

8th October 2009

The Honourable Donald TSANG Yam Kuen, GBM, JP
Chief Executive
The Government of the Hong Kong Special Administrative Region
Government House, Hong Kong

By Fax (2509 0577) & By Mail

Dear Honourable Tsang,

Re: Policy Address Consultation
- HK Competitiveness as a Regional & International Cargo Hub

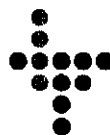
The global economic crisis stemming from the US sub prime mortgage meltdown had slackened Hong Kong's import and export during 2008 when trade in both goods and services registered notable drop in growth. Total merchandise trade dropped by 18.8% year-on-year in July 2009. Trading and Logistics is one of the Four Pillar Industries in the Hong Kong economy and it suffers a severe drop in business activities in particular the freight forwarding and logistics sector.

The Hongkong Association of Freight Forwarding and Logistics (HAFFA), is involved with coordinating, lobbying and liaising with the Government and other industry-related associations for over 40 years. Our 340+ corporate members handle a significant percentage of air freight, sea freight and contract logistics in Hong Kong.

The Chartered Institute of Logistics and Transport in Hong Kong (CILTHK) is the professional body for those engaged in various sectors of transport and logistics, including air, sea and land, for both passenger and freight movement. The membership is around 1,950.

Logistics is an important policy area, closely affecting the quality of life of all our citizens, and the sustainable development of Hong Kong in the region. The economic downturn together with intense competition from neighbouring countries and regions has further weakened our competitiveness as a regional and international cargo hub. To maintain and enhance our competitiveness in logistics, this can only be so through ongoing commitment to policies and put the programmes to reality at the highest level.

In view of the fact that now is the consultation time for the fifth Policy Address of your term, and our industry is facing increased challenges as many practitioners appeared to be pessimistic on the future, both HAFFA and CILTHK are of the opinion that the Government and the industry need to jointly make extraordinary efforts at exceptional times like this in a timely and decisive manner. Thus we would like to seize this opportunity to bring out issues below which are considered important and imperative to the industry future. We believe that



these issues should be addressed in a swiftly manner so as to further the strategy to be outlined by the fifth Policy Address.

1. To establish the mechanism of “Co-location Customs Clearance” (一地兩檢) at a bonded area in which Hong Kong freight forwarding and logistics companies can perform customs brokerage for all import cargoes to the Mainland

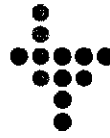
The Mainland, being the world’s largest factory, will very soon surpass the United States of America (US) or the European Union (EU) to become the biggest "Import" country of the world. In addition, Mainland China is poised to work toward a much higher quality and higher speed of production, leading to global dominance in the supply of finished goods. However the customs clearance procedure in China is extremely complex and lengthy while the customs brokerage could only be done by personnel located in various provinces of China. The trend is that “Import” will sure play an important role for Hong Kong’s trade in the future, if the efficiency of Mainland’s customs clearance is not addressed, it would be the major obstacle for Hong Kong logistics service providers to offering comprehensive services and solutions to customers.

To strengthen Hong Kong’s role as a cargo gateway between the Mainland and the world; and to enhance Hong Kong’s competencies as logistics services providers, we would like to recommend Customs and Excise Department of the HKSAR Government to consider establishing the mechanism of “Co-location Customs Clearance” with Customs officers representing key provinces of the Mainland situated in a designated bonded area. Hong Kong freight forwarding and logistics companies are able to provide Chinese Custom Clearance in this location in the presence of the Customs officers from both Mainland and Hong Kong. Customs clearance process for import cargoes should be simple and should involve cargoes entering into such bonded area and all the required customs clearance process is completed. The cargoes are then sealed and distributed to different Mainland China locations without the need to further undergo customs clearing process.

Possible locations for bonded area include:

- (1) Qianhai Bay Bonded Port Area;
- (2) The Lok Ma Chau Loop;
- (3) Hong Kong Boundary Crossing Facilities; or
- (4) Other locations where the Government thinks fit.

