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2 January 2018

Mr Keith Wong
Clerk to Establishment Subcommittee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr Wong,

**Establishment Subcommittee
Follow-up Items Arising from Meeting on 22 November 2017**

Thank you for your letter of 22 November 2017. The captioned meeting discussed the re-grading of the permanent post currently ranked at Assistant Director of Marine (post title: Principal Assistant Secretary for Transport and Housing (Transport)10 (PAS(T)10)) under the Transport Branch of the Transport and Housing Bureau (THB(TB)) to a permanent Administrative Officer Staff Grade C post, so as to provide policy support for the development of the logistics and port industries in Hong Kong. Members requested us to provide supplementary information to elaborate on the specific work of PAS(T)10 in the past and in future, as well as the long-term strategy adopted by the Government in order to enhance the competitiveness of the logistics and port industries in Hong Kong. The relevant information is set out in the Annex.

Yours sincerely,

(Ms Louisa Yan)
for Secretary for Transport and Housing

**Legislative Council Establishment Subcommittee
Follow-up Items Arising from Meeting on 22 November 2017**

The trading and logistics industry is one of the four key economic pillars of Hong Kong, contributing about 22% to our gross domestic product (GDP). The logistics industry alone contributes 3.2% (\$77 billion) to our GDP and around 4.6% (about 175 000 jobs) to our total employment. Despite the change in Hong Kong's economic landscape, Hong Kong's role as an important entrepot has never changed. For most cargo handled by us, Hong Kong is neither their origin nor their destination, but a place serving as an intermediate point in the cargo flow. Our highly reliable and efficient logistics services allow goods to be delivered within a short lead time, thereby help keep inventory at low levels and save cost, which in turn increase productivity. As a result, goods around the world continue to be shipped through Hong Kong, fostering the further development of our logistics industry. That aside, trading and logistics also play a pivotal role in developing closer economic ties between Hong Kong and the Mainland.

2. Established by the Government in 2002, the Logistics Development Section was tasked to assist in formulating policy for the development of the logistics industry, co-ordinating policy inputs and developing action programmes relating to logistics development, as well as providing secretariat support to the Hong Kong Logistics Development Council (LOGSCOUNCIL).

3. As the logistics industry relies heavily on our multi-modal network covering sea, land and air transport, we will continue to enhance our infrastructure and supporting facilities in taking forward the development of the logistics industry, such that the logistics sector can enjoy lower cost and better efficiency in the shipping and delivery of goods. The portfolio of the PAS(T)10 post under THB(TB) has been expanding over the years. Apart from mapping out the development direction of the logistics industry, Division 5 of THB(TB) is also tasked to review the future development needs of the port industry in the face of competition from neighbouring ports.

4. Moreover, as Division 5 of THB(TB) is responsible for housekeeping the Marine Department (MD), the duties of PAS(T)10 also include taking forward legislative proposals to enhance marine safety, as well as fulfilling Hong Kong's international obligations by incorporating marine-related international conventions of the International Maritime

Organization (IMO) and the International Labour Organization (ILO) into local legislation. The specific details of the past and current work of the PAS(T)10 post in three areas, namely, the development of the logistics industry, the development of the port and the housekeeping of MD (especially in enhancing marine safety), are as follows:

Development of the logistics industry

Increasing the supply of logistics land

5. In recent years, the logistics industry has gradually shifted towards the handling of high-value goods and provision of high value-added services in response to market trends. In particular, with the increasing demand for trend-sensitive and up-market consumer goods in the Mainland and other parts of Asia, many overseas brands have set up regional distribution centres in Hong Kong and engaged third party logistics service providers to provide high value-added services, including inventory management, labelling and packaging, before distributing their goods and products to other countries or regions in a just-in-time manner. As logistics services become more specialised, viz. from simply focusing on transportation of goods in the past to providing additional value-added services in the supply chain management process, the industry's demand for modern logistic facilities has also increased. To support the industry in the provision of high value-added services, the Government is committed to identifying and providing dedicated land for this type of logistics operation. To this end, since 2010, we have sold by open tender three logistics sites in Kwai Tsing totalling about 6.9 hectares, thereby providing the logistics industry with some 280 000 square metres of floor area.

6. In view of the strong demand of the logistics industry for dedicated land, we have been actively identifying potential land for the purpose in other districts in addition to Kwai Tsing. We have already obtained the approval of the Town Planning Board in respect of a site of about 3.2 hectares in Tuen Mun Area 49 that we earlier identified for modern logistics development and the site is expected to be released in the first quarter of 2018. We will continue to work with the relevant bureaux and departments to identify suitable logistics sites in different locations, including the Hung Shui Kiu New Development Area, Tuen Mun Areas 40 and 46, etc.

