

**For information
on 23 January 2017**

Legislative Council Panel on Economic Development

**The 2017 Policy Address and 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 2017 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 Maritime and Aviation Centre

2. With its strategic geographical location, free economy, and extensive experience in international trade and commerce, Hong Kong has become an international maritime and aviation centre 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.

3. On civil aviation, the Hong Kong International Airport (HKIA) is the busiest cargo airport and one of the busiest international passenger airports in the world. In 2016, air traffic at the HKIA continued to grow with all three traffic categories setting new annual records. During the year, the HKIA welcomed 70.5 million passengers and handled over 411 000 aircraft movements, representing annual growth of 2.9% and 1.4% respectively. Moreover, cargo throughput was more than 4.5 million tonnes, up 3.2% over the previous year. We will continue to consolidate and strengthen Hong Kong's status as an international aviation hub, provide full support to the Airport Authority Hong Kong (AAHK) in implementing the Three-Runway System (3RS) project to enhance Hong Kong's capacity to handle air passengers and cargo traffic,

maintain safe and efficient air transport management, form new aviation partnership, and strengthen the connectivity between the HKIA and the Pearl River Delta (PRD) Region. Meanwhile, we will also promote aircraft leasing business in Hong Kong, continue to support the AAHK in developing the North Commercial District (NCD) on the airport island, establish a civil aviation academy, and establish an independent air accident investigation authority.

4. In respect of maritime transport, Hong Kong is a vital regional hub port with long-established maritime tradition and unique institutional strengths. Being one of the busiest international container ports in the world, Hong Kong Port handled about 19.6 million TEUs of containers in 2016.

5. As regards maritime services, Hong Kong has a vibrant maritime cluster. Ships owned or managed by our ship owners and ship management companies account for 9% of the deadweight tonnage of the world's merchant fleet. There are over 800 companies in Hong Kong offering diversified maritime services, including ship management, ship broking and chartering, marine insurance, ship finance, maritime law and arbitration. The Hong Kong Shipping Register has all along been providing quality ship registration services. With 2 518 registered ships, our gross registered tonnage ranks the fourth in the world and has already reached 107.2 million, representing an increase of 6.2% over the same period last year.

6. The Government is committed to developing high value-added maritime services in Hong Kong. We established the Hong Kong Maritime and Port Board (HKMPB) last year to reinforce and enhance Hong Kong's status as an international maritime centre, building on our competitive edge in maritime services.

New Initiatives

7. Please refer to paragraphs 8 to 10 below for the new initiatives we will implement in 2017.

(a) *Promoting Aircraft Leasing Business in Hong Kong*

8. Rapid development of the civil aviation industry induces a long-term demand for aircraft leasing business in the market. As a major international financial and business centre and an important aviation hub, Hong Kong already possesses favourable conditions necessary for developing aircraft leasing business. Overseas experience shows that tax factor is one of the key considerations of aircraft financing companies in selecting the place of domicile for their business. The Government is formulating a detailed proposal on tax concessions. According to the current timetable, the Government plans to introduce the required legislative amendment bill into the Legislative Council in the 2016-17 legislative session.

(b) *Establishing an Independent Air Accident Investigation Authority*

9. An independent air accident investigation authority will be established under the Transport and Housing Bureau (THB), which will be responsible for the investigation of civil aviation accidents and serious incidents, in order to comply with the new standards of the International Civil Aviation Organization. Previously, the Accident Investigation Office of the Civil Aviation Department (CAD) was responsible for coordinating investigations of civil aviation accidents. The new investigation authority will be independent from the CAD to ensure impartiality in investigation. According to the current timetable, the Government hopes to introduce the legislative amendment proposal into the Legislative Council in the 2016-17 legislative session.

