion of the development of small-scale distributed RE.

35. Mr Michael TIEN was very concerned that the Administration preferred to use as much as 25% coal in the new fuel mix and urged it be reduced to 10% to protect public health. In addition, according to his understanding from CLP, the use of 50% of natural gas was already the maximum given the lack of available land to accommodate additional gas-fired generation units. He shared with members that on the matter of safety of using nuclear power, the New People's Party had conducted a survey in which 44% of the respondents supported importing nuclear power from a new nuclear plant to be developed in the Mainland, probably because new nuclear plants would adopt more advanced safety precautions. In view of this, he suggested the use of more nuclear power, say 40%, in the fuel mix. He understood that subject to the Government policy, CLP was willing to explore this option in the long run.

36. SEN remarked that the future fuel mix promulgated in the 2015 Consultation was for up to 2020 only. DBNPS was the only possible source providing nuclear power to Hong Kong by 2020. In the longer run, the outcome of the proposed detailed study on the arrangements pertaining to importing electricity from the Mainland grid might have a bearing on the future fuel mix.

37. Mr Steven HO was worried that high transparency weakened the bargaining positions of the power companies in sourcing fuels at reasonable prices. Indeed, Hong Kong had been suffering from the high cost of natural gas as a result, i.e. at about \$0.7 per unit of electricity generation with nuclear power vis-à-vis \$1.2 with natural gas supplied via the Second West-East Natural Gas Pipeline. He enquired about the facilitation measures provided by the Administration to help the power companies to source supplies at reasonable prices.

Energy efficiency

38. Dr Elizabeth QUAT enquired about the measures to encourage power companies to help promote energy savings, e.g. introduction of an incentive and penalty scheme and setting a saving target, say, at 1%. Dr Kenneth CHAN considered that in negotiating SCAs with the power companies, focus should be put on the measures to, inter alia, enhance energy savings. He suggested the Administration reviewing with the power companies the peak demand of electricity with a view to reducing capital investment and hence tariff. SEN highlighted the cost and benefits of promoting energy saving vis-à-vis RE, adding that the 2015 Consultation was inviting the public to provide views on possible ways to improve the incentive and penalty scheme to require the power companies to help promote energy saving.

39. Mr Charles MOK opined that the strategies employed to incentivize the power companies to promote energy savings was ineffective, and suggested the use of technologies such as mobile apps to help consumers save energy. Noting that the Advanced Metering Infrastructure had been in use in overseas but the two power companies had only started to study and test the application in a small scale, he enquired about the measures that had been adopted by the Administration on promoting the use of such energy efficient technologies. He also drew members' attention that Singapore had developed intelligent public housing, which included energy-saving initiatives. He expressed concern that Hong Kong was rather slow in making use of such technologies in energy saving.

40. SEN advised that there was a mechanism under the SCAs to encourage the two power companies to promote energy efficiency and conservation. As mentioned in the "Energy Saving Plan for Hong Kong 2015 ~ 2025+" promulgated recently, the Hong Kong Housing Authority had installed smart meters and display panels at ground level lobbies of new housing blocks so that tenants could see the average electricity consumption per flat of their own block with a view to encouraging them to save energy. The consultation paper also invited the public to comment on the specific requirements that could be imposed

on the power companies in respect of promotion of demand side management.

41. Mr Charles MOK was worried that the response to the open-end questions in the 2015 Consultation might not help the Government draw up measures to promote energy efficiency. SEN remarked that the 2015 Consultation focused on the future regulatory framework of the electricity market, which covered many aspects including energy efficiency.

Others

42. Mr WONG Kwok-hing appreciated the Administration's review of the future development of the electricity market. However, he relayed the concerns raised by the staff associations of the two power companies that in pursuing profits, the power companies had ignored the retention of experienced staff and succession of their skills. He cautioned that the deployment of contract staff by the power companies might affect supply reliability, and urged the Administration to consider the views of the staff associations concerned expressed during the 2015 Consultation.

43. SEN highlighted that the Administration as well as the public attached much importance to a safe and reliable electricity supply. This was made possible by the power companies' professional staff members. He welcomed all interested parties, including the staff associations of the power companies, to put forward their views at the public discussion forum to be held on 23 June 2015 or during the 2015 Consultation.

