

立法會
Legislative Council

LC Paper No. CB(1) 2197/00-01
(These minutes have been seen
by the Administration)

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Panel on Commerce and Industry

Minutes of meeting
held on Monday, 9 July 2001, at 8:30 am
in Conference Room A of the Legislative Council Building

Members present : Hon Kenneth TING Woo-shou, JP (Chairman)
Hon HUI Cheung-ching, JP (Deputy Chairman)
Dr Hon LUI Ming-wah, JP
Hon NG Leung-sing, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, JP
Hon CHEUNG Man-kwong
Hon CHAN Kam-lam
Hon SIN Chung-kai
Hon CHOY So-yuk
Hon Henry WU King-cheong, BBS

Non-Panel Members attending : Hon James TIEN Pei-chun, GBS, JP
Hon LAW Chi-kwong, JP

Members absent : Prof Hon NG Ching-fai
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP

Public officers attending : **For Item III**

Miss Yvonne CHOI
Deputy Secretary for Commerce and Industry

Ms Ellen CHOY
Principal Assistant Secretary for Commerce and Industry

Mr Joseph LAI
Deputy Director-General of Trade and Industry

Miss Eliza LEE
Assistant Director-General of Trade and Industry

Mr Andrew WONG
Head of Trade Controls, Customs and Excise Department

Mr C Y AU YEUNG
Senior Chemist

For Item IV

Mr CHAU Tak-hay
Secretary for Commerce and Industry

Miss Yvonne CHOI
Deputy Secretary for Commerce and Industry

Mr Joshua LAW
Director-General of Trade and Industry

Mr Joseph LAI
Deputy Director-General of Trade and Industry

**Attendance by
invitation**

: Small and Medium Enterprises Committee (SMEC)

Mr CHAN Wing-kee
Chairman, SMEC

Mr CHAN Tze-ching
Convenor, Financing Working Group, SMEC

Mr LAU Wai-kwong
Convenor, Human Resource Development Working Group,
SMEC

Mr AU Wai-hung
Convenor, Technology Applications Working Group,
SMEC

Hon HUI Cheung-ching
Convenor, Business Environment Working Group, SMEC

Mr NGAI Kam-fai
Convenor, Market Expansion Working Group, SMEC

Clerk in attendance : Mrs Florence LAM
Chief Assistant Secretary (1)4

Staff in attendance : Mr TSANG Siu-cheung
Senior Assistant Secretary (1)7

I Confirmation of minutes of previous meeting

(LC Paper No. CB(1) 1683/00-01 - Minutes of the special meeting held on 12 April 2001;

LC Paper No. CB(1) 1682/00-01(01) - List of follow-up actions)

The minutes of the special meeting held on 12 April 2001 were confirmed.

II Information paper issued since the last meeting

2. Members noted that no information paper had been issued since the last meeting.

III Chemical Weapons (Convention) Bill

(LC Paper No. CB(1) 1682/00-01(02))

3. The Deputy Secretary for Commerce and Industry (DSCI) briefed members on the proposed Chemical Weapons (Convention) Bill ("the Bill"). Details were set out in the information paper provided by the Administration (LC Paper No. CB(1) 1682/00-01(02)).

4. Mrs Selina CHOW agreed to the Administration's proposal of implementing the "Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction" (the Convention). She however considered that the Administration should pay attention to the impact of the requirements under the Convention on the industry, in particular, the cost implications. In this regard, she enquired whether manufacturers, traders, research and medical institutions, testing laboratories, etc., were now required to submit information as stated in paragraph 5(c) of the Administration's paper. Besides, she doubted whether the Administration could fully consult the industry on the Bill by means of a survey. DSCI advised that at present, manufacturers, traders, research and medical institutions, testing laboratories etc. were not required to submit the relevant information to the Administration. However, according to the Bill, these organizations would have to submit such information to the Administration for preparing and making annual declarations to the Secretariat of the Convention. As reflected from the 1998 survey which had a 70% response rate, only a few organizations were involved in the import of chemicals listed in the three Schedules to the Convention. Besides, these organizations had already applied to the Director-General of Trade and Industry

(DGTI) for import licences under the Import and Export Ordinance to import such chemicals. It was expected that the implementation of the Bill would not have a significant impact on the industry. The Administration was currently conducting another survey on the matter and the preliminary findings were more or less the same as those of the 1998 survey.

