

**For information
on 26 January 2016**

Legislative Council Panel on Economic Development

**The 2016 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 2016 Policy Address and 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.

**Further Development of Hong Kong as an International
Transportation Centre**

2. With its strategic geographical location, free economy, and extensive experience in international trade and commerce, Hong Kong has become an international transportation centre (in terms of both air and maritime transport) and a regional logistics hub. Our soft strengths, including our steadfast commitment to the rule of law, simple tax regime and highly educated workforce, provide a sound foundation for the development of high value-added services. In the recently published blueprint of the 13th National Five-Year Plan, the Central Government has expressed explicit support for Hong Kong to reinforce its position as an international transportation centre. With the Central Government's support and the opportunities brought about by the Belt and Road Initiative, Hong Kong could serve as a 'super-connector', helping Mainland enterprises to 'go global' on the one hand while attracting overseas enterprises to tap the Mainland market by making good use of Hong Kong's trade and high value-added services on the other.

3. In respect of maritime transport, being one of the busiest international container ports in the world, Hong Kong handled 20 million TEUs of containers in 2015. This notwithstanding, we are facing intense

competition at both regional and global levels in recent years from a number of emerging ports in the Asia-Pacific region (particularly the Mainland). The Government seeks to address this challenge and support port development in close collaboration with the trade. We will roll out measures to enhance terminal operation and the handling efficiency of our container port with a view to entrenching Hong Kong's position as a regional hub port.

4. The Government is committed to developing high value-added maritime services in Hong Kong. There are over 700 companies offering diversified maritime services, including ship management, ship broking and chartering, finance, marine insurance, maritime law and arbitration and other support services, putting us in the position to become an important hub for high value-added international maritime services in the Asia-Pacific region. The maritime insurance sector is a case in point. We have the largest cluster of representatives from the International Group of Protection and Indemnity outside London, with 12 of its 13 members offering services in Hong Kong. Moreover, the Hong Kong Shipping Register has all along been providing quality ship registration services. Our gross registered tonnage ranks the fourth in the world and has just crossed the 100 million gross tonnage mark.

5. The maritime services sector is highly globalised and, as such, will benefit from an expanded international network. The Transport and Housing Bureau (THB) will continue to collaborate with the trade to actively participate in visits to the Mainland and overseas economies to promote Hong Kong as an international maritime centre and our professional maritime services. We will also promote Hong Kong as a preferred base for setting up maritime business in Asia. To foster a more business friendly environment and encourage more shipping-related companies to set up branches and operate in Hong Kong, the Government will continue to enter into double taxation relief arrangements covering shipping income¹ with our trade partners.

6. Leveraging our competitive edge in maritime services, we will establish the "Hong Kong Maritime and Port Board" (see paragraphs 10 to

¹ To date, Hong Kong has concluded double taxation relief arrangements on shipping income with 40 major trading partners, including Austria, Belgium, Brunei, Canada, Chile, Czech, Mainland China, Denmark, France, Germany, Guernsey, Hungary, Indonesia, Ireland, Italy, Japan, Jersey, Korea, Kuwait, Liechtenstein, Luxembourg, Malaysia, Malta, Mexico, Holland, New Zealand, Norway, Portugal, Qatar, Romania, Singapore, South Africa, Spain, Sri Lanka, Switzerland, Thailand, United Arab Emirates, Britain, the United States and Vietnam. Currently, the Government is negotiating double tax relief arrangements on shipping income with 14 economic entities. We will continue work in this respect for the benefit of the maritime sector.

11) and continue to cultivate talents (see paragraphs 18 to 20) with a view to developing Hong Kong into a maritime services hub.