Conclusion

44. The Chairman drew the Administration's attention to members' concerns on electricity tariff, supply reliability and market liberalization. He said that the Panel would receive public views on the 2015 Consultation at a meeting to be held in June 2015.

IV. Update on follow-up actions arising from the Report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012

(LC Paper No. CB(4)1034/14-15(04) -- Administration's paper on update on follow-up actions arising from the Report of the Commission of Inquiry into the Collision of Vessels near

Lamma Island on 1 October 2012

LC Paper No. CB(4)1034/14-15(05) -- Paper on follow-up actions arising from the Report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012 prepared by the Legislative Council Secretariat (background brief)

Presentation by the Administration

45. At the invitation of the Chairman, the Deputy Secretary for Transport and Housing (Transport)5("DSTH") briefed members on the latest position of the follow-up actions taken by the Government after the release of the Report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012 ("CoI"). The Administration also sought Members' support for the legislative amendment proposals for requiring the installation of navigational and communication equipment on local vessels and increasing the third party risks insurance coverage which would be introduced into the Legislative Council ("LegCo") later.

Discussion

Perusal of the Internal Investigation Report and further investigation

46. Dr Fernando CHEUNG and Mr James TO enquired when the Administration would arrange Members to peruse the Report of the Transport and Housing Bureau's Investigation into Staff Conduct in the Marine Department in relation to the Vessel Collision Incident near Lamma Island on 1 October 2012 ("the Report"). Mr TO relayed the views expressed repeatedly by the representatives of the bereaved family members and injured passengers ("the representatives") that they considered it was in the public interest for Members perusing the redacted Report in camera first so that if necessary, Members could base on the Report and take follow up actions with the Administration. As there was no update about perusing the Report since the Administration's last briefing to the Panel on 28 April 2014, Mr TO expressed strong dissatisfaction that the Administration had withheld the Report from Members for almost a year. Noting from paragraph 31 of the Administration's paper that, for the sake of fairness, THB's intention was that LegCo Members would be arranged to peruse the Report at about the same time when the representatives were given access to

it, Mr TO questioned who made this decision.

47. In reply, DSTH advised that the Administration understood the public sentiment of knowing the truth about the incident. The Secretary for Transport and Housing and the Secretary for Justice had explained on many public occasions that disclosure of the full Report might run the risk of prejudicing the conduct of pending and possible legal proceedings and disciplinary actions in respect of the incident. As the representatives had filed an application to the court for discovery of the Report by way of civil proceedings, the Department of Justice ("DoJ") was acting according to the court orders and making arrangements for the representatives to read the redacted Report on or before 13 June 2015. Meanwhile, the Transport and Housing Bureau ("THB") would keep in view developments regarding the representatives' communication with DoJ on access to the Report, and confirm with the LegCo Secretariat at an appropriate juncture the text of the confidentiality undertaking and other logistical details. It was the intention of THB that, for the sake of fairness, Members could peruse the redacted Report in accordance with the terms of the confidentiality undertaking at about the same time when the representatives were given access to the Report.

48. Mr James TO and Dr Kenneth CHAN expressed disappointment that the Administration was uncertain about the timing they could arrange Members to peruse the redacted Report. Dr CHAN referred to a motion he moved at the Council meeting in June 2014 which sought to authorize the House Committee to exercise the power under the LegCo (Powers and Privileges) Ordinance (Cap. 382) to request the Administration disclosing the full Report, though the motion was negativized. Dr CHAN said it seemed to him that it was the Administration's intention to delay the perusal of the Report by Members and this was unfair to the public. Mr TO and Dr CHAN enquired exactly when the Administration would arrange Members to peruse the Report. DSTH reiterated that the Administration would closely liaise with DoJ and LegCo Secretariat for further arrangement of Members' access to the Report in around the same time the redacted report was released to representatives.

(Post-meeting note: On 12 June 2015, THB issued letters to individual Members setting out the arrangements in respect of perusal of the Report at a government venue. Members were duly informed about the letters vide LC Paper No. CB(4)1146/14-15 on 15 June 2015.)

49. Noting that one serving and one retired officer were pending trial for the offences of misconduct in public office and perjury respectively, Mr WONG Kwok-hing enquired about the progress of criminal investigation by the Police and whether more officers of the Marine Department ("MD") would be arrested

and prosecuted. DSTH remarked that some bereaved family members requested DoJ to seek outside barristers' independent advice on criminal proceedings against relevant MD officers. DoJ had indicated to them that it would seriously consider the request with an open manner.

