

**For information
on 28 October 2019**

**Legislative Council Panel on Economic Development
The 2019 Policy Address
Policy Initiatives of the Transport Branch of the
Transport and Housing Bureau**

Introduction

This paper elaborates on the new initiatives set out in the 2019 Policy Address that the Government will pursue and other on-going initiatives 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. Hong Kong enjoys a premier geographical location, unique institutional strengths, free economy, and extensive experience in international trade and commerce. These enable us to fully equip ourselves to be a major international aviation hub, international maritime centre and regional logistics hub.

3. On maritime, Hong Kong has a long maritime tradition, with port, shipping and maritime services underpinning the development of the trading and logistics sector throughout. The Hong Kong Port is among the busiest container ports in the world and an important hub port in the Asia-Pacific region. It handled around 19.6 million twenty-foot equivalent units in 2018, of which some 60% were transshipment cargo. Hong Kong Port provides frequent and comprehensive liner shipping services, with about 310 container liner services per week connecting to around 450 destinations worldwide. Hong Kong is also home to a strong base of shipowners. Hong Kong shipowners and ship management companies together own or manage a sizeable fleet which accounts for around 10% of the deadweight tonnage of the world's merchant fleet. There are currently over 800 companies operating in Hong Kong, providing a wide range of quality high value-added maritime services to local, Mainland and overseas maritime enterprises, including marine insurance, maritime legal and arbitration services, ship agency and management, ship broking and leasing, etc. Hong Kong is also a ship finance centre in the region. The Government will continue to proactively develop and entrench Hong Kong's position as a high value-added maritime services centre and an important transshipment hub in the

Asia Pacific region, so as to fully seize the immense opportunities arising from the Belt and Road Initiative and the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (“GBA Outline Development Plan”).

4. On aviation, the Hong Kong International Airport (“HKIA”) is an important driver for Hong Kong’s economy. The HKIA is the busiest cargo airport and one of the busiest international passenger airports in the world. Over 120 airlines operate more than 1 100 flights every day between the HKIA and over 220 destinations worldwide, including about 50 destinations in the Mainland. This year, the growth of HKIA’s traffic has slowed down. From September 2018 to August 2019, the HKIA handled a total of 74.8 million passengers and over 428 000 aircraft movements, representing a year-on-year growth of 0.4% and 0.3% respectively. Amid the global trade uncertainties, the cargo throughput for the same period dropped by 5.4% to about 4.8 million tonnes. To sustain Hong Kong’s status as an international aviation hub, we will continue to enhance the HKIA’s passenger and cargo handling capacity, including actively assisting the Airport Authority Hong Kong (“AAHK”) in implementing the Three-Runway System (“3RS”) and enhancing airport infrastructure and intermodal facilities. The Government will continue to develop high value-added aviation services, expand Hong Kong’s aviation network, and work closely with the Civil Aviation Administration of China (“CAAC”) to optimise the airspace.

5. The GBA Outline Development Plan promulgated in February 2019 clearly stated that Hong Kong’s advantages as an international maritime centre should be leveraged to form a world-class port cluster and international logistics hub with other Greater Bay Area cities, and strengthen overall international competitiveness; and a world-class airport cluster in the Greater Bay Area should be developed, Hong Kong’s status as an international aviation hub should be consolidated and enhanced, and differential development and positive interaction of airports in the Greater Bay Area should be pursued.

New Initiatives

6. Please refer to paragraphs 7 to 15 below for the new initiatives we will implement in 2019.

- (i) ***Explore the introduction of a pilot subsidy scheme for providing subsidy to qualified third party logistics service providers, with a view to encouraging the logistics industry to enhance productivity through the application of technology***

7. We attach great importance to the continuing development of the logistics industry. We have been maintaining our competitiveness through various measures in consultation with the trade. In view of the development trend of the logistics industry, enterprises have been relying more on the application of technology to provide different types of high value-added services, so as to enhance operational efficiency. In light of this, we will explore the introduction of a pilot subsidy scheme amounting to \$300 million in total for providing subsidy to qualified third party logistics service providers on a matching basis (i.e. the Government will cover a maximum of 50% of the total approved project cost), with a view to encouraging the logistics industry to enhance productivity through the application of technology. In formulating the details of the pilot subsidy scheme, we will make reference to the subsidy schemes of similar nature which are currently provided by the Government for other industries.

