

## **LEGISLATIVE COUNCIL BRIEF**

Kowloon-Canton Railway Corporation Ordinance  
(Chapter 372)

### **KOWLOON-CANTON RAILWAY CORPORATION (PERMITTED ACTIVITIES) (CONSOLIDATION) (AMENDMENT) ORDER 2000**

#### **INTRODUCTION**

At the Executive Council meeting on 9 May 2000, the Council ADVISED and the Chief Executive ORDERED that the Kowloon-Canton Railway Corporation (Permitted Activities) (Consolidation) (Amendment) Order 2000 (the "Order") at Annex A should be made under section 4(1)(e) of the Kowloon-Canton Railway Corporation (KCRC) Ordinance to enable the Corporation to carry out comprehensive two-way freight forwarding activities.

#### **BACKGROUND AND ARGUMENT**

##### **KCRC's Freight Strategy**

2. The KCRC (and the former Kowloon-Canton Railway (KCR) Department) has been providing freight haulage services since the KCR commenced operation in 1911, with through freight services between Hong Kong and the Mainland launched in the 1950s. As part of its freight operation, the KCRC has also been undertaking in the past few decades related activities such as loading/unloading, goods storage and integrated use of other transport modes (like trucks and barges), mainly through its own contractors or appointed agents. A recent study commissioned by the KCRC has projected the rail-borne container traffic between the Mainland and Hong Kong to be in the range of 500 000 to 700 000 twenty foot equivalent units (TEUs) per annum by the year 2010, to grow to between 1.25 and 1.80 million TEUs by the year 2020.

3. Notwithstanding the prospects for freight transport in and out of the Mainland, the KCRC has been facing increasing competition from local and international freight carriers and the growth of its freight business has declined in recent years. In 1990, the net profit of the KCRC's freight operation was

\$59.7 million but this went down sharply to \$7.7 million in 1996 and \$10.4 million in 1997, with net operating losses of \$23.5 million and \$17.0 million in 1998 and 1999 respectively. During the same period, Hong Kong's freight transport market experienced an average growth of 9.7% per annum. In order to optimise its existing infrastructure and establishment as well as to reap future business opportunities, the Corporation has developed a freight strategy which identifies three major development proposals: establishment of two-way freight forwarding services, construction of a port rail link from Tai Wai to Kwai Chung Port together with a port rail terminal, and joint venture development of a freight storage, consolidation and distribution centre at Pinghu in the Mainland.

4. Starting from the mid-1990s, the KCRC has begun making co-operative arrangements with different shipping agents and forwarders to provide freight forwarding services, depending on the destinations. This, however, does not fully meet the needs of customers nowadays for one-stop, comprehensive freight and logistics services. Reliance on agents or other third parties not only prevents the KCRC from offering more competitive prices, but also inhibits its ability to manage effectively its freight business in an appropriate customer-oriented manner. To overcome these difficulties, the Corporation has decided to establish its own freight forwarding subsidiary companies, likely to be in joint venture with the suitable companies in Hong Kong and in the Mainland. These subsidiaries will provide comprehensive two-way logistics services, and the range of services will cover issuing bills of lading, packing/unpacking, loading/unloading and forwarding services, and direct transactions in RMB.

5. The Second Railway Development Study has examined the need to build a port rail link connecting Lo Wu to the Container Port. We will encourage KCRC to investigate into the viability and timing of this port rail link and the possible route options of joining Lo Wu with the container port via either East Rail or West Rail.

### **Legislative framework**

6. Section 4(1)(b) of the KCRC Ordinance (the Ordinance) empowers the Corporation to operate the railways for the use of the public, and section 4(2)(a) allows the KCRC to make arrangements with other carriers for through carriage of goods. Section 4(2)(b) of the Ordinance, however, only allows the KCRC to consign goods from Hong Kong to any other place (but not vice versa), and section 4(2)(c) confines the KCRC's power to store within (but not outside) Hong Kong goods which have been or are to be carried by the Corporation. This statutory ambit on the consignment of goods limits KCRC's ability to

improve upon its current freight services. Although KCRC already carries goods both from the Mainland to Hong Kong and vice versa, it cannot provide one-stop, comprehensive freight and logistics services as described in para 4 above. The relevant provisions under the KCRC Ordinance will need to be amended to enable KCRC to provide comprehensive freight services.

### **Preliminary Planning for New Railways**

7. The Schedule to the existing KCRC (Permitted Activities) (Consolidated) Order provides the KCRC with the power to plan and prepare for construction of the Light Rail Transit and similarly, the interim power required for the preliminary planning and design of the West Rail. As a result of the latest amendments to the KCRC Ordinance and enactment of the Railways Ordinance (Cap. 519) in 1998, these enabling provisions are no longer necessary and hence the existing Schedule will be repealed in the present exercise.

### **THE ORDER**

8. The Order at Annex A empowers the KCRC to carry out comprehensive two-way (i.e. into and out of Hong Kong) freight forwarding activities, including consignment, and to store goods both within and outside Hong Kong. It also repeals the provisions which have become obsolete following recent updating of the legislative framework.

### **LEGISLATIVE TIMETABLE**

9. The legislative timetable is as follows -

Publication in the Gazette	19 May 2000
Tabling at the Legislative Council	24 May 2000

### **BASIC LAW IMPLICATIONS**

10. The Department of Justice advises that the Order is consistent with the Basic Law.

## **HUMAN RIGHTS IMPLICATIONS**

11. The Department of Justice advises that the Order has no human rights implications.

## **BINDING EFFECT OF LEGISLATION**

12. The Department of Justice advises that the Order does not affect the current binding effect of the legislation.

## **FINANCIAL AND STAFFING IMPLICATIONS**

13. The Order has no financial or staffing implications.

## **ECONOMIC IMPLICATIONS**

14. Further development of the KCRC's rail-borne freight business will in the long term expand Hong Kong's container cargo catchment areas to those beyond the Pearl River Delta, thereby enhancing the growth of Hong Kong's freight business in overall terms.

## **ENVIRONMENTAL IMPLICATIONS**

15. The legislative amendments will enable the KCRC to expand its freight operation which in turn will increase the volume of rail-borne freight traffic in and out of Hong Kong. As rail is more environmentally friendly than road-based transport modes, using rail instead of road for freight transport is supported from an environmental perspective.

16. For future development of supporting infrastructure to expand Hong Kong's freight business which may increase other local supporting road transport activities, more detailed studies, possibly covering the existing infrastructure as well, will need to be undertaken by the relevant parties in the early planning stage to evaluate the overall environmental implications and to take the necessary measures to ensure full compliance with all relevant environmental legislation and criteria.

## **PUBLIC CONSULTATION**

17. In December 1999, the KCRC briefed the Port and Maritime Board's Sub-committee on Container Port Competitiveness in respect of the Corporation's long-term freight development strategy, including establishment of freight forwarding services in Hong Kong and in the Mainland, and the response of the Sub-committee was positive. The Corporation has been liaising with the container terminal operators, shipping lines and other interested parties on its freight strategy proposals and the industry is supportive.

## **SUBJECT OFFICER**

18. Mr Davey Chung, Principal Assistant Secretary (Transport) 4, on 2189 2184.

Transport Bureau  
Government Secretariat  
19 May 2000