5. In response to the enquiry of Mrs Selina CHOW, DSCI advised that the information to be required from the organizations concerned were mainly on the forecast and actual production, consumption, storage, transfer, facilities used in such processes and other related activities concerning the toxic chemicals and their precursors listed in the three Schedules to the Convention. At the Chairman's request, DSCI undertook to provide the three Schedules to the Convention after the meeting for members' reference.

(Post meeting note: The three Schedules to the Convention were issued for members' reference on 19 July 2001. Details were set out in LC Paper No. CB(1) 1821/00-01.)

6. Mr NG Leung-sing expressed his concern about the inspection arrangements for compliance with the Convention and enquired whether the Secretariat of the Convention would provide justifications on inspections for inquiry purpose. He further asked whether the Administration had consulted the industry on such inspections. DSCI advised that according to the Bill, the Administration could authorize the inspection team sent by the Secretariat of the Convention to inspect the organizations concerned and the inspection was confined to the scope as defined by the Bill and the provisions of the Convention. She said that the Secretariat of the Convention would provide sufficient justifications on inspections for inquiry purpose. In general, the Secretariat of the Convention would notify the Party State, i.e. the People's Republic of China, in advance. The responsible State agent would then relay the message to the Government of the Hong Kong Special Administrative Region (HKSAR) in order to notify the organizations concerned for the inspection. The HKSAR Government would seek the approval of the Central People's Government regarding the candidates nominated for receiving the inspection team of the Secretariat of the Convention. Where necessary, the Central People's Government could also appoint officials to assist in the inspection process. Through the 1998 and current surveys, the industry had acquired reasonable understanding on the requirements of the Convention. Besides, the inspection team of the Secretariat of the Convention would in general only inspect those organizations declared by the HKSAR Government.

7. In reply to Mr NG Leung-sing's enquiry, DSCI said that the scope of the Bill was different from that of the Weapons of Mass Destruction (Control of Provision of Services) Ordinance. The former only regulated chemical but not biological weapons.

8. Dr LUI Ming-wah was concerned that the Administration's control on chemicals would be too stringent, which might affect the operation of the commercial and industrial sectors. He asked whether the present clearance procedures could be

replaced by declarations. DSCI replied that under the existing Import and Export Ordinance, licences had to be obtained from DGTI on the import and export of all specified chemicals. Such requirement could ensure Hong Kong's compliance with the international standards on control of chemicals. Regarding the plastic chemical material for industrial use mentioned by Dr LUI Ming-wah, she suggested that he might provide the relevant information after the meeting for the Administration to check whether the material was regulated by the Import and Export Ordinance. If it was already subject to control, the required clearance procedures could not be replaced by declarations.

9. Mr CHAN Kam-lam would like to know the circumstances under which the activities involving chemicals were subject to declarations. DSCI advised that according to the Convention, a State Party was required to make declarations only under the following two circumstances:

- (a) The forecast and actual production, consumption, storage, transfer, facilities used in such processes and other related activities concerning the toxic chemicals and their precursors listed in the three Schedules to the Convention; and
- (b) The facilities producing other organic chemicals not listed in the three Schedules exceeding a certain specified amount.

As Hong Kong intended to develop its chemical and biological technology, Mr CHAN Kam-lam urged the Administration to handle the issue concerning chemicals with care.

10. In view of the similar nature of the existing Import and Export (Strategic Commodities) Regulations, the Weapons of Mass Destruction (Control of Provision of Services) Ordinance, the Bill under discussion and any possible legislation in future which regulated chemical and biological weapons, Mr SIN Chung-kai suggested that the Administration should consider streamlining the enforcement procedures by merging the relevant ordinances. DSCI responded that despite their similar nature, their different scopes rendered it inappropriate to consolidate them into a composite ordinance. She also pointed out that biological weapons were currently placed under the control of the Biological Weapons Ordinance.

11. In response to Mr HUI Cheung-ching's enquiry, DSCI said that at present, none of the organizations in Hong Kong were involved in the trading of chemical weapons.

12. Mrs Selina CHOW suggested that the Administration should avoid including those commonly used chemicals under the Bill so as to prevent causing unnecessary disturbances to the commercial and industrial sectors. In addition, she expressed concern about the requirement set out in paragraph 6 of the Administration's paper that "any person who finds an article which he believes to be a chemical weapon will be required to report to the Commissioner of Customs and Excise". Having regard to the people and the criminal liability which might be involved, she considered such

a requirement too general, which would jeopardize the normal operation of the commercial and industrial sectors. DSCI said that she would follow up the above suggestion.

