

# 立法會 *Legislative Council*

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## **Report of the Panel on Economic Development for submission to the Legislative Council**

### **Purpose**

This report gives an account of the work of the Panel on Economic Development ("the Panel") during the 2017-2018 Legislative Council session. It will be tabled at the meeting of the Council on 11 July 2018 in accordance with Rule 77(14) of the Rules of Procedure.

### **The Panel**

2. The Panel was formed by a resolution passed by the Council on 8 July 1998 and as amended on 20 December 2000, 9 October 2002, 11 July 2007 and 2 July 2008 for the purpose of monitoring and examining Government policies and issues of public concern relating to economic infrastructure and services, including air and sea transport facilities and services, postal and weather information services, energy supply and safety, consumer protection, competition policy and tourism. The terms of reference of the Panel are in **Appendix I**.

3. For the 2017-2018 session, the Panel comprises 31 members, with Hon Jeffrey LAM Kin-fung and Hon Alvin YEUNG elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is in **Appendix II**.

### **Major work**

#### 2018 electricity tariff review

4. As a standing arrangement, the Panel was consulted on the results of the tariff reviews prior to implementation. For 2018, the net tariff of The Hongkong Electric Company Ltd. would increase by 1.9% to

112.5 cents/kWh after counting a special rent and rates rebate and a special fuel rebate. From 1 January to 30 September 2018, CLP Power Hong Kong Ltd. would also increase its net tariff by 1.9% to 115.4 cents/kWh after counting a special rent and rates rebate.

5. Noting that the special rebates of the two power companies were ad hoc in nature and that Hong Kong was transforming to use the cleaner but more expensive natural gas for power generation which would exert pressure on the future electricity tariffs, members expressed grave concern about the future tariff increases. Some members were worried that the future tariff increases might pose heavy pressure on the public, in particular tenants of sub-divided units who were overcharged by their landlords for the use of electricity. The Panel was informed that the new Scheme of Control Agreements signed between the Government and the two power companies, which took effect on 25 April 2017, had fixed the profit rate of the power companies by reducing the permitted rate of return from 9.99% to 8% of the total value of the power companies' average net fixed assets. This would help to strike a balance on the overall situation.

6. To ensure the affordability of future electricity supply, members called on the Administration to closely monitor the trend increase of tariffs of the two power companies, in particular, the Fuel Clause Recovery Accounts maintained by the two power companies through which the differences between the standard fuel charges and actual fuel prices incurred were returned to or recovered from consumers by means of a rebate or a surcharge each year. The Administration should also ascertain if the fuel cost forecasts made by the power companies were in line with the market expectation. The Administration assured members that during the annual tariff reviews, it would critically review the power companies' proposals with the assistance of an independent consultant to ensure that the proposed tariffs were reasonable. In the process, the Government would review the operating costs of and the capital investment projects proposed by the power companies and compare them with those of relevant businesses.

7. Members also expressed the view that the Government should pay more efforts in promoting energy savings with a view to preserving the environment and reducing the overall expenditure on electricity amidst its on-going work to monitor electricity tariffs. In this respect, the Panel noted that the Administration was discussing with the relevant stakeholders the implementation details of new initiatives, including the various programmes to further promote energy efficiency and

conservation, renewable energy and more frequent Fuel Clause Charge adjustment mechanism.

## Tourism

### *Hong Kong Tourism Board work plan*

8. The Panel received an annual briefing by the Hong Kong Tourism Board ("HKTB") on its work plan for 2018-2019 as well as an overview of 2017 tourism performance. The Panel noted that in 2017, overall visitor arrivals and overnight visitor arrivals had increased by 3.2% and 5% respectively compared with the previous year.

