

**Economic Summit on
China's 11th Five-Year Plan and the Development of Hong Kong
(11 September 2006)**

**Summary of Views Expressed at Focus Group Discussion on
Maritime, Logistics and Infrastructure**

(Translation)

Panelists agreed that Hong Kong's logistics industry, while benefiting from the rapid economic growth of the Mainland and the external trade, also faced with cost competition from neighbouring areas. The industry should make a continued effort to strengthen its competitiveness and upgrade its technological applications. In addition, the Government should assume the important role of providing the necessary infrastructural facilities and improving the business environment.

Infrastructures

2. Panelists noted the efforts of the Government in the cross-boundary transport infrastructure projects. For example, the Hong Kong-Shenzhen Western Corridor would open soon, the Sheung Shui to Lok Ma Chau Spur Line would also commence operation next year, and the Hong Kong-Zhuhai-Macao Bridge, the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Shenzhen Eastern Corridor had been put on the agenda. Panelists supported these cross-boundary projects and considered that they were of primary importance to Hong Kong and should be implemented as soon as possible. A Panelist expressed concerns on the development cost and financing, implementation timetable, and ancillary support facilities including clearance arrangements of the Hong Kong-Zhuhai-Macao Bridge. Some Panelists also considered the investment of the Mass Transit Railway Corporation in the Shenzhen Metro was a win-win collaboration.

New Thinking to Coordinate Infrastructural Development

3. Panelists shared the views put forward in the discussion paper (Paper Ref. 2006ES/7) that in considering the development of cross-boundary infrastructures (including transport infrastructures), Hong Kong

should adopt a more forward-looking perspective and a more effective approach to tie in with the infrastructural development of the Mainland. Hong Kong should consider making adjustments to its established “demand-led” development approach and seriously explore the feasibility of “developing infrastructure moderately ahead of the actual requirement”. However, some Panelists presented the view that the adjustment of the established approach should be made after careful consideration of its impact on the long-term and overall infrastructural development of Hong Kong. For instance, whether it would lead to excessive intervention of the market. In addition, the HKSAR Government should consider establishing a high-level cross-bureaux/departments coordination mechanism for formulating comprehensive cross-boundary infrastructure development strategies, and for co-ordinating various cross-boundary infrastructure projects.

Optimizing Cross-boundary Transportation Network

4. In optimizing the cross-boundary transportation network, Hong Kong should link up with its neighbouring transportation hubs in a more convenient and direct manner, so as to shorten the distance between Hong Kong and the Mainland. This was also considered as an effective means to expand the hinterland of Hong Kong’s airport and port facilities, and provide new impetus for the development of Hong Kong’s pillar industries.

5. Noting that planning and construction of inter-city express rail links and mass transit networks were actively underway in the Mainland, Panelists maintained that the planning and transport authorities of Hong Kong should follow developments in this aspect closely, and consider linking Hong Kong up with specific cities or transportation hubs in the region. The following issues were raised for further consideration:

- (i) The responsible authorities / departments for transport infrastructure projects were often different from region to region in the Mainland. They could be the department of communications, the department of railways or the department of construction. This would add further difficulties for Hong Kong to work with its Mainland counterparts. It was therefore necessary for Hong Kong to continue strengthening its exchange with the Mainland authorities to understand more thoroughly on their major transport infrastructural development at early planning stage;

- (ii) Planning was often classified as “confidential” in the Mainland and their related reports would not be made available to the HKSAR Government for reference before properly endorsed by the relevant Mainland authorities. This had posed further difficulty for the HKSAR Government to understand clearly Mainland’s infrastructure forward planning exercises;
- (iii) Regarding long distance passenger transport services between Hong Kong and the Mainland, more direct point to point city services and customs clearance points should be considered. More innovative and convenient customs clearance methods should be explored to enhance efficiency. For instance, immigration clearance on board the trains and practices adopted by Singapore/Malaysia or the European Union/Russia might be explored to facilitate rail passenger and cargo clearance between Hong Kong and the Mainland;
- (iv) Increase in frequency of passenger trains between Hong Kong and the Mainland would put pressure on the capacity of the shared corridor of the West Rail. An early study on this issue by the HKSAR Government was advisable;
- (v) China had decided to increase investment in enhancing the capacity and competitiveness of the Mainland rail system. This included upgrading rail tracks and engines of the rolling stock so as to increase the volume of freight and the speed of trains, and setting up 18 rail transportation centres. The HKSAR Government should keep abreast of the development and make early planning.

