

**For information
on 14 December 2020**

**Legislative Council Panel on Economic Development
The 2020 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 2020 Policy Address that the Government will pursue and other on-going key 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 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. In 2019, about 120 airlines operated over 1 100 flights every day between the HKIA and about 220 destinations worldwide, including some 50 destinations in the Mainland. Due to the impact of COVID-19 pandemic, passenger traffic demand has decreased significantly this year, while air cargo demand for medical supplies, parts, food products, cross-border e-commerce, etc. has remained strong. It is noted that in the first ten months of the year, the HKIA handled 8.7 million passengers representing a year-on-year decrease of 86%, while the cargo throughput has only reduced by 8% to 3.6 million tonnes; the air traffic movements for passenger flights have decreased by 75%, while the air traffic movements for cargo flights have recorded an increase of 18%. The aforementioned reflects HKIA's role as an air cargo hub amid this challenging time. Facing the current short-term turmoil, to sustain Hong Kong's status as an

international aviation hub, we shall enhance the HKIA's passenger and cargo handling capacity and long-term competitiveness, 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 also 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.

4. On maritime, Hong Kong has a steadfast 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 18.3 million twenty-foot equivalent units in 2019, of which some 60% were transshipment cargo. Hong Kong Port provides frequent and comprehensive liner shipping services, with about 300 container liner services per week connecting to around 420 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 nearly 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").

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 13 below for the new initiatives we will implement in 2020.

(i) *Airport City*

7. The Hong Kong Boundary Crossing Facilities (“HKBCF”) Island of the Hong Kong-Zhuhai-Macao Bridge (“HZMB”) is in the vicinity of the HKIA and its various key development projects (e.g. SKYCITY, Premium Logistics Centre and AsiaWorld-Expo II development) on the Airport Island, and has excellent potentials to develop into a key component of Airport City serving the Greater Bay Area and the world. Further to the Government’s invitation in 2018, the AAHK submitted a proposal for the developments at HKBCF Island in July 2020. The AAHK has proposed to develop automated car parks on the HKBCF Island, so that visitors from Guangdong and Macao may drive their private cars via the HZMB and fly out from the HKIA or visit Hong Kong. “Land-to-air” transfer passengers, after parking their private cars at the automated car park, may proceed to the boarding gates directly through the Intermodal Transfer Terminal located within the restricted area of the airport, without the need to go through Hong Kong’s immigration clearance. Other visitors may go through clearance procedures at the Passenger Clearance Building at the HKBCF to enter Hong Kong after parking. The car parks make use of mechanical systems to enable automated parking, and thus provide convenient parking services to the drivers and smooth clearance experience.

8. Besides, the AAHK also plans to take forward the Airport City Link project connecting the SKYCITY and the HKBCF Island by constructing a bridge system and by applying autonomous transportation system to strengthen the overall transportation network and capacity in the region and connect the SKYCITY, the HZMB HKBCF and HKIA as one. As a next step, the AAHK plans to extend the autonomous transportation system of the Airport City Link to Tung Chung Town Centre and optimise the roads along the eastern coast of Airport Island, which will provide a comprehensive and environmentally-friendly transport link connecting Tung Chung Town Centre, the Airport Island and the HKBCF Island. The development of technologies associated with autonomous vehicles have soared in recent years, with the promising advantage of reducing road safety risk due to human errors. To this end, the Transport Department is actively studying the necessary legislative amendments to create

favourable conditions for the development and application of autonomous vehicles.

9. In the long run, the Government has also taken on board AAHK's proposal to construct the Hong Kong International Aviation Academy campus and dormitories on the HKBCF Island, in order to strengthen talent training and attract more young people in Hong Kong to join the aviation industry; and to reserve part of the land parcels on the HKBCF Island for development of air cargo logistics and related supporting facilities for the airport community. By enhancing the transport network and the waterfront facilities, the concept of an Airport City will integrate with Tung Chung and the nearby region and inject new development elements and economic opportunities into the whole North Lantau.

(ii) *Hong Kong-Zhuhai Airport Cooperation*

10. The AAHK has been exploring mutually beneficial business opportunities with the Mainland airports to enhance the co-operation. In the past, through investment and airport management, the HKIA has helped enhance the management and service level of the Mainland airports as well as strengthen the connection of the HKIA with the Mainland so as to facilitate passengers travelling among Hong Kong, the Pearl River Delta and the world.