(c) *Strengthen Invest Hong Kong's support for the promotion work of HKMPB in attracting renowned overseas maritime enterprises to Hong Kong to further augment our local maritime cluster.*

10. A major task of HKMPB is to promote Hong Kong's strengths as a regional maritime services hub to the maritime sectors both overseas and on the Mainland, in order to attract famous overseas and Mainland maritime enterprises to Hong Kong to further expand our local maritime

cluster, boost the demand for our high value-added maritime services and explore business opportunities for our maritime industry. To this end, HKMPB will work closely with Invest Hong Kong to identify world-renowned maritime enterprises that have potentials to extend their business to Hong Kong, promote Hong Kong as the preferred base for their Asian-Pacific operations and encourage them to set up in Hong Kong.

On-going Initiatives

11. We will continue to implement various on-going initiatives in 2017. Details are set out in paragraphs 12 to 35 below.

International Maritime and Aviation Centre

(i) ***Continuing to support the AAHK in developing the Airport NCD (SKYCITY)***

12. AAHK's SKYCITY development is of strategic importance to the HKIA per se, as well as the economic and social development of Lantau and Hong Kong. It will generate investment, business and employment opportunities for Hong Kong, enhance the attractiveness and competitiveness of the HKIA as a global aviation hub and promote the further development of tourism. According to AAHK's plan, the NCD will be developed into a purpose-built retail, dining and entertainment destination in the area. The NCD development will enrich travellers' experience and become a unique tourism attraction. The SKYCITY is a long-term and phased development. The AAHK invited tenders for the hotel development at the end of last year. It is also preparing to invite expression of interest from companies for the first phase of retail development early this year. The first phase development is planned for completion in 2021. We will take into account the planning of the 3RS and other developments on Lantau, with a view to maximising the economic benefits of the NCD.

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

13. To further strengthen Hong Kong's leading status as a major aviation hub in the region, the Government supports the establishment of a civil aviation academy (now known as Hong Kong International Aviation Academy) by the AAHK to nurture local and regional talents in the aviation sector. The establishment of the Academy is endorsed by the Working Group on Transportation under the Economic Development Commission and has made reference to the findings of a consultancy study commissioned by CAD earlier. In addition, the AAHK signed an agreement with Ecole Nationale de l'Aviation Civile (ENAC, or National School of Civil Aviation of France) in December last year to offer joint programmes. The Academy will also partner with local educational and vocational training institutions, AAHK's business partners and other organisations to offer a wide range of courses – from summer youth and internship programmes, to on-the-job training for airport employees, professional certificate courses and more advanced programmes. The first batch of courses is expected to be rolled out in April this year and the scale of the Academy will be further expanded.

(iii) Through the newly established HKMPB, strengthening our maritime cluster as well as fostering the growth of high value-added and professional maritime services to enhance Hong Kong's position as an international maritime centre.

14. Three functional committees are formed under HKMPB to oversee three major areas of work, namely maritime and port development, manpower development and promotion. Since its establishment, HKMPB has made good progress as follows —

Maritime and Port Development

15. The Maritime and Port Development Committee is tasked to consider the directions and strategies for developing high value-added maritime services in Hong Kong, and formulate measures to facilitate the development of our maritime sector. Since its establishment, the Committee has deliberated on a number of issues. They include lifting

the time limit imposed on barges holding multiple entry permits for their stay in Hong Kong waters to support the development of Hong Kong Port in handling transshipment and river trade cargo, considering possible measures to facilitate overseas contract seafarers entering Hong Kong for ship-boarding, and exploring business facilitation measures (such as entering into agreements on avoidance of double taxation with more countries) for maritime enterprises.

Manpower Development

16. The Manpower Development Committee has reviewed the supply of and demand for maritime manpower in Hong Kong, and will work with the academic institutions to enrich the programmes of various subjects with maritime elements. Relevant professional institutions will be invited to run advanced programmes to meet the needs of the maritime sector. Moreover, the Committee will continue to explore ways to encourage our young people to join the maritime industry, e.g. strengthening publicity to enhance students' knowledge of the maritime industry and related high value-added services so as to stimulate their interest in joining the industry. We will also upload information on job vacancies in the maritime sector to the HKMPB website to disseminate such information for the benefit of those interested in joining the sector.