Steering Committee on Systemic Reform of the Marine Department

50. Members noted that the CoI had identified a number of problems within MD in regulating local passenger vessels and called for a systemic change in MD. They also noted that a steering committee was set up in May 2013 to steer and supervise MD in undertaking a comprehensive systemic review and reform. Dr Fernando CHEUNG considered that the information provided in the Administration's paper in respect of the organizational review of MD and work of the Steering Committee on Systemic Reform of MD was not substantial enough. He asked the Administration to provide more detailed information about the improvement proposals and the detailed implementations plans, in particular the findings and recommendations raised by the Task Force on Reform regarding the business processes and operational procedures of MD for Members to assess how far the system of MD could be improved. D of Marine advised that CoI had pointed out some areas for improvement within MD which included, for instance, internal communication breakdown and word-of-mouth instructions instead of black-and-white procedures. To address these problems, MD had set up an electronic record platform and defined clearly the internal reporting lines. The Administration undertook to provide more detailed information to elaborate these improvement measures in details.

Admin

Manpower strategy and training matters

51. Mr Frankie YICK and Mr YIU Si-wing expressed concern about the acute manpower shortage of the maritime industry. Mr YICK referred to the lukewarm response of the industry to the Maritime and Aviation Training Fund ("MATF") and enquired about manpower training measures devised by the Administration for the local vessel trade. Expressing worry that some local vessel coxswains might quit because of the undue pressure brought by the new measures, Mr YIU enquired whether and how the Administration would promote the local vessel trade continuously with a view to attracting new blood.

52. DSTH responded that staff stability in the industry was related to a host of factors such as salaries, conditions of work and promotion prospect. She advised that, the Local Vessel Trade Training Incentive Scheme ("LVTTIS") and the Professional Training and Examination Refund Scheme ("ProTERS") under MATF were launched in April 2014. LVTTIS provided financial incentives to practitioners newly employed by the local vessel trade for up to \$30,000 per

person, including an incentive of \$1,500 per month up to 12 months, and an additional \$12,000 after the person had passed the relevant examination as coxswains or engine operators. Under ProTERS, in-services practitioners could be reimbursed 80% of the fees upon the completion of approved courses or passing relevant professional examinations with a ceiling of \$18,000 per person. LVTTIS and ProTERS had received 12 and 100 applications in relation to the local vessel trade respectively. The Administration expected that there would be more applications in the future. In addition, the Tripartite Taskforce on Manpower Training, comprising representatives of the Government, industry stakeholders and education institutions, from time to time reviewed and included more relevant courses and examinations under LVTTIS and ProTERS. Notwithstanding the Government's support above, the trade itself also had to make efforts in attracting new blood and maintaining a stable workforce.

53. D of Marine further stressed that the Administration had maintained close contact with the trade. Trainings offered to local vessel coxswains were divided into several sessions so as to flexibly fit their work schedule. The curriculum and training format were implemented in consensus with the trade and relevant training providers, such as MSTI and Hong Kong Seamen's Union. As far as he knew, there was no indication that there had been a loss of coxswains as a result of the training initiatives.

54. Members noted that as recommended by the CoI Report, local passenger vessels permitted to carry more than 100 passengers should be required to install Automatic Identification System and radar, and those permitted to carry more than 12 passengers should be required to carry Very High Frequency ("VHF") radiotelephone. As such, crew members had to undergo trainings so as to acquire a licence to operate radar or VHF radiotelephone. Mr Frankie YICK relayed the trade's concerns and urged the Administration to adjust the curriculum and language proficiency level of the relevant training courses so that aged crew members could manage to meet the entry requirements.

55. In response, D of Marine advised that MD understood the trade's concerns from the relevant training institutions and consultative committees. It had discussed with the Office of the Communications Authority regarding the training courses on VHF radiotelephone offered to local vessel tradesmen, and the authority would allow the use of Cantonese instead of English as the language of communication in normal and emergency situations.