7. On civil aviation, the Hong Kong International Airport (HKIA) is the busiest cargo airport and one of the busiest passenger airports in the world. From January to November 2015, the HKIA handled some 62.5 million passengers and 3.99 million tonnes of cargo. We will continue to consolidate and strengthen Hong Kong's status as an international aviation hub. The key areas of work include supporting manpower training and development of the aviation industry, providing full support to the Airport Authority Hong Kong (AA) in implementing the Three Runway System (3RS) Project, developing the North Commercial District (NCD) on the airport island, enhancing Hong Kong's capacity to handle passenger and cargo traffic, maintaining safe and efficient air traffic management, regularly reviewing the community's demand for air services, and strengthening the connectivity between the HKIA and the Pearl River Delta (PRD) Region, and continuing our regulation of local airlines.

8. The Chief Executive also mentioned in his Policy Address that, to raise the quality of local and regional rail services, the MTR Corporation Limited will set up an academy to train personnel in rail management and operation. The Government welcomes the plan as it will further the development of the local transport professional services and support the Belt and Road Initiative.

New Initiative

9. Please refer to paragraphs 10 to 11 below for the new initiative we will implement in 2016.

Establish the "Hong Kong Maritime and Port Board"

10. The Government commissioned a consultant in mid-2014 to look into the feasibility of setting up a new maritime body and examine its scope of work, structure and mode of operation. Having thoroughly considered various options and widely consulted the industry, stakeholders and the Legislative Council Panel on Economic Development, Government decided to accept the consultant's recommendation to merge the existing "Hong Kong Maritime Industry Council" and the "Hong Kong Port Development Council" (PDC) to form

a new “Hong Kong Maritime and Port Board”. The Board, to be chaired by the Secretary for Transport and Housing, will comprise representatives from the Government, industry, academia and statutory bodies, etc. This high-level steering body allows us to work closely together with the industry in strategy formulation and implementation, with a view to promoting the growth of high value-added and professional maritime services in Hong Kong (such as ship management, ship broking, maritime law and arbitration, ship finance, etc.), fostering diversified manpower development, charting strategies and initiatives for the further development of high value-added maritime and port services so as to enhance Hong Kong’s status as an international transportation centre.

11. Three functional committees will be formed under the Hong Kong Maritime and Port Board, respectively focusing on manpower development, marketing and promotion, as well as industry development. The Board will advise the Government and steer the implementation of relevant initiatives. To strengthen industry participation in the course of policy formulation, the committees will be chaired by industry representatives. The Government is actively making preparations for the establishment of the Hong Kong Maritime and Port Board, and has provided manpower and resources to support the further growth of Hong Kong maritime services.

On-going Initiatives

12. We will continue to implement various on-going initiatives in 2016. Details are set out in paragraphs 13 to 40 below.

International Trade and Transportation Centre

(a) Continue to actively assist the Airport Authority in taking forward the development of the three-runway system at the Hong Kong International Airport to meet the long-term air traffic demand of Hong Kong.

13. With Government’s affirmation of the need for the 3RS project given on 17 March 2015, AA is actively working on the implementation of the project, including detailed designs of the works, formulation of

financial arrangement plan and implementation of a series of environmental mitigation measures committed in the Environmental Impact Assessment report and in compliance with the conditions of the Environmental Permit. In parallel, the statutory procedures of the project are in progress under the Foreshore and Seabed (Reclamations) Ordinance and the Town Planning Ordinance for the relevant reclamation works and outline zoning plan respectively. The procedures are expected to be completed in mid-2016.

14. To effectively engage major stakeholders in the implementation of the 3RS project, THB established a high-level “Aviation Development and Three-runway System Advisory Committee” on 1 August 2015. The Committee, chaired by the Secretary for Transport and Housing, provides advice on relevant issues concerning the 3RS project and assists the Government in monitoring its implementation. The Committee has convened two meetings so far and conducted detailed discussions on the progress of the project, financial arrangements, as well as major environmental mitigation measures. The Government and AA will continue to consult the Committee on major issues concerning the 3RS project.

15. A Subcommittee was established under the Legislative Council on 1 October 2015 to follow up issues relating to the 3RS project and monitor the implementation of the project. The Subcommittee has convened four meetings so far. THB and AA will continue to actively collaborate with the Subcommittee on its work and brief Members on the latest progress of various aspects of the 3RS project in a timely manner.