- (ii) ***Release by phases two port back-up sites through public tender for developing multi-storey port back-up and modern logistics facilities***

8. To maintain the competitiveness of Hong Kong Port, we will continue to implement various recommendations made in the review of the use of port back-up land near the Kwai Tsing Container Terminals (“KTCTs”), so as to optimise the utilisation of the land. Among all, our studies to explore the feasibility of developing a multi-storey complex for container storage and cargo handling at a site in Tsing Yi and a multi-storey carpark-cum-logistics complex at another site in Kwai Chung respectively have been largely completed. We will release by phases the aforementioned two sites through public tender for developing multi-storey port back-up and modern logistics facilities, so as to support port and logistics operations.

9. In addition, we will continue to expand terminal yard space and provide additional barge berths in KTCTs in phases so as to enhance the container handling capacity. Negotiation with the relevant terminal operators in respect of the leases of three sites of around 7.8 hectares is underway. The sites concerned would be granted after agreements are reached.

- (iii) ***To provide tax concession for qualified ship lessors and qualified ship leasing managers so as to attract companies to develop ship leasing business in Hong Kong***

10. In view of the development potential of the ship leasing business, and to take forward the initiatives to promote the development of high value-added maritime services announced in the Policy Address last year, the Hong Kong Maritime and Port Board (“HKMPB”) set up a dedicated Task Force on Ship Leasing in late 2018 to devise the details of tax concessionary measures to promote ship leasing in Hong Kong. After thorough study and deliberation, the Task Force has devised the details of the relevant tax measures, and proposed to provide profits tax concessions to qualifying ship lessors and qualifying ship leasing managers so as to attract companies to set up ship leasing business in Hong Kong. The Government plans to introduce the Inland Revenue Amendment Bill to the Legislative Council (“LegCo”) in the 2019-20 legislative session to put the tax concessionary measures into effect.

- (iv) ***Plan to introduce tax concessionary measures to encourage more commercial principals of the maritime industry to set up presence in Hong Kong***

11. To further boost the maritime cluster in Hong Kong and to respond to the local maritime trade’s proposal to attract more commercial principals of the maritime industry to set up presence in Hong Kong, the Government plans to implement tax concessionary measures to encourage more commercial principals of the maritime industry (such as ship management companies, ship brokers and ship agents) to use Hong Kong as their operating base of maritime business, with a view to further consolidating and enhancing Hong Kong’s position as an international maritime centre. The details of relevant tax measures will continue to be discussed and devised by the dedicated Task Force under the HKMPB.

- (v) ***Further to the initiative in the GBA Outline Development Plan concerning the steady development of cross-boundary helicopter services, Transport and Housing Bureau (“THB”) and the CAAC have agreed to expand the scope of flight destinations to be served by cross-boundary helicopter services to and from Hong Kong to cover the whole Guangdong Province***

12. The GBA Outline Development Plan specifies the deepening of the reform in the management of low-altitude airspace, the expedition of the development of general aviation and the steady development of cross-boundary helicopter services, indicating the Central Authorities’ support for expanding the services concerned. Developing cross-boundary helicopter services will provide travellers with a high-end and convenient means of air transport,

enhancing the low-altitude air connectivity in the Greater Bay Area and giving impetus to the diversified commercial and business activities in the region.

13. In this connection, the THB and the CAAC signed a Memorandum of Understanding to expand the Air Services Arrangement between the Mainland and the Hong Kong Special Administrative Region (“HKSAR”), under which both sides can designate helicopter operators to operate helicopter services between airports or take-off/landing points in the Guangdong Province that fulfill relevant customs, immigration and quarantine (“CIQ”) arrangements and airports or take-off/landing points in the HKSAR that fulfill relevant CIQ arrangements. This provides a solid basis for expanding cross-boundary helicopter services between Hong Kong and cities in the Greater Bay Area.

(vi) *Continue to expeditiously prepare the draft subsidiary legislation on regulating the operations of small unmanned aircraft (“SUA”) in Hong Kong*

14. The Civil Aviation Department (“CAD”) has initiated a review of the regulation of unmanned aircraft systems (“UAS”), with a view to safeguarding public safety while accommodating the technological development and diversified uses of UAS. To facilitate the Government in reviewing the existing statutory requirements and exploring ways to refine the prevailing regulatory regime, the CAD commissioned an overseas consultant to conduct a study on the regulation of UAS. The CAD published the consultancy report last year and launched a three-month public consultation on the directions for regulating UAS.

15. Taking into account the recommendations of the consultancy study and views received during the public consultation, the CAD consulted the LegCo Panel on Economic Development in June 2019 on the legislative proposal for enhancing the regulatory regime of SUA. The CAD is considering members’ comments and will continue to prepare the draft subsidiary legislation on regulating the operations of SUA, with a view to tabling it into LegCo as soon as possible.