13. Mr NG Leung-sing expressed concern on paragraph 6 of the Administration's paper that "all chemical weapons seized or found, whether or not in connection with an offence under the Ordinance, will be forfeited to the Government and may be disposed of by the Commissioner" and urged the Administration to exercise due care when drafting the relevant provisions of the Bill to avoid affecting the rights of the owners of the chemicals. DSCI clarified that the aforesaid provision only applied to the handling of chemical weapons, and that there had already been in place a clear definition for them.

14. Mr CHAN Kam-lam suggested that in order to allow members to fully analyse and consider the matter, the Administration should provide a comparison on similar legislation of other jurisdictions when submitting the Bill to the Legislative Council for deliberation in the next legislative session. DSCI advised that she would take into account Mr CHAN's suggestion. However, she pointed out that the Administration had already made reference to the relevant legislation of Australia and the United Kingdom in drafting the Bill.

IV The Small and Medium Enterprises Committee Report (LC Paper No. CB(1) 1644/00-01(01))

15. The Secretary for Commerce and Industry (SCI) recapitulated the background of the Small and Medium Enterprises Committee (SMEC) Report (the Report) and invited Mr CHAN Wing-kee, the Chairman of the Small and Medium Enterprises Committee (SMEC) to brief members on its contents.

16. Mr Henry WU asked the Administration whether the definition of "small and medium enterprises" (SMEs) included the financial services sector. He also wished to know why hotels were listed as SMEs. According to Appendix 6 of the Report, local services sector accounted for about 92.6% of the total number of SMEs. Mr WU therefore enquired whether the funds for supporting the development of SMEs would be allocated to the services sector and other sectors in similar proportion. DGTI responded that any local enterprises, once met with the Government's definition, were considered as SMEs regardless of which sector they belonged to. Such a requirement was no exception to enterprises in the financial services sector. Regarding the hotel industry, it covered both hotels and guesthouses. Although the latter was operated on a small scale and employed less than 50 staff members, they were still classified as SMEs accordingly. He indicated that it was inappropriate to fix the proportion of funding support that each sector could receive at this stage. On the contrary, funding allocation should depend on the actual market demand. He stressed that the funding support aimed to benefit individual SMEs with potential, creativity and development capability, thus enabling them to further expand their businesses.

17. Mr Henry WU asked whether it was possible to predict which SME industries were particularly in need of resource assistance. Besides, he would like the Administration to provide additional information on the definition and scope of "personal services industry". Mr CHAN Wing-kee said that it was difficult to predict which SME industries specifically required assistance. He pointed out that any SMEs could apply under the SME Business Installations and Equipment Loan Guarantee Scheme (the Loan Guarantee Scheme), SME Training Fund and SME Export Marketing Fund for funding support to assist their business development. Individual trade associations could apply under the SME Development Fund for funding support on items which would elevate the competitiveness of SMEs as a whole or of SMEs in particular sector regardless of their nature. He cited the example that the financial services sector could apply for loan under the Loan Guarantee Scheme for the procurement of computer software and hardware. As to the fitting-out costs, it was outside the scope of the Loan Guarantee Scheme because they were rather difficult to define and regulate. Regarding the definition of "personal services industry", DGTI undertook to provide relevant information after the meeting.

(Post meeting note: The Administration had provided additional information on the definition of "personal services industry". Details were set out in LC Paper No. CB(1) 1838/00-01 issued on 26 July 2001.)

18. Dr LUI Ming-wah queried whether an enterprise could still be regarded as an SME when its manufacturing activities were undertaken by employees mostly employed in the Mainland, while the number of its local employees was less than 100. He considered the Loan Guarantee Scheme ineffective in facilitating the development of SMEs since the maximum amount of guarantee (i.e. \$500,000 or 50% of the approved loan) offered to each SME was indeed insufficient to offset the huge cost required for acquiring manufacturing machinery. In this regard, he suggested that the Administration should consider further raising the guarantee ceiling.