7. Since 1996, the Hong Kong International Airport has been the world's busiest airport for international air cargo. To reinforce Hong Kong's position as an international aviation hub, the Airport Authority Hong Kong (AAHK) has reserved about 20 hectares of land in the South Cargo Precinct of the airport island for developing air cargo logistics and supporting the development of transshipment, e-commerce and high value-added air cargo services. AAHK is actively planning the related development with a view to releasing the land in phases after obtaining the relevant approval. In particular, after discussion with the THB, AAHK will initiate the development by releasing a site of about 5.3 hectares at Kwo Lo Wan of the Airport South Cargo Precinct for the development of a modern air cargo logistics centre.

8. We will continue to identify and provide dedicated land in the future, as well as conduct various assessments for the purpose of releasing logistics sites, such as traffic and environmental impact assessments. We will co-ordinate efforts and monitor developments at the bureau level, and consult the trade in a timely manner.

Initiatives implemented jointly with the LOGSCOUNCIL

9. Established in 2001, the LOGSCOUNCIL has been providing a platform for the Government to exchange views with industry stakeholders, as well as to learn of the latest market situation and review the development needs of the industry, with a view to formulating initiatives to foster the sustainable development of Hong Kong's logistics industry. The work undertaken by the Government and the LOGSCOUNCIL in supporting the development of the industry is set out below.

Manpower training

10. The LOGSCOUNCIL works with the logistics industry from time to time through different forms of collaboration with a view to encouraging more talents to join the industry. The LOGSCOUNCIL, in collaboration with the Chartered Institute of Logistics and Transport in Hong Kong and the Hong Kong Association of Freight Forwarding and Logistics Limited, organised a training programme for practitioners of the logistics industry with an aim to enhance their professional knowledge and skills. Some of the air-freight modules of the training programme were accredited by the International Air Transport Association and hence well-recognised and well-received by the trade. In view of the ever-changing nature of the logistics sector, we are currently identifying suitable partners, including different logistics institutes and trade

associations, to explore the feasibility of developing new training programmes. To enhance the recognition of the programmes, we will explore ways to get accreditation from relevant institutes.

11. Furthermore, to encourage more young people to join the logistics industry, since 2014, the LOGSCOUNCIL has been actively inviting logistics companies to provide summer internship opportunities to university students. We work with Government-funded tertiary institutions to match interested students with participating logistics companies. The feedback from companies and students participating in the summer internship programme has been positive. With the support of the industry, we plan to continue with the internship scheme, and to invite more logistics companies to provide more such internship placements.

Marketing

12. Logistics is a market-driven sector. To a large extent, the development of the sector is contingent on the ability to foster and maintain good network with business partners, especially with other stakeholders along the supply chain. In this regard, the LOGSCOUNCIL has conducted promotion visits to overseas countries in the past, such as Korea, Vietnam and Thailand. The delegation has met and exchanged views with representatives of the local logistics enterprises, industrial and commercial associations and government bodies, so as to learn about the latest developments in logistics in those places. The visits have also helped promote Hong Kong's strength as the preferred logistics hub in the region, with a view to creating more business opportunities for the logistics trade in Hong Kong.

13. On top of this, we have been organising the Asian Logistics and Maritime Conference (ALMC) in collaboration with the Hong Kong Trade Development Council annually since 2011. The ALMC brings together logistics service providers and users from around the world to understand the global trends and developments in logistics, maritime and supply chain management. It also allows participants to explore business opportunities. In 2017, more than 2 000 top practitioners from 36 countries and regions participated in the ALMC. These participants exchanged views on opportunities brought about by developments on various fronts.

14. Feedback from the trade over the years has suggested that they welcome opportunities for them to expand their business networks and find new business partners overseas through the staging of the ALMC

and promotion visits overseas. We will therefore continue to promote Hong Kong's logistics industry in different markets.

Enhancing operational efficiency

15. In order to ship goods to different parts of the world, the logistics industry needs to comply with the regulations of different international organisations. In this connection, we have been maintaining close liaison with the industry through various channels to facilitate the trade to understand the requirements of different international conventions. In 2016, the IMO updated its regulations on the carriage of cargo, requiring the verification of the gross mass of containers on board vessels to prevent collapse of containers during voyage. To enable the industry to acquire a better understanding of the updated regulations, we explained to stakeholders the implementation arrangements and procedures in detail through various channels, and worked with MD to conduct trial runs for shippers and terminal operators to test the workflow and documentation procedures, so as to ensure the smooth implementation of the regulations.

