

Legislative Council Panel on Commerce and Industry

Future Arrangement for Provision of Government Electronic Data Interchange Services

Purpose

This paper seeks Members' views on our preliminary thinking regarding the arrangement for provision of Government Electronic Data Interchange (EDI) services after the expiry of Tradelink's exclusive franchise in end 2003.

Proposals

2. Our preliminary thinking is as follows -
 - (a) we should continue to out-source the front-end EDI services for official transactions;
 - (b) subject to negotiations, we should engage Tradelink as a service provider after 2003, while in parallel appointing two additional service providers along the parameters set out in paragraphs 11-23 below;
 - (c) we should commit Tradelink to provide the time-limited EDI services under the new contract, while allowing the other two service providers to provide these services as an option;
 - (d) for non-time limited services, we will set a ceiling on the price that each new service provider may charge for each service, to be determined by competitive bidding; the ceiling for Tradelink will be set by negotiation. Thereafter, we will let market competition decide the prices; and
 - (e) for time-limited services, we will negotiate with Tradelink a ceiling for each service, and will encourage competition from the new service providers if those services have to continue after 2005.

Background

Objective and Scope of EDI services

3. EDI is the electronic transfer of data from one computer system to another using agreed standards. The purpose of promoting EDI to the trading community is to encourage them to acquire the capability to communicate electronically with trading partners, which is important for maintaining Hong Kong's position as a leading trade centre. In 1992, the Government decided to make the use of EDI compulsory for official trade-related transactions, and to grant Tradelink an exclusive right to provide the related front-end services for Government. Tradelink's franchise would be seven years from the start of its commercial operation in 1997, expiring on 31 December 2003.

4. Under the franchise arrangement, a trader must submit trade-related documents (e.g. import and export declarations, application for textile export licence) to Government by EDI via the services of Tradelink. The computer system at Tradelink receives the data, confirms the identity of the trader, validates the data and where necessary consolidates data from several sources, charges the account of the trader for the relevant fees and levies, and then transmits the data to the back-end computer systems of the relevant Government departments.

5. With the assistance of Tradelink, the Government has by and large achieved the objective of creating a critical mass for the use of EDI in Hong Kong. Since the launch of EDI service in 1997, more than 50,000 firms (with more than 150,000 employees) have been using EDI to submit trade-related documents to Government.

Consideration

6. In considering how official trade-related transactions should be handled after 2003, we have examined several key issues –

- (a) whether Government should mandate traders to continue to submit trade-related documents to Government by EDI;

- (b) whether Government should continue to let private sector agent(s) perform those front-end services now provided by Tradelink; and
- (c) subject to (a) and (b) above, the role of Tradelink after 2003.

Compulsory submission by EDI

7. Regarding paragraph 6(a) above, there is a strong case to maintain the compulsory arrangement since -

- (a) electronic transactions save cost and increase efficiency for both Government and the business community;
- (b) compulsion will stimulate small business to use information technology and embrace e-commerce; and
- (c) back-tracking is unwarranted as most traders will have already got used to the EDI mode of transaction by 2003.

Front-end services

8. Regarding paragraph 6(b) above, we have considered the possibility of Government taking over Tradelink's front-end services by allowing traders to submit their documents directly to Government through the Internet, instead of going through an intermediary. While this is technically feasible, it will require a revamping of the existing back-end systems in the Government departments concerned, incurring substantial additional capital cost. In addition, Government will have to augment its staff establishment considerably for customer interface and service support¹. Furthermore, it is Government's policy to 'out-source' services to the private sector where possible. To do so would contain the size of the civil service, be more cost-effective generally, and create business opportunities for the private sector. As the EDI front-end

¹ From time to time, system changes and end-user software upgrades need to be made and currently Tradelink provides the interface with users (e.g. 22 upgrades were released in 2000). Tradelink also provides hotline and technical support as well as training to users, employing about 150 staff for these customer support functions.

services currently provided by Tradelink have proven to be commercially viable, there is a good case to continue the policy of out-sourcing. On balance, we have decided not to adopt the direct submission approach.

