

Legislative Council Panel on Commerce and Industry

Fees for Using Electronic Data Interchange Services relating to Dutiable Commodities Permits

Introduction

Tradelink Electronic Commerce Limited (Tradelink) has submitted to the Government for approval the proposed fees for its electronic data interchange (EDI) services relating to Dutiable Commodities Permits (DCP).

Background

2. Electronic Data Interchange (EDI) is the electronic transfer of data from one computer to another using agreed standards. The Government has been promoting the use of EDI with the aim of encouraging traders to acquire the capability to communicate electronically, which is important for maintaining Hong Kong's position as a leading trade centre.

3. We have launched EDI services for processing restrained textile export licence, import and export declarations, production notification and certificate of origin. We plan to launch EDI services for DCP in July 2001. To ensure a smooth migration, there will be a transitional period whereby applications for DCP may be made in either paper or electronic mode. We intend to mandate the use of EDI service for processing DCP applications in 2002.

4. In 1992, the Government granted Tradelink an exclusive franchise to provide front-end services for the processing by EDI of those documents mentioned in paragraph 3 above¹. Tradelink's franchise is seven years from the start of its commercial operation in 1997, expiring on 31 December 2003.

¹ In addition, Tradelink will provide EDI service for cargo manifest. This service is expected to be launched before the end of 2001.

5. Under the agreement between the Government and Tradelink, Tradelink's fees for EDI services for Government-related documents must be approved by the Government. The agreement further stipulates that Tradelink may set its fees to secure an internal rate of return on its investment not exceeding 18% over the franchise period.

Proposed Fees

6. Tradelink has proposed to charge a fee for three types of EDI service relating to DCP -

- (i) processing of applications for Ship's Stores Permits (SSPs)², on the basis of each application;
- (ii) processing of applications for other types of DCP, on the basis of each application; and
- (iii) processing of weekly and monthly returns by warehouse operators³ to the Customs and Excise Department, on a monthly basis.

7. The proposed fees are as follows -

	2001	2002	2003
	HK\$	HK\$	HK\$
Fee for each application of a SSP	25	25	27
Fee for each application of DCPs other than SSP	44	44	47
Monthly fee for warehouse operators	450	450	482

² Under the Dutiable Commodities Ordinance, traders will need to apply for permits to export any dutiable commodities as ships stores for consumption on board. In general, the number of applications are high, although each permit only covers a small quantity of dutiable commodities.

³ The use of EDI service for submitting weekly and monthly returns will remain optional after 2002.

Applicants whose volume of other types of DCP exceeds 1,000 annually will be entitled to a discounted fee at \$40 for 2001 and 2002, and \$43 for 2003.

Tradelink's Internal Rate of Return

8. On the basis of the proposed fees set out in paragraph 7, those previously approved by the Government for services already launched and projected fees for cargo manifest, Tradelink's projected internal rate of return over the franchise period is about 9%, some way below the ceiling of 18% set out in the agreement with the Government. A highlight of Tradelink's business plan is at the Annex.

Financial Impact on Users

9. Between March 2000 and February 2001, there were around 900 active DCP applicants. Based on the permits issued during this period and the proposed fees in paragraph 7, the financial impact on these users will be as follows -

(a) Five users have accounted for over 90% of all SSPs issued. The number of SSPs applied for by each user ranged from 1,600 to 7,100. The payment per year will be \$40,000 to \$177,000.

(b) For traders who apply for other DCPs, the impact will be as follows -

	No. of applicants	Average no. of DCPs per applicant	Proposed price per permit	Average payment per year per applicant
No of applicants who apply for 1000 DCPs or above ⁴	25	2413	@\$40	\$96,520
No. of applicants who apply for 500-999 DCPs	20	705	@\$44	\$31,020
No. of applicants who apply for 100-499 DCPs	110	233	@\$44	\$10,252
No. of applicants who apply for 99 DCPs or below	774	19	@\$44	\$836

⁴ These applicants will be entitled to the discounted fee.

10. Based on the above analysis, over 80% of the users will pay less than \$4,400 a year. Their average payment is about \$830 a year. Warehouse operators will pay \$5,400 a year.

Consultation with Industry

11. Tradelink originally proposed a fee of \$60 per DCP application. During its consultation with the industry, users expressed the view that the proposed fee was too high, particularly for SSPs. Some also considered it unfair to apply a flat rate to all users regardless of the volume of transactions. Taking into account the views of the industry, Tradelink has reduced and restructured the fees as presently proposed.

Advice Sought

12. Members are invited to give their views on Tradelink's proposed fees as set out in paragraph 7 above.

Commerce & Industry Bureau
June 2001

Highlights of Tradelink's Business Plan

	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Plan</u>	<u>Plan</u>
Year ending 31 December	1997	1998	1999	2000	2001	2002	2003
Annual increase in tradelink's prices							
Approved by Government in Sep 1996	0	8%	8%	8%	7%	7%	7%
Adopted by Tradelink for Business Plan	0	8%	0%	**	**	7%	7%
Annual increase in staff costs	5.50%	4.30%	0%	0%	2%	6%	6%
Loan Interest rates (on Government loan)	9.5%	10.5%	8.5%	-	-	-	-
Identified operating profit/(loss) (\$000)	-86,440	-67,967	22,924	112,048	100,711	153,124	174,952
Profit/(Loss) before tax (\$000)	-97,462	85,614	7,567	106,934	100,711	153,124	174,952
Profit/(Loss) after tax (\$000)	-97,462	-85,614	7,567	106,934	100,711	145,179	146,085
Dividends Payable (\$000)	-	-	-	-	-	55,390	146,085
Total Government loan at end of year (\$000)	150,000	195,000	14,500	-	-	-	-

** Majority of fees frozen, reduced or waived