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Panel on Economic Development
Meeting on 26 November 2019

**Background brief on the development of the Hong Kong Port
and maritime services**

Purpose

This paper provides background information on the development of the Hong Kong Port ("HKP") and maritime services. It also summarizes the major views and concerns expressed by members of the Panel on Economic Development ("the Panel") in previous discussions.

Background

2. According to the Administration, Hong Kong has a long maritime tradition, with port, shipping and maritime services underpinning the development of the trading and logistics sector throughout. HKP comprises various port facilities including the Kwai Tsing Container Terminals ("KTCTs"), the River Trade Terminal, six Public Cargo Working Areas, mid-stream operations, anchorages and private piers. It handled around 19.6 million twenty-foot equivalent units in 2018, of which some 60% were transshipment cargo. HKP provides about 310 container liner services per week connecting to around 450 destinations worldwide.

3. 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.

4. In December 2014, the Government released findings of the Study on the Strategic Development Plan for Hong Kong Port 2030. The study projects that HKP would continue to grow in container throughput at an average annual rate of 1.5% up to 2030. The projected growth is mainly attributable to the growth in transshipment cargo. It also reveals that utilization of port facilities is uneven as more and more containerised cargo will be using KTCTs and there is a shift of inland transport mode for South China cargo from trucking to barging. It recommends, amongst others, that the capacity of KTCTs should be enhanced through provision of more yard space and barge berths so as to meet future demand and hence maintain its competitiveness. To address port operation and industry needs, the Transport and Housing Bureau ("THB") conducted a review of port back-up land in Kwai Tsing in June 2015. The recommendations made in the review are set out in **Appendix I**.

5. On 1 April 2016, the Government set up the Hong Kong Maritime and Port Board ("HKMPB"), which is a high-level platform chaired by the Secretary for Transport and Housing to provide strategic steer on the vision, direction and policy matters pertaining to the development of Hong Kong's maritime industry and HKP. Three functional committees have been formed under HKMPB to oversee three major areas of work, namely the Maritime and Port Development Committee, the Promotion and External Relations Committee, and the Manpower Development Committee.

6. On the manpower front, the Government set up the \$100-million Maritime and Aviation Training Fund ("MATF") in April 2014 to support and encourage local students and in-service maritime professionals to pursue training courses and undertake professional degree programmes for joining the maritime industry, thereby enhancing the overall competitiveness and professional competency of the industry. A number of training and incentive schemes relating to high value-added maritime services covering ship management, maritime law, marine insurance, etc have been launched under MATF. In May 2019, \$200 million was approved to be injected into MATF. As at August 2019, MATF has benefitted more than 7 400 students and in-service practitioners of maritime and aviation sectors.

7. It is announced in the Chief Executive's 2019 Policy Address that 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. The new initiatives to be implemented in 2019 in this respect include:

- (a) exploring 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;
- (b) releasing by phases two port back-up sites through public tender for developing multi-storey port back-up and modern logistics facilities;
- (c) providing tax concession for qualified ship lessors and qualified ship leasing managers so as to attract companies to develop ship leasing business in Hong Kong; and
- (d) planning to introduce tax concessionary measures to encourage more commercial principals of the maritime industry to set up presence in Hong Kong.

Previous discussions of the Panel

8. The Panel has all along been concerned about the long-term development of HKP and maritime services in Hong Kong. Panel members were briefed on the further development of HKP and maritime services at the policy briefings of the Panel and the meeting on 26 June 2017. At the meetings on 28 January 2019 and 27 May 2019, the Panel was consulted respectively on the proposed injection of \$200 million into MATF and enhancement of the services of the Hong Kong Shipping Registry ("HKSR"). The major views and concerns expressed by members are summarized in the ensuing paragraphs.

Port back-up land and sites for development of logistics services

9. Members were concerned about the progress of the Administration's work on implementing the recommendations made in the 2015 review of the use of port back-up land in KTCTs and the timetable for releasing the port back-up sites identified for container terminal use. The Administration advised at the policy briefing on 28 October 2019 that it would continue to implement various recommendations made in the review. Among all, the 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 had been largely completed. It would release by phases the aforementioned two sites through public tender for developing multi-storey port back-up and modern logistics facilities. In addition, the Administration would 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 was underway. The sites concerned would be granted after agreements were reached.

10. Moreover, the Administration would continue to identify suitable sites for the development of high value-added third-party logistics services. To this end, a site of 3.17 hectares in Tuen Mun Area 49 was sold in May 2018 for modern logistics uses, providing some 79,000 square metres of floor area for the logistics industry. Meanwhile, the Administration would continue to work with relevant departments to identify suitable land for the development of modern logistics facilities.

11. A member considered that the current arrangement of selling the land to the bidder offering the highest bid would mean higher rents for the operations of the small and medium enterprises ("SMEs"). He suggested that the Administration should reserve part of the three sites of around 7.8 hectares mentioned in paragraph 9 for constructing government warehouses, spaces of which could be rented to SMEs at a reasonable price.