Logistics and Shipping Centre

6. To maintain Hong Kong’s position as a logistics and shipping centre, Panelists agreed that apart from the building of first-class infrastructures, the following recommendations put forward in the discussion paper (Paper Ref. 2006ES/6) should be pursued:

- (i) Working with the industry in enhancing cross-boundary trucking efficiency; promoting the application of information technology in the logistics industry

A Panelist opined that the current practice of allowing only Hong Kong drivers to operate trucks within the territory of Hong Kong in most cases would definitely make the cost of local transport higher than that of the Mainland, in particular when the source or destination of the goods was somewhere outside the Guangdong Province. Panelist suggested that Hong Kong might draw on the practice of the European Union by using local drivers to operate the trucks within the territory of Hong Kong and lifting the restriction once the trucks crossed the border. This could help reduce the cost of transport. Besides, within the European Union, customs of each country only inspected imported goods, rather than both imported and exported goods, to shorten the waiting time of customs clearance.

However, another Panelist pointed out that the National 11th Five-Year Plan attached great importance to harmonious and stable social development. Given that the development of human capital in Hong Kong did not keep in pace with its fast economic development, there existed a mismatch of human resources in the society, particularly among the lower-skilled labour. In the long run, this mismatch would pose challenges to social stability. For this reason, the impact of admitting Mainland drivers on the employment and livelihood of local workforce such as truck drivers as well as the new arrivals had to be duly considered. Any decision on this matter should be supported by concrete facts and figures.

There were also views that the container terminals in Hong Kong which had not reached their full capacity would have room for handling additional volume of cargoes. The proposal to relax the admission of Mainland drivers for transportation of cargoes to Hong Kong could enhance the competitiveness of Hong Kong's logistics industry, thereby increasing the total volume of cargo flow and the demand for transport services. As such, the above proposal might not adversely affect local truck drivers. An increase of cargoes routed through Hong Kong could help promote the development of container backup facilities and terminals. That would create more employment opportunities, which would be beneficial to both the logistics industry and the

local workforce. Panelists generally agreed that this issue, although controversial, was significant in reducing the cost of logistics operations in Hong Kong and should be further examined.

In view of the higher cost of overland transport, a Panelist suggested that Hong Kong should develop a river transport network covering the Pearl River system to link up with the Pearl River Delta inland navigational network, such as the west coast of the Pearl River. The objective was to provide “seamless interchange” for river barges and sea-going vessels.

On the use of information technology, a Panelist suggested that we should consider enhancing efficiency by centralising the documentation currently required by different departments.

- (ii) Enhancing Hong Kong’s position as the major aviation hub in the region by upgrading the facilities of the Hong Kong International Airport and opening up more civil airspace to strengthen competitiveness

Panelists generally agreed that it was necessary to further enhance our connectivity with airports in the neighbouring areas and to continue expanding our hinterland so as to enhance Hong Kong’s international and regional aviation hub position. To this end, the airport of Hong Kong had to further increase its cargo handling and passenger capacities by, say, constructing an additional cargo terminal building or even an additional runway, and the Government had to provide suitable supporting infrastructure like road networks. In addition, a Panelist pointed out that the airport of Hong Kong and the nearby airspace were basically saturated. The aviation authorities of Hong Kong, Macau and the Mainland should discuss the use of the regional airspace with a view to rationalising and optimising the efficient use of the regional airspace. Given that an aircraft using the airport of Hong Kong had to climb rapidly within the territory after take-off or it would have gone beyond the airspace of Hong Kong, the situation was potentially an environmental and safety concern. Panelists generally agreed that the HKSAR Government

should expedite its negotiation with the Mainland authorities in charge of the airspace in order to open up more civil airspace for Hong Kong airline operators.