Other on-going initiatives

16. Apart from the new initiatives set out in the Policy Address, we will continue to implement various on-going initiatives in 2019. Details are set out in paragraphs 17 to 40 below.

International Maritime Centre

(i) Entrenching Hong Kong's position as an international maritime centre

17. In response to the intense international competition and uncertainties of global political and economic environment, the Government will continue to, through the HKMPB, maintain close communication with the industry, in a bid to formulate holistic strategies to entrench Hong Kong's position as an international maritime centre.

18. To cite an example, \$200 million was approved to be injected into the Maritime and Aviation Training Fund ("MATF") in May 2019 with a view to nurturing maritime talent proactively. The operation of existing schemes under MATF is continued whilst enhancement measures will be explored. New initiative will also be implemented to encourage in-service practitioners of local vessel trade to obtain higher professional qualifications with a view to meeting the manpower demand of the trade. Up to August 2019, the MATF has benefitted more than 7 400 students and in-service practitioners of maritime and aviation sectors.

19. Bolstering the growth of Hong Kong's high value-added maritime services is our priority. Last year's Policy Address covered the provision of profits tax concession to marine insurance businesses, exploration of streamlining regulation for protection and indemnity clubs and further promotion of Hong Kong's maritime arbitration and dispute resolution services. On tax concession, we target to introduce the relevant amendment bill into the LegCo within 2019-20 legislative session. Meanwhile, we will continue to explore and implement business facilitation measures for the shipping sector, including the establishment of the first batch of Hong Kong Shipping Registry ("HKSR") Regional Desks in London, Shanghai and Singapore Economic and Trade Offices by the end of this year or the first quarter of next year so as to widen HKSR's service network, provide more direct and prompt support for shipowners and strengthen the promotion of HKSR.

20. Besides, frequent promotion has been carried out since the inception of the HKMPB to strengthen liaison and collaboration with overseas and the Mainland for promoting Hong Kong's maritime industry and high value-added maritime services. For instance, we have been participating in large-scale international maritime exhibitions (such as Posidonia held in Greece and Marintec China held in Shanghai); and have organised delegation visits to Mainland and overseas maritime cities and regions together with industry representatives (e.g. London, Hamburg, Tokyo, Copenhagen, Oslo, Bergen, Shanghai, Beijing and Guangxi etc.) We are also going to organise the fourth

Hong Kong Maritime Week from 17 to 23 November this year to promote Hong Kong as a preferred base for operating maritime business.

- (ii) ***Facilitating the development 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***

21. The trading and logistics industry tops the four key economic pillars of Hong Kong, contributing about 21% to our GDP. The logistics sector alone contributed 3.2% (\$82 billion) to our GDP and around 4.7% (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. The Government will continue to identify suitable sites for the development of high value-added third-party logistics services. To this end, we sold a site of 3.17 hectares in Tuen Mun Area 49 for modern logistics uses in May 2018, providing some 79,000 square metres of floor area for the logistics industry. We will continue to work with relevant departments to identify suitable land for the development of modern logistics facilities.

International Aviation Centre

- (iii) ***Continuing to actively assist the AAHK in implementing the 3RS at the HKIA***

22. The AAHK commenced the 3RS construction works in August 2016 and is currently proceeding with the first stage of reclamation works, the expansion of Terminal 2 to provide full-fledged passenger services as well as design and tendering works of relevant airport facilities. The AAHK anticipates that the whole project would take approximately eight years to complete. The THB and the AAHK will continue to report and explain the latest progress of the 3RS to Members through the LegCo Panel on Economic Development as appropriate.

23. The commissioning of 3RS will not only strengthen Hong Kong's strategic position as a global and regional aviation hub, but will also contribute substantively to the development of the Guangdong-Hong Kong-Macao Greater Bay Area and the Mainland. The AAHK estimates that upon full commissioning of the 3RS, the HKIA will have the capacity to handle future air traffic demand at least up to 2030. The annual passenger handling capacity is expected to be around 100 million, and the annual cargo handling capacity will be around 9 million tonnes. The 3RS will bring long-term economic and social benefits to

Hong Kong, create considerable employment opportunities for various sectors, promote Hong Kong's overall competitiveness and bring substantial benefits to the well-being of our community.

(iv) ***Enhancing the HKIA's runway capacity before the implementation of the 3RS***

24. To complement the development of HKIA's 3RS, the CAD will continue to closely collaborate with the CAAC in airspace management with a view to progressively achieving the ultimate target capacity of the 3RS. To this end, the CAD with the CAAC and the Civil Aviation Authority of Macao are conducting modelling and simulation (i.e. fast-time simulation) of the airspace and air traffic in the Guangdong-Hong Kong-Macao Greater Bay Area, with a view to providing statistics and technical support for the implementation of the 3RS at the HKIA and the continual expansion and development of the airports in Macao, Guangzhou, Shenzhen, Zhuhai etc. At present, the tripartite working group is making use of the fast-time simulation to carry out assessment and analysis work, which is expected to be completed by this year. The three aeronautical authorities will formulate specific measures to further optimise airspace and air traffic management based on the results of the assessment and analysis.