The Qianhai Bay Bonded Port Area is a great location in cross-border cooperation in the Qianhai Bay area of Nanshan District as highlighted in “The Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020)” and the “Shenzhen Overall Comprehensive Reform Pilot Programme”. It was noted that Shenzhen has proposed to jointly establish with Hong Kong a global “logistics centre” in the said area. Thus, we are of the view that the HKSAR Government should grasp this opportunity to implement our proposed idea in the Qianhai Bay Bonded Port Area. Certainly, this should be associated with the overall arrangement e.g. surveillance mechanism for transporting the cargoes from Hong Kong to Qianhai Bay.



It is no doubt to lowering the costs for cross boundary freight transport activities in Hong Kong shall definitely be a strategic means to enhance the competitiveness of Hong Kong logistics industries. The Government should continue its efforts in discussing with the relevant Mainland authorities on the feasibility of integrating the licensing, truck maintenance and insurance requirements; and other specific measure such as to relaxing the admission of Mainland truck drivers for transportation of cargos direct to Hong Kong. Nevertheless, it is noted that the latter measure would have implications on the employment of local truck drivers; consideration on the long-term survival of SMEs and development of the logistics industry should also be given.

If there is anything we can assist the HKSAR Government in this respect, please let us know.

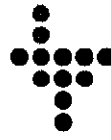
2. Airport Contingency Plan for Major Disruption of the North Lantau Highway

Since the opening of Hong Kong International Airport in 1998, the cargo industry has expressed the need for a contingency plan should there be temporary closure of Tsing Ma Bridge through the Cargo Facilitation Committee under Airport Authority Hong Kong. During the lengthy discussions, it was noted that the issue would involve the coordination and collaboration of different stakeholders such as AAHK as well as different government bureaus/departments. In 2007, we learnt that the matter was under review by the Government.

Nevertheless, there was a black rain on 7th June 2008 caused landslips and brought about heavy traffic congestion due to temporary closure of the North Lantau Highway. This incident has caused serious concern from the cargo industry again. Thereafter, HAFFA has proactively taken part in the meetings hosted by AAHK, high level meeting with the Transport & Housing Bureau together with the presence of Ms. Miriam Lau (Legislative Councillor) and sent letters to THB providing practical inputs on the contingency plan catering for the no land link scenario.

To our disappointment, we recently learnt that the Government has decided not to consider the vehicle ferry as a viable alternative in the contingency plan. Instead, the Government is looking at landing barge as the only solution. Both HAFFA and CILTHK are of the view that this recommendation is not an optimal solution for the logistics industry due to speed issue, safety issue and cargo loading stability issue involved. This is particularly true when majority of Hong Kong export cargo are palletized shipments.

Besides the option of vehicle ferry, another possible option which will not cost much but require high-level co-operation is to borrow/rent Landing Craft from the People's Liberation Army. The Landing Craft is one of the possible options which can provide effective carriage of palletized cargoes between Tuen Mun River Trade Terminal (RTT) and the Airport Marine Cargo Terminal (MCT). Trust that the People's Liberation Army will be willing to assist the HKSAR Government.



We urge the HKSAR Government to reconsider the above two options as a solution to improve cargo transportation capability and to open adequate access to the HKIA in case of road closure. We believe that the existing contingency plan is not able to resolve the accessibility issue to HKIA in case during real emergency. Under such circumstance, we are of serious concern to the potential impact and subsequent contractual issues between carriers, freight forwarders and consignors of the international shipping community.

Last but not the least; we have learnt that the Tuen Mun -- Chek Lap Kok Link will be ready by end of 2016, serving as an alternative route for the entire NLH in case of no Tsing Ma Bridge emergency. Taking this opportunity, we would like to stress that it is imperative for this long term alternative accesses to/from HKIA to be completed as early as possible in order to tackle the root problem.

