

**立法會**  
***Legislative Council***

LC Paper No. CB(4)261/19-20

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by the Administration)

Ref : CB4/PL/EDEV

**Panel on Economic Development**

**Minutes of meeting**  
**held on Tuesday, 26 November 2019, at 4:30 pm**  
**in Conference Room 2 of the Legislative Council Complex**

**Members present :** Hon CHUNG Kwok-pan (Chairman)  
Hon WU Chi-wai, MH (Deputy Chairman)  
Hon James TO Kun-sun  
Hon Jeffrey LAM Kin-fung, GBS, JP  
Hon WONG Ting-kwong, GBS, JP  
Hon Starry LEE Wai-king, SBS, JP  
Hon Paul TSE Wai-chun, JP  
Hon Claudia MO  
Hon Steven HO Chun-yin, BBS  
Hon Frankie YICK Chi-ming, SBS, JP  
Hon YIU Si-wing, BBS  
Hon Kenneth LEUNG  
Hon Christopher CHEUNG Wah-fung, SBS, JP  
Hon Elizabeth QUAT, BBS, JP  
Ir Dr Hon LO Wai-kwok, SBS, MH, JP  
Hon Andrew WAN Siu-kin  
Hon Jimmy NG Wing-ka, BBS, JP  
Hon Junius HO Kwan-yiu, JP  
Hon Holden CHOW Ho-ding  
Hon SHIU Ka-fai, JP  
Hon CHAN Chun-ying, JP  
Hon LUK Chung-hung, JP  
Hon Jeremy TAM Man-ho  
Hon Tony TSE Wai-chuen, BBS

**Member attending :** Hon POON Siu-ping, BBS, MH

**Members absent** : Hon WONG Kwok-kin, SBS, JP  
Hon Mrs Regina IP LAU Suk-yee, GBS, JP  
Hon Dennis KWOK Wing-hang  
Hon CHU Hoi-dick

**Public Officers attending** : Agenda item III

Mr Joseph LAI, JP  
Permanent Secretary for Transport and Housing  
(Transport)

Ms Angela LEE  
Deputy Secretary for Transport and Housing  
(Transport)<sup>5</sup>

Mr WONG Sai-fat  
Deputy Director of Marine

Miss Vicky CHEUNG  
Principal Assistant Secretary for Transport and  
Housing (Transport)<sup>11</sup>

Agenda item IV

Ms Angela LEE  
Deputy Secretary for Transport and Housing  
(Transport)<sup>5</sup>

Mr CHIU Kwok-kit, JP  
Deputy Commissioner of Inland Revenue  
(Technical)

Miss Vicky CHEUNG  
Principal Assistant Secretary for Transport and  
Housing (Transport)<sup>11</sup>

Ms Fiona TO  
Senior Assessor (Research)<sup>4</sup>  
Inland Revenue Department

**Clerk in attendance:** Ms Shirley CHAN  
Chief Council Secretary (4)<sup>5</sup>

**Staff in attendance :** Mr Bonny LOO  
Assistant Legal Adviser 4 (Agenda item IV only)

Ms Shirley TAM  
Senior Council Secretary (4)5

Ms Lauren LI  
Council Secretary (4)5

Ms Zoe TONG  
Legislative Assistant (4)5

Miss Mandy LUI  
Clerical Assistant (4)5

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Action

**I. Information papers issued since the meeting on 24 June 2019**

(LC Paper No. CB(4)1081/18-19(01) — Administration's paper on tables and graphs showing the import and retail prices of major oil products from June 2017 to May 2019

LC Paper No. CB(4)1147/18-19(01) — Administration's paper on tables and graphs showing the import and retail prices of major oil products from July 2017 to June 2019

LC Paper No. CB(4)1156/18-19(01) — Referral memorandum arising from the meeting between Legislative Council Members and Southern District Council members on 14 May 2019 regarding the berthing arrangements for vessels at the Aberdeen Typhoon Shelter (Restricted to members only)

LC Paper No. CB(4)1157/18-19(01) — Referral memorandum arising from the meeting between Legislative Council Members and Sai Kung District Council

members on 24 May 2019 regarding the requests to construct additional typhoon shelter and enlarge the existing anchorage areas in Sai Kung (Restricted to members only)

LC Paper No. CB(4)1158/18-19(01) — Referral memorandum arising from the meeting between Legislative Council Members and Kowloon City District Council members on 31 May 2019 regarding the problems caused by the operation of inbound tour groups in the district (Restricted to members only)

LC Paper No. CB(4)1191/18-19(01) — Administration's letter dated 26 August 2019 providing information on the 2018 mid-term assessment regarding economic benefits brought by the cruise industry