Role of Tradelink after 2003

9. We intend to appoint additional service provider(s) upon the expiry of Tradelink's franchise in end 2003 to foster market competition, which should generally improve service quality, lower prices and increase efficiency. However, to ensure that the trading community can continue to enjoy reliable EDI services, there is a strong case to continue to engage Tradelink's services after 2003 while appointing additional service providers. The reasons are as follows—

- (a) Tradelink has been providing very satisfactory services in an efficient manner and will have accumulated seven years' of valuable operational experience with the EDI platform by 2003. In the rapidly evolving and highly competitive commercial IT environment, retaining Tradelink's services would assure the trading community that there would be continued reliable provision of services as competition is introduced;
- (b) at present, Tradelink primarily delivers its EDI services through a closed-network and proprietary system², but new service providers are likely to use an open, Internet-based system. If Tradelink were to cease service provision on 1 January 2004, users which use Tradelink's proprietary end-user software would have to adjust to a new system overnight. Chaos may arise from such a 'compulsory' switch to a new system. To minimize disruption, we should give traders the option to continue to use Tradelink's services; and
- (c) some official documents, e.g. restrained textile export licences and production notification are time-limited because

² Tradelink has introduced an Internet -based system as an option for users in submitting certain types of official document. But 90% of the users still use the original closed network system.

they may no longer be required after the abolition of textile quotas in 2005. It may not be commercially attractive for new service providers to develop the necessary systems to provide such services. Tradelink has already developed the required systems to do so.

Engaging Additional Service Providers

10. We outline below the relevant issues and our initial ideas on the way forward.

Number of Service Providers

11. In addition to Tradelink, we intend to appoint two additional service providers, subject to responses at the expression of interest stage (see paragraph 21 below). With three service providers, there will be a greater assurance of market competition. Moreover, if one of the service providers ceases operation for some reasons, we could still rely on the other two service providers to ensure continuity of service. On the other hand, having more than three service providers would reduce commercial viability, and would increase the difficulty on the part of Government to manage and co-ordinate them in terms of, say, revising document reporting requirement.

Timing

12. Ideally, the new service providers should commence operation on 1 January 2004, immediately after Tradelink's current franchise expires. The process for engaging new service providers includes invitation for expression of interest, tendering, negotiation, award of contract, and development of the necessary computer systems by both the service providers and Government. This will take about two and a half years and should fit in well with the expiration of the Tradelink's franchise. This means that we will need to reach a decision by mid-2001.

Length of Contract

13. We believe that a contract of five years should provide a reasonable period for the service providers to secure a reasonable return to their investment.

Scope of Service

14. The new service providers will be required to provide all the non-time-limited services³. It will be optional for them to provide the time-limited services⁴. Tradelink will be required to provide both. All the service providers are free to explore other business opportunities and develop other non-Government related services.

Pricing Policy

15. For non-time limited services, we will set a ceiling on the price that each new service provider may charge for each service, to be determined by competitive bidding; the ceiling for Tradelink will be set by negotiation. Thereafter, we will let market competition decide the prices.

16. For time-limited services we will negotiate with Tradelink a ceiling for each service, and will encourage the new service providers to offer these services if there remains a need for them after 2005 so as to bring in competition. In our negotiations, we will examine the scope for reducing the current charges.

17. To ensure sufficient market competition, we will reserve the right to appoint additional service providers if necessary, such as when there is evidence of price fixing.

System

18. All service providers will be required to provide, as a minimum, an Internet-based communication medium to facilitate the

³ These are Import and Export Declaration, Manifest, and Dutiable Commodities Permit.

⁴ These are Restrained Textile Export Licence, Production Notification, and Certificate of Origin.

exchange of information over the Internet among users and their customers as well as between users and Government. New service providers using common data standards such as Extensible Markup Language (XML) will be favourably considered as they are commonly used in e-business applications.

Service Requirements

19. We believe that the service requirements should cover areas such as data security, confidentiality and integrity, customer support, maximum down time, response time, disaster recovery, accountability to Government, and response to Government requirements.

Preparation of back-end system

20. The Government back-end system will need to be enhanced to cater for the increased number of service providers. The costs involved will be assessed at a later stage but should not be very substantial.

Procedures and criteria for selecting new service providers

21. In selecting the service providers, we will first invite expression of interest, to be followed by open tendering. We might need to seek the assistance of professional consultants to help us in this process. Factors to be considered in the selection procedures include company background, business plan, technical proposal, maintenance and support service to users, electronic payment method, as well as the fee level offered for each service.

Termination of Contract

22. The contract should include terms for Government to terminate the contract in case of unsatisfactory performance, and to appoint additional service providers if necessary to ensure that reasonable competition exists in the market place.

Legislative Amendments

23. As Tradelink is the only service provider currently specified under the relevant Ordinances, we need to make appropriate legislative amendments to cater for more service providers.

Consultation with advisory bodies

24. We intend to consult the relevant Government advisory bodies and the trading community before firming up our proposals.

Financial and staffing implications

25. Some additional resources may be required for departments to deal with multiple service providers. However, it is too early to arrive at an exact estimation at this stage.

Advice Sought

26. Members' views are sought on the ideas set out in this paper.