16. AA estimates that upon full commissioning of the 3RS, the HKIA has the capacity to handle around 100 million passengers and 8.9 million tonnes of cargo annually by 2030, up from 63.3 million passengers and 4.38 million tonnes of cargo in 2014. Besides being a significant aviation infrastructure development for Hong Kong, the 3RS also plays a pivotal role in strengthening Hong Kong’s strategic position as a global and regional aviation hub. AA anticipates that the 3RS project would create direct employment of around 120,000 jobs as well as indirect and induced employment of approximately 160,000 jobs in 2030, much higher than that of the two-runway system comparables of 90,000 and 120,000 jobs respectively. According to AA’s latest projection, compared with two-runway system, the 3RS will bring additional economic benefits of \$455 billion (in 2012 dollars) over the 50-year period from 2012 to 2061. The 3RS will contribute to long-term economic and social benefits to Hong Kong and create considerable employment opportunities for various

sectors. It is an important infrastructure investment that promotes Hong Kong's overall competitiveness and brings substantial benefits to our community.

(b) Establishing a civil aviation academy to nurture talents for the aviation industry.

17. The Government's proposal for a Civil Aviation Academy is endorsed by the Economic Development Commission. Based on the findings of a consultancy study commissioned by the Civil Aviation Department some time earlier, the Government supports the establishment of a Civil Aviation Academy under AA. The objectives are to develop the skills of local and overseas aviation practitioners by training local and regional air transport managers, to raise the safety and efficiency of air transport, and to entrench Hong Kong's leading position as a major regional aviation hub. The Government will work with AA to work out the details of setting up the Civil Aviation Academy.

(c) Actively taking forward various initiatives and incentive schemes under the Maritime and Aviation Training Fund and continuing to promote tripartite collaboration with the industries and the academia with a view to supporting the manpower development of the maritime and aviation industries.

18. The Maritime and Aviation Training Fund (the Fund), established with a commitment of \$100 million from the Government in April 2014, has launched a number of training and incentive schemes to encourage young people to join the maritime and aviation industries, and support in-service practitioners to enhance their professional competency. Such schemes include the Professional Training and Examination Refund Scheme (ProTERS) and the Maritime and Aviation Internship Network. Progress and work plan of these two schemes are set out as follows —

- ProTERS — the scheme aims at encouraging maritime and aviation in-service practitioners to undertake courses offered by various education institutions, professional or trade bodies, and to sit professional examinations with a view to raising their professional competency and acquiring relevant professional qualifications. To date, the scheme covers nearly 100 professional courses and examinations and has disbursed about \$980,000 to some 410 applicants. The Government will continue to implement the ProTERS and increase the number of approved courses and

professional examinations; and

- Maritime and Aviation Internship Network — through tripartite collaboration between Government, industries and academia, the Network provides internship opportunities for tertiary students, with a view to enticing them to join the maritime and aviation industries upon graduation. Last year, about 320 students worked as interns in some 60 companies. The Government will further expand the scope of eligible students this year, and will encourage more companies to participate.

19. Furthermore, the following major incentive schemes for the maritime and aviation industries have been launched under the Fund —

Maritime

- Maritime-related Students Overseas Exchange Sponsorship Scheme — the scheme, which started in 2015, was implemented in collaboration with four universities, namely the Hong Kong Polytechnic University, the City University of Hong Kong, the Chinese University of Hong Kong and the Hong Kong University of Science and Technology. Under the scheme, selected students undertaking maritime-related courses are sponsored to attend an exchange programme at overseas universities to broaden their horizons and undertake maritime-related courses.
- Local Vessel Trade Training Incentive Scheme — the scheme, which provides a maximum incentive of \$30,000 per person for those who are newly employed by local vessels, aims at encouraging local seafarers to acquire the first professional qualification as coxswains or engine operators on local vessels. To date, 28 applicants have received funding under the scheme.