9. The Panel had examined various measures and plans of the Administration/HKTB to boost growth in various tourist source markets. Members urged the Administration and HKTB to ride on the opportunities arising from the commissioning of new transportation infrastructures connecting the Mainland and Hong Kong, and the development of the Guangdong-Hong Kong-Macao Bay Area in promoting Hong Kong to Mainland and overseas visitors. The Administration advised that leveraging on the planned commissioning of the Hong Kong-Zhuhai-Macao Bridge ("HZMB") and the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"), HKTB planned to introduce promotions through various channels in the Mainland and overseas markets to attract more visitors. Relevant initiatives included promotion of multi-destination travel from Hong Kong to the Mainland via HZMB and the express rail network, as well as joint promotions with cruise liners to offer combined cruise-and-XRL travel products.

10. To enhance the tourism performance of Hong Kong, members urged the Administration and HKTB to step up efforts in exploring new tourist attractions apart from promoting the traditional appeals of shopping and delicacies, and assist the travel trade in developing new tourism products. In this regard, some members suggested developing in-depth green tourism, tourism in districts with local characteristics, smart tourism, and enriching the cultural, art and sports programmes in Hong Kong to attract more tourists.

### *Utilization of the Kai Tak Cruise Terminal*

11. Members expressed grave concern about the low utilization of the Kai Tak Cruise Terminal ("KTCT") despite the growth in both the

number of ship calls and cruise passenger throughput by 28% and 33% respectively in 2017. At a meeting to discuss the staffing proposal relating to the retention of a supernumerary post of Administrative Officer Staff Grade C in the Tourism Commission of the Commerce and Economic Development Bureau, members strongly urged the Administration to devise concrete measures to vitalize KTCT to attract both locals and visitors, especially during the period when there was no ship at berth at the terminal.

12. The Administration advised that KTCT was a purpose-built infrastructure with core functions of receiving cruise ships and handling large number of passengers. While promoting the cruise business of KTCT remained the core objective of KTCT, the Administration would work closely with the terminal operator and other event organizers in driving and facilitating more activities to be held within KTCT so as to bring more visitors to the area as far as possible.

*Operation of The Hong Kong Disneyland Resort in the fiscal year 2017*

13. The Hong Kong Disneyland Resort ("HKDL") is a long-term investment of Hong Kong in tourism infrastructure in which the Government holds more than half of the shares. In February 2018, the Administration updated the Panel on the operation of HKDL in the fiscal year 2017 ("FY17"). Members noted that there was a 3% year-on-year rise in total park attendance to over 6.2 million in FY17. Revenues increased by 8% from the previous year to \$5,118 million in FY17. However, a net loss of \$345 million was recorded for the year despite the \$914 million earnings before interest, taxes, depreciation and amortization ("EBITDA").

14. Taking into account the net loss in FY17, some members queried if the projected annual total park attendance of 9 million by FY25 under the expansion and development plan at the Phase 1 site of HKDL ("the Plan") could be achieved. HKDL advised that the net loss in FY17 was attributable to, among other things, the increased depreciation arising from the new assets launched in the year and the retirement of certain assets for taking forward the Plan. HKDL expected that with the progressive launch of various new attractions under the Plan in the years to come, its attendance would have a steady year-on-year growth with the total attendance in FY25 attaining 9.0 million to 9.3 million. The hotel occupancy would also increase accordingly, thereby increasing the overall revenues.

15. The Panel had all along been concerned about the utilization of the vacant site reserved for the Phase 2 development of HKDL and the payment of management fees and royalties by HKDL to The Walt Disney Company ("TWDC"). The Panel passed two motions urging the Administration to discuss with TWDC on utilizing the said vacant site for short-term leasing and devising an offsetting mechanism to ensure that TWDC would only receive management fees and royalties from HKDL when HKDL achieved breakeven in its financial accounts.