25. In addition, in order to meet the air traffic demand before the commissioning of the 3RS, the CAD will continue to study and implement the latest air traffic management technologies, including updating and improving satellite-based navigation technology with the aim of enhancing the navigation procedures in Hong Kong, implementing "Performance-based Capacity Declaration"¹, and studying the feasibility of implementing "Re-categorisation of Wake Turbulence Categories"² in Hong Kong, so as to marginally enhance the capacity of the existing two runways of the HKIA before the commissioning of the 3RS.

¹ Performance-based Capacity Declaration ("PBCD") is a capacity management solution which utilises computer simulation software to consider various operational conditions such as runways and air traffic management, as well as different combinations of flight mix, to develop a schedule which enhances the capacity and efficiency of airport operation. PBCD has already been implemented in London Heathrow Airport.

² Re-categorisation of Wake Turbulence Categories ("RECAT") is jointly proposed by the Federal Aviation Administration and the European Organisation for the Safety of Air Navigation (EUROCONTROL) in 2005 initially. The proposal suggests re-considering the current wake turbulence separation minima between aircraft set by the ICAO and optimising the wake turbulence separation classes from the existing four categories to six categories, in order to achieve higher efficiency of runway capacity. ICAO also recommended in early 2019 the adoption of RECAT by end of 2020.

(v) *Supporting the AAHK in expanding inter-modal connections to strengthen the links between the HKIA and the PRD region*

26. Supported by an integrated multi-modal transport network, the HKIA is a major gateway to the Mainland. 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 connect the HKIA with more than 110 PRD cities and towns. 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 cities³. During the period from January to August 2019, the number of SkyPier transit passengers reached 1.5 million.

27. To create greater synergies between local major transport infrastructures, including the Hong Kong-Zhuhai-Macao Bridge (“HZMB”) and the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“XRL”), and the HKIA, we support the AAHK to enhance and develop its intermodal facilities, as well as enhancing the cross-boundary transportation services. AAHK has made available check-in services at the West Kowloon Station of XRL and the Hong Kong Port of HZMB. Such services are also available at various ports and stations in PRD cities and Macao. The coverage of such services will continue to expand in different locations in PRD cities in future to provide excellent and convenient services to passengers.

28. Modelling on the concept and mode of operation at the SkyPier, the AAHK is developing the Inter-modal Transfer Terminal (“ITT”) which will be linked to the Hong Kong Boundary Crossing Facilities of the HZMB by a bonded vehicular bridge, with a view to introducing a shuttle bus service for bridge-to-air / air-to-bridge transit passengers from the respective Border Crossing Facilities of Zhuhai and Macao to reach the Restricted Area of the HKIA direct for outbound flights via the Automated People Mover system without the need to go through Hong Kong’s immigration clearance. Overseas passengers travelling to Zhuhai and Macao via the HKIA may also benefit from the service. The project is expected to come into operation by 2022 the earliest. Before the commissioning of ITT, the AAHK will launch an interim bus services to facilitate travelers between Macao Boundary Crossing Facilities and the HKIA as a transitional arrangement starting December this year.

³ Currently, the SkyPier offers nine cross-boundary ferry routes travelling to and from Hong Kong and Shekou and Fuyong in Shenzhen, Maritime Ferry Terminal and Taipa in Macao, Nansha and Lianhuashan in Guangzhou, Humen in Dongguan, Zhongshan and Zhuhai.

(vi) *Enhancing the HKIA's air cargo handling capacity*

29. AAHK has reserved land on both the airside and landside in the South Cargo Precinct of the airport island to strengthen its handling capacity and efficiency of various types of cargo as well as the relevant logistics development, thereby supporting the growth in transshipment, cross-boundary e-commerce and high-value air cargo business.

30. The AAHK is collaborating with its business partner in expanding the express air cargo terminal, so as to enhance Hong Kong's capability in handling express and small parcel shipments. The expansion works will commence in Q4 this year. Expected to commission in 2022, the handling capacity of the express air cargo terminal will increase by 50% to 1.06 million tonnes per annum. This is particularly important in consolidating our leading status in cargo logistics. In addition, the land parcel of about 5.3 hectares at Kwo Lo Wan in the South Cargo Precinct has been awarded in 2018 for development of a premium logistics centre. With the facility stages nearby the air cargo terminals, the development effectively addresses the need of warehousing and distribution of e-commerce, and is conducive to unleashing the potentials of the HKIA as an aviation hub. The premium logistics centre is expected to come into operation in 2023.