Aviation

- Hong Kong Aviation Scholarship Scheme – In 2015, we started offering scholarships to selected students for completing aviation-related degree or higher degree programmes to encourage the continuing professional development of the aviation sector.
- Partial Tuition Refund Scheme for the Specialised Aircraft Maintenance Programme - To encourage young people to choose

specialised aircraft maintenance programmes and join the aircraft maintenance industry after graduation, the Scheme provides extra financial incentive for those who have completed specialised aircraft maintenance programmes and meet the eligibility criteria. As at the end of 2015, about 100 applicants received partial tuition refund totalling about \$800,000 under the Scheme.

20. The Fund has been effective in nurturing maritime and aviation professionals and raising the competency of these industries. The Government will continue to implement different programmes and, through the Fund, support the trade in organising promotion activities. Such activities would enhance understanding on the work nature, professional qualifications and career prospects of the industries among the general public and youngsters, which would help attract new blood and uplift professional competency, thereby strengthening the competitive edge of Hong Kong as an international transportation centre.

(d) Centre for Aerospace Financing

21. Aerospace financing business has grown rapidly in recent years around the world. As a major international financial and business centre and an important aviation hub, Hong Kong enjoys a competitive advantage in developing into a hub of aerospace financing. In this connection, the SAR Government is formulating feasible measures to promote the development of aerospace financing in Hong Kong. We will announce the relevant details as soon as they are ready.

(e) Progressively implementing port improvement measures including the provision of additional terminal yard space and barge berths in phases, enhancement of container handling capacity of the Kwai Tsing Container Terminals and better use of back-up land of the terminals to maintain the competitiveness of Hong Kong Port.

22. THB completed a review of the use and management of the port back-up land in the vicinity of the Kwai Tsing Container Terminals (KTCTs) in June last year and has made a number of recommendations on the better use of the port back-up land in Kwai Tsing Area. We propose to grant some port back-up land currently let under Short Term Tenancy (STT) to provide additional yard space and barge berths to the container terminals to improve their capacity and efficiency in handling increasing transshipment cargo. We have consulted the trade, the Legislative Council Panel on Economic Development, Kwai Tsing District Council, PDC, and Hong Kong Logistics Development Council

(LOGSCOUNCIL) on the recommendations. Feedback was generally positive. We will maintain close communication with the stakeholders regarding the provision of additional yard space and barge berths in phases for better land utilisation to meet the future development needs of the port and logistics industries. Besides, the Government will refine the allocation and management mechanism of land under STT and revise relevant STT terms and conditions to meet the operational needs of small and medium enterprises as far as practicable.

23. Moreover, the dredging works at Kwai Tsing Container Basin and its approach channel are progressing on course. Upon completion of the works in mid-2016, the new generation of ultra-large container ships will be able to berth in KTCTs at all tides, improving operational efficiency and effectively keeping pace with the trend of port development around the world.

(f) Facilitating the provision of high value-added third-party logistics services in Hong Kong by continuing to work with the departments concerned to identify suitable sites for the development of modern logistics facilities.

24. The trading and logistics industry tops the four key economic pillars of Hong Kong, contributing about 24% to our GDP. The logistics sector alone contributed 3.2% (\$68 billion, figure in 2013) to our GDP and around 5% (about 188 000 jobs) to our total employment. With our premier geographical location, the status of a free port, well-developed infrastructure, convenient multi-modal transport network connecting sea, land and air transport as well as experienced professionals, Hong Kong has all along been a regional logistics hub in Asia.

25. The Government is committed to facilitating the development of logistics industry and encouraging the industry to make use of Hong Kong's advantages to provide high value-added logistics services for high-value goods. Nonetheless, with a large population, shortage of land is a formidable challenge besetting the logistics industry. Over the past few years, the Government sold three logistics sites in Tsing Yi totalling 6.9 hectares and has reserved about 10 hectares of land in Tuen Mun West for logistics development. The Government will continue to identify suitable sites in other districts for the construction of modern logistics facilities with a view to encouraging the development of high value-added logistics services and capitalising on the opportunities brought about by e-commerce.