56. The Chairman expressed concern about the prolonged recruitment difficulties and manpower shortage regarding two major professional grades of MD's establishment, namely Marine Officer and Surveyor of Ships, and enquired about measures to ensure manpower supply. D of Marine advised that MD had

recently adjusted the appointment requirements of the two grades. The entry requirements regarding the applicants' post-qualification working experience had been revised with a view to widening the pool of eligible candidates. Meanwhile, an enhanced training programme was being devised for these two grades to cope with the revised entry requirements without compromising the professional service standards of MD.

57. D of Marine further explained that the root of manpower shortage of professional grades at present was due to the lack of new blood joining the maritime industry a decade ago, which was in fact a worldwide trend. With around 80% of graduates from the Maritime Services Training Institute ("MSTI") now joining the industry each year, manpower supply in the future would likely see some improvement. To relieve manpower shortage in the short run, MD had hired some retired staff as non-civil servant contract staff. The Administration had also commissioned a team of maritime experts based in the United Kingdom to advise on enhancement of local manpower development in this aspect.

Marine Traffic Accident Victims Assistance ("M-TAVA") Scheme

58. Mr TANG Ka-piu and Mr WONG Kwok-hing expressed concern about the Administration's decision of not introducing an M-TAVA Scheme but to increase the third party risks insurance cover instead. They expressed doubt if the liability cover for marine traffic passengers was enough in case of severe marine traffic accidents. Citing a marine traffic accident in 2011 involving a ferry servicing Cheung Chau, Mr TANG expressed grave concern that one of the 70 victims who suffered injuries leading to paralysis found no way to file claims. Since marine traffic was a daily necessity for residents living on outlying islands, Mr TANG suggested expanding the scope of the existing Traffic Accident Victims Assistance ("TAVA") Scheme to also cover marine traffic passengers.

59. D of Marine responded that MD had commissioned a consultancy to study the feasibility of introducing an M-TAVA Scheme modeling on TAVA Scheme for road traffic. Considering the number of vessels in Hong Kong was far smaller than that of vehicles in road traffic, the consultant was of the view that it would be difficult to establish a stable and cost-efficient financial arrangement for a scheme that was dedicated to marine traffic accidents. There was also not any overseas precedent of similar scheme targeting only marine traffic. If such a scheme was to be set up in Hong Kong, the trade had indicated that they would only be willing to pay a levy of around \$100 per annum per vessel. However, given the relatively small number of vessels in Hong Kong, the actual levy imposed would likely be much higher if the scheme was to offer meaningful financial assistance. Meanwhile, various Government-administered charitable trust funds and private charitable trusts/funds could provide assistance to people

in need in emergency situations to cope with hardship arising from unexpected incidents.

60. As it was proposed that the minimum liability cover of local vessels permitted to carry 12 or less than 12 passengers would be increased from the current \$1 million to \$5 million, Mr Frankie YICK enquired about the rationale for such a huge increment as marine traffic accidents were relatively rare. D of Marine advised that this proposed increment had been raised in 2003 to enhance liability cover of the trade and the protection to passengers but the proposal was not endorsed at that time. He added that the Local Vessels Advisory Committee had discussed and endorsed the proposed increase in liability cover.

Proposed measures relating to lifejackets

61. Noting that the trade had expressed strong reservation about the recommendation of the CoI Report that sufficient child lifejackets should be carried for every child on board all classes of vessels, Dr Kenneth CHAN considered that there was no room to compromise marine safety and the Administration should stand firm to strictly implement the requirements.

62. In response, D of Marine advised that all local vessels had met the current legal requirement relating to lifejackets, i.e. local vessels were required to carry adult lifejackets for 100% of the total number of persons on board and child lifejackets for 5% of the total number of persons on board. The trade had grave concern about providing a large number of child lifejackets on board as there were practical difficulties in forecasting and ascertaining the number of child passengers on board before each journey, and in storing the lifejackets. He said that MD had commissioned a consultancy to explore the feasibility of developing a type of lifejacket that was suitable for use by both adult and child. The feasibility study was expected to be completed within 2015. Mr TANG Ka-piu expressed concern that the required use of new type(s) of lifejacket would cause extra financial burden to some of the vessel owners. D of Marine advised that subject to the outcome of the consultancy and subsequent consultation with the trade, the Administration might consider the possibility of providing assistance to the trade where appropriate.