19. Mr CHAN Wing-kee advised that, by definition, the enterprise cited by Dr LUI was an SME. The loan it received under the Loan Guarantee Scheme could be used for acquiring production equipment, regardless of whether such equipment was to be used in Hong Kong, in the Mainland or in overseas countries. The SMEC proposed that under the Loan Guarantee Scheme, each enterprise could have a maximum amount of guarantee of \$500,000, having considered the loans generally made by SMEs with banks and their capability for repayment. Besides, since all the proposed funds were new initiatives and it was difficult to assess their effectiveness at the present stage, the SMEC requested the Administration to exercise prudence when allocating resources to support the SMEs. He said that the SMEC had already proposed to the Administration to review the effectiveness of the funding schemes in one years' time and would check whether resources allocated were adequate.

20. Dr LUI Ming-wah was concerned whether banks would be willing to release capital loans to SMEs. Mr CHAN Tze-ching, the Convenor of the Financing Working Group, SMEC advised that at present, most banks were willing to offer financing assistance to SMEs. As to whether business installations and equipment

procured by individual SMEs could be used as collateral to secure loans from banks, it still depended on such factors as the SME's operation scale, its production activities and the results of the risk assessment made by the banks concerned.

21. Since the Chief Executive had promised in his Policy Address 2000 that the funds recouped from the Special Finance Scheme for Small and Medium Enterprises (SFS), which were estimated to be \$1 billion, would be used to provide further support for SMEs, Mr SIN Chung-kai asked the Administration whether the figure implied that the SFS would incur bad debts in the sum of about \$1.5 billion. From past experience and lessons learnt in relation to bad debts, he enquired if the Administration had any measures in place to prevent the recurrence of similar situations. In response, DGTI replied that, according to latest figures and based on a more conservative projection, the final default rate for the SFS would probably be in the region of 25% to 30%, which was estimated to be around \$1.5 billion. The amount recouped from the SFS for financing the four funding schemes mentioned in the Report would be about \$1 billion. He pointed out that although the SFS incurred some bad debts, the financial assistance it offered had saved nearly 10 000 SMEs which might otherwise cease operation. To prevent the Loan Guarantee Scheme from incurring excessive bad debts, the Administration would require the SMEs concerned to repay the loans by instalments and submit auditors' reports at the time of application to prove that they were financially sound. DGTI added that as the establishment of the SFS was to help SMEs encounter the international financial turmoil, there had been considerable risks involved.

22. Mr SIN Chung-kai suggested that the Administration should review the operation of the SFS expeditiously so as to gain experience when implementing the Loan Guarantee Scheme. DGTI advised that the Administration would conduct a comprehensive review on the SFS when all guarantees of loans expired in 2003. For the purpose of implementing the Loan Guarantee Scheme in future, he advised that the SMEC already proposed to fix the risk sharing ratio at 50:50 between the Government and banks so as to reduce its exposure to bad debts.

23. Mr NG Leung-sing was concerned whether the SME Training Fund (the Training Fund) could achieve its intended objectives. Mr CHAN Wing-kee advised that the Training Fund was subsidized by the Government on a dollar-to-dollar matching basis to provide SME employers and their salaried employees with job-related training. It was estimated that \$800 million would be set aside for manpower training. Mr LAU Wai-kwong, the Convenor of the Human Resource Development Working Group, SMEC, said that providing subsidy on a matching basis would allow the Government and employers to share the training costs. This could indeed prevent any abuse of resources. Given the wide range of businesses SMEs were engaged in and consequently the great diversity of their needs, Mr LAU suggested that flexibility should be exercised in dealing with training arrangements and that SMEs should be allowed to commission training organizations or instructors to conduct their own training courses. As to the reimbursement of course fees after the completion of approved training courses by relevant employees or employers, its purpose was to assure that they had actually received the training concerned.

24. Regarding the support for SMEs, Miss CHOY So-yuk expressed the following concerns:

- (a) The fees presently charged by the Hong Kong Trade Development Council (HKTDC) on SMEs for organizing exhibitions were too high and unfavourable for their participation.
- (b) In addition to further expanding the Hong Kong Convention and Exhibition Centre (HKCEC), the Administration should explore the feasibility of providing and using other venues and facilities.
- (c) The Administration should provide more opportunities for SMEs to participate in large-scale exhibitions and expositions.

She further hoped that the SMEC could review and monitor the work of the HKTDC.