16. The Administration advised that according to the Option Deed signed in 2000 between the Government and the Hongkong International Theme Parks Limited ("HKITP"), HKITP had an option to buy the Phase 2 Site for taking forward the Phase 2 development plan. Before HKITP exercises such option, the Phase 2 Site could be used for various short-term uses in accordance with the permitted land uses under the Deed of Restrictive Covenant. When considering these short-term uses, the Administration would take into account whether such uses were compatible with the use and atmosphere of HKDL. The Administration also advised that since 2009, HKDL's management fees were fully linked to the resort's performance (i.e. EBITDA), which was an improvement over the arrangement based on revenues as agreed in 1999 and could better incentivize the management company to drive the business performance and operational efficiency of HKDL. Indeed, since the implementation of the improved management fee arrangements in 2009, HKITP had recorded positive EBITDA for eight consecutive years during FY10 to FY17.

#### *Operating right of the peak tramway*

17. The peak tramway, which is run and operated by the Peak Tramways Company Limited ("PTC"), is a popular tourist and recreational facility for locals and tourist alike. The Panel was consulted on PTC's upgrading plan in support of its application for the second 10-year operating right of the peak tramway commencing 1 January 2026, and the related legislative amendment proposals. The Panel noted that PTC had committed \$684 million on its own to finance the upgrading plan, under which the tramcar capacity would be increased by over 75%, and the two termini would be redeveloped to expand the holding capacity and improve the waiting environment.

18. Members in general welcomed the upgrading plan of PTC which could address the queuing problem at the Lower Terminus at Garden Road and provide a better service for the passengers. Noting that peak

tramway service would be suspended for two short periods lasting for a total of seven months during the construction period, members urged the Administration and PTC to ensure provision of adequate alternative public transport services during the two suspension periods. Suitable arrangements should also be made to minimize the service disruption as far as possible.

#### Aviation services and related matters

##### *The three-runway system project*

19. The Panel noted that the Airport Authority Hong Kong ("AAHK") is taking forward the three-runway system ("3RS") project at the Hong Kong International Airport ("HKIA") in full swing. Based on AAHK's latest estimates, the 3RS project was expected to cost around \$141.5 billion in money-of-the-day prices and the 3RS construction works, which commenced in August 2016, would take around eight years to complete. The commissioning of the full 3RS was targeted in end 2024. In April 2018, the Panel was updated on the implementation progress of the 3RS project and various measures to handle the challenges ahead.

20. In view of the unprecedented scale, cost and complexity of the 3RS project, members were concerned about the construction progress and project expenditure of the 3RS project. They urged the Administration to ensure that the delivery of the project could be completed in time and within budget. The Panel was assured that the Administration had adopted a multi-pronged approach in monitoring the work of AAHK in the implementation of the 3RS project. The high-level Steering Committee on Three-Runway System and North Commercial District chaired by the Financial Secretary and the Aviation Development and Three-Runway System Advisory Committee chaired by the Secretary for Transport and Housing had provided effective platforms for the Government and members from various sectors to offer advice which would facilitate the implementation of 3RS and the development of the aviation industry. In addition, the Government kept a close watch on the construction progress of the 3RS project through scrutinizing progress reports provided by AAHK, regular meetings with AAHK and routine site visits.

21. Some members expressed grave concern about the viability of AAHK's financial arrangement proposal for the 3RS project and enquired whether there were any changes to the indicative implementation timeline

of the detailed funding plan for the 3RS project as announced by AAHK in September 2017. The Administration advised that according to the information provided by AAHK in September 2017, the indicative implementation timeline of the detailed funding plan was divided into three stages, namely preparatory work (from September 2017 to the end of the first half of 2018-2019 financial year); near-term funding activities (from the second half of 2018-2019 financial year to 2019-2020 financial year); and medium-term funding activities (from 2020-2021 financial year to the completion of the 3RS project). In accordance with the above roadmap, AAHK was conducting preparatory work and had begun dialogue with financial institutions with a view to setting the scene for the near-term funding activities from the second half of 2018-2019 financial year to 2019-2020 financial year. There was no change to the implementation timeline as announced in September 2017.