26. Meanwhile, to maintain the competitiveness of the logistics industry, we will also continue to explore with LOGSCOUNCIL on various initiatives to promote e-logistics, enhance the industry's operational efficiency, facilitate manpower training and promote Hong Kong's logistics services so as to strengthen Hong Kong's position as a regional logistics hub.

Enhancing External Transport Links

(g) Working with the Airport Authority Hong Kong to implement initiatives which enhance airport capacity and airport services, including the midfield expansion project.

27. By the end of 2014, AA completed the West Apron expansion project. The 28 additional aircraft parking stands went into full operation last year, increasing the parking capacity of the maintenance and cargo aprons. In late 2015, AA completed the Midfield Concourse and its ancillary facilities, which are being put into operation in phases as planned. AA expects that, upon full operation of the Midfield Concourse, it will handle about 20% of passenger flights, increasing the airport's handling capacity by an additional 10 million passengers per annum, which will help in coping with the medium term air traffic demand.

(h) Coping with the expansion of flights operating at the Hong Kong International Airport and improving air traffic management through optimising the use of airspace and implementing measures to enhance the air traffic control system.

28. The Government is committed to safeguarding aviation safety and maintaining efficient air traffic management. The Civil Aviation Department (CAD) has, through various optimisation measures of air traffic management, increased the number of aircraft movements at the HKIA under the two-runway system from the maximum of 66 movements per hour in 2014, to the maximum of 68 movements per hour in the latter half of 2015 to cope with the continued growth in air traffic volume.

29. CAD has maintained close liaison with the Civil Aviation Administration of China and the Civil Aviation Authority of Macao to discuss further implementing the consolidated plan drawn up by the three parties in 2007 which seeks to optimise the airspace structure and the cooperation arrangements for air traffic management. During the

formulation of the consolidated plan, the three parties have taken into account the safety standards promulgated by the International Civil Aviation Organization (ICAO), as well as the needs of the airports in the PRD region for future expansion, including the development of the 3RS of the HKIA. A number of improvement measures in the plan have already been implemented, the latest being the introduction earlier this month of a new air route for the eastern part of the Mainland and an additional handover point, which will alleviate the air traffic pressure between Hong Kong, Macao and the eastern part of the Mainland. These measures facilitate better airspace management and coordination in the region.

30. At the same time, CAD will continue to actively take forward the replacement of the Air Traffic Control (ATC) system in the year. The new ATC system is implemented through a total of eight system contracts, of which seven have been completed and commissioned by phase since 2013. As to the remaining contract regarding the Air Traffic Management System, CAD has completed all the acceptance tests in accordance with the requirements specified in the contract, and generally speaking, test results are satisfactory. As to the follow-up items of the system to be addressed, CAD, together with the contractor, has come up with a timetable to address the remaining priority items by early this year. To ensure the safety and efficacy of the new ATC system, the THB has appointed an overseas consultant to advise the Secretary for Transport and Housing of the system readiness and staff readiness of the new system directly and independently. The new ATC system, targeted to be ready for operation in the first half of this year, meets the latest air traffic management standards and safety requirements promulgated by the ICAO. It can greatly lift CAD's capacity in handling air traffic, making CAD capable of handling about 8 000 flight plans and 1 500 targets (5 times and 1.5 times of those of the existing system respectively). The new system is fully capable of coping with traffic growth in the future.

31. In addition, to ensure the smooth performance of the work relating to administrative management, resource planning, communication and co-ordination under the new ATC system, and to address the need for strengthening CAD's management capacity, the Government plans to create in CAD a supernumerary deputy director-general post which is to be taken up by an administrative grade officer. For details please see the relevant discussion paper submitted to the Legislative Council Panel on Economic Development.

- (i) ***Forming new aviation partnership and reviewing the air services arrangements with our existing partners, with a view to further liberalising our air services regime, thereby supporting the continued growth and development of the local civil aviation industry.***

32. In 2015, we signed a new air services agreement with Barbados. We also reviewed and expanded our air services agreements with 17 aviation partners (Russia, the Mainland China, Switzerland, Pakistan, Mauritius, Myanmar, Austria, Spain, Finland, Kazakhstan, Israel, Ethiopia, Malta, Viet Nam, Serbia, Oman and Brazil) to provide more growth and development opportunities for the local aviation industry.