Promotion

17. In the past year, HKMPB embarked on frequent overseas promotion to strengthen its connections with relevant authorities and enterprises of these places. HKMPB visited Greece last June to participate in a major international maritime exhibition, with a view to promoting Hong Kong's maritime sector to Greece and Europe and encouraging their investors to invest in Hong Kong. Moreover, we organised the first-ever Hong Kong Maritime Industry Week last November to promote Hong Kong as a preferred base for operating maritime business, enhance the attractiveness of our maritime and port services, and promote our high value-added professional services to overseas enterprises. The eight-day Week attracted some 4 600 local and overseas maritime practitioners as well as members of the public to attend the 29 events put together by 34 maritime-related commercial,

professional and academic organisations, ranging from industry briefings, seminars, major international conferences, corporate functions, maritime-themed sports to networking events. HKMPB will continue to work closely with the trade and conduct more Mainland and overseas visits, particularly to countries and cities with vibrant maritime clusters, to promote our professional maritime services as well as our position as an international maritime centre.

(iv) Continuing to actively assist the AAHK in implementing the HKIA 3RS project to meet the long-term air traffic demand of Hong Kong

18. The Government affirmed the need for the 3RS project in March 2015. With the completion of the relevant statutory procedures relating to reclamation and town planning in April 2016, the AAHK has commenced the 3RS construction works in August 2016. The AAHK anticipates that the whole project would take approximately eight years to complete. The AAHK is in parallel conducting detailed designs of the remaining works, implementing financial arrangement plan and a series of environmental mitigation measures committed in the Environmental Impact Assessment report and in compliance with the conditions in the Environmental Permit.

19. To more effectively engage the public and major stakeholders during project implementation, the Aviation Development and Three-Runway System Advisory Committee chaired by the Secretary for Transport and Housing will continue to advise the Government on matters relating to the implementation of 3RS and assist the Government in monitoring its implementation. The Committee has convened six meetings since its establishment in August 2015. Detailed discussions were conducted on the progress of the project, financial arrangements, as well as major environmental mitigation measures. The Government and the AAHK will continue to consult the Committee on major issues concerning the 3RS.

20. In addition, a Subcommittee was established under the House Committee of the former and current Legislative Council to follow up issues relating to the 3RS project and to monitor its implementation.

The current Subcommittee has convened two meetings so far. THB and the AAHK will continue to actively collaborate with the Subcommittee on its work and brief Members on the latest progress of the project in a timely manner.

21. The AAHK estimates that upon full commissioning of 3RS, HKIA will have the capacity to handle air traffic demand at least up to 2030, by which time the annual passenger and cargo volumes are expected to increase to around 100 million and 9 million tonnes respectively. 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, and will contribute substantively to the promotion of the country's Belt and Road Initiative. The 3RS will bring 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 the well-being of our community.

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

22. To support the long-term development of the maritime and aviation industries and nurture more talent for the two sectors, the Government established the Maritime and Aviation Training Fund (the Fund) with a commitment of \$100 million in April 2014. The Fund serves to support and encourage more young students and working adults to receive relevant technical training and undertake professional degree programmes for joining the two sectors, thereby enhancing the overall competitiveness and professional competency of the industries. The Fund has launched a number of training and incentive schemes covering various aspects of the aviation and maritime sectors. Key initiatives under the Fund include the Professional Training and Examination Refund Scheme, the Maritime and Aviation Internship Scheme, the Overseas Exchange Sponsorship Scheme, the Local Vessel Trade Training Incentive Scheme, the Hong Kong Aviation Scholarship Scheme and the Partial Tuition Refund Scheme for the Specialised Aircraft

Maintenance Programme. Details and progress of the above six measures are at **Annex**. As at December 2016, the Fund has benefited over 2 470 students and in-service practitioners in the maritime and aviation sectors.

23. The Government will continue to implement different programmes and support the trade to organise promotion activities through the Fund. Such activities would enhance the 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 enhance professional competency, thereby strengthening the competitive edge of Hong Kong as an international maritime and aviation centre.