11. The AAHK has been operating and managing the Zhuhai Airport under a franchise since 2006 with excellent results. The commissioning of the HZMB provides an opportunity for further co-operation between the two airports by integrating the Mainland aviation network of the Zhuhai Airport with the international network of the HKIA, strengthening the competitive edge of the entire GBA in aviation, thereby enabling Hong Kong's aviation business to play a key dual role in the "dual circulation" policy.

12. The Central Government supports the AAHK to inject equity in the Zhuhai Airport on the basis of market principles with a view to expanding the passenger catchment. Through the enhanced intermodal arrangements, for example, air-to-sea, air-to-land, etc., about 80 Mainland destinations served by the Zhuhai Airport and over 170 international destinations served by the HKIA could be integrated, such that the overall competitiveness and connectivity in passenger and cargo services may be enhanced. This also strengthens the competitive edge of the HKIA in aviation in the Greater Bay Area as a whole and achieves complementary

development as well as maximising the economic efficiency of both the HKIA and Zhuhai Airport. In the long run, it will drive the economic development of two cities.

(iii) Cross boundary helicopter services

13. The GBA Outline Development Plan specifies the deepening of the reform in the management of low-altitude airspace, the expedition the development of general aviation and the steady development of cross-boundary helicopter services. The CAAC has agreed to commence preparation for the provision of cross-boundary commercial helicopter services between Guangdong and Hong Kong, which will enhance the internationalised environment in the Greater Bay Area. We anticipate the preparation work will help break through the existing bottleneck of cross-boundary helicopter services, with a view to greatly shortening the distances between Hong Kong and the cities in the Greater Bay Area as well as the whole Guangdong Province and supporting the diversified economic development in the region.

Other key on-going initiatives

14. Apart from the new initiatives set out in the Policy Address, we will continue to implement various key on-going initiatives in 2020. Details are set out in paragraphs 15 to 38 below.

International Aviation Centre

(i) Continuing to actively assist the AAHK in implementing the 3RS at the HKIA

15. The AAHK commenced the 3RS construction works in August 2016, and the Government has been actively assisting the AAHK to implement the project. Although the global aviation industry is badly hit by the COVID-19 pandemic, we are still confident about Hong Kong's role as an international aviation hub. The completion of the 3RS, which is a long-term development, will not only meet the air traffic demand in the long run but also strengthen Hong Kong's strategic position as a global and regional aviation hub. The AAHK estimates that upon full commissioning of the 3RS, HKIA's annual passenger handling capacity will be around 100 million while its 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.

16. The construction period of the 3RS project is now half way through, and around two-thirds of the reclaimed land have been filled to the handover level. The reclamation works, the construction of the Third Runway, the Third Runway Passenger Building and various government facilities as well as the expansion of the Terminal 2 are all in progress. The AAHK anticipates that the Third Runway and the 3RS will be commissioned in 2022 and 2024 respectively. The Transport and Housing Bureau ("THB") and the AAHK will continue to report the latest progress of the 3RS project to Members through the Panel on Economic Development of the Legislative Council ("LegCo") as appropriate.

(ii) Expanding inter-modal transport network and facilities

17. Supported by an integrated multi-modal transport network, the HKIA is a major gateway to the Mainland and other international destinations. Cross-boundary coaches, limousines and ferry services connect passengers between the Greater Bay Area and international destinations via the HKIA. In 2019, an average of about 550 trips by coaches was planned every day to connect the HKIA with more than 110 mainland cities and towns. The SkyPier at the HKIA provides speedy ferry services for air-to-sea/sea-to-air transfer passengers travelling to and from the HKIA and nine Pearl River Delta ("PRD") cities¹. In 2019, the number of SkyPier transfer passengers reached about 2.19 million.

18. To consolidate and further enhance Hong Kong's status as an international aviation hub, the THB signed a Memorandum of Understanding with the CAAC in February 2019 to expand the intermodal code-sharing arrangements between the Mainland and Hong Kong. Under the expanded intermodal code-sharing arrangements between the Mainland and Hong Kong, cross-boundary operators of land and sea transport may enter into code-sharing arrangements with designated airlines of both sides. Passengers may use the same air ticket to connect to various modes of land and sea transport to travel to different cities in the Mainland, which further enhance the catchment of the HKIA in the Mainland.