22. As to whether there was any cost overrun for the 3RS project so far, the Administration advised that AAHK had awarded 14 main construction works contracts for the 3RS project as at 8 February 2018 and AAHK had confirmed that the total value of the construction contracts was within the estimated budget. At the Panel's request, AAHK undertook to submit progress report of the 3RS project to the Panel half-yearly, in which information on whether the total value of major contracts awarded as of the relevant reporting period was within the estimated budget would be included. The next report would be submitted to the Panel in November 2018.

23. The Panel noted that, to support the implementation of 3RS at HKIA, it was necessary for various government departments including the Civil Aviation Department ("CAD"), the Hong Kong Observatory and the Fire Services Department to provide Government facilities and equipment to tie in with the implementation programme of 3RS. Additional staff would also be required at different stages to provide the necessary public services to tie in with the operation of 3RS. In this regard, the Panel was consulted on the related staffing and financial proposals at its meetings on 27 November 2017 and 28 May 2018. Members generally supported the related staffing and financial proposals. During the discussion, some members expressed concern about the operation of the new Air Traffic Control ("ATC") System under the 3RS system. To this end, a motion was passed by the Panel requesting CAD to provide details about the international standard in respect of notification mechanism of major incidents involving ATC or ATC-related systems so as to restore public confidence in the ATC system.

*Incident of large-scale flight cancellation by the Hong Kong Express Airways in early October 2017*

24. In end September 2017, the Hong Kong Express Airways ("HKE"), which branded itself a low-cost carrier ("LCC"), made a sudden announcement that it would cancel 18 flights (14 flights of which were cancelled at the end) during the peak travel season in early October 2017. The incident raised much public concern and was discussed by the Panel on 27 November 2017.

25. The Panel noted that the cancellation was attributable to the insufficient number of standby cabin crew for contingency during the "Golden Week" in early October 2017, as a result of the departures of four safety and emergency and procedures trainers within a short period of time. According to the Administration, HKE admitted that the root cause of the incident was inefficiency in its internal management and corporate governance. CAD advised that it had implemented a number of temporary measures within a short period of time to minimize the inconvenience and impact brought to the affected passengers. Among the 2 857 passengers who were affected by the incident, 379 of them were provided with full refunds, 1 172 changed their flights/destinations with HKE, 1 063 passengers took other flights to the same destinations by other airlines, and 243 of them made their own arrangements.

26. Members were in general of the view that the development of LCC in Hong Kong should be encouraged to enhance competition and provide more choices to passengers. However, CAD should give top priority to aviation safety and put in place mechanism to safeguard the interest of passengers. To prevent the recurrence of similar incidents, members urged CAD to enhance its monitoring mechanism on the operations of airlines and formulate appropriate measures to facilitate CAD's early intervention when problems with airlines arose. The Administration asserted members that CAD applied the same regulatory and safety standards for all aircraft and airlines, be it a full-service airline or an LCC.

27. Members also urged HKE to solve the problems relating to its internal management and improve its service by devising a timetable for implementing improvement measures relating to ground staff, flight operations and flight cancellations. Against the background that there were disputes between the management of HKE and its staff, members also passed a motion requesting CAD to play a coordinating role in



facilitating the management of HKE to meet with HKE's labour unions to resolve labour issues so as to avoid industrial action which might affect Hong Kong's status as an aviation centre.

### *Regulation of unmanned aircraft systems*

28. With the advent of aviation technology in recent years, unmanned aircraft systems ("UAS") were widely used in many parts of the world. The Panel held a meeting with the Administration to discuss the related regulatory issues. Members noted that in Hong Kong, UAS were classified as aircraft and were governed, as far as aviation safety was concerned, by the civil aviation legislation. A consultant had been commissioned to study the regulation of UAS in Hong Kong. CAD planned to commence a public consultation based on the consultant's recommendations in the first quarter of 2018, which aimed to be completed by mid-2018.