3. Lantau Logistics Park (LLP)

The critical shortage of warehouse space in Hong Kong (not to mention the much higher rental costs) is of paramount urgency. Operations are constrained due to warehouse space shortage and are being shifted to the Mainland every day. Back in 2005, in response to the Government's consultation, HAFFA has submitted to the then Economic Development & Labour Bureau the professional comments on the proposed LLP, concerns regarding the rising warehouse rental costs and the severe shortage of suitable warehouse space for our industry. Follow-up letters were sent to the Bureau and we were advised in September 2006 that a detailed feasibility study on the LLP was at its final stage. Since then, we have not received any update on the progress of the LLP.

Surprisingly, we learnt from the media in July 2009 that the Transport and Housing Bureau has decided not to give a timetable for the construction of LLP. The reason given was that the current economic climate would be difficult to attract private investment for the project. In addition, the administration would give higher priority to other projects, like the Hong Kong-Zhuhai-Macao Bridge.

Industrial lands where the 3PL warehouse/logistics facilities are located before the Tsing Ma Bridge meant road traffic is generated by lorries and trucks unnecessary if there is a logistics park/centre on the Lantau Island or other appropriate place. With a logistics park where logistics operators can operate within, the industry will firstly be benefited from cost saving in bridge toll and operating costs; and secondly the society will also be benefited on the dramatic reduction of flow of trucks and lorries which in turn lessens the air pollution, road damage and traffic congestion in downtown of our city.

In this regard, we would like to reiterate that a decision on the logistics park is indeed needed much earlier. We urge the Government to revisit the development of a logistics park on Lantau Island or other appropriate place in order to provide preferential rent and convenience to consolidate all activities within one facility. The



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70% of logistics practitioners in Hong Kong are small and medium enterprises (SMEs). Support from the Government is important to ensure that the freight forwarding and logistics sector continue to thrive and grow. The governments of neighbouring countries through their policy initiative have provided support to their SMEs in the logistics industry. For example, the Singapore Government provides preferential land or other scheme such as tax refund to ensure low rental rates. With the difficult time and keen competition today, the HKSAR Government should be prepared to intervene to alleviate difficulties faced by the logistics industry particularly SMEs.

Last but not the least we have received endorsement and support from Hon Miriam Lau on two HAFFA proposals on air transshipment facilitation which were submitted to the Commerce and Economic Development Bureau (CEDB) and THB in April and July 2009 respectively. Special thanks to bureaus and relevant departments (including Customs & Excise Department and Trade & Industry Department), working level meetings and site visits were arranged smoothly. HAFFA will continue working closely with them with a view to establish by phase new measures to simplify and streamline the current transshipment and licensing procedure.

Both HAFFA and CILTHK are hoping that the Government will make every effort, through whatever means available, to address our concerns. This, we believe, is crucial to enhancing our competitiveness as an international and regional logistics hub. Should you require any clarification on the above, kindly contact the undersigned or Ms. Alice Lui / HAFFA Director at Tel: 2796-3121.

Thank you very much for your kind attention. Look forward to hearing from you soon.

Yours sincerely,

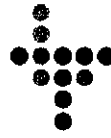


Peter Wong
HAFFA Chairman

Yours sincerely,



Ir Prof. WONG Sze-chun
CILTHK President



Cc: The Hon. Miriam Lau - Legislative Councillor (Transport Constituency)
Mrs. Rita Lau - Secretary for Commerce and Economic Development
Ms. Eva Cheng - Secretary for Transport and Housing
Mr. Chow Kwong - Assistant Commissioner, Customs and Excise Department
Mr. Stanley Hui - CEO, Airport Authority Hong Kong
Mr. Jack So - Chairman, Hong Kong Trade Development Council
Mr. Willy Lin - Chairman, Hong Kong Shippers' Council
Mr. Albert Lo - Chairman, Carrier Liaison Group
Mr. Andrew Brandler - Chairman, Hong Kong General Chamber of Commerce
Mr. Cliff Sun - Chairman of Federation of Hong Kong Industries
Members of the HAFFA Executive Committee
Council Members of CILTHK