¹ Currently, the SkyPier offers nine cross-boundary ferry routes travelling to and from Hong Kong and Shenzhen Shekou, Shenzhen Fuyong, Dongguan Humen, Guangzhou Lianhuashan, Guangzhou Nansha, Zhongshan, Zhuhai Jiuzhou, Macao Maritime and Macao Taipa.

19. Following the expansion of the intermodal code-sharing arrangements, the AAHK actively expands the intermodal network and services. To create greater synergies between local major transport infrastructures, including the 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. The 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. In future, the AAHK will continue to set up more City Terminals in different locations in PRD cities to provide excellent and convenient services to passengers.

20. Modelling on the concept and mode of operation at the SkyPier, the AAHK is developing the Inter-modal Transfer Terminal 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 transfer 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 end 2022 the earliest.

(iii) *Enhancing the HKIA’s air cargo handling capacity*

21. The AAHK has been actively developing 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.

22. 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 have commenced in Q4 2019. 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.

23. As for the development of high-value air cargo, the HKIA has attained three International Air Transport Association accreditations related to handling of high-value temperature-controlled air cargo in the past three years, including the Partner Airport of the Center of Excellence for Independent Validators in Pharmaceutical Logistics (“CEIV Pharma”) and the Center of Excellence for Perishable Logistics (“CEIV Fresh”); in March 2020, two cargo terminal operators in HKIA obtained the Center of Excellence for Independent Validators in Live Animals Logistics (“CEIV Live Animals”), demonstrating the high-value temperature-controlled air cargo handling capacity at the HKIA. We will also work with the AAHK to actively examine facilitation measures to promote transshipment in Hong Kong with a view to maintaining HKIA’s competitive edge as an international air cargo hub.

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

24. To further strengthen Hong Kong’s leading status as a major aviation hub in the region, the Hong Kong International Aviation Academy (“the Academy”) has provided different levels of trainings and programmes, including the topics of airport management, security, air traffic control and aviation services, etc. to over 109 000 participants as of March 2020. Further to the launch of the Diploma in Aviation Operations, accredited as Hong Kong Qualifications Framework Level 3, last year, the Academy has also rolled out the Professional Diploma in Aviation Management, accredited as Qualifications Framework Level 4 programme, in September this year. The Professional Diploma is a part-time programme for graduates of Diploma in Aviation Operations and industry practitioners to continue education and self-enhancement. The programme covers a wide range of aviation management topics catering to the training needs of the industry.

25. Furthermore, the Academy, together with the Ecole Nationale de l’Aviation Civile, continues to provide the Advanced Master in Air Transport Management. The enrollees of the first three cohorts of the programme included students from, among others, the local aviation industry, the Mainland and countries along the Belt and Road. The

programme has completed the local accreditation process of the Hong Kong Council for Accreditation of Academic and Vocational Qualifications (HKCAAVQ) in August 2020, and has been approved as a qualified programme equivalent to Level 6 of the Hong Kong Qualifications Framework. The assessment by HKCAAVQ proves the breadth and depth of the programme.

26. The Academy actively collaborates with international aviation training institutes. In 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.

(v) *Continuing to support the AAHK to develop the SKYCITY*

27. The AAHK is actively taking forward the SKYCITY development projects. The construction of the first hotel development is substantially complete. The hotel is planned for opening in 2021 and will provide 1 200 guest rooms with ancillary facilities. Together with retail, dining and entertainment development and other projects, the first stage of SKYCITY development projects will be completed in phases between 2021 and 2027. The development of SKYCITY is of great significance and value to the economic and social development of Lantau as well as the Hong Kong as a whole. It will not only generate investment, business and employment opportunities for Hong Kong, but also help transforming the HKIA from a city airport into a unique Airport City which will further enhance its attractiveness and competitiveness as a global aviation hub, and promote the further development of the tourism.

(vi) *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*

28. As of end-November 2020, 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 reviewed or expanded the bilateral air services arrangements with three

aviation partners (Bahrain, Egypt and the United Kingdom) to provide the necessary framework for the growth and development of the aviation industry.

29. 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.