Conclusion

63. The Chairman urged that proper and timely arrangements should be made for Members to peruse the redacted Report at about the same time when the representatives were given access to it. He also concluded that the Panel in general supported the Administration to introduce the relevant legislative

amendment proposals as set out in the discussion paper into LegCo in the 2015-2016 legislative year.

V. Proposed creation of a supernumerary directorate post for supporting the development of the maritime industry

(LC Paper No. CB(4)1034/14-15(06) -- Administration's paper on proposed creation of a supernumerary directorate post for supporting the development of the maritime industry

LC Paper No. CB(4)1034/14-15(07) -- Paper on proposed creation of a supernumerary directorate post for supporting the development of the maritime industry prepared by the Legislative Council Secretariat (background brief))

Presentation by the Administration

64. At the invitation of the Chairman, DSTH introduced the paper which sought members' views on the Administration's proposal to create a supernumerary directorate post for supporting the development of the maritime industry.

Discussion

65. Mr Frankie YICK said that the maritime and logistics industries supported the Administration's staffing proposal. Having regard to the complexity and volume of work involved, the Chairman and Mr YICK considered that it would be more desirable to appoint a candidate with thorough understanding of the industries plus relevant experience. Mr YICK also enquired about the timeline of recruitment and whether the Administration would encounter difficulties in finding a right person.

66. In response, DSTH advised that the proposed supernumerary directorate post was a civil service position at the rank of Administrative Officer Staff Grade C (AOSGC)(D2), and THB could propose posting requirements to the Civil Service Bureau. The officer was expected to provide dedicated policy and administrative support at directorate level and to coordinate efforts from the

industry and academia to achieve the policy aims. Both the Chairman and Mr Frankie YICK considered that the proposed post should be filled by an administrative officer with prior relevant experience.

67. Mr YIU Si-wing supported the Administration's staffing proposal. Noting that Hong Kong Shipping Register was the fourth-largest in the world with total gross tonnage of 96 million, Mr YIU enquired whether the Administration would set any goal in fostering the development of Hong Kong's maritime industry with this new directorate post. In addition, in view of the coming National 13th Five-Year Plan ("the Plan") and the "One Belt, One Road" initiative, Mr YIU enquired how the Administration would map out strategies to reinforce Hong Kong's status as the international maritime centre.

68. In response, DSTH remarked that although there was no quantitative target, the Administration was mindful to leverage the competitive edge of Hong Kong under "One Country, Two Systems" in providing high value-added maritime services, namely marine insurance, maritime law and arbitration, ship finance, as well as other support services. The further development of such services in Hong Kong would in turn help the maritime services sectors to grasp the immense development opportunities available to them under the Plan and the "One Belt, One Road" initiative. In light of the Administration's response, Mr YIU Si-wing requested the Administration to provide more concrete information when the item was discussed at the forthcoming meeting of the Establishment Subcommittee.

69. Mr TANG Ka-piu expressed concerns about talent grooming and acute manpower shortage of the maritime industry. He considered that, even more training places were provided, there was still not enough new blood joining the trade and it was difficult to hire qualified trainers from the industry. Mr TANG pointed out that the crux of the issue was about qualification recognition. While a qualified ocean-going vessel coxswain was considered equivalent to be at master degree level in the United Kingdom and Australia, it was even not pegged with bachelor level in the qualification framework of Hong Kong. In addition, Mr TANG also urged the Administration to engage the Hong Kong Seaman's Union when setting up the new maritime body. The Union was a very well-established organization which had provided training for many crew members.

70. In reply, DSTH advised that the Administration would continue to enhance local manpower development through the Maritime and Aviation Training Fund, by which, more young people or in-service practitioners would be supported to undertake relevant skills training and pursue professional studies. With the trade's support, the Administration had launched a summer internship

programme for local university students. The total number of internship openings offered under this Government-subsidized two-month programme increased from some 200 last year to more than 400 this year. The programme aimed to encourage more young people to join the relevant industries after gaining practical experience and early exposure whereby they had a better understanding of the career prospects in related fields.

71. The Chairman concluded that the Panel was generally supportive of the Administration's staffing proposal, and agreed that the item should be submitted to the Establishment Subcommittee for consideration.

VI. Any other business

72. There being no other business, the meeting ended at 10:50 am.

Council Business Division 4
Legislative Council Secretariat
24 June 2015