LC Paper No. CB(4)1195/18-19(01) — Administration's paper on tables and graphs showing the import and retail prices of major oil products from August 2017 to July 2019

LC Paper No. CB(4)1204/18-19(01) — Referral memorandum arising from the meeting between Legislative Council Members and Tuen Mun District Council members on 4 June 2019 regarding the proposal for replacing the high voltage pylons with power cable tunnels in the vicinity of Yuen Long Highway for

power supply (Restricted to members only)

LC Paper No. CB(4)1247/18-19(01) — Administration's paper on tables and graphs showing the import and retail prices of major oil products from September 2017 to August 2019

LC Paper No. CB(4)60/19-20(01) — Administration's paper on tables and graphs showing the import and retail prices of major oil products from October 2017 to September 2019)

Members noted the above papers issued since the last regular meeting.

## **II. Items for discussion at the next meeting**

(LC Paper No. CB(4)130/19-20(01) — List of outstanding items for discussion

LC Paper No. CB(4)130/19-20(02) — List of follow-up actions)

2. Members agreed to advance the next regular meeting from 11 December 2019 to 10 December 2019 at 3:00 pm to discuss the following items –

- (a) Legislative amendments to implement the latest requirements under conventions of the International Maritime Organization;
- (b) Resources proposals relating to the government facilities and equipment to support the three-runway system at Hong Kong International Airport ("HKIA"); and
- (c) Annual tariff reviews with the two power companies.

**III. Sustainable development of Hong Kong's port and development of high value-added maritime services and the proposal of turning a supernumerary post of Administrative Officer Staff Grade C in the Transport and Housing Bureau into a permanent post**

(LC Paper No. CB(4)130/19-20(03) — Administration's paper on development of Hong Kong Port and maritime industry cum staffing proposal in support of the maritime industry

LC Paper No. CB(4)130/19-20(04) — Paper on the development of the Hong Kong Port and maritime services prepared by the Legislative Council Secretariat (background brief))

Presentation by the Administration

3. At the invitation of the Chairman, Permanent Secretary for Transport and Housing (Transport) ("PSTH(T)") briefed members on the initiatives in developing Hong Kong Port ("HKP") and maritime industry and sought members' views on the proposal to make permanent one Administrative Officer Staff Grade C ("AOSGC") (D2) supernumerary post in the Transport and Housing Bureau in support of the long-term development of the industry. Details were set out in LC Paper No. CB(4)130/19-20(03).

Discussion

*Establishment proposal*

4. Mr YIU Si-wing sought further information about whether the job duties of the permanent AOSGC post-holder would include managing the Maritime and Aviation Training Fund ("MATF"). Besides, given the extensive scope of work, complexity of work nature and heavy workload of the job duties under the proposal, he wondered if there were any special qualifications required for the post-holder.

5. Deputy Secretary for Transport and Housing (Transport)<sup>5</sup> ("DSTH5") advised that the permanent AOSGC post-holder would be responsible for conducting policy analysis and formulating policy proposals regarding the

long-term development of the maritime and port industry whereas management of the MATF was the duty of the Chief Assistant Secretary in the same team. PSTH(T) added that the AOSGC post-holder should possess various qualities such as the requisite policy vision and capability in formulating and implementing policies. While the post-holder would be subject to posting from time to time, the selection requirements for suitable officer would remain unchanged.

6. The Deputy Chairman enquired about the rationale to make permanent the AOSGC post as the tasks designated for this post seemed to be time-limited. He considered that the short-term manpower needs could be achieved by extending the post for a specified period. To justify the permanent post, he requested the Administration to provide more valid grounds including a concrete development plan of the maritime and port industry specifying the long-term tasks.

7. PSTH(T) replied that the Administration was committed to bolstering the growth of Hong Kong's high value-added maritime services and maintaining the competitiveness of HKP. To achieve these goals, in addition to the proposed tax measure on ship leasing, the Administration planned to introduce tax measures to attract more commercial principals to set up presence in Hong Kong and explore the suggestions to better support and develop other maritime services. Converting the AOSGC post into a permanent one was essential to sustain the Administration's policy support and measures so as to ensure that the Hong Kong maritime trade as a whole evolved in tandem with global changes. The Administration would roll out suitable measures to sustain the development goals from time to time.

8. The Deputy Chairman said that he did not oppose to the existence of the AOSGC post but was unconvinced that the post should be made permanent. He reiterated that the Administration could extend the supernumerary AOSGC on a time-limited basis. Raising objection to the proposal, he called on the Administration to provide concrete information on the long-term development plan of the industry to justify a permanent post should it pursue the proposal to the Establishment Committee.