International Maritime Centre

(i) *To consolidate and enhance Hong Kong’s position as an international maritime centre*

30. Maritime and port industries are global businesses which are easily susceptible to the fluctuation of international political and economic landscape. Hong Kong’s maritime industry is facing an unprecedented challenge amid the COVID-19 pandemic and the intense US-China relations. The Government will keep on communicating closely and joining hands with the industry to formulate holistic strategies to facilitate business operation of the trade and to step up promotion and nurturing of talents, with a view to consolidating Hong Kong’s position as an international maritime centre.

31. On fostering the development of high value-added maritime services, the Government amended the laws in June and July this year to offer tax concessions to ship leasing and marine insurance businesses respectively. On ship leasing, the Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Ordinance 2020 was enacted by the LegCo in June 2020 and has taken retrospective effect from 1 April 2020. It provides for tax exemption and half rate tax concession on qualifying income by qualifying ship lessors and ship leasing managers respectively, with a view to developing Hong Kong into a ship leasing centre in the Asia-Pacific region. On marine insurance, the Insurance (Amendment) Bill 2020 was passed by LegCo to, among other things, provide 50% profit tax concession for eligible insurance business, including marine insurance.

32. In addition, with the joint efforts of the industry and the Government in promoting the advantages of Hong Kong being a maritime centre, the Baltic and International Maritime Council (“BIMCO”) announced in early December 2019 their decision to include Hong Kong as the fourth named arbitration venue in the standard Dispute Resolution Clause (“DRC”) of its maritime contract, alongside with London, New York and Singapore. Practical details of the revised DRC were discussed

and vetted in BIMCO's Documentary Committee meeting scheduled and the relevant provisions have been officially published recently in early October 2020.

33. To encourage more commercial principals of the maritime industry to establish presence in Hong Kong, the Government has commissioned the Hong Kong Maritime and Port Board to set up a dedicated task force comprising industry members to study tax measures, so as to attract more maritime companies to choose Hong Kong as their base of operation, thereby sustaining the effective development of the high value-added maritime services sector.

34. On enhancing Hong Kong's position in the international maritime arena, with the concerted efforts of the industry and the Government, the International Chamber of Shipping has established its first-ever overseas office in Hong Kong in 2019. Meanwhile, we have gradually established the Hong Kong Shipping Registry ("HKSR") Regional Desks in selected Economic and Trade Offices so as to widen HKSR's service network, provide more direct and prompt support for shipowners and strengthen the promotion of HKSR. The first batch of HKSR Regional Desks in London, Shanghai and Singapore respectively have been set up and have commenced operation since late 2019.

35. On nurturing maritime talent, following the Government's injection of \$200 million into the Maritime and Aviation Training Fund ("MATF") in 2019, we have continued with the operation of on-going schemes under MATF, explored enhancement measures, and implemented new schemes like Local Vessel Competency Enhancement Scheme with a view to meeting the manpower demand of the trade. Up to October 2020, various schemes under the MATF have benefitted more than 10 300 students and in-service practitioners of maritime and aviation sectors.

Regional Logistics Hub

36. The trading and logistics industry tops the four key economic pillars of Hong Kong, contributing about 21% to our Gross Domestic Product ("GDP"). The logistics sector alone contributed 3.1% (around \$85 billion) to our GDP and around 4.6% (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.

(ii) Introduce a Pilot Subsidy Scheme for third-party logistics service providers, with a view to encouraging the logistics industry to enhance efficiency and productivity through the application of technology

37. 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. With a view to maintaining competitiveness of Hong Kong's logistics sector, we launched the “Pilot Subsidy Scheme for Third-party Logistics Service Providers” (“the Pilot Scheme”) amounting to \$300 million on 12 October 2020 to provide subsidy to third-party logistics service providers, so as to encourage the adoption of technology by the logistics sector for enhancing efficiency and productivity. The Pilot Scheme will be implemented on a 1:1 matching basis, with each enterprise to be granted a maximum of \$1 million. It is expected that about 300 logistics enterprises could benefit from the Pilot Scheme.

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

38. 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, so as to optimise the utilisation of the land. Among all, we have concluded 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 heavy goods vehicle carpark-cum-modern logistics complex at another site in Kwai Chung. We plan to release by phases the aforementioned two sites through public tender starting 2021 for developing multi-storey port back-up and modern logistics facilities, so as to support port and logistics operations. We will continue to work with relevant departments to identify suitable land for the development of modern logistics facilities to promote high value-added third-party logistics services.

Views Sought

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

**Transport Branch
Transport and Housing Bureau
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