16. Moreover, to cope with the foreseeable growth in air cargo volume and to comply with the stringent international security requirements on air cargo, we have been proactively working and maintaining close liaison with the Security Bureau to assist the industry in understanding and meeting the international security requirements on air cargo effectively, including the application of new technologies, with a view to enhancing air cargo security during transportation.

Long-term development direction

17. More and more enterprises are aware of the benefits of effective logistics management in lowering their operating cost and enhancing their overall performance. Effective logistics management contributes to the growth of international trade and economic development. The growing interdependence between different economies in the world will only underline the importance of effective logistics management. In the long term, the Government will continue to upgrade the infrastructure in Hong Kong, identify and provide dedicated land for the logistics industry, enhance our multi-modal network covering sea, land and air transport, strengthen our manpower resources, as well as to promote Hong Kong's strengths in logistics industry to places around the world. It is hoped that through these efforts the logistics industry can continue to grow along the direction of providing high value-added logistics services.

Enhancing the existing facilities and back-up land of Hong Kong Port

18. As one of the world's busiest container ports, Hong Kong Port handled about 19.8 million twenty-foot equivalent units of containers in 2016. Since a growing number of containers were being handled at the Kwai Tsing Container Terminals (KTCTs), we needed to optimise the use of the land in Kwai Tsing District in order to cope with the development needs of the KTCTs. In this regard, the Government reviewed around 100 hectares of port back-up land at KTCTs. The review was completed in 2015. We are now implementing the review's recommendations in phases, with a view to optimising the use of the land to meet the future development needs of the port and logistics industries. Among the recommendations, we have refined the allocation and management mechanism of port back-up land let out by Short Term Tenancies (STTs) and revised the relevant terms and conditions. These include removing the triennial rental review falling within a fixed term of STT tenure, extending the tenancy period for container storage and cargo handling sites from the existing three or five years to seven years (subject to land conditions and relevant statutory requirements), as well as changing the land use of some STT sites from multiple uses to specific containers storage, cargo handling or container/goods vehicle parking use.

19. We will continue to take forward the implementation of the various recommendations put forth in the review on the use of port back-up land in the KTCTs in phases. We have already completed the preliminary preparatory work for making available in phases six port back-up sites of about 18 hectares for container terminal use as soon as practicable, so as to expand the terminal yard space and provide additional barge berths for enhancing the cargo handling capacity. We are also conducting two studies to explore the feasibility of developing a multi-storey facility for container storage and cargo handling at a site in Tsing Yi as well as a multi-storey carpark for use as container/goods vehicle parking at another site in Kwai Chung, with a view to releasing more port back-up land to support port operations. The studies are expected to complete in 2019.

20. Regarding a Member's suggestion to draw up key performance indicators for assessing the effectiveness of the various duties of PAS(T)10, given the market-driven nature of the logistics and port industries, the development and competitiveness of the industries are affected by factors such as the external economic situation, the development of neighbouring areas and consumer demand. It is for such reason that in measuring the performance and effectiveness of the logistics and port industry development, we must take into account

various factors in order to make a comprehensive assessment. Furthermore, trading and logistics will generate demand for other services (such as banking, insurance and various professional services), and such indirect economic contributions may not be directly translated into measurable indicators. In mapping out the way forward for the development of Hong Kong Port, we will continue to keep in view of the port sector's changing mode of operation, and position Hong Kong as a competitive transshipment hub as well as a regional logistics hub. We will also continue to discuss and explore with the industry ways to enhance the handling capacities of our port.

Enhancing marine safety

21. The IMO and ILO under the United Nations are responsible for developing international standards for the shipping industry. By different international conventions, IMO and ILO regulate various aspects of marine matters, including navigation safety, prevention of marine pollution by ships, and the working environment of seafarers. Since the technical specifications and requirements of the conventions are constantly reviewed by the two organisations, we need to make amendments to local legislation as appropriate when the conventions are amended so as to fulfil our obligations.

22. In this regard, since 2015, we have made more than 30 legislative amendments to incorporate the provisions of different IMO and ILO conventions into our local legislation, so as to regulate different areas such as marine safety, conservation of the marine environment, cargo handling and qualification of seafarers. We anticipate that we will need to amend at least 10 pieces of subsidiary legislation during the two legislative sessions of 2017-18 and 2018-19. These pieces of subsidiary legislation concern five international conventions. As the IMO and the ILO will review their conventions from time to time, we will need to make amendments to local legislation as appropriate in order to reflect the latest requirements of different IMO and ILO conventions.

23. Furthermore, THB and MD will continue to take forward various measures to enhance marine safety, such as enacting new legislation to regulate against drink and drug boating and reviewing the regulatory regime for local pleasure vessels.