31. As for the development of high-value air cargo, apart from being recognised by the International Air Transport Association ("IATA") as a Partner Airport of IATA's Center of Excellence for Independent Validators in Pharmaceutical Logistics (IATA CEIV Pharma) since July 2017, in March this year, the HKIA has been the first airport community in the world to be accredited as IATA's Center of Excellence for Perishable Logistics (IATA CEIV Fresh), demonstrating its international recognised world class standards in handling of pharmaceuticals and perishables. We will also work with the AAHK to actively examine facilitation measures to promote air-to-air transshipment in Hong Kong with a view to maintaining HKIA's competitive edge as an international air cargo hub.

(vii) *Fostering Hong Kong to become an international aviation training hub*

32. To further strengthen Hong Kong's leading status as a major aviation hub in the region, the AAHK established the Hong Kong International Aviation Academy ("the Academy") in 2016. Hitherto, the Academy has provided different levels of trainings and programmes to over 18 000 participants, including summer day camps, internships, on-the-job training, certificate programmes and other professional programmes. To attract young people joining the aviation industry, the Academy has launched the Diploma in Aviation

Operations, accredited as Hong Kong Qualifications Framework Level 3, in September this year, which provides students with structured classroom training and placement.

33. Besides, the Academy, together with the Ecole Nationale de l'Aviation Civile ("ENAC"), continues to provide the Advanced Master in Air Transport Management. The enrollees of the first two cohorts of the programme included students from, among others, the local aviation industry, the Mainland and countries along the Belt and Road. The collaboration of the Academy and ENAC will not only promote our soft strengths but also help foster Hong Kong as a training base for aviation talents.

34. The Academy actively collaborates with international aviation training institutes. In August 2018, the Academy achieved Full Member Certificate under the TRAINAIR PLUS Programme of the International Civil Aviation Organization ("ICAO"), recognising its capability to deliver ICAO-compliant training programmes. In coming years, the Academy endeavors to achieve the ICAO Regional Training Centre of Excellence recognition, so as to demonstrate its status as an aviation training hub and its excellent capability in development training packages.

(viii) Continuing to support the AAHK to develop the SKYCITY

35. The AAHK is actively implementing the SKYCITY development project. The construction of the hotel development was almost completed and it is scheduled to open in the year 2020 to 2021. In addition, the first phase of retail, dining and entertainment, etc. development is scheduled to open in phases from 2023 to 2027. The SKYCITY development is of strategic importance to the economic and social development of Lantau and Hong Kong. Apart from generating investment, business and employment opportunities for Hong Kong, the SKYCITY development will enhance the attractiveness and competitiveness of the HKIA as a global aviation hub and promote the further development of tourism.

36. With a view to creating a cluster of aviation-related businesses with high economic efficiency and diversified employment opportunities on Lantau, AAHK will work closely with the Government to explore possible land use options of the topside development of the Hong Kong Boundary Crossing Facilities Island of the HZMB to complement airport development and operation, as well as the synergy between the AsiaWorld-Expo and the SKYCITY development.

- (ix) ***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***

37. As of September 2019, we have signed Air Services Agreements with 67 aviation partners. Among some 140 countries along the Belt-and-Road, Hong Kong has signed Air Services Agreement or Air Services Transit Agreement with 51 of them. In the past year, we have signed an agreed amendment to the Air Services Agreement with Germany, and reviewed or expanded the bilateral air services arrangement with 3 aviation partners (the Mainland, the Philippines and Russia) to provide the necessary framework for the growth and development of the aviation industry.

38. 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.

Marine Safety

- (x) ***Implementing the improvement measures regarding the regulatory regime on local passenger-carrying vessels to enhance marine safety, and continuing to follow up on the recommendations in the Report of the Commission of Inquiry into the Collision of Vessels near Lamma Island on 1 October 2012***

39. 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.

40. The MD will continue to take forward various improvement measures to enhance marine safety, such as strengthening the regulatory control over local pleasure vessels, strengthening the provision of lifejackets on board local vessels, introducing statutory requirements on the safety measures to be enforced by local vessels during major events at sea, regulating drink and drug boating, etc. We have consulted and received the support of the Panel on some of the measures concerned. We will submit the relevant legislative amendments to LegCo for scrutiny after examining and formulating the details of relevant

provisions.

Views Sought

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

**Transport Branch
Transport and Housing Bureau
October 2019**