Support services to Hong Kong registered ships

12. The Panel discussed various enhancement measures adopted by the Administration to maintain the competitiveness of HKP and maritime industry on 26 June 2017. To facilitate the maritime sector's development, the Panel passed a motion urging the Administration to expedite the study on making use of the Hong Kong Economic and Trade Offices ("ETOs") to provide various support services to ships flying the flag of the Hong Kong Special Administrative Region during their stay at places outside Hong Kong, and take measures to attract international maritime bodies to set up offices in Hong Kong.

13. At the meeting on 27 May 2019, the Panel was consulted on the proposed improvement measures to further enhance the quality and competitiveness of services provided by HKSR. Such measures included delegation of power in issuing exemptions currently vested with the Director of Marine to other officers of the Marine Department; establishment of the HKSR Regional Desks in selected overseas and Mainland ETOs and Liaison Units; and facilitating the use of electronic certificates for Hong Kong registered ships. Members were generally supportive of the proposed measures which could further extend HKSR's service coverage and provide more direct and prompt support to Hong Kong registered ships during their stay at places outside Hong Kong. To attract more ships to register in Hong Kong, the Panel passed a motion to urge the Administration to ensure the efficiency of HKSR's services, in particular, the round-the-clock emergency support services provided by the HKSR Regional Desks to be established in future.

14. The Administration recently advised that it would establish the first batch of HKSR Regional Desks in London, Shanghai and Singapore ETOs by the end of 2019 or the first quarter of 2020 so as to widen HKSR's service network to provide more direct and prompt support for shipowners and strengthen the promotion of HKSR.

Maritime and Aviation Training Fund

15. The Panel has been concerned about the problem of manpower shortage and aging workforce in the maritime sector, and has monitored the utilization and effectiveness of MATF. At the meeting on 28 January 2019, members welcomed the Administration's proposal on injection of \$200 million into MATF for a period of six years from 2019-2020 to 2024-2025 to sustain the operation of existing training and scholarships schemes, as well as to implement enhancement measures and new training incentive schemes to groom more talents. To attract more young people to join the maritime and aviation sectors, a motion urging the Administration to strengthen the relevant promotion initiatives under MATF and raise the levels of subsidies of certain schemes came under MATF was passed by the Panel.

Development of high value-added maritime services

16. At the policy briefing on 28 October 2019, members in general welcomed the Administration's new initiative to provide tax concession for qualified ship lessors and qualified ship leasing managers. The Panel noted that the Administration planned to introduce the Inland Revenue Amendment Bill into the Legislative Council ("LegCo") in the 2019-2020 legislative session to put the tax concessionary measures into effect. Members also welcomed the Administration's plan 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. The details of relevant tax measures would continue to be discussed and devised by the dedicated Task Force under HKMPB.

17. On last year's policy briefing which 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, the Administration informed the Panel that it targeted to introduce the relevant amendment bill regarding the tax concession into LegCo within the 2019-2020 legislative session.

Relevant staffing proposals

18. To support the development of maritime and port industries in Hong Kong, the Administration consulted the Panel on the creation of a supernumerary directorate post of Administrative Officer Staff Grade C ("AOSGC") (D2), and the rationalisation of one Assistant Director of Marine (D2) permanent post to one AOSGC in the Transport Branch of THB at the meetings on 27 May 2015 and 24 April 2017 respectively. The former post would be created for about five years up to 31 March 2020. Members were generally supportive of the two staffing proposals which were approved by the Finance Committee at its meetings on 27 November 2015 and 19 January 2018.

Council questions

19. At the Council meetings of 10 May, 17 May, 14 June and 29 November 2017, 25 April 2018 and 16 January 2019, Hon Holden CHOW, Hon LUK Chung-hung and Hon Frankie YICK raised questions relating to the development of high value-added maritime services, the development of trading and logistics industry of Hong Kong, and manpower issues of the maritime sector. Hyperlinks to the Council questions and the Administration's responses are provided in **Appendix II**.

Latest development

20. At the Panel meeting on 26 November 2019, the Administration will brief members on the sustainable development of Hong Kong's port, development of high value-added maritime services, and the proposal to provide tax incentives for ship leasing. At the same meeting, the Administration will also seek the Panel's endorsement on turning the supernumerary post mentioned in paragraph 18 above into a permanent post with a view to supporting the development of Hong Kong's maritime industry.

Relevant papers

21. A list of relevant papers available on the LegCo Website (<http://www.legco.gov.hk>) is in **Appendix II**.

"Proposals for Enhancing the Use of Port Back-up Land in Kwai Tsing" by the Transport and Housing Bureau

Table 1: PROPOSALS TO ALLEVIATE PORT CONGESTION AND ENHANCE CARGO HANDLING EFFICIENCY

	Concerns/requests from stakeholders	Recommended measures	Projected timeline
To alleviate port congestion	a. Provision of additional yard space for container storage uses to enhance terminal efficiency	● 4 sites of 15.2 ha in total at Sites 1a, 1b, 1c and 1d to be disposed on a long term basis to respectively CT9S, CT7, CT5 and CT8W as extension to the adjacent container terminals to increase the yard area	By phases from 2016 – 2017 onwards
	b. Provision of additional barge berths to meet the increase in river-borne container traffic	● 2 sites of 3.34 ha in total at Sites 1e and 1f to be disposed on a long term basis to respectively CT9S and CT9N as extension to the adjacent container terminals and for barge berthing use	By phases from 2017 – 2018 onwards