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

24. The Government has been taking forward in phases the various recommendations made in the 2015 review of the use of port back-up land in the Kwai Tsing Container Terminals (KTCTs), in order to optimise the utilisation and efficiency of the land for meeting the future development needs of the port and logistics industries. We have refined the allocation and management mechanism of land let out by Short Term Tenancies (STTs) and revised the relevant terms and conditions. These include removing the triennial rental review falling within a fixed term of STT tenure, extending the tenancy period for container storage and cargo handling sites from the existing three or five years to seven years (subject to land conditions and relevant statutory requirements), as well as changing the land use of some STT sites from multiple uses to specific containers storage, cargo handling or container/goods vehicle parking use. We are actively working with the departments concerned, with a view to making available six port back-up sites of about 18 hectares for container terminal use as soon as practicable, so as to expand the terminal yard space and provide additional barge berths for enhancing the efficiency in handling transshipment containers. We will also release a sea frontage of 120 metres at the Stonecutters Island Public Cargo Working Areas for use as port back-up use, so as to further improve the operational

efficiency of KTCTs.

25. Moreover, the dredging works at the Kwai Tsing Container Basin and its approach channel progressed well and were substantially completed by April 2016. The deepened Kwai Tsing Container Basin can accommodate the new generation of ultra-large container ships at all tides and the operational efficiency will be greatly enhanced.

(vii) 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.

26. The trading and logistics industry tops the four key economic pillars of Hong Kong, contributing about 22% to our GDP. The logistics sector alone contributed 3.3% (\$78 billion, figure in 2016) to our GDP and around 4.8% (about 180 000 jobs) to our total employment. With our premier geographical location, free port status, well-developed infrastructure, convenient multi-modal sea, land and air transport network as well as experienced professionals, Hong Kong has all along been a regional logistics hub in Asia.

27. In view of the rapid development of high value-added third-party logistics services over the last decade, the Government has been identifying suitable sites to further enhance the strengths of our logistics industry in this regard. Since 2011, the Government has sold by open tender three logistics sites in Tsing Yi totalling about 6.9 hectares, thereby providing the logistics sector with some 280 000 square metres of floor area. Moreover, the Government will strive to release as early as practicable the two sites reserved in Tuen Mun West totalling around 10 hectares for high value-added logistics development. We will continue to work with relevant departments to identify suitable sites for the construction of modern logistics facilities. Meanwhile, we will also continue to explore with the Hong Kong Logistics Development Council possible initiatives to 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.

Marine Safety

- (viii) 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.***

28. The Marine Department (MD) is following up on the implementation of various recommendations made by the Steering Committee on Systemic Reform of the MD, as well as those in the Report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012. On the enhancement of marine safety, the Government has implemented a number of improvement measures, including enhancing look-out by crew, increasing third party risks insurance coverage and making laws to require passenger vessels to be installed with equipment that can ensure navigational safety. The MD will continue to put forward various measures to enhance marine safety, such as regulating drink and drug boating, and reviewing the regulatory regime for local pleasure vessels. We will consult the Panel on our proposals in due course.

Enhancing External Transport Links

- (ix) Working with the AAHK to implement initiatives to enhance airport capacity and airport services, including the midfield expansion project.***

29. The Midfield Concourse was commissioned in end 2015 and came into full operation in March last year, 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. The remaining parts of the midfield expansion project will be completed in phases by 2020.

(x) Commissioning the new Air Traffic Control system in full to improve air traffic management

30. The Government is committed to safeguarding aviation safety and maintaining efficient air traffic management. CAD's full commissioning of the new Air Traffic Control (ATC) System with the launch of its last sub-system, i.e. the Air Traffic Management System (ATMS), on 14 November 2016 marked a milestone for the air transport development in Hong Kong. The new ATC System is designed to meet the latest international standards on aviation safety, including enhanced flight information and data processing, automated and advanced safety net features, and more precise flight trajectory prediction functions. It meets the latest safety requirements set by the International Civil Aviation Organization. With an enhanced capacity to handle 8 000 flight plans per day and simultaneously monitor 1 500 air or ground targets (5 times and 1.5 times of the old system respectively), the new system can handle the projected air traffic growth, including that to be brought about by the development of the 3RS of the HKIA. In 2016, the HKIA set new annual records in its three air traffic categories (passenger traffic, aircraft movements and cargo throughput). During the peak air traffic flow in the period of last Christmas and New Year holidays, the new ATMS handled a total of 1 980 flights per day on average, representing an increase of some 6 per cent when compared with the same period a year earlier, which set a record high for Christmas and New Year periods. This demonstrates that the new ATMS is capable of coping with the increase in the volume of air traffic operations. The CAD will continue to closely monitor the performance of the new system and will strive for enhancement to ensure that the highest safety standards are upheld.