29. The Panel in general supported stepping up the regulation of UAS for safeguarding public safety, while some members expressed concern about the privacy issues arising from the use of UAS fitted with a camera and enforcement of the UAS registration system proposed in the consultancy study. Some members considered it necessary for the Administration to provide clear drone maps with delineation of no-fly zones so as to facilitate UAS operators. Since different government departments were involved in the formulation and enforcement of no-fly zones, members urged the Administration to enhance communication among departments in enforcing the relevant laws effectively. The Panel passed a motion urging the Administration to conduct a comprehensive review and public consultation on the regulation of UAS.

### Competition policy

30. The Panel received a briefing by the Competition Commission ("the Commission") on an overview of the activities of the Commission since March 2017 and an outlook for the coming year.

31. The Panel in general welcomed the enforcement efforts made by the Commission. The Panel noted that since the full implementation of the Competition Ordinance ("the Ordinance") in December 2015, the Commission had received and processed over 2 800 complaints and enquiries. Among them, around 180 cases were being assessed further, of which 13% had proceeded to in-depth investigation stage. In 2017, the Commission had brought two cases before the Competition Tribunal.

In addition to the two cases filed, a number of investigations were being pursued which might result in various enforcement outcomes.

32. Members welcomed the dedicated funding of \$238 million provided by the Government for supporting the Commission's litigation work. Taking into account the enormous costs associated with the Commission's litigation work, the Panel passed a motion urging the Government to continue providing adequate financial provision to the Commission for taking law enforcement actions and carrying out the related case investigations.

33. In view that the Administration had undertaken to review the Ordinance after three years of its full implementation, some members called on the Administration to conduct and complete the review as early as practicable. Some members also suggested that certain aspects of the Ordinance including the current exemption of public/statutory bodies and the exclusion of private enforcement right from the Ordinance should be reviewed.

#### Other issues

34. During the current legislative session, the Panel received briefings from the Administration on the relevant policy initiatives of the Commerce and Economic Development Bureau, the Transport and Housing Bureau and the Environment Bureau featured in the 2017 Policy Address.

35. Apart from the legislative, financial and staffing proposals mentioned in the report, the Panel has also discussed the following legislative proposals prior to their introduction into the Council –

- (a) proposed making and amending of the subsidiary legislation under Merchant Shipping (Safety) Ordinance (Cap. 369) and Merchant Shipping (Prevention and Control of Pollution) Ordinance (Cap. 413) for implementation of the International Convention for the Prevention of Pollution from Ships, the International Convention for the Safety of Life at Sea and the International Convention for the Control and Management of Ships' Ballast Water and Sediments of the International Maritime Organization;

- (b) proposed making and amending of the subsidiary legislation under Merchant Shipping (Safety) Ordinance (Cap. 369), Merchant Shipping (Prevention and Control of Pollution) Ordinance (Cap. 413) and Merchant Shipping (Seafarers) Ordinance (Cap. 478) for implementation of the International Code for Ships Operating in Polar Waters of the International Maritime Organization;
- (c) proposed making and amending of the subsidiary legislation under the Merchant Shipping (Safety) Ordinance (Cap. 369) for implementation of the International Convention for the Safety of Life at Sea of the International Maritime Organization;
- (d) legislative proposal to take forward the reform of the regulatory regime for local pleasure vessels (Class IV vessels); and
- (e) proposed amendments to the Pilotage Ordinance (Cap. 84) and the Pilotage (Dues) Order (Cap. 84D).

#### Panel meetings

36. From October 2017 to the end of June 2018, the Panel held a total of 11 meetings (including one joint meeting with other Panels). The Panel has further scheduled two meetings in July 2018 to discuss the 2018-2023 Development Plans and 2019 tariff review of the two power companies, the tendering system for petrol filling station sites and a staffing proposal relating to the setting up of the Travel Industry Authority.