25. SCI clarified that the terms of reference of the SMEC did not include monitoring the HKTDC. In response to Mr NG Leung-sing's enquiry, Mr CHAN Wing-kee supported expanding the exhibition space of the existing HKCEC, and encouraged other organizations to construct additional venues to foster competition. He said that the SMEC exchanged ideas with the HKTDC on regular basis regarding the ways to assist SMEs. He understood that the HKTDC had actively controlled its costs and lowered the charges for a number of its services. For the sake of promoting the SME business, the Report recommended the setting up of an SME Export Marketing Fund (the Export Marketing Fund) to subsidize SMEs to participate in either local or overseas trade fairs and study missions. The subsidy ceiling of the Export Marketing fund was set at 50% of the fundable items or \$10,000 (whichever was the less). In addition, he advised that the HKTDC was enhancing its matching database to cover more information on local and overseas SMEs so as to provide opportunities for business partnership among them.

26. Miss CHOY So-yuk enquired whether the Administration would set priorities for the development of local SMEs. She further asked if the HKTDC would waive the charges for SMEs to make use of its matching database. Mr CHAN Wing-kee said that under the principle of a free market economy, they could neither restrict the development of SMEs nor set any development priorities. Regarding the request to waive SMEs the charges for using the matching database, he undertook to reflect this to the HKTDC. However, he believed that the SMEs would be willing to pay the charges as they would not be too high.

27. Mr James TIEN asked whether the SMEC had explored the feasibility of negotiating with banks to lower as much as possible the lending rate under the Loan Guarantee Scheme, with a view to alleviating SMEs' financial burden and pressure. Moreover, he considered that the maximum guarantee amount of \$500,000 or 50% of the loan approved by a bank/lending institution for each SME under the Scheme was indeed far from adequate and might not be able to provide effective financial support for SMEs. As regards the Training Fund, the respective ceilings of \$10,000 and \$5,000 on a cumulative basis for each SME to provide training for its employees and

employers set by the SMEC were too meagre to achieve its intended objective of providing training support. He suggested that the authorities concerned should apart from exercising prudence, adopt a flexible approach in vetting and approving SMEs' applications for subsidies.

28. Mr CHAN Wing-kee shared with Mr James TIEN's suggestion for a flexible approach in processing applications for subsidies under different funding schemes, and said that the SMEC would provide as far as possible financial support to SMEs where necessary. He also hoped that the scope of subsidies under different funding schemes could be extended in future so as to benefit more SMEs. Regarding the idea of having the Government to fix the lending rate under the Loan Guarantee Scheme, he stressed that given the free market economy in Hong Kong and the funding schemes being commercial activities, the authorities concerned were not in a position to dictate the banks' lending rates.

29. Mr CHAN Tze-ching remarked that compared with the default rates of other financial arrangements, such as 0.25% to 0.3% for mortgages, 4% to 6% for credit cards, and 1% to 3% for machinery financing, a default rate of 15% on the Loan Guarantee Scheme implied that high risks were involved. Therefore, he anticipated that the interest rate concerned would be on the high side, say, one to two percentage points above the prime rate. However, the level of interest rate would ultimately depend on the actual demand and supply of capital as well as the competition among banks after the launch of the Loan Guarantee Scheme. Regarding the adequacy of the guarantee, he considered the present maximum amount, which was 50% of the loan approved by a bank/lending institution or \$500,000 (whichever was the less), still a considerable sum for SMEs of smaller sizes.

30. Mr LAU Wai-kwong remarked that while the resources received by individual SMEs from the Training Fund were limited, he hoped that more SMEs could be benefited based on the present subsidy ceiling.

31. Mr James TIEN suggested that the SMEC could represent SMEs to negotiate with banks and bargain for more favourable lending rates, thus making it easier for SMEs to raise capital. Mr CHAN Wing-kee advised that as proposed in the Report, roundtable meetings with banks, SMEs, the Commerce and Industry Bureau, and financial institutions would be held on a regular basis to discuss and examine issues in support of SME development. The subject of lending rates could be included into the meeting agenda for discussion where necessary.

32. Dr LUI Ming-wah hoped that an independent organization could be established under the SMEC to specifically examine the ways to support SMEs in the manufacturing sector. Due to insufficient time for discussion, the Chairman suggested that Mr Henry WU raised his questions with the Administration in writing through the Secretariat.

(Post meeting note: The Administration had provided a reply to the written questions raised by Mr Henry WU. Details were set out in LC Paper No. CB(1) 1838/00-01.)

V Any other business

33. There being no other business, the meeting ended at 10:30 am.

Legislative Council Secretariat
17 October 2001