Table 2: PROPOSALS TO REFINE MANAGEMENT OF LAND LET OUT BY SHORT TERM TENANCIES ("STTs")

	Concerns/requests from stakeholders	Recommended measures	Projected time-line
Management Measures for STT	a. To extend the tenancy tenure of STTs for container storage/cargo handling to allow more time for recovery of investment cost	Extending the fixed term of STT each for container storage/ cargo handling use from the existing 3 or 5 years to 7 years where appropriate	To be implemented upon retendering of existing STTs

	Concerns/requests from stakeholders	Recommended measures	Projected time-line
	<p>b. Not to allow multiple uses on STT sites. Each STT should only provide for one type of use</p> <p>c. To waive the requirement for rental review according to market rates every three years during a STT tenure so as to ease financial burden of STT operators</p>	<p>Each STT be allowed for either one of the following 3 types of uses:</p> <ul style="list-style-type: none"> (i) Container storage (for stacking of laden/empty containers); (ii) Cargo handling (container cargo consolidation and open storage of goods/containers); or (iii) Parking, primarily for container/goods vehicles (with a limited number of other types of vehicles, as necessary) <p>The triennial rental review falling within a fixed term of STT tenure to be removed. The rent review provision comes into play only where there are circumstances of the fixed term having expired but the STT is being allowed to continue on a periodic basis (e.g. quarterly) pending retendering/termination of the STT</p>	<p>To be implemented upon retendering of existing STTs</p> <p>To be implemented upon retendering of existing STTs</p>

	Concerns/requests from stakeholders	Recommended measures	Projected time-line
	<p>d. Parking sites should cater for needs of container vehicles as priority</p> <p>e. Priority be given to existing tenants on renewal of the existing STTs instead of disposal by open tender so as to give better return to investment made by incumbent operators</p>	<p>STT conditions will be adjusted accordingly on a case by case basis</p> <p>Not accepted. Re-tender by open tender system upon expiry of fixed term of STT to be maintained to provide a level-playing field for all operators through fair competition</p>	<p>To be implemented upon retendering of existing STTs</p>

Table 3: PROPOSALS TO OPTIMISE UTILISATION AND EFFICIENCY OF PORT BACK-UP LAND IN THE LONG TERM

	Concerns/requests from stakeholders	Recommended measures	Projected time-line
Optimisation of land use in Kwai Tsing	To devise measures to optimise land utilisation for port back-up purpose in Kwai Tsing so as to free up more land in that area to better support port operations and cater for future port development	<p>a) Multi-storey Parking Study in Kwai Chung commissioned in June 2014 to examine the feasibility of a 4 ha site in Kwai Chung for multi-storey car park mainly for the parking of container vehicles and heavy/medium goods vehicles</p> <p>b) Subject to findings of the above study, to conduct a similar study on a site in Tsing Yi</p> <p>c) To conduct a study on the feasibility of a Multi-storey Complex in Tsing Yi for cargo handling and container storage</p>	<p>Study to be completed around Q3 2015</p> <p>To be planned</p> <p>To be planned</p>

Source: https://www.hkmpb.gov.hk/document/STT_Review_Report_Final.pdf

List of relevant papers

Issued by	Meeting date/ Issue date	Paper
Panel on Economic Development	27 May 2015 (Item V)	Administration's paper Minutes
	24 April 2017 (Item IV)	Administration's paper Administration's follow-up paper Minutes
	26 June 2017 (Item V)	Administration's paper Administration's follow-up paper Motion passed Administration's response to the motion passed Background brief Minutes
	22 October 2018 (Item III)	Administration's paper Minutes
	23 October 2018	Hon Holden CHOW Ho-ding's letter requesting to discuss the development of high value-added maritime services (Chinese version only)
	28 January 2019 (Item V)	Administration's paper Motion passed Administration's response to the motion passed Minutes
	27 May 2019 (Item III)	Administration's paper Motion passed Administrations' response to the motion passed Minutes

Issued by	Meeting date/ Issue date	Paper
	28 October 2019 (Item I)	<u>Administration's paper</u>
Council Meeting	10 May 2017	<u>Council question on "Development of high value-added maritime services" raised by Hon Holden CHOW</u>
	17 May 2017	<u>Council question on "Utilization of the Maritime and Aviation Training Fund" raised by Hon LUK Chung-hung</u>
	14 June 2017	<u>Council question on "Future development and positioning of the trading and logistics industry of Hong Kong" raised by Hon Frankie YICK</u>
	29 November 2017	<u>Council question on "Provision of marine insurance training" raised by Hon Holden CHOW</u>
	25 April 2018	<u>Council question on "Manpower supply and demand of the local vessel sector and river trade sector" raised by Hon LUK Chung-hung</u>
	16 January 2019	<u>Council question on "Tax concessions for aircraft leasing and marine service businesses" raised by Hon Holden CHOW</u>