33. 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 the air traffic capacity to meet market demand.

- (j) ***Assisting the Airport Authority Hong Kong in expanding inter-modal connections to strengthen the links between the Hong Kong International Airport and the Pearl River Delta region.***

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

35. The SkyPier at the HKIA provides speedy ferry services with currently about 94 scheduled trips a day for air-to-sea/sea-to-air transit passengers travelling to and from the HKIA and nine PRD ports, namely Shekou and Fuyong of Shenzhen, Maritime Ferry Terminal and Taipa in Macao, Dongguan Humen, Guangzhou Nansha, Guangzhou Lianhuashan, Zhongshan and Zhuhai Jiuzhou. Upstream check-in service was extended to Guangzhou Lianhuashan last December, through which passengers can enjoy the convenience of obtaining their boarding passes and checking-in their baggage in PRD ports before taking a ferry to HKIA.

36. With the planned completion of various major transport infrastructure in Hong Kong and PRD Region, including the Hong Kong-Zhuhai-Macao Bridge (HZMB) and Tuen Mun-Chap Lap Kok Link in the coming future, the travelling distance for passengers and cargo from

the Mainland to the HKIA will be further shortened. To maximise the synergy effect between HZMB and HKIA, AA is exploring the expansion of intermodal facilities to facilitate Zhuhai and Macao passengers travelling to and from the HKIA.

Improving Marine Safety

(k) Implementing the improvement measures regarding the regulatory regime on local passenger-carrying vessels to enhance marine safety. We will continue to follow up the recommendations in the report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012.

37. Following the release of the Report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012 (CoI), the Government has set up the Steering Committee on Systemic Reform of the Marine Department (Steering Committee) in May 2013 to steer and oversee the Marine Department (MD) to undertake a comprehensive systemic review and reform of MD with focus on introducing improvement measures to enhance marine safety, reviewing and improving its business processes and operational procedures, and mapping out its manpower strategy and taking forward work on training. MD is following up on the implementation of the various recommendations of the Steering Committee and those in the CoI Report.

38. On enhancing marine safety, a host of improvement measures have been put into effect, including enhancing look-out by crew, completing a review of minimum safe manning scale, and requiring fitting watertight-door alarms in wheelhouse, etc. The Government is working on the proposed legislative amendments to increase of third party risks insurance coverage, and to require local vessels to install three types of navigational and communication equipment (namely Automatic Identification System, radar and Very High Frequency radiotelephone). We intend to introduce the relevant legislative amendments into the Legislative Council within the current legislative session.

39. As regards regulatory work for local passenger vessels, MD has conducted a two-phased organisational review and is following up on the implementation of the recommendations put forward in the review with a

view to improving its regulatory functions and business procedures. These include strengthening communication between frontline staff and the management; developing systems and procedures to enhance reporting and documentation; and making use of information technology to improve storage and shared use of information, etc. MD has also embarked on measures to address the recruitment difficulties and manpower shortage of its professional grades staff. Preliminary results show that these measures have come to fruition. MD will assess their effectiveness so as to formulate long-term improvement proposals and details for implementation.

Other Initiatives

- (1) Working with the Airport Authority Hong Kong to develop the North Commercial District on the airport island, taking into account the future development of the Hong Kong International Airport.***

40. AA completed the Master Plan for the NCD, proposing retail and hotel developments by phase. The first phase of development of the NCD will include a hotel providing some 1 000 rooms and a gross floor area of about 200 000 square metres for retail/dining/entertainment uses. AA plans to invite expression of interest and start the tendering process for the first phase development of NCD this year. Together with AA, we will continue to actively take forward the development of the NCD, taking into account the planning of the 3RS and synergy with developments on the Lantau Island, with a view to maximising the benefits of the NCD.

Views Sought

41. We welcome Members' views on the initiatives outlined above.

**Transport Branch
Transport and Housing Bureau
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