A Panelist remarked that in promoting regional development, Hong Kong should put national interests at the forefront as it strengthened communication with airports and ports in the neighbouring areas. Individual positioning and the division of labour should be clearly mapped out to create synergy and achieve a win-win situation for all.

(iii) Continuing to negotiate agreements with major trading partners for the relief of double taxation on shipping and air transport incomes

Panelists shared the view that agreements for the relief of double taxation on shipping and air transport incomes were critical to enhance the competitiveness of Hong Kong's shipping companies and airline operators. They supported the continued efforts of the HKSAR Government to conclude the agreements with the major trading partners of Hong Kong.

In general, foreign shipping companies would pay its profit tax to Hong Kong based on their source of profit from Hong Kong. In the year of operating a loss, they were not required to pay profit tax. To a certain extent, the foreign companies could through transfer pricing arrangement to realign their profit to other related companies outside Hong Kong so as to control their payment of profit tax in Hong Kong. However, such arrangement was not available to Hong Kong's shipping companies. The Hong Kong shipping companies when operating in many other countries, irrespective of operating in profit or loss, they were subject to the Freight Tax which taxed on a percentage of their income or turnover. From a cost control point of view, Hong Kong's shipping companies were in a less favourable position than foreign companies. Such an anomaly could be improved under the relief of double taxation agreement protection. The agreement could strengthen Hong Kong companies' international market competitiveness as well as providing them a fair competitive environment. It would also provide investors a certainty in

taxation and promote a free trade environment between Hong Kong and its trading partners.

Panelists also suggested that the HKSAR Government should consider reviewing the taxation system currently applicable to shipping companies. At present, vessels flying the HKSAR flag were provided with tax benefits (exempted from Hong Kong's profit tax). However, the shipping industry normally would form an alliance with other foreign shipping companies. The allied companies vessels normally hoisted foreign flags and would therefore not enjoy Hong Kong's tax benefits. Hence, when Hong Kong shipping companies transported their goods by their allied non-Hong Kong registered vessels would also similarly not enjoy Hong Kong's tax benefits. To strengthen the competitiveness of Hong Kong as a shipping centre, it was suggested that the HKSAR Government should consider adopting the common practice of many developed shipping nations to introduce Tonnage Tax instead of the current profit tax regime based on vessels whether registered in Hong Kong or not to provide a simple and flexible taxation measure.

(iv) Improving the shipping register service, training local maritime professionals and reinforcing Hong Kong's position as a shipping centre

Panelists considered that shortage of maritime professionals would become a bottleneck problem affecting Hong Kong's position as a shipping centre in future. They pointed out that the enrolment in maritime courses (currently integrated into logistics courses) was small, and that young people were reluctant to enter the trade. These had reduced the available pool of locally trained maritime professionals. In addition, competition for professionals from shipping companies of nearby cities had led to a drain on talent in Hong Kong. It was imperative for Hong Kong to resolve the shortage of maritime professionals.

Other Suggestions

7. Apart from the above recommendations, Panelists put forward the following strategic proposals:

- (i) Studies should be conducted on how to fully utilise the land and coastline of Hong Kong to develop backup land for logistics services, for example, building a logistics park in the vicinity of the airport to facilitate the development of the related sectors;
- (ii) The logistics industry should operate and develop on its competitive edge like timely delivery, quality of service and convenience, instead of adopting a low-cost business model to compete with the neighbouring areas;
- (iii) Given the relatively higher operating costs of Hong Kong, efforts should be made to further develop producer services for the freight transport sector like port management, banking and financial services, as well as insurance, with a view to covering the various activities across the value chain, instead of focusing on the freight transport sector alone.

Way Forward

8. In the next few months, the Focus Group would continue with its discussion on the basis of the above strategic directions and draw up a pragmatic and feasible “Action Agenda”, which would consist of the follow-up actions to be taken by the Government, industries concerned, academia and related organisations.

9. The attendance list is attached.

Central Policy Unit
September 2006

航運、物流及基礎建設專題小組

2006年9月11日

**Focus Group on Maritime, Logistics and Infrastructure
11 September 2006**

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