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Panel on Economic Development
Meeting on 25 April 2022

Background brief on the development of maritime services in Hong Kong

Purpose

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

Background

2. The Central Government has been supporting the consolidation of Hong Kong’s position as an international maritime centre. The “Outline of the 14th Five-Year Plan for National Economic and Social Development of the People’s Republic of China and the Long-Range Objectives Through the Year 2035” (“14th Five-Year Plan”) as endorsed by the 13th National People’s Congress in March 2021 and the “Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area” (“GBA Outline Development Plan”) as promulgated in February 2019 support the development of high value-added maritime services in Hong Kong for better integration into the country’s development course.

3. According to the Administration, Hong Kong has a steadfast maritime tradition, with port, shipping and maritime services underpinning the development of the trading and logistics sector all along. Hong Kong Port (“HKP”) is among the busiest container ports in the world and an important hub port in the Asia-Pacific region. It handled nearly 18 million twenty-foot equivalent units in 2021, of which over 60% were transshipment cargo. HKP provides frequent and comprehensive liner shipping services connecting to nearly 600 destinations worldwide, with about 270 international container vessel sailings per week. 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 10% of the deadweight tonnage of the world's merchant fleet. There are nearly 900 maritime-related companies operating in Hong Kong, covering marine insurance, maritime legal and arbitration, ship agency and ship management, ship broking and leasing, etc., generating close to 77 000 jobs and providing a variety of quality high value-added maritime services to local, Mainland and overseas shipping companies.

4. To foster the development of high value-added maritime services, the Administration completed legislative exercises in the past two years to provide tax concessions to ship leasing and marine insurance businesses. On ship leasing, the Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Bill 2020 was passed by the Legislative Council (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 Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Bill 2019 was passed by LegCo in July 2020 to reduce the profits tax rate of eligible insurance business, including marine insurance, by 50% (i.e. the tax rate is 8.25%). Following the enactment of relevant subsidiary legislations in January 2021, the tax concessions became effective on 19 March 2021.

Previous discussions of the Panel

5. The Panel has all along been concerned about the long-term development of HKP and maritime services in Hong Kong. Such issues were discussed in the previous policy briefings of the Panel, including the most recent one on 14 February 2022. At the meeting on 26 November 2019, the Panel was briefed on the legislative proposal to amend the Inland Revenue Ordinance (Cap. 112) to provide for a dedicated tax regime to attract ship leasing business to set up presence in Hong Kong.

6. Members were generally supportive of the above legislative proposal and urged for its early implementation. Members called on the Administration to ensure the competitiveness of the proposed tax measures in attracting ship leasing business to set up offices in Hong Kong and formulate strategies to promote the new tax regime to achieve the potential benefits of the proposal. During the deliberation, members also discussed the threshold requirements to be met for a ship leasing activity or ship leasing management activity to be considered as carried out in Hong Kong. A member suggested raising the minimum thresholds on the number of full-time qualified employees to create more employment opportunities for local people.

7. The Administration advised that after the passage of the relevant Bill, it would, together with the Hong Kong Maritime and Port Board (“HKMPB”)¹, InvestHK and the Hong Kong Trade and Development Council, publicize the details of the new ship leasing tax regime through scheduling briefings and meetings with targeted industry associations and companies in Hong Kong. The Administration would also make use of the opportunities during the HKMPB overseas and Mainland promotion visits and exhibitions as well as participation in various regional and international maritime events and conferences to promote the new tax concessionary measure to relevant maritime authorities, banking institutions and leasing companies. Information on the new ship leasing tax regime would also be incorporated in the future promotion publications and materials as well as the HKMPB website.

8. On the economic benefits brought about by the measures of providing tax concessions for ship leasing and marine insurance businesses, the Administration advised in February 2022 that having regard to the continued severe Coronavirus Disease 2019 pandemic situation worldwide in the past two years which generally affected global business activities, more time was required to measure the long-term objective effectiveness of the new tax regimes in attracting foreign businesses to Hong Kong. That said, the trade was generally of the view that the measures are conducive to enhancing Hong Kong’s competitiveness in attracting overseas business. The Administration would 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 14th Five-Year Plan and the GBA Outline Development Plan.

9. The Panel was informed at the policy briefing on 14 February 2022 that to further promote the development of high value-added maritime services sector with reference to the introduction of the ship leasing tax concession regime, the Task Force on Commercial Principals (“TFCP”) formed under HKMPB had studied and advised HKMPB on the economic impacts and details of the tax concession proposals for other key players of maritime industry. After thorough study and analysis, HKMPB had endorsed the recommendation of TFCP to provide half-tax concession (i.e. a tax rate of 8.25%, half of the profit tax rate for corporations at 16.5%) for specific shipping commercial principals, namely ship

¹ On 1 April 2016, the Government set up 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.

managers, ship agents and ship brokers under a new standalone preferential tax regime, with a view to attracting these businesses to base in Hong Kong, thereby bolstering the maritime cluster in Hong Kong and enhancing the maritime capabilities of Hong Kong as a leading international maritime centre. The Administration was working on the legislative amendment exercise, targeting to introduce relevant amendment bill to LegCo in the first half of 2022.

Council questions

10. At the Council meetings of 16 January 2019, 28 April, 23 June, 18 August 2021 and 23 February 2022, Hon Holden CHOW and Hon Frankie YICK raised questions relating to tax relief for the maritime industries, competitiveness of Pearl River Delta port cluster, development of the maritime and port industries, and enhancing Hong Kong's status as an international maritime centre. Hyperlinks to the Council questions and the Administration's responses are provided in **Appendix**.

Latest development

11. At the Panel meeting on 25 April 2022, the Administration will brief members on the legislative proposal to amend the Inland Revenue Ordinance (Cap. 112) to provide tax concessions to attract more ship managers, agents and brokers to set up presence and conduct shipping business in Hong Kong, thereby enhancing Hong Kong's position as an international maritime centre.

Relevant papers

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

List of relevant papers

Issued by	Meeting date/ Issue date	Paper
Panel on Economic Development	26 November 2019 (Item III and IV)	Administration's paper (1) Administration's paper (2) Minutes Administration's follow-up paper
	14 February 2022 (Item II)	Administration's paper
Council Meeting	16 January 2019	Council question on "Tax concessions for aircraft leasing and marine service businesses" raised by Hon Holden CHOW
	28 April 2021	Council question on "Promoting development of maritime and port industries" raised by Hon Frankie YICK
	23 June 2021	Council question on "International competitiveness of Pearl River Delta port cluster" raised by Hon Frankie YICK
	18 August 2021	Council question on "Double taxation relief for income from international operation of ships" raised by Hon Frankie YICK
	23 February 2022	Council question on "Enhancing Hong Kong's status as an international maritime centre" raised by Hon Frankie YICK