#### Joint-Panel duty visit to the Guangdong-Hong Kong-Macao Bay Area

37. The development of the Guangdong-Hong Kong-Macao Bay Area ("the Bay Area") is a key national development strategy and a golden opportunity to inject new impetus to Hong Kong's economy. In view of the strategic significance of the Bay Area development to Hong Kong, the Panel, Panel on Financial Affairs, Panel on Commerce and Industry, and Panel on Information Technology and Broadcasting conducted a duty visit to the Bay Area from 20 to 22 April 2018 to better understand the Bay Area development. Led by the delegation leader Hon Jeffery LAM Kin-fung, members visited five cities in the Bay Area, namely Guangzhou, Shenzhen, Foshan, Dongguan and Zhongshan.

38. During the visit, members met with representatives of the Guangdong Provincial Government as well as the Municipal Governments of the five cities. A wide range of issues of mutual concern were discussed, including co-operation opportunities among cities in the Bay Area, the policies of supporting Hong Kong's young science and research talents, policy of heritage conservation and old town revitalization, development and management of historic heritage revitalization projects, as well as provision of Hong Kong professional services in the Bay Area. Members also had a chance to meet with Hong Kong's young entrepreneurs in the Bay Area to gain a better understanding of the opportunities and challenges they encountered. A report on the duty visit will be issued separately.

Council Business Division 4  
Legislative Council Secretariat  
4 July 2018

**Legislative Council**

**Panel on Economic Development**

**Terms of Reference**

1. To monitor and examine Government policies and issues of public concern relating to economic infrastructure and services, including air and sea transport facilities and services, postal and weather information services, energy supply and safety, consumer protection, competition policy and tourism.
2. To provide a forum for the exchange and dissemination of views on the above policy matters.
3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.
4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.
5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

**Panel on Economic Development**

**Membership list for 2017-2018 session\***

<b>Chairman</b>	Hon Jeffrey LAM Kin-fung, GBS, JP
<b>Deputy Chairman</b>	Hon Alvin YEUNG
<b>Members</b>	<p>Hon James TO Kun-sun Hon WONG Ting-kwong, GBS, JP Hon Starry LEE Wai-king, SBS, JP Hon WONG Kwok-kin, SBS, JP Hon Paul TSE Wai-chun, JP Hon Claudia MO Hon Michael TIEN Puk-sun, BBS, JP Hon Steven HO Chun-yin, BBS Hon Frankie YICK Chi-ming, SBS, JP Hon WU Chi-wai, MH Hon YIU Si-wing, BBS Hon Charles Peter MOK, JP Hon Kenneth LEUNG Hon Alice MAK Mei-kuen, BBS, JP Hon Dennis KWOK Wing-hang Hon Christopher CHEUNG Wah-fung, SBS, JP Dr Hon Elizabeth QUAT, BBS, JP Hon Martin LIAO Cheung-kong, SBS, JP Ir Dr Hon LO Wai-kwok, SBS, MH, JP Hon CHUNG Kwok-pan Hon Andrew WAN Siu-kin Hon CHU Hoi-dick Hon Jimmy NG Wing-ka, JP Dr Hon Junius HO Kwan-yiu, JP Hon Holden CHOW Ho-ding Hon SHIU Ka-fai Hon CHAN Chun-ying, JP Hon LUK Chung-hung, JP Hon Jeremy TAM Man-ho</p> <p>(Total : 31 members)</p>
<b>Clerk</b>	Ms Shirley CHAN

**Legal Adviser** Mr Bonny LOO

\* Changes in membership are set out in **Annex to Appendix II**

**Panel on Economic Development**

**Changes in membership**

<b>Member</b>	<b>Relevant date</b>
Hon Mrs Regina IP LAU Suk-ye, GBS, JP	Up to 23 October 2017
Hon CHAN Han-pan, BBS, JP	Up to 23 October 2017
Dr Hon CHIANG Lai-wan, SBS, JP	Up to 23 October 2017
Hon CHEUNG Kwok-kwan, JP	Up to 23 October 2017
Hon Abraham SHEK Lai-him, GBS, JP	Up to 24 October 2017