(xi) 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.

31. Last year, we signed new air services agreements with Serbia and Malta. We also concluded negotiations and initialled new air services agreements with Angola, South Africa and Greece. Meanwhile, we

reviewed the bilateral air services arrangements with 11 aviation partners (Indonesia, the Mainland, Denmark, Norway, Sweden, the Netherlands, Cambodia, India, Mexico, Qatar and the United Arab Emirates) and expanded the air services arrangements with seven aviation partners (Russia, Angola, Macao, South Africa, Italy, Bangladesh and Sri Lanka) to provide more growth and development opportunities for the aviation industry.

32. 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.

(xii) Assisting the AAHK in expanding inter-modal connections to strengthen the links between the HKIA and the PRD region

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

34. The SkyPier at the HKIA provides speedy ferry services for air-to-sea/sea-to-air transit passengers travelling to and from the HKIA and nine PRD cities. Currently, the SkyPier offers nine cross-boundary ferry routes with about 94 scheduled trips a day travelling to and from Hong Kong and Shekou and Fuyong of Shenzhen, Maritime Ferry Terminal and Taipa in Macao, Dongguan Humen, Guangzhou Nansha, Guangzhou Lianhuashan, Zhongshan and Zhuhai Jiuzhou.

35. With the planned completion of various major transport infrastructures in Hong Kong and the 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 the HZMB and the HKIA, the AAHK is exploring the expansion of intermodal facilities to facilitate Zhuhai and Macao passengers travelling to and from the HKIA.

Views Sought

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

**Transport Branch
Transport and Housing Bureau
January 2017**

**Details and Progress of the Key Initiatives
under the Maritime and Aviation Training Fund**

Professional Training and Examination Refund Scheme (ProTERS)

- The Scheme aims to encourage maritime and aviation in-service practitioners to take courses offered by various academic institutions, professional or trade bodies, and to take part in professional examinations, so as to raise their professional competency and help them acquire relevant professional qualifications. To date, the Scheme covers some 140 professional courses and examinations and has disbursed about \$2.2 million to over 940 applicants. The Government will continue to increase the number of approved courses and professional examinations under ProTERS.

Maritime and Aviation Internship Scheme

- Through the tripartite collaboration among the Government, industries and academic institutions, the Scheme provides internship opportunities for tertiary students to encourage them to join the maritime and aviation industries. Last year, about 350 students participated in the Scheme and worked as interns in over 45 maritime companies. This year, the Government will continue to promote the Scheme to the industries and academic institutions to encourage more companies and tertiary students to join.

Overseas Exchange Sponsorship Scheme

- The Government implemented the Scheme in 2015 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. To provide opportunities for students to study abroad and broaden their horizons, sponsorships are given to those students enrolling in maritime-related programmes to attend overseas exchange courses

relating to maritime. For the past two years, 31 students were sponsored under the Scheme.

Local Vessel Trade Training Incentive Scheme

- The Scheme provides an allowance of up to \$30,000 per person for those who are newly employed by the local vessel trade, with a view to encouraging them to acquire their first professional qualification as coxswains or engine operators on local vessels. To date, 60 applications were approved under the Scheme.

Hong Kong Aviation Scholarship Scheme

- Since 2015, scholarships have been offered to selected students for completing aviation-related degree or higher degree programmes to encourage the continuing professional development of the aviation sector and three master's and bachelor's degree programmes are added to the selected courses in the academic year 2016/17.

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 2016, about 150 applicants received partial tuition refund totalling about \$1.7 million under the Scheme.