9. Mr Frankie YICK expressed his full support for the staffing proposal given the heavy workload and challenges for the Administration to promote Hong Kong's maritime industry. He commented that the Administration needed to expedite its work in implementing measures to drive the industry development. For instance, the proposed tax concessions for ship leasing had

been requested by the Hong Kong Shipowners Association for over 15 years. He agreed that there was an imminent need for the Administration to increase its long-inadequate manpower resources in policy formulation in order to pin down other relevant initiatives in the 2018 Policy Address (such as providing tax reliefs to promote the development of marine insurance and the underwriting of specialty risks in Hong Kong) and help sustain the industry development.

*Competitiveness of HKP and maritime industry*

10. Ms Claudia MO raised concern about the shrinking competitiveness of HKP which had slipped from its peak in terms of container throughput and surpassed by various regional counterparts. She urged the Administration to pay more efforts in driving HKP's performance and competing with regional competitors instead of just maintaining its current competitiveness.

11. PSTH(T) replied that the Administration was committed to proactively developing Hong Kong's maritime and port industry which directly contributed 1.1% to Hong Kong's GDP. It also underpinned the development of trade and logistics industry, which accounted for around 21% of Hong Kong's GDP. In fact, over 90% of Hong Kong's freight volume was transported by water, reflecting the importance of water transport to the local economy. Although HKP was facing competition from other ports in the region in terms of handling costs, it enjoyed the advantages of a "free port" policy, high cargo handling efficiency, high connectivity and wide coverage of shipping lines and the Cabotage requirement implemented by the Central People's Government.

12. Mr YIU Si-wing raised concern whether the recent decline of HKP's performance was due to recent social unrest, the trade conflict between China and the United States, and/or other long-term factors. He also requested the Administration to provide a forecast of the development of sea cargo business in the long run.

13. PSTH(T) said that the total cargo throughput of HKP had dropped by some 6% year-on-year in the first 10 months of 2019 while the air cargo throughput of HKIA had dropped by about 7% over the same period. The drop of HKIA's performance was largely affected by the external environment, whereas both the external environment as well as the regional competition had posed challenges to Hong Kong's sea shipment business.

14. To enhance the competitiveness of HKP and maritime industry, Mr Holden CHOW considered it important to develop a vibrant maritime cluster



in Hong Kong covering marine insurance and other maritime sectors so as to enhance Hong Kong's position as a major maritime centre. Welcoming the Administration to use tax incentives to attract ship leasing business, he enquired about the progress of this measure.

15. PSTH(T) advised that similar to the case of aircraft leasing business, the profit tax rate of a particular jurisdiction was always the major consideration taken by ship lessors and ship leasing managers when they decided whether to set up overseas office there. In this regard, the Administration targeted to introduce the relevant amendment bill on ship leasing tax regime into the Legislative Council in February 2020 with a view to implementing the tax concessionary measures as soon as possible.

16. In response to Mr Holden CHOW's enquiry about the current progress of the proposed delegation of power in issuing exemptions currently vested with Director of Marine to other officers of the Marine Department, PSTH(T) said that the Administration had been taking forward this legislative exercise smoothly and the law drafting work was almost finished. It was expected that the relevant subsidiary legislation would be introduced to the Legislative Council for negative vetting by early 2020.

*Setting up a statutory body*

17. Ms Claudia MO enquired about the Administration's consideration and follow-up action to the request of the maritime industry for setting up a statutory body similar to the Airport Authority Hong Kong ("AAHK") in order to drive the further development of HKP and maritime industry

18. Mr Frankie YICK suggested that the Administration make reference to AAHK and establish an authority with statutory powers to regulate maritime and port services with a view to expediting and strengthening the industry development. He said that these functions could hardly be fulfilled by the Hong Kong Maritime and Port Board ("HKMPB") which was mainly an advisory body to the Administration.

19. PSTH(T) advised that there were views from the trade that the statutory body for HKP and maritime industry should possess certain assets to facilitate its operation on a self-financing basis and bolster the industry development like the case of AAHK possessing HKIA. However, the AAHK's model was not applicable to the maritime industry given Hong Kong's container terminals were owned and operated by various private operators. Currently the Administration

had been working in close collaboration with HKMPB in formulating and implementing policies and initiatives conducive to industry growth.

20. The Chairman commented that the main goal of the industry's request for turning HKMPB into a statutory body seemed to be to strengthen its efforts in promoting the future development of the industry. In this regard, whether or not such a statutory body possessed any asset might not be of major concern should there be other financing options available. He suggested the Administration to discuss further with the trade on this matter. He also urged the Administration to take heed of members' views and provide the requested information to address members' concerns when the staffing proposal was submitted to the Establishment Subcommittee for consideration.

#### **IV. Proposal to provide tax incentives for ship leasing**

(LC Paper No. CB(4)130/19-20(05) — Administration's paper on proposed tax regime to promote ship leasing business in Hong Kong

LC Paper No. CB(4)130/19-20(04) — Paper on the development of the Hong Kong Port and maritime services prepared by the Legislative Council Secretariat (background brief))

#### Presentation by the Administration

21. At the invitation of the Chairman, DSTH5 briefed members on the legislative proposal to amend the Inland Revenue Ordinance (Cap. 112) ("the proposal") to provide for a dedicated tax regime to attract ship leasing business to set up presence in Hong Kong. With the aid of the powerpoint presentation material, Principal Assistant Secretary for Transport and Housing (Transport)11 ("PASTH(T)11") briefed members on the details of the new tax regime. Details were set out in LC Paper No. CB(4)130/19-20(05).

*(Post-meeting note: The powerpoint presentation material provided by the Administration was issued to members vide LC Paper No. CB(4)148/19-20(01) on 27 November 2019.)*

Discussion*Potential benefits of the proposal*

22. The Chairman expressed support for the proposal having regard to the positive experience of introducing tax measures through the aircraft leasing regime. He enquired about the comparison of the tax measures for aircraft leasing business vis-à-vis the tax measures under the proposal for ship leasing business, the competitive edges of Hong Kong's tax measures on ship leasing over competitors, and the economic benefits brought by aircraft leasing business after the introduction of the relevant tax measures.

23. Mr Frankie YICK enquired if the proposed new tax measures for ship leasing business were more attractive than the competitors' relevant offers so as to attract overseas ship leasing business to set up presence in Hong Kong. He was of the view that the tax measures offered to qualified aircraft lessors and aircraft leasing managers in Hong Kong were less attractive than the competitors' ones and hence the economic benefits that could have been generated by the tax incentive fell below expectation. He also enquired if the proposal would, similar to the aircraft leasing regime, give rise to any withholding tax issue.

24. DSTH5 said that similar to the approach adopted for aircraft leasing, in determining the proposed tax measures for ship leasing, the Administration had taken into consideration the tax incentives provided by major competitors so as to ensure the attractiveness of the measures. In particular, reference had been made to Singapore which provided tax exemption for qualifying ship leasing companies and a concessionary tax rate of 10% for their approved ship leasing managers. In this regard, the Administration proposed reducing the profits tax rates for qualifying ship lessors and ship leasing managers carrying out specified activities to zero and 8.25% respectively. In comparison with Singapore's tax concessions which were subject to an approval mechanism on a case-by-case basis, Hong Kong had a simple, transparent and predictable tax regime with tax rates stipulated in the legislation. As for the performance of aircraft leasing business, since the introduction of the respective tax measures, a number of aircraft leasing companies based in Ireland, the United States and China had set up regional offices in Hong Kong.

25. Deputy Commissioner of Inland Revenue (Technical) ("DCIR(T)") further advised that for offshore ship leasing business, the lease payments made by a lessee in one jurisdiction to a lessor in another jurisdiction were subject to a

withholding tax at a rate depending on the terms of the tax treaties between the jurisdictions. The tax treaties between Hong Kong and other jurisdictions were more updated with lower withholding tax rates as compared to its competitors. These might provide added incentive for companies to consider doing business in Hong Kong.

26. Referring to his previous calls for attracting new businesses, Mr Jeremy TAM welcomed the proposed tax concessions for ship leasing business which had a high potential to develop in Hong Kong. To facilitate members' consideration on the proposal, he enquired about the market leaders in ship leasing business in the world, how Hong Kong compared with them in terms of the number and scale of ship leasing companies, and the strategies to promote the new tax regime for ship leasing after the passage of the proposed legislation.

27. DSTH5 responded that with the shift of the global economic centre of gravity from the West to the East, and with the major contributor to shipowning and shipbuilding activities coming from Asia, ship financing activity was expected to see faster growth in Asia. According to the Seatrade Maritime News' estimates (May 2017), traditional banks (mainly those located in Europe) had gone from financing around 80% of the shipping industry in 2008 to about 60% in 2016, while Chinese leasing firms had grown their market shares to about 20%. She advised that there were dozens of companies running the ship leasing business in Hong Kong as gathered from the trade, and agreed to provide supplementary information after the meeting to address Mr Jeremy TAM's questions.

*(Post-meeting note: The Administration's response was issued to members vide LC Paper No. CB(4)221/19-20(01) on 24 December 2019.)*

28. Supporting the proposal, Mr Kenneth LEUNG expressed disappointment about the delay of the Administration's action to put forward relevant tax measures for ship leasing which had been requested by the Hong Kong Shipowners Association since 2013. Noting that the loans and advances of shipping finance had increased from \$49.7 billion in 2008 to \$121.2 billion in 2018 as stated in the 2019 Policy Address, he sought clarification about the basis for projecting the incremental ship finance business of about \$265 billion to \$460 billion brought by the proposal as mentioned in the Administration's paper.

29. DSTH5 explained that the figures mentioned in the 2019 Policy Address

(i.e. \$49.7 billion in 2008 to \$121.2 billion in 2018) covered the outstanding loans and advances of the shipping business borne by the banks in Hong Kong only, which was just one form of ship financing. While there was no separate breakdown of ship leasing in Hong Kong, the proposal was expected to bring a cumulative incremental ship finance business of \$265 billion to \$460 billion over 10 years, as compared to the case if no tax measure was introduced.

30. Mr Kenneth LEUNG enquired if there were other measures to boost the development of the shipping industry such as the enhancement of the position of the Hong Kong Shipping Register ("HKSR") which was the fourth largest shipping register in the world in terms of total registered gross tonnage. He also sought information about the gross tonnage of HKSR vis-à-vis the world's top three shipping registers.

31. DSTH5 advised that while the proposed tax measures aimed to attract the ship leasing and ship leasing management businesses, it would also attract other shipping-related companies to establish and operate in Hong Kong, with a view to forming a stronger cluster of shipping and maritime services. As announced in the 2019 Policy Address, the Administration had also taken on board the industry's suggestion to implement tax concessionary measures to encourage more commercial principals such as ship managers, agents, etc. to use Hong Kong as their operating base of maritime business.

32. PASTH(T)11 added that as at end September 2019, over 2 600 ships with a total gross tonnage of around 128 million were registered with HKSR whereas the top three shipping registers in the world were Panama with over 200 million gross tonnage, and Liberia and Marshall Islands each of which with some 150 million gross tonnage.

#### *Substantial activity requirement*

33. Mr Jeremy TAM noted that under the substantial activity requirements of the proposal, ship leasing and ship leasing management companies should respectively have at least two and one full-time qualified employees. He considered that such thresholds were too low to screen out entities which did not undertake core income generating activities in Hong Kong and were ineffective to achieve the forecast growth in the number of direct employment ranging from around 6 400 to 11 200 people cumulatively over 10 years. He enquired whether any ship leasing management company would incur the minimum annual operating expenditure of HK\$1 million but hire only one full-time qualified employee.

34. DCIR(T) explained that in accordance with the requirements promulgated by the Organisation for Economic Co-operation and Development ("OECD"), only entities with substantial activities would benefit from the new tax regime. Such entities were required to hire full-time qualified employees to carry out in Hong Kong the core income generating activities, which included raising funds, agreeing funding terms, identifying and acquiring the ship to be leased, soliciting lessees, setting the terms and duration of leases, monitoring and revising lease agreements and managing any risks. Once the drafting work was completed, the draft bill would be provided to OECD for comment and further revision might be required. DSTH5 added that the proposed minimum requirements only applied to qualified employees and that employees responsible for administrative functions were not counted as qualified employees under the proposal.

35. Mr Holden CHOW considered that the low thresholds on the minimum number of full-time qualified employees might not ensure that the qualifying companies would undertake core income generating activities in Hong Kong, nor help create employment opportunities for local people. He suggested raising the thresholds on the number of full-time qualified employees with regard to the business scale. He also enquired about the average numbers of full-time qualified employees employed by the existing ship leasing and ship leasing management companies, which were useful for forecasting the growth in direct employment.

36. DSTH5 replied that in proposing the threshold requirements of substantial activities, the Administration had struck a balance between achieving the requirements of OECD on the one hand, and the policy objective of the tax measures of attracting overseas companies to set up an initial base in Hong Kong on the other. On the forecast increase in the number of direct employment brought by the proposal, DSTH5 said that such figure was estimated with inputs from veteran practitioners of the ship finance business as well as reference to operating statistics of ship leasing companies. PASTH(T)11 supplemented that the employment of ship leasing companies might vary drastically depending on the business scale and portfolio of each company.

### Conclusion

37. The Chairman concluded that the Panel was generally supportive of the proposal and urged the Administration to take heed of the views and suggestions expressed by members.

**V. Any other business**

38. There being no other business, the meeting ended at 6:03 pm.

Council Business Division 4  
Legislative Council